Corporate Governance and Short-Termism: An In-depth Analysis of Swedish Data

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The debate concerning sustainable corporate governance is fierce and of great importance to regulators, not the least in the EU. One claim that has been particularly influential in policy making is that the doctrine of shareholder primacy in corporate law and corporate governance leads to short-termism in companies, and that the purpose of the corporation and directors' duties therefore needs to be changed. In this paper, we challenge the underlying claim by examining potential signs of financial short-termism related to excessive dividend policies. Studying companies listed on the Swedish stock market, which has one of the largest market capitalizations within the EU and a corporate governance model heavily based on shareholder primacy, our dataset includes 786 unique firms and 7,389 firm-years during the years 2000–2019. Our empirical findings demonstrate that (1) 44 % of companies do not pay out a dividend, (2) the payout ratio of the firms depends on their life cycle, and (3) the firms with the highest dividend payout are also the firms with the highest profitability while at the same time performing well in terms of sustainability reporting and sustainability ratings. Thus, we see no material indications of financial short-termism in Sweden. In fact, the four largest dividend payers (which make up 31.4 % of total dividends) are a family-owned global retail company (H&M), a telecom operator where the state is the largest owner (Telia), a bank with strong cooperative roots (Swedbank) and a bank owned to a high degree by its staff (Svenska Handelsbanken). We also contribute with a methodological approach to study short-termism.

1. Introduction

One of the most influential contemporary corporate governance debates concerns the *purpose of the corporation*, which in many jurisdictions is, in Friedman's words, "to use its resources and engage in activities designed to increase its profits" – i.e. shareholder wealth maximization (Friedman 1970). It is often claimed that this shareholder-centered model of corporate governance, referred to as *shareholder primacy*, forces listed companies to focus on producing short-term shareholder value to the detriment of other important interests, such as long-term investments in innovation and employee welfare, and without concern to the negative impact of the business on the sur-

rounding society and environment (Mayer 2018; Lazonick 2014).

While it is not uncontested that shareholder primacy leads to a problem of "market short-termism" (see prominently Roe 2022), it is viewed as a fact by many, not the least legislators. A recent example is the *EU Corporate Sustainability Due Diligence Directive*[1] adopted in June 2024. The Directive was first proposed in 2020 on the basis of the *Study on directors' duties and sustainable corporate governance* carried out by EY Italy at the behest of the Commission ("the 2020 Study").[2] In the 2020 Study many of the measures in the Directive were suggested as a way to foster "sustainable corporate governance" and "sustainable value creation" to counter "a trend for publicly listed companies within the EU to focus on short-term benefits of shareholders rather than on the long-term interests of the company".[3] This conclusion was drawn on the basis of an empirical study, where dividend policies were used as a key indicator for financial short-termism.[4]

In this paper, we challenge that a shareholder-centered corporate governance model and a corporate purpose aiming at creating shareholder value lead to corporate short-termism, based on an analysis of the Swedish equity market. Sweden has one of the most vibrant equity markets within the EU with some 1000 listed companies,[5] and a corporate governance model that, more than most western jurisdictions, empowers shareholders over management. If shareholder primacy caused companies to act in ways detrimental to other company constituents, one of the things we would expect to see is companies paying dividends and buying back shares in situations when it would seem more reasonable to use the cash for other purposes. For instance, paying dividends instead of using these funds to grow the company, with underspending on R&D as a result (Lazonick 2014). Studying companies listed on the Swedish stock market, our dataset includes 786 unique companies and 7,389 firm-years during the years 2000–2019, examining potential signs of financial short-termism related to excessive dividend policies. Our empirical findings demonstrate (1) that 44 % of companies do not pay out a dividend, (2) that the payout ratio of the companies depend on their life cycle, and (3) that the companies with the highest dividend payout are also the ones with the highest profitability while at the same time performing well in terms of sustainability reporting and sustainability ratings. Thus, we see no material indications of financial short-termism in Sweden, and no reason to change a well-functioning model of corporate governance based on shareholder primacy. We also contribute with a methodological approach to study short-termism. By acknowledging the importance of an organization's life cycle and clearly showing the impact of a small number of large dividend-paying companies, we provide a more nuanced and detailed way of studying short-termism. Our study points to the importance of analyzing the relationship between individ-

1. Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859.
2. In reference list EY (2020), available at https://op.europa.eu/en/publication-detail/-/publication/e47928a2-d20b-11ea-adf7-01aa75ed71a1/language-en.
3. See pp. vi–vii of the study.
4. The report has however been highly criticized in relation to research methodology (Bassen et al., 2020; Edmans, 2020; Fried & Wang, 2020; Roe et al., 2020) and from judicial standpoints (Andersen et al., 2020; Hansen & Lilja, 2020).
5. The Swedish equity market is the largest in the EU by number of listed companies and third largest by market value (De La Cruz et al., 2019).

ual companies, the surrounding ecosystem, and the type of corporate governance model. In Sweden, the ecosystem consists of both small growth firms and large multinational companies. As our findings demonstrate, many of the growth firms do not pay any dividends, and among the top 20 dividend payers, these companies perform well both financially and from a sustainability perspective.

The paper is organized as follows. Section 2 describes the Swedish law on corporate purpose and the Swedish corporate governance model. Section 3 discusses our research design and presents descriptive statistics. Section 4 reports empirical results. Here we analyze to what extent Swedish companies pay dividends and their payout ratio (sections 4.1–4.2), to what extent dividends relate to the maturity of a company (section 4.3), the relationship between dividend payout ratios, profitability, investments, R&D and financing (section 4.4), and (section 4.5) how the largest Swedish dividend payers perform in terms of sustainability. Based on our results, we also discuss the importance of considering the context and differences between companies and markets when analyzing capital markets and corporate governance, and we compare our results to the ones produced in the 2020 Study which served as a basis for the Corporate Sustainability Due Diligence Directive (section 4.6). Section 5 concludes. We have also included an appendix to the paper, where we discuss the theoretical aspects of growth, investments, and dividends.

2. Corporate purpose and the Swedish corporate governance model

Swedish company law has stated that profit maximization is the purpose of limited liability companies (*aktiebolag*)[6] since the first Swedish Companies Act of 1848 (Hagströmer 1872 at p. 108 and 164; Nial 1934 at p. 33). Chapter 3, Section 3 of the current Swedish Companies Act (2005:551) (*aktiebolagslagen*) provides that "if the company's operations, in whole or in part, is to have a purpose other than to generate profit for the distribution to its shareholders, this must be stated in the articles of association."[7] The corporate purpose of profit maximization has two legal functions in the Act. First, it constitutes a rule of competence for the general meeting, the board of directors and the managing director. Second, and most importantly, it provides a standard of behavior and liability. In this respect, the corporate purpose of profit maximization means that the board of directors and the managing director are obliged to act with this purpose in mind at all times, and the purpose can also serve as a metric when examining other behavioral standards in the Swedish Companies Act, such as the rules on related party transactions. If the board of directors or the managing director intentionally or negligently fails to conduct the business in line with the purpose of profit maximization, personal liability for any damage thereby caused to the company or its shareholders arises (Chapter 29, Section 1 of the Swedish Companies Act).

Though Swedish politics has (at least) since the 1930s been characterized by its egalitarian policies and welfare, notions of a "social purpose" for the corporation have been rejected on principle. In the 1930s, when social democracy became the dominant political direction, the view became cemented that it was the state that should bear the responsibility for the social welfare. The responsibility of businesses was viewed as purely economic, funding the welfare through taxes on profits. In the pre-

6. In this paper, we use the terms "companies" and "firms" synonymously to describe Swedish "aktiebolag", which is the only type of company that can list its shares in Sweden.

