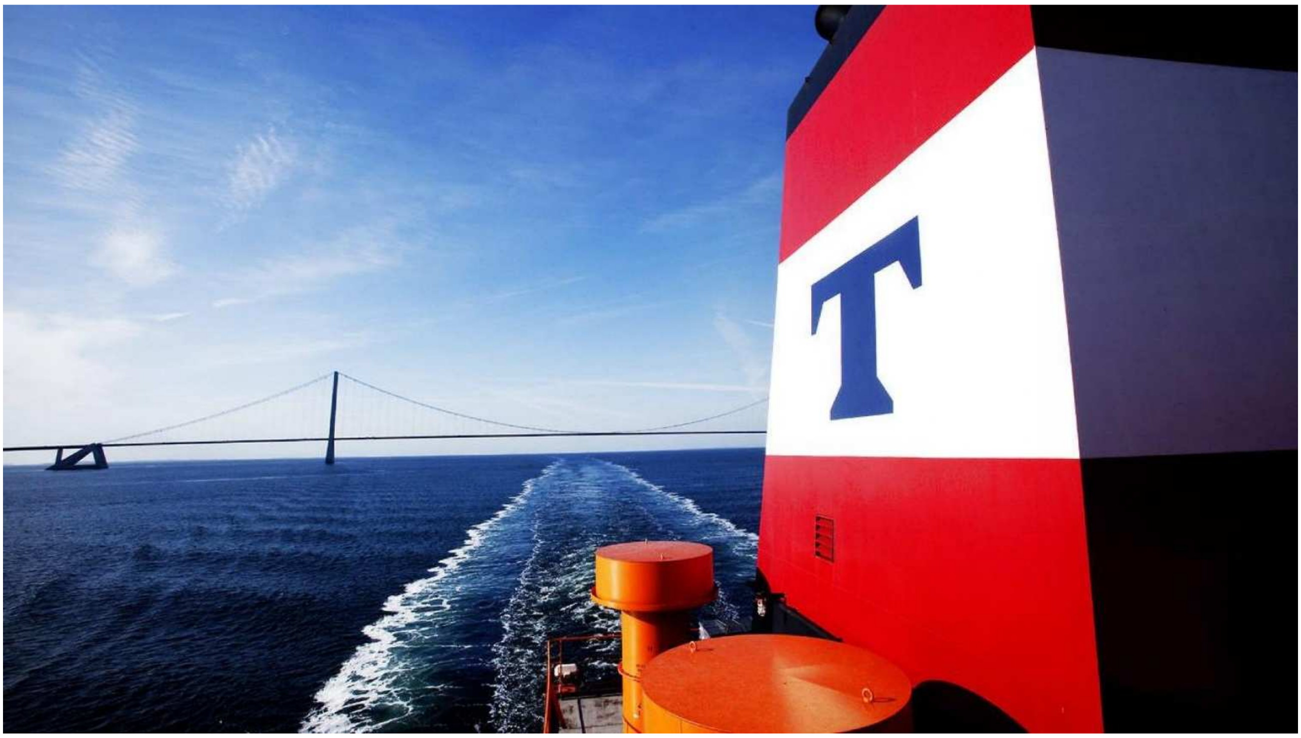

Financialization in Danish shipping

– The effects on Danish ship-owner TORM

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Front page: TORM vessel

Source: http://flashnews.ugebrev.dk/wp-content/uploads/2015/06/torm.jpg

Introduction

The Danish shipping industry experienced some of its most successful years to date in the early 2000s and up to the financial crisis in 2008. The industry benefitted from the global growth rates leading to an increasing demand for seaborne transportation, and many Danish ship-owners expanded dramatically over this period. Danish shipping stocks exploded, and in 2004, three Danish ship-owners' stock price increased by 150% in just one year[1] while another Danish ship-owner increased its stock price by 2920% from 2000-2004[2]. The demand for shipping services derives from the demand of (consumer) goods in the world economies[3], and – like the shipping industry – the economies experienced drastic change from within.

