



Holding companies at higher education institutions – deficiencies in governance and administration

In the early 1990s, the Riksdag decided that holding companies should be formed and affiliated to several higher education institutions. The purpose was to support transfer of knowledge from research to the business community by enabling the higher education institutions to conduct commercial activities. Today, there are 18 holding companies affiliated to various higher education institutions. On several occasions during the 2000s and 2010s, the Government assessed that the holding companies at the higher education institutions needed to be strengthened, professionalised and their collaboration with the rest of society increased.

The Swedish NAO has previously noted problems at certain higher education institutions regarding governance and administration of holding companies. These include the risk of the operations not having support in the Government's guidelines, incorrect reporting to the Government Offices, deficiencies in the formulation of agreements between universities and holding companies, the risk of a poor commercial basis and owners' instructions that are not formally binding on the holding company.

According to the Swedish Companies Act, the main purpose of a limited company is to generate profits for the owner, in this case the State. A previous inquiry pointed out that the holding companies' investments in new companies are rarely profitable, that the performance of the operations is highly dependent on external funds and that the regulations regarding how the holding companies should manage their surpluses need to be clarified. In the light of this, the Swedish NAO has audited the governance and operations of 17 holding companies.

The audit answers three questions:

1. Does the Government's governance of the higher education institutions provide the conditions for active, professional administration with value creation as the overall goal?
2. Do the higher education institutions have active, professional administration of the holding companies, with value creation as the overall goal?
3. Is the holding companies' work with investment in project companies compatible with the Riksdag's decisions?

Audit findings

Firstly, the Swedish NAO notes that over the past five years, in general, the corporate groups have experienced a rise in turnover, higher earnings and more employment. Several corporate groups have been able to accumulate funds. Overall, other tax-financed actors are the holding companies' most important source of income. A majority of the holding companies receive annual capital contributions from the State. The companies' main revenues in 2014–2018 came from assignments

agreed with the higher education institution, grants from Sweden's innovation agency, Vinnova, or other tax-financed operations.

The Government's governance has not promoted active, professional administration

The Government has not governed the higher education institutions so they have the conditions for active, professional administration of the holding companies.

Following a government decision, the management of all shares in the holding companies was transferred to the higher education institutions in 1998. Decisions concerning the management of the shares must be made by the board of the institution, but the articles of association may only be amended with the consent of the Government. According to the Government Offices, the holding companies must report to the higher education institutions, which are expected to use the agency dialogue as the main channel for dialogue with the Government Offices regarding the holding companies. The audit shows that it is very unusual for the Government Offices to provide feedback on the holding companies' reports, and that the agency dialogue is almost totally dominated by the higher education institution's other activities. As a result, the information about the holding companies' operations that reaches the Government Offices will in practice be limited to the written report. The very limited feedback on the holding companies' operations, combined with the fact that the Government's consent is required to change the articles of association, means that the Government has not provided the higher education institutions with the conditions to exercise active, professional administration of the holding companies. This is because the higher education institutions lack a dialogue with the Government, which ultimately sets the framework for the operations.

The Riksdag has not received information about the holding companies as requested by the Riksdag Committee on Education. The Government has not published a follow-up of the corporate governance of the holding companies at higher education institutions since 2012, nor follow-up as to whether the work on economic targets is functioning appropriately.

The Government has not investigated the effects or results of the holding companies' efforts to commercialise knowledge from higher education institutions, nor has it evaluated operations before new companies have been started or followed up the effectiveness of the capital contributions to the "idea banks". This means that there is a risk that the Government's decision to allow certain higher education institutions to start holding companies may have been taken on inadequate grounds. However, in the course of the audit, the Government appointed an inquiry to propose, among other things, whether holding companies (including subsidiaries) are an effective and appropriate way to commercialise research, and to propose how the operations should be followed up.

The Riksdag does not receive information about the holding companies in the same way as for other state-owned companies.

The higher education institutions' administration could be more active, professional and value-creating

Since the holding companies are limited companies, but do not have specially determined public policy mandates, nor any profit restrictions in their respective articles of association, the main purpose of the individual holding companies should be to generate profits for the owner, i.e. the State. In addition to the requirements for returns, representatives of several companies see the societal benefits of the operations as important. From the perspective of several companies, it would be desirable for the holding companies to have a specially determined public policy mandate.

The higher education institutions' policy documents for the companies, known as owner directives, do not always have explicit support for the Riksdag's aims and the Government's guidelines. Three owner directives contain wording that the company must work with non-commercial or non-profit-making companies, and eight owner directives contain instructions for promoting regional business development. The owner directives also contain different interpretations of what the assignment to provide contract education entails. In October 2019, the Government stated that there are no clear guidelines for what activities should be conducted in the holding companies' service companies.

Few higher education institutions follow up the contract education agreements to ensure that the holding companies are in compliance with them. Several company boards have deficiencies in their long-term value creation work. Seven holding companies entirely lack operational objectives and three have neither objectives nor strategies. Five holding companies lack a strategy adopted by the board for divestment of project companies. Most company boards work with risk management in some way. However, several companies lack a formulation in the board's rules of procedure stating their responsibility for risk management, and only three companies have a more developed structure for risk management.

The companies usually invest in accordance with the guidelines

Almost all holding companies invest in companies that conduct research and development work for commercial exploitation. In most cases, there is a link to research or education at the higher education institution. The investments in new companies sometimes generate a surplus, but according to the companies, the majority of the investments are not financially profitable in the short term.

Recommendations

The Swedish NAO makes the following recommendations to the Government and to the audited higher education institutions:

Recommendations to the Government

The Government should clarify which operations can be included in the holding companies' corporate groups, in addition to investing in project companies, and what the division of responsibilities should be between companies and the higher education institutions for contract education, for example.

The Government should take the initiative to investigate how the reporting chain between companies, higher education institutions and the Government can be developed in order to achieve active, professional administration with value creation as the overall goal.

Recommendations to the higher education institutions

The higher education institutions should develop their work on objectives, strategies and risk management in the companies.

The higher education institutions should develop follow-up of the assignments agreed with the holding companies.

Higher education institutions that have appointed a vice-chancellor or deputy vice-chancellor as chairman of the board should consider appointing a chairman with clear business skills in order to develop the company and avoid the risk of conflicts of interest.