7. Our translation. Original text: "Om bolagets verksamhet helt eller delvis skall ha ett annat syfte än att ge vinst till fördelning mellan aktieägarna, skall detta anges i bolagsordningen."

paratory works to the Companies Act of 1944, it was thus explicitly stated that:

> The extent to which companies, in their capacity as businesses, should be subject to positive social obligations such as labor protection, pensions, etc. are questions which, in the opinion of the [legislative] Committee, do not fall within the scope of company law but within that of social legislation, just as the financial obligations of companies towards the public are essentially determined by tax legislation.[8]

This strict division between the responsibilities of the state and the responsibility of the corporation reflects a long-standing tradition of (legally) treating corporations as property of the shareholders. Not only is the purpose of the corporation to maximize profits, but the shareholders (through the general meeting) are also the ultimate and unrestricted decisionmakers of the corporations (of course, within the limits of the law) in most any issue: from changes of the articles of association to the color of the pencils used in the boardroom, and anything in between. This strict hierarchical structure, where the board of directors and the management of the company are obliged to follow all decisions by the general meeting and have almost no exclusive competence, differs from almost all jurisdictions outside the Nordics, including France, Germany, the UK and the US, and is the essence of what is often referred to as the Swedish Corporate Governance Model (e.g., Lekvall, 2014; Jakobsson & Korkeamäki, 2015; Jonnergård & Larsson-Olaison, 2016; Ringe, 2016; Sjöstrand et al., 2016; Thomsen, 2016a,b; Lekvall, 2018).

It is also distinctive and particularly important to note in this context that it is the shareholders who independently nominate and elect the board of directors and the auditor, determine their remuneration and, in the case of the board, can decide to dismiss them at any time (making director entrenchment through staggering the board and equivalent techniques seen in other jurisdictions impossible). This is not "only" a legal right where the board of directors proposed to the general meeting by management is the one actually elected. The nomination process is also regulated in companies whose shares are listed on a regulated market in order to ensure the influence of shareholders on board election (cf. Lidman 2024a). In this respect, the Swedish Corporate Governance Code stipulates that the company must have a nomination committee which is controlled (and constituted) by the shareholders and prepares the general meeting's decision on the election of the board, as well as board remuneration and the election of auditors.[9]

Swedish corporate law and the Swedish corporate governance model is thus a prime example of a market following the Friedman doctrine, with a company law focus on shareholder wealth maximization, and a corporate governance model built on shareholder primacy.[10] If shareholder primacy caused companies to act in short-termist ways detrimental to other corporate constituents, one of the things we would expect to see is companies paying dividends and buying back shares in situa-

8. Swedish preparatory work SOU 1941:9, at p. 295. Our translation. Original text: "I vilken mån aktiebolagen i sin egenskap av näringsidkare skola åläggas positiva förpliktelser av social natur t. ex. beträffande arbetarskydd, pensionering m. m. äro frågor som enligt beredningens mening icke höra till aktiebolagslagstiftningen utan till den sociala lagstiftningen, liksom bolagens ekonomiska förpliktelser gentemot det allmänna väsentligen bestäms av skattelagstiftningen."

9. The current code is available at: https://bolagsstyrning.se/current-code.

10. Friedman (1970): "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game".

tions when it would seem more reasonable to use the funds to grow the company, with, for instance, underspending on R&D as a result. In section 3–4, we examine potential signs of financial short-termism related to excessive dividend policies in Swedish companies.

3. Research design

We obtained the data from Compustat Worldwide for our empirical analyses, which is commonly used in academic research. We require that the company has the headquarter in Sweden and that the company has a listing on the NASDAQ Stockholm Stock Exchange (Main Market), which is the largest stock exchange in the Nordics.[11] We investigate the period 2000–2019 and obtain 7,389 firm-years and have 786 unique firms in our sample. Table 1 provides an overview of the industries and the firms in our sample and table 2 the yearly distribution.

Table 1. Industry classification of firm-year observations

Industry	Freq	in %
Manufacturing	3,254	44.0
Services	1,681	22.8
Finance, Insurance and Real Estate	971	13.1
Transportation, Communications, Electric, Gas and Sanitary service	414	5.6
Retail Trade	349	4.7
Mining	243	3.3
Wholesale Trade	233	3.1
Construction	130	1.8
Non-classifiable	98	1.3
Agriculture, Forestry, and Fishing	16	0.2

Table 2. Yearly distribution in our sample

Year	Number of Firms	in %
2000	208	2.8
2001	244	3.3
2002	292	3.9
2003	299	4.0
2004	323	4.4
2005	337	4.6
2006	344	4.7
2007	365	5.0
2008	372	5.0
2009	367	5.0
2010	359	4.9
2011	347	4.7
2012	341	4.6
2013	352	4.8
2014	377	5.1
2015	425	5.7
2016	462	6.3
2017	516	7.0
2018	528	7.1
2019	531	7.1

Table 2: We acknowledge that the Compustat coverage in the beginning of the sample is thin compared to the later time period.

We follow the methodology suggested by Fried and Wang (2019, 2020) and Boudoukh et al. (2007) and calculate the dividend payments and the net issuance of the Swedish firms.[12] Empirical corporate finance research, such as DeAngelo and DeAngelo (2006), suggest that the optimal dividend payout policy is driven by the need to distribute the firm's free cash flow and depends on the life cycle theory. In other words, firms optimally adjust dividends

11. Previously OM Stockholmsbörsen AB until 2004 and then OMX Stockholm until 2014.

12. In terms of dividend payment, we take the larger value of the value provided in the Compustat annual file (item *dvt*) and the calculated yearly dividend payment from the Compustat daily file. This procedure addresses missing values in the Compustat annual file.

overtime to their investment opportunities. This means that, in their early years, companies pay no or minimal dividends because their funding needs for investment opportunities exceed their internally generated capital. Hence, firms have too little funds to invest and therefore refrain from distributing any cash back to the investors. Our analyses add to the debate by including a life cycle analysis to understand the dividend-paying behavior better. To classify the company into the right life cycle phase, we follow the cash flow pattern classification approach of Dickinson (2011). Precisely, we classify the firms into one of the five following phases: (1) Introduction, (2) Growth, (3) Mature, (4) Shake-out,[13] (5) Decline. This is done by evaluating the cash flow characteristics from the cash flow statement and the relative importance of the three sources of cash flows according to the statement of cash flows: 1) cash flow from operating activities; 2) cash flow from investing activities; and 3) cash flow from financing activities. The cash flow composition for the different phases is described in Figure 1.

Figure 1: Characteristics of cash flows for different life cycle phases

	1 Introduction	2 Growth	3 Mature	4 Shake-Out	5 Shake-Out	6 Shake-Out	7 Decline	8 Decline
Predicted Sign								
Cash flows from operating activities	−	+	+	−	+	+	−	−
Cash flows from investing activities	−	−	−	−	+	+	+	+
Cash flows from financing activities	+	+	−	−	+	−	+	−

Figure 1: Signs for cash flows from different parts of the cash flow statement to identify the five life cycle phases (Dickinson 2011, p. 1974). The (+) sign in the figure indicates positive cash flows from that sector, and the (-) sign indicates negative cash flows. The columns show the combination of signs for the three statements of cash flow sectors that represent a specific phase in the life cycle. Note that the Shake-out and the Decline phases have multiple combinations of cash flows that characterize them.