The structure of developed economies have transformed over the last decades[4]. Financial institutions and financial markets have grown in both size and importance[5]. The financial sector's share of corporate profits reached ever-high levels[6] during this transformation, and income derived largely from financial sources rather than nonfinancial sources[7]. In addition, nonfinancial corporations got increasingly involved with financial transactions and the debt ratio of the economies increased substantially. In other words, these economies had undergone *financialization.* Financialization is a term broadly defined with the purpose to capture the phenomena of the above transformations (and many more). Financialization refers to both a single transformation and to a series of transformations, and for the same reason, applies to numerous occasions. Due to the lack of a singular definition it appears that, the use of financialization is ambiguous[8]. The concept is used both in a national and international context, and for both financial- and nonfinancial corporations.

[1] "Rederier årets højdespringere – Orion er bedst" (2004) Børsen
[2] Sørensen, Morten, "Uventet success for rederier" (2004) Berlingske Tidende
[3] Stopford, Martin, "Maritime Economics" (2009)
[4] Epstein, Gerald A., "Financialization and the World Economy" (2005)
[5] Orhangazi, Ozgur, "Financialization and the US economy" (2008)
[6] Krippner, Greta R., "The financialization of the American economy" (2005)
[7] Orhangazi, Ozgur, "Financialization and the US economy" (2008)
[8] Orhangazi, Ozgur, "Financialization and the US economy" (2008)

As the (Danish) shipping industry is highly dependent on the developments in economies, and the transformation of both the shipping industry and the developed economies happened simultaneously it raises an interesting question: *have the shipping industry been financialized?*

Area of research - broad

Financialization’s influence on the shipping industry is a very broad topic and in order to comply with the format of this project it will need narrowing to a simple, less extensive and more concrete question. A simplification of both financialization and the shipping industry is required.

The shipping industry is producing transportation solutions by sea, and has done so for many hundreds of years. Three segments have dominated the shipping industry in the last 50 years[9]:

Bulk shipping: (i) Liquid bulk is the transportation of liquid cargoes in bulk such as crude oil, refined oil products, certain large chemical parcels and vegetable oils. (ii) Dry bulk is the transportation of dry cargoes in bulk e.g. coal, grain, iron ore, salt, cement etc[10].

Specialized shipping: Covers transportation of various types of goods such as liquid gas, smaller chemical parcels, motor vehicles and refrigerated goods[11].

Liner shipping: Related to loose cargoes either containerized cargoes or palletized cargoes. Some cargoes – such as heavy machinery - neither fit on pallets nor in containers and these cargoes are stowed and lashed in the cargo holds (or on deck)[12].

Ships are the main assets of the industry and the companies that owns the ships, ship owners, can have a fleet focusing solely on one of the three segments or they can have a fleet that can meet transportation needs coming from various segments. For example, a ship owner can have a fleet consisting of both tankers (the liquid bulk shipping segment) and container ships (the liner shipping segment). Coverage of the entire shipping industry – including all three segments - would require

[9] Stopford, Martin, “Maritime Economics” (2009)
[10] Stopford, Martin, “Maritime Economics” (2009)
[11] Stopford, Martin, “Maritime Economics” (2009)
[12] Stopford, Martin, “Maritime Economics” (2009)

both skill and time that is not in the nature of this exercise. Therefore, this project will focus solely on one specific Danish ship owning company. Danish ship-owners are well represented globally, as Denmark is the 5th largest shipping nation in Europe[13] and bears strong maritime traditions, Denmark has several ship-owners - still today - that roots back over a hundred years.

Narrowing financialization

A large share of confusion is tied to the definition of financialization, as the literature on financialization points in various directions[14]. Concretizing the term financialization is a necessity to provide an overview of the characteristics of the transformation, hence a discussion of all the various definitions - and their validity - would be too time consuming