13. The Shake-out group captures firms that have entered a stage where they try to collect the final possible business opportunities in their development phase. This phase in the life cycle can be characterized by a number of different cash flow patterns. In Figure 1, this is shown in columns 4 through 6. Column 4 represents a situation where the company still invests for a turnaround, but the underlying cash flows are weak. Column 5 and 6 represents a restructuring behavior with negative investments.

When applying the life cycle classification of Dickinson (2011), we find that most firm-years are classified as "Mature" firms, 35.0 % percent of the sample. This is illustrated in Figure 2. The second-highest group are Shake-out firms (1 650). Together with the firms from the Decline phase (328), they are 1 978 firm-years or 26.8 % of the sample. These are the firms in the later stages of the life cycle. Early-stage firms are made up of the Introduction and Growth phases. They are 1 635 and 1 191 respectively and total 2 826 firm-years or 38.2 % of the sample.

Figure 2: Firms in the sample according to the life cycle

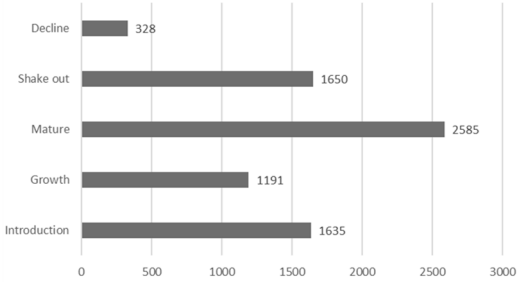


Figure 2: Firms and their life cycle in the sample. We use the five life cycle phases proposed by Dickinson (2011).

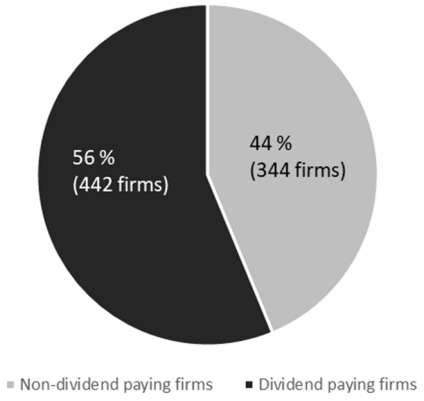
4. Empirical findings

In this section we present our empirical results. We analyze to what extent Swedish companies pay dividends in section 4.1, their payout ratio in section 4.2, and to what extent dividends relate to the maturity of a company in section 4.3. We then study the relationship between dividend payout ratios, profitability, investments, R&D and financing in section 4.4, and in section 4.5 how the largest Swedish dividend payers perform in terms of sustainability. Based on our results, we also discuss the importance of considering the context and differences between companies and markets when analyzing capital markets and corporate governance, and we compare our results with the ones produced in the 2020 Study in section 4.6.

4.1. 44 % of the firms do not pay a dividend at all

First, we classify firms into dividend payers vs. non-dividend payers. We conclude that 344 of all 786 firms, corresponding to 44 % of the sample, are non-dividend payers, i.e., they have never distributed any dividends to their shareholders during our sample period. In addition to this set of firms that never paid any dividends, it is also likely that other firms have refrained from paying dividends in specific years. When analyzing this, we find that 51 % of the sample (firm-years) are non-dividend-paying firm-years. In other words, this means that only 49 % of the observations include firms that in a particular year have paid any dividends to their shareholders.

Figure 3: Number of dividend-paying firms (over a lifetime in period 2000–2019)



A critical reader might argue that firms instead defer to other means by transferring the value to the shareholder through share

buy-backs.[14] Our analysis shows that only 7.23 % of the firm-years in the sample make use of share buy-backs. Reasons for the low popularity of share buy-backs in Sweden can be found in the taxation system, where institutional investors do not pay taxes on dividends, and retail investors can circumvent direct taxes on dividends when they hold the dividends in an investment savings account.[15] Moreover, the tax rates are the same for dividends and gains on sales. Interestingly, the proportion of dividend-paying firms has been fluctuating between 40 and 50 % of the sample over time. For the business year 2019, with the dividend paid out in 2020, the proportion of dividend-paying firms decreased to 19 % reflecting the Covid-19 crisis.

4.2. On average less than 50 % of profits are paid out as dividends

First, we examine all companies in our sample. Here we include companies with disproportionally low profits, which spike the payout ratio and similar situations. The average and median payout ratio for the full sample is 43.3 % and 0 %, respectively. Note that these figures are affected by some firm-years with exceptionally high payout ratios where the particular firm has had a very small net profit but has chosen to keep its dividends at constant levels.

If we disregard companies with a payout ratio above 1, since these usually are affected by temporary irregularities, including very small profits, the corresponding average is 20.5 %, with a median of 0 %. Focusing on the dividend-paying firms, we find a broad variation in Swedish firms' payout ratio, which is shown in Figure 4 below. However, most of the firms distribute less than half of their net profit as dividends. To be more precise, the average (median) payout ratio is 48.4 % (46.3 %) when we exclude outliers with a payout ratio above 1.

We should acknowledge that there are firms that pay out more than 100 % of net profit in an individual year, as discussed above. Such a behavior can be explained by dividend stickiness, i.e., companies do not want to reduce dividends unless necessary, or the net profit has dropped temporarily due to, for example, a massive impairment or provisions. If they are included, they will have a large and non-representative impact on the figures. In our sample, approximately 5 % of the firm-years have a payout ratio above 1.[16]

Figure 4: Histogram dividend payout ratio

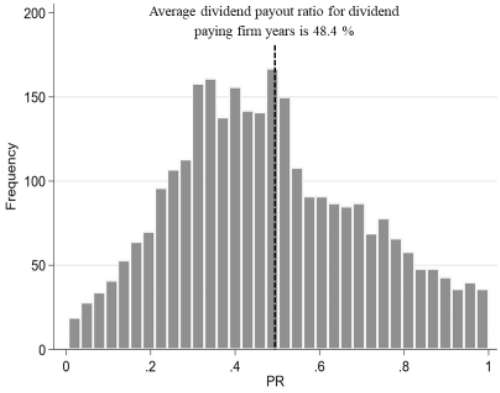


Figure 4: The figure shows the distribution of payout ratios (PR) for firm-years when dividends are paid.

14. A number of studies have criticized the American corporate governance system for focusing too much on share buy-backs. See for example Lazonick & O´Sullivan (2000); Lazonick & Mazzucato (2013); and Lazonick (2014).
15. *Investeringssparkonto* (ISK).
16. The non-value weighted average is then 99.4 % for the payout ratio but the median stays at 50.3 % representing this unrevealing shift in averages.

4.3. A life cycle analysis of dividend payout

In this section, we apply the life cycle classification of Dickinson (2011). All companies are categorized into one of five life cycle groups, "Introduction", "Growth", "Mature", "Shake-out" and "Decline". For each of the five groups, we have studied the level of dividend payout ratios as well as how the five life cycle groups develop over time.

We find and show in Figure 5 that the Mature firms have the highest payout ratio consistent with the notion that those firms pay dividends to their shareholders, so they can re cycle and reinvest their money into other/better investment opportunities in other firms. The internal growth opportunities in these Mature firms are by construction smaller. From a capital market and societal point of view, this reallocation of capital is a sound behavior, since the opportunities for external capital allocation are larger than the opportunities for internal allocation. Over time, the Mature group's average is about 38.4 %, with somewhat higher levels during 2013–2017. These years are characterized by high profitability in general.

Figure 5: Dividend payout ratio categorized after life cycle group

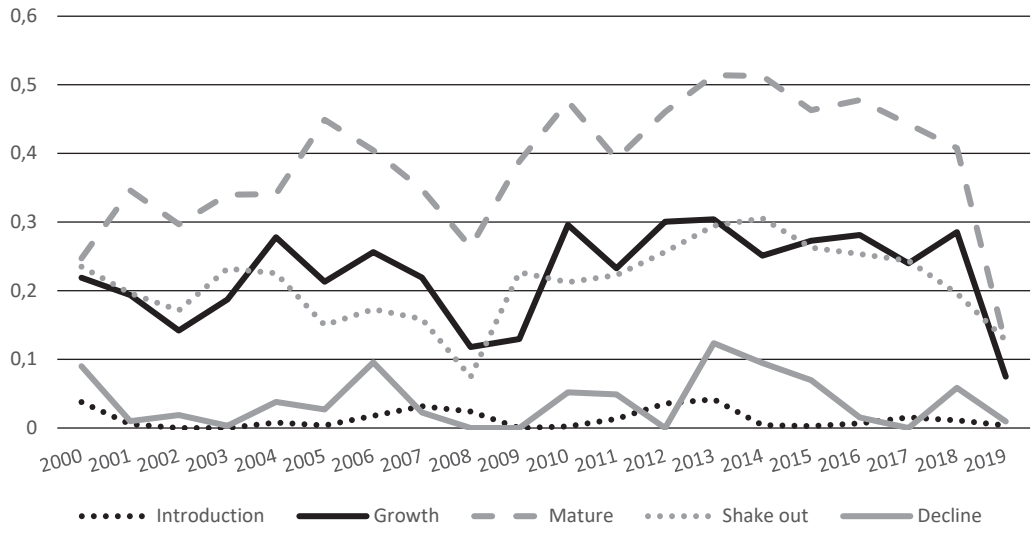


Figure 5: The figure shows the median within each life cycle group over the analyzed time period from 2000–2019. The life cycle definition follows Dickinson (2011).

The Shake-out firms is the category that experiences a somewhat higher level in the payout ratios during the latter part of the period. These firms have an average dividend payout ratio of 21.1 %. This is in contrast with the other groups. The general characteristics of the Shake-out firms are similar to the Mature firms except that they have started to tip the point towards the end of the life cycle. Profitability tends to be lower as well as investments. The other three groups shown in Figure 5 exhibits completely flat trends with some volatility during the 20 years of examination. The Growth group have averages of about 20 %, and for the Introduction and Decline groups, the averages are in the low single-digit level. There is a general drop in 2002, explained by the IT-crisis, another in 2008 related to the global financial crisis, and a final one in 2019 related to the Covid-19 pandemic. The data presented above provides no distinct support for an increasing general level of dividend payouts during the past 20 years in Sweden, at least not if we take general economic development into consideration.[17]

4.4. The relationship between dividends, profitability, and investments

Before we discuss the empirical observations on this matter, we will focus on a small numerical example. Say that a firm needs to grow by 100 in equity to satisfy its needs for investments in new sustainable opportunities. If the firm makes 500 in net profit, then 400 can be distributed to the shareholders. This corresponds to a payout ratio of 400/500 or 80 %. If the firm makes 150 in net profit, then only 50 can be distributed to the shareholders, corresponding to 50/150 or 33.3 %. Stated differently, we need to examine the relationship between dividend payout ratios, profitability, investments (tangible and intangible), and financing.

Table 3 focuses on the relationship between dividend payout ratios, profitability, investments, R&D, and financing. To create comparability between the different measures, all variables have been divided by opening balance equity, i.e., the level of equity at the beginning of each time period. The only exception in the columns is the dividend payout ratio, which is the same dividend payout ratio as we have studied before. The groups in the rows are constructed using dividends in relation to equity with five groups of dividend-paying firms (groups 1–5) and a single group of non-dividend-paying firms (group 0). Table 3 shows a clear relationship between profitability and dividend payouts. Both variables increase systematically over the payout groups. We can conclude that not only do dividends in absolute terms increase when profitability increases (which would have been the case if the payout ratio in column 2 would have been constant), but they also increase as a percentage of profits. This means that all groups increase the equity with 6–8 percentage points yearly as a result of profits less distributed dividends.[18] *Stated differently, there is substantial room for investments above and beyond fundamental reinvestments as replacements for existing production capacity.*

17. When conducting statistical tests (available upon request) on the difference in payout ratios between the early phase leading up to 2010 and thereafter, it is only the Shake-out group that shows a statistically significant increase in payout ratios. All other groups show statistical significance levels for differences above 15 % when comparing the yearly averages between the early and late years in the sample (the lower the better for establishing a difference).

18. See the appendix, which includes a more thorough discussion of the relationship between profitability, dividends, financial position, and investments.

Table 3: Dividend payout ratios, ROE, investments, R&D, and financing

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Group	Payout Ratio of Net Profit	ROE – Median	Invest-ment	R&D	Cash	Debt/ Equity
0	0.00	-0.09	0.02	0.07	0.24	0.76
1	0.21	0.08	0.01	0.02	0.05	1.08
2	0.36	0.12	0.03	0.03	0.09	1.32
3	0.44	0.15	0.03	0.03	0.12	1.24
4	0.54	0.18	0.04	0.03	0.18	1.34
5	0.72	0.22	0.03	0.03	0.34	1.03

Table 3: The data has been divided into six groups based on dividends paid as a percentage of opening equity. Group 0 consists of the non-dividend-paying firms, and groups 1–5 are evenly distributed quintiles of the dividend-paying firms. The columns show the payout ratio in relation to net profit, return on equity (ROE) defined as net profit divided by opening balance equity, investments divided by equity, R&D divided by equity, and cash and cash equivalents divided by equity.

Examining the investment figure for the groups shows a stable level across the groups. The combined level of traditional investments and R&D is about 6–7 percentage points of equity for all groups (this is the combination of columns 4 and 5). *It is slightly higher for non-dividend payers, particularly focusing on R&D. However, we have previously concluded that these firms are predominantly in the early stages of the company life cycle*. Thus, the results are not surprising. The level of investments is in line with the growth in equity. One could expect that it should be higher given that investments include reinvestments, but we have to remember that fixed assets are only parts of the balance sheet and increases in working capital also absorb capital.

We can also see that there is a substantial amount of cash in the companies and particularly for the high dividend payers. This is an indication that even these companies keep a considerable amount of cash internally in order to handle unexpected risks or opportunities. We can further see that the debt financing seems to be highly negatively correlated with the cash position. Financing does not appear to be a problem for the investment strategies of any firm, and the sources of financing to support investments and growth are not related to dividend policy. We conclude that there seems to be enough capital to support both growth in equity (reinvestments) and dividend payments at the observed level. This further ensures the ability to make investments and to grow in assets. The core of the issue appears to be which investments the capital is allocated to within the firm, i.e., sustainable ones or non-sustainable ones, but that is a different issue than using dividend payout ratios as an indication of unhealthy short-termism.

4.5. The largest dividend payers and their sustainability work

An important dimension of the payout issue concerns the magnitude of dividends paid out by firms in different payout ratio groups. If all companies were of equal size and generated equal profit, the companies with the highest payout ratios would also be the highest dividend payers. This observation can then be tilted in either direction. Table 4 shows an analysis of the dividend-paying firms based on payout ratio groups.[19]

19. For the sake of comparability, we are here using the same approach as in the 2020 Study.

Table 4. Aggregated dividends by payout group (MSEK)

Payout Group	Aggregated Dividends Per Group	In Percentage
Dividend payers with negative income	80 555	3.6
Payout ratios between 0 and 0.25	153 125	6.8
Payout ratios between 0.25 and 0.5	540 781	24.0
Payout ratios between 0.5 and 0.75	599 672	26.6
Payout ratios above 0.75	880 642	39.1
Total	2 254 776	100

Table 4: The table shows the aggregated dividends divided by the level of payout ratios for individual firm-years. The payout groups have an equal size of payout ratios.

We observe that almost 40 % of all dividends have been paid by the companies having the highest payout ratio, i.e., above 0.75. This result is disproportionate since that group only comprises 12.1 % of all dividend-paying firm-years. This indicates that not only do these firms pay much of their profits in dividends, but they are also large in relation to other companies included in the sample of Swedish companies.

Table 5. Top 20 dividend payers

Rank	Name	Total Dividend
1	HENNES & MAURITZ	216 816.0
2	TELIA COMPANY	205 631.5
3	SWEDBANK	142 923.7
4	SVENSKA HANDELSBANKEN	142 747.8
5	VOLVO	127 849.4
6	ERICSSON	116 952.0
7	SEB	111 216.1
8	ATLAS COPCO	101 564.6
9	INVESTOR	90 970.5
10	TELE2	73 506.1
11	SANDVIK	62 057.5
12	SKANSKA	48 921.8
13	SCA	46 880.4
14	SKF	37 937.3
15	SCANIA	35 988.9
16	ELECTROLUX	35 367.4
17	ASSA ABLOY	34 700.0
18	INDUSTRIVÄRDEN	34 671.1
19	SWEDISH MATCH	30 164.3
20	HOLMEN	24 536.8
Sum		**1 721 403.3**

Table 5: This table reports the top 20 dividend payers in Sweden over the sample period 2000–2019. The dividends are the accumulated dividends over the total period.

In Table 5, we chart the 20 firms that have paid out the highest dividend amount in million SEK. Not surprisingly, these are some of the largest companies on the NASDAQ Stockholm Stock Exchange. *These firms have distributed 73.1 % of all dividends paid during the analyzed period.* However, an interesting aspect of this is how these top dividend payers perform in terms of sustainability. To investigate whether the top dividend payers we have identified lag behind in terms of their sustainability efforts, we collected information on their reporting practices and overall performance from three different sources; (1) Financial and Sustainability Reports, (2) ASSET4 performance ratings, and (3) CSRHUB performance ratings. Nowadays, companies worldwide are paying more attention to reporting on their sustainability performance in terms of Environmental, Social, and Governance (ESG) activities. In addition, seeking external assurance is an essential step for companies that want to increase trust in their reporting process, as it provides an independent, third-party view of the thoroughness and relevance of the sustainability work. Adding external assurance can add both internal and external value to the sustainability report through improved quality of the internal reporting and control process and help management focus on business implications and material issues. Based on EU Directive 2014/95/EU, the Swedish Annual Accounts Act (1995:1554) requires larger companies to report on their sustainability performance.[20] In addition, the law stipulates that an external auditor has to verify that the company has prepared a statutory sustainability report. However, the regulation applicable in 2019 did not specify any specific reporting framework. Neither did the law require that the report is assured by a third-party. According to a 2020 study on sustainability reporting in large companies around the world by KPMG, about 77 % of the 100 largest companies in each EU member state report on sustainability performance, and 67 % of the reporting companies disclose their information following the GRI standards (KPMG, 2020). According to the report, the GRI standards are the most widely used and trusted frameworks to disclose sustainability performance information.

Table 6 shows that 90 % of the top 20 dividend payers in Sweden applied the GRI standards in 2019. Out of these firms, 80 % have been seeking voluntarily limited external assurance on specified sustainability information in their sustainability reports. The equivalent figure for larger listed companies worldwide is 51 % (KPMG, 2020). The appendix also shows that one in five of the highest dividend-paying companies in Sweden reported climate risk in line with TCFD recommendations. This is in line with the findings in the study by KPMG (KPMG, 2020). Thus, the Swedish top 20 dividend payers seem to perform well with respect to disclosing trustworthy sustainability information to the market.

Firms also get evaluated on their sustainability performance by external analysts and receive ratings on different dimensions of their sustainability work. High-performing companies are typically included in a renowned sustainability index such as the Dow Jones Sustainability Index (DJSI) and the FTSE4Good. These indices are designed to gauge the financial performance of companies demonstrating strong environmental, social, and governance practices. Transparent measurement and clear criteria for performance evaluation make them suitable tools for managing or evaluating sustainable investment strategies. *Our analysis shows that nine out of the twenty top dividend payers in Sweden belong to one of the two indices.* Taken by itself, this is quite an impressive figure considering that none of the banks (SEB and Handels-

20. Since we investigate the period 2000–2019, we have here not considered the legal development concerning sustainability reporting driven by EU legislation since then (described in Lidman 2024b).

banken) or investment companies (Industrivärden and Investor) are included in any of the two indexes. Nonetheless, these two investment companies can be classified as engaged long-term owners who actively support building and developing sustainable best-in-class companies.

Our final analysis examines the sustainability performance scores for our top dividend payers from two prominent rating agencies, ASSET4 and CSRHUB.[21] If we exclude the two investment companies, the average ASSET4 environmental Pilar score (A4_Env_Pilar) equals 72.74. The corresponding figures for social performance (A4_Soc_Pilar) and combined ESG performance (A4_Combined_Score) are 76.20 and 57.98, respectively. These figures can be compared with the results from the study by Iamandi et al. (2019), which includes 1165 large European listed companies. Their sample reported an average environmental performance of 64,89, a social performance of 62,44, and a combined ESG performance equal to 59,53. *Hence, a comparison of these figures does not show any indication of sustainability underperformance among the largest dividend distributing firms in Sweden*. Also, the Corporate Social Responsibility (CSR) performance measure from CSRHUB supports this conclusion. This measure provides perspective by rank ordering a Companies composite sustainability rating against all other firms' ratings in the same industry. Column (9) in Table 6 shows that many of the highest dividend payers are also top performers in sustainability according to this metric.

Table 6: Top 20 dividend payers and their sustainability reporting and sustainability performance (2019)

	Reporting		Inclusion in sustainability index			Sustainability performance			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	GRI Standards	TCFD	Ext. assurance	DJSI	FTSE4Good	A4_Env_Pilar	A4_Soc_Pilar	A4_ESG_Score	CSRHUB_Rating
H&M	Y	Y	Y	Y	Y	92.44	83.94	44.37	96%
TELIA	N	N	Y	N	Y	59.67	79.03	58.38	92%
SWEDBANK AB	Y	Y	Y	Y	Y	81.36	70.39	40.28	90%
HANDELSBANKEN	Y	Y	Y	N	Y	86.28	77.58	65.82	N/A
VOLVO AB	Y	N	Y	N	N	88.98	88.32	66.29	92%
ERICSSON	Y	N	Y	Y	N	84.58	88.74	61.18	91%
SEB	Y	Y	Y	N	N	91.75	79.84	53.10	N/A
ATLAS COPCO	Y	N	Y	N	Y	79.92	88.98	79.45	95%
INVESTOR AB	Y	N	Y	N	N	26.55	65.19	52.67	74%
TELE2 AB	Y	N	Y	N	N	53.60	80.23	45.79	86%
SANDVIK AB	Y	N	Y	Y	Y	70.66	78.96	79.22	95%
SKANSKA AB	Y	N	Y	N	Y	58.14	73.48	68.81	96%
SCA	Y	N	Y	N	N	80.63	88.60	73.95	95%
SKF	Y	N	Y	N	Y	91.44	83.99	50.11	95%
SCANIA	Y	N	N	N	N	N/A	N/A	N/A	N/A
ELECTROLUX	Y	N	Y	Y	Y	81.66	85.13	60.03	97%
ASSA ABLOY	Y	N	N	N	Y	80.49	73.22	68.61	97%
INDUSTRIVÄRDEN	Y	N	N	N	N	19.78	50.27	34.68	70%
SWEDISH MATCH	N	N	N	N	N	70.44	81.60	76.91	84%
HOLMEN	Y	N	Y	N	N	57.27	69.64	51.28	98%

Table 6: TCFD stands for Task Force for Climate-Related Financial Disclosure. This is a new framework with the aim of supporting companies in identifying climate-related risks and opportunities.

21. ASSET4 is a leading provider of ESG performance data that was acquired by Thomson Reuters (currently known as Refinitiv) in year 2009. CSRHub is a web service that offers consensus ESG ratings to benchmark performance, study supply chains, improve reporting, and build portfolios. They provide transparent ratings and rankings of 17,660 companies from 145 countries, driven by 724 industry-leading CSR/ESG data sources including ESG analyst, crowd, government, publication, and not-for-profit data.

Taken together, our results show that companies with high dividend pay-outs, together making up for 73.1 % of the dividends paid between 2000–2019, are also performing well in terms of different aspects of sustainability. This is in line with the large body of research that documents a positive association between financial performance and sustainability performance (see Brooks and Oikonomou, 2018 and Malik, 2015 for excellent reviews on this topic).[22]

4.6. The importance of context – a comparison with the 2020 Study on directors' duties and sustainable corporate governance

As we have already touched upon, it is of great importance when analyzing capital markets and corporate governance to consider the context and differences between companies and markets (cf. OECD 2018). Above, we have shown how a quite nuanced understanding of firm behavior with regards to dividends can be achieved by acknowledging the importance of an organization's life cycle. In the 2020 Study (the *Study on directors' duties and sustainable corporate governance*), which laid the foundation for the Corporate Sustainability Due Diligence Directive, such considerations were not taken, and in this section, we highlight how such an oversight may lead to significant analytical errors that researchers and policy makers must be mindful of. We also highlight some other matters of importance regarding sample selection and research design in the 2020 Study.

The 2020 Study calls for regulatory action based on the claim that short-termism has increased in the EU.[23] Empirically, the study investigates how the net corporate funds are being used for payouts to shareholders in dividends and share buy-backs. It is acknowledged that "there is not any defined threshold above which one can state that the focus on short term is excessive" (p. 11). That is why the 2020 Study focuses on the development of the payout over time and argues that an upward trend of payouts demonstrates short-termism.

We follow the same classification as in the 2020 Study, shown in Figure 6, and apply it to our data as shown in Figure 7. Comparing the two graphs, we can see the following two differences: First, comparing the first three years (2000–2003) with the last three years (2017–2019), we see that the fraction of firms with a payout ratio higher than 75 % has increased slightly from 5 % to 8.6 %. Even under the incorrect assumption that this is an appropriate way of measuring short-termism, this would not provide enough evidence of short-term behavior. Given that there is no real "threshold" where one can classify a dividend payout as myopic, it makes little sense to look at how this measure changes over time. In addition, as explained in Roe, Spamann, Fried, and Wang (2020), the more precise measure to demonstrate whether short-termism has increased would be "net" payouts (i.e., gross payouts minus equity issuances).

22. However, whether sustainability drives financial performance, or if it is the other way around is of course an open question.
23. On p. VI, the core problem is described as "Evidence collected over the 1992–2018 period shows that there is a trend for publicly listed companies within the EU to focus on short-term benefits of shareholders rather than on the long-term interests of the company. Data indicate an upward trend in shareholder pay-outs, which increased fourfold, from less than 1 % of revenues in 1992 to almost 4 % in 2018. Moreover, the ratio of CAPEX and R&D investment to revenues has been declining since the beginning of the 21st century. The study shows that, to some extent, corporate "short-termism" finds its root causes in regulatory frameworks and market practices. These trends work together to promote a focus on short-term financial return rather on long-term sustainable value creation."

Figure 6: Fraction of dividend payout ratio over time (the 2020 Study, p. 16)

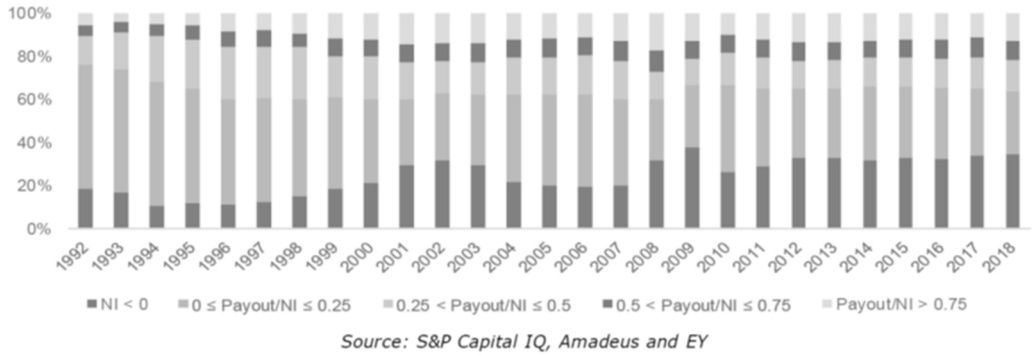
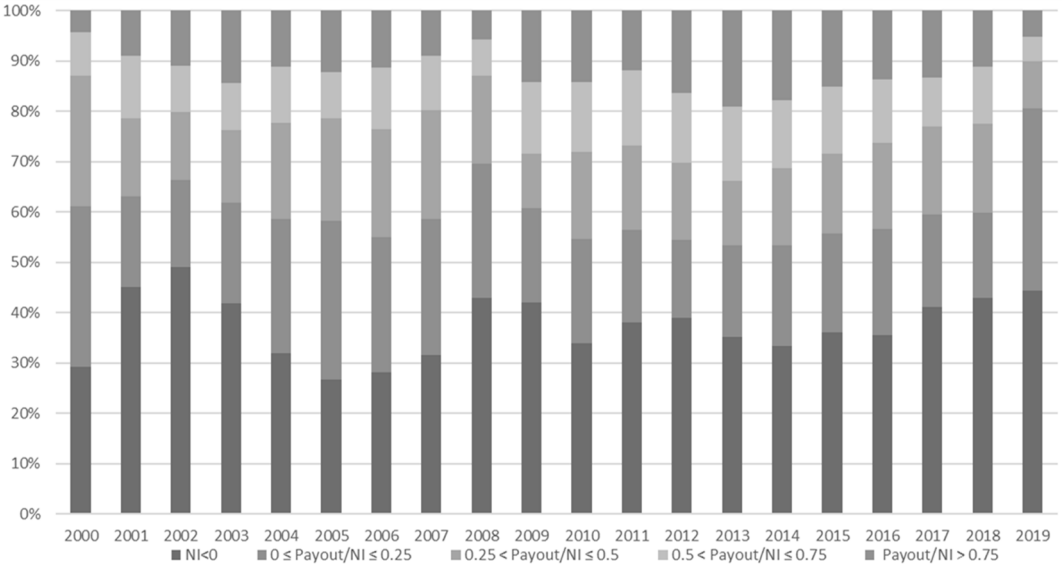


Figure 6 is a copy of Figure 4 in the 2020 Study.

Figure 7: Distribution of listed companies by payout ratio (own calculations)



The figure shows the proportion of companies with payout ratios in different quartiles. The payout ratios range from 0 to 1. An additional group is formed based on the firm-years with negative net income. The figure is constructed in accordance with Figure 6 above (Figure 4 in the 2020 Study).

Second, the construction of the sample matters. Our sample contains *all firms* that have ever been listed on the NASDAQ Stockholm Stock Exchange (Main Market), whereas the 2020 Study starts with only the ones that have *survived* in their long sample period (1992–2018).[24] This has serious consequences since it

24. In robustness tests the 2020 Study only includes the 800 companies listed throughout the entire period and the largest 350 European firms. Whereas we like the idea of this robust-

induces a severe survivorship bias, and therefore, one cannot rely on such results and the claim made of increased short-termism based on them, even if one can accept the assumptions underlying the 2020 Study. To have a well-rounded picture, one needs to include the growth firms in the analysis, given that they are an essential part of the capital ecosystem.

In addition to these two differences, we would also like to point to a few research choices in the 2020 Study that we find questionable. For example, it combines non-dividend-paying but profit-making firms with the ones that are paying out less than 25 %. We suggest that one should be able to disentangle these two groups. Another example is that the 2020 Study starts its sample period in the year 1992, which was a year of a worldwide recession, and therefore it is not a surprise that firms pay higher dividends in times with a better business climate, as it was the case before the Covid-19 crisis. Furthermore, looking at a chart showing the evolution of the payout ratio over time is not rigorous enough. This type of analysis does not include any control variables whatsoever.[25] For example, it could be that the higher profitability in the latter part of the sample drives the higher payout ratios instead of some short-termism. As we have shown in our analysis, many factors determine the optimal payout ratio from a firm's perspective, including the firm's life cycle and its investment opportunities.

Finally, it is worth mentioning that investigating a firm's dividend policy is not as straight-forward as argued in the 2020 Study.[26] Since the seminal paper of Miller and Modigliani (1961), the notion of dividends has puzzled finance and accounting scholars worldwide. One potential explanation for paying out dividends is based on the desire to communicate and signal information to shareholders or satisfy the demand for payouts from heterogeneous dividend clienteles (see Baker and Wurgler (2004a, b). An alternative explanation has been proposed by DeAngelo and DeAngelo (2006), which is that the optimal payout policy is driven by the need to distribute the firm's free cash flow and depends on the life cycle theory.[27] According to this theory, companies optimally adjust dividends over time to their investment opportunities. Hence, this theory predicts that, in their early years, companies pay no or minimal dividends because their funding needs for investment opportunities exceed their internally generated capital. In other words, they have too little money to invest and therefore refrain from distributing any funds back to the investors.[28] In later years, internally generated funds (by successfully selling products and/or services) exceed investment opportunities, so firms optimally pay back the excess funds to the investors. Simply said, the money is transferred back to the inve-

ness tests, this test biases the results towards large mature firms.

25. Alex Edmans from the London Business School puts it like this: "The bespoke analysis in Section 3.1.1 is also of very poor quality and would not pass the requirement for even a first year PhD student paper. It contains charts showing the evolution of total payout vs. net income, without any control variables whatsoever. There are very many factors that determine a company's optimal payout ratio, but these are ignored in the quest to claim "short-termism" (Edmans, 2020).
26. For the interested reader we can recommend the following literature reviews on dividend policy (e.g. Frankfurter and Wood, 2002; Allen and Michaely, 2003; DeAngelo et al., 2008; Al-Malkawi et al., 2010; Baker and Weigand 2015).
27. This theory combines agency theory (e.g. Jensen, 1986) with the evolution of the company's investment opportunity sets (see Fama and French, 2001), Grullon, Michaely, and Swaminathan, 2002).
28. Previous research such as Smith and Watts (1992) and Gaver and Gaver (1993) find that industries with high growth options pay less dividends.

stors, which can reinvest the money into firms with better investment opportunities.[29] This "recycling and reallocating" of money is a crucial driver of a well-functioning capital market.[30] Previous literature such as DeAngelo, DeAngelo, and Stulz (2006) find that the propensity to pay dividends is positively related to their maturity proxy (the ratio of retained earnings to total equity). It should also be clarified that we do not believe that excessive shareholder payouts are at the expense of society or stakeholders. As others have said (Edmans, 2020), "[o]ne of the most wasteful actions that an executive can undertake is overinvestment, which uses both shareholders' and society's resources… Responsible companies know when to invest and when to show restraint."

5. Conclusions

The debate concerning shareholder primacy, sustainable corporate governance and market short-termism is fierce and of great importance to regulators, not the least in the EU. Even though most actors agree that increased corporate sustainability is important and urgent, opinions are divided regarding *how* this should be achieved. The debate is also fraught with different understandings of what drives short-termism (as well as sustainability), and the impact of regulation. In this paper, we challenge the idea that shareholder primacy leads to corporate short-termism, based on an analysis of the Swedish equity market. Investigating the years 2000–2019, our dataset includes 786 unique firms and 7,389 firm-years. The Swedish market is of particular interest when studying the possible correlation between shareholder primacy and market short-termism, since as we have described, Swedish company law is strongly focused on shareholder wealth maximization, and the corporate governance model focused on shareholder primacy.

Our empirical findings demonstrate that (1) 44 % of companies do not pay out a dividend, (2) the payout ratio of the firms depends on their life cycle, and (3) the firms with the highest dividend payout are also the firms with the highest profitability while at the same time performing well in terms of sustainability reporting and sustainability ratings. In fact, the four largest dividend payers in Sweden (which make up 31.4 % of total dividends during the period covered in the study) are a family-owned global retail company (H&M), a telecom operator where the state is the largest owner (Telia), a bank with strong cooperative roots (Swedbank) and a bank owned to a high degree by its staff (Svenska Handelsbanken). Thus, we see no material indications of the financial short-termism in Sweden, and no reason to change a well-functioning model of corporate governance based on shareholder primacy.

We have also contributed with a methodological approach to study short-termism. By acknowledging the importance of an organization's life cycle and clearly showing the impact of a small number of large dividend-paying companies, we provide a more nuanced and detailed way of studying short-termism. Our study points to the importance of analyzing the relationship between individual companies, the surrounding ecosystem, and the type of corporate governance model. In Sweden, the ecosystem consists of both small growth firms and large multinational companies. As our findings demonstrate, many of the growth firms do not pay any dividends, and among the top 20 dividend payers, these companies perform well both financially and from a sustainability perspective.

29. This is a large advantage given that otherwise management might be tempted to use the available free cash flow for empire building projects that do not add value to the firm (Jensen, 1986).
30. See Chen (2018) who follows the money and finds that the cash paid out by larger companies is reinvested in smaller companies.

APPENDIX: The theoretical aspects of growth, investments, and dividends – some examples

This appendix is aimed at illustrating the relationship between growth, profitability, and investments. We use three numerical examples that illustrate different financial development that a firm might search for depending on the position in the life cycle the firm finds itself in. The examples are stylized and illustrate the theoretical and necessary practical developments given certain financial strategies and the construction of the financial system.

Growth and financial decisions of various kinds have been analyzed for a long time and are well-known. A comprehensive analysis is provided in "The Profitability, Financing and Growth of the Firm" by Sven-Erik Johansson and Mikael Runsten (2014). The focus in this type of analysis is on the development of the balance sheet of a company/group. A balance sheet is made up of two kinds of assets, current assets (CA) and non-current asset (NCA). The other side of the balance sheet concerns the financing of the firm in the form of interest-bearing liabilities/debt (D) (e.g., bank loans, issued bonds etc.), non-interest bearing liabilities (NIBL) (e.g., payables and accruals), and equity (E) (i.e., shareholder contributions). Changes on the asset must match change on the financing side (where Δ represents the change between two balance sheets at different dates:

$$\Delta CA + \Delta NCA = \Delta NIBL + \Delta D + \Delta E$$

Two other important relationships for the analysis are related to the development of non-current assets and equity, respectively. First, non-current assets are affected to depreciations/amortizations/impairments (DEPR) and new investments (INV). The relationship then looks like follows:

$$NCA_t = NCA_{t-1} + INV_t - DEPR_t$$
$$\Delta NCA_t = INV_t - DEPR_t$$

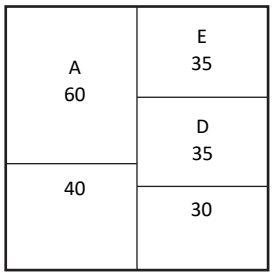
Where the time indexes show the point in time for the balance sheet items and the period between the two points in time for investments and depreciation. The other relationship is the development of equity. Equity is affected by net profit (NP) and transactions with owners (NDIV). The owner transactions include dividend payments from the firm and new contributions from the shareholders, normally in form of new issues of shares or share buy backs if these are negative. We call these net dividends. Following the structure from non-current assets this gives:

$$E_t = E_{t-1} + NP_t - NDIV_t$$
$$\Delta E_t = NP_t - NDIV_t$$

Finally, we need to define the reporting return to the shareholders, more commonly known as return on equity (ROE), being calculated as net profit divided by beginning of period equity:

$$ROE_t = NP_t / E_{t-1}$$

Figure A.1: Starting balance sheet for the analysis growth, investments and dividends



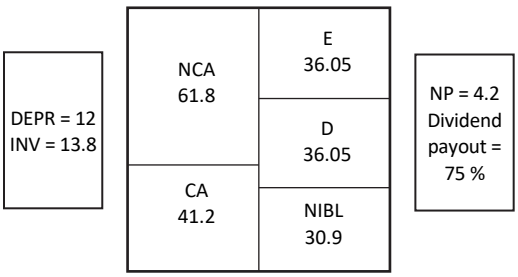
Let us now study a couple of numerical examples. First, we examine a situation with **3 % growth** of the balance sheet, and an unchanged financing structure, i.e., the relationship between NIBL, D, and E is unchanged, and ROE is 12 %. Second, we move to a situation where the **growth is 10 %**, an unchanged financing structure and ROE of 12 %. Finally, we analyze a **5 % growth**, where equity grows by twice the

percentage point as the other liabilities and a ROE of 12 %. In all situations, we start with 30 % NIBL, 35 % D, and 35 % E on the financing side, and 40 % CA and 60 % NCA on the asset side, as shown in the figure below. In all cases, we assume 20 % depreciation of the initial balance sheet. This corresponds to approximately 10–12 years of useful life/depreciation period for non-current assets.

Example 1: the mature firm with a balance sheet growth of 3 %

The first example illustrates a firm which is in a mature state or alternatively a long-term stable situation for all firms. The growth is 3 %, which is at the top-end of a long-term GDP growth. The ROE is 12 %, and the financial position is unchanged. The investments in the firm amount to 13.8, which is 23 % of the value of the non-current assets on the balance sheet. The growth is modest but total investments are still considerable and open up for considerable changes in the production capacity. Such a firm can still afford a 75 % dividend payout of reported net profit, which is a very high number and well-beyond figures that we see in most companies today.

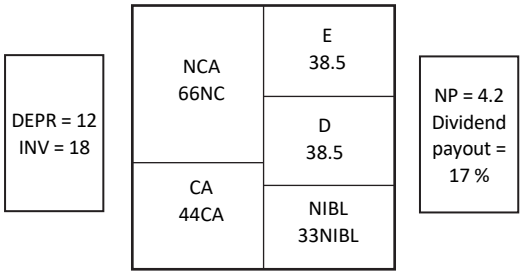
Figure A.2: Balance sheet, investments, depreciation, net profit, and dividend payout when the firm grows by 3 % and generates 12 % ROE with an unchanged financial position



Example 2: a fast-growing firm with a balance sheet growth of 10 %

In the second case we illustrate ***a fast-growing firm*** where the balance sheet grows with 10 % per year, with a modest return on equity of 12 %. The financial position is unchanged. In this case the investments are in total 18, which corresponds to 30 % of the carrying value of the assets on the balance sheet in the beginning of the period. The strong investment pattern can still be matched with a dividend payout ratio of 17 % of net profit, which is well beyond what the companies in the lower end of the distribution pays to their shareholders. This is not a long-term sustainable level of growth for a firm, but for a limited period of time it is definitely a reasonable number.

Figure A.3: Balance sheet, investments, depreciation, net profit, and dividend payout when the firm grows by 10 % and generates 12 % ROE with unchanged financial position

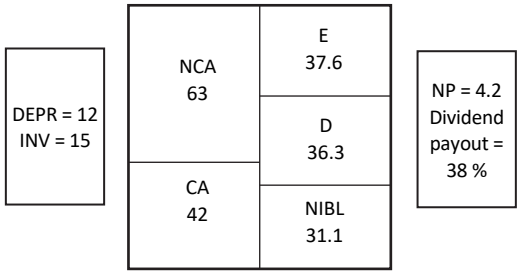


Example 3: a medium-growing firm with a balance sheet growth of 5 %

The final example illustrates ***a medium-growing firm which improves its financial position***, i.e., the proportion of equity increases. In this case we can observe two things. First, the investments correspond to 25 % of the value of the non-current assets at the beginning of the period. This is a substantial amount, which means that not only do we exchange past production capacity, but we also have the opportunity to increase the capacity with better characteristics. The firm is generating a mod-

est return of 12 %, and it has a payout ratio of 38 % of net profit. This means that the generated profits of the firm are sufficient to ensure substantial new investments, improved financial position, and a close to average payout ratio. This is a financially strong achievement.

Figure A.4: Balance sheet, investments, depreciation, net profit, and dividend payout when the firm grows by 5 % and generates 12 % ROE with an improved financial position



The above examples illustrate that dividends in themselves are not contradictory to investments and growth of firms in a normal capital market. *Dividends that we have illustrated above are in many situations in line with or above what we empirically observe today*. Two issues regarding the examples can be highlighted. First, the major question is what kind of investments are being made in companies today and in the future. If these investments are directed towards society improving activities, there is a substantial amount of money on the table. Second, the money that is distributed to owners may in turn be reinvested into other firms to ensure growth and positive transitions. This is generally the dynamics we see in society and the general role of the financial markets. A key element appears to be the incentives and direction of the investments rather than the magnitude and disposition of currently available funds.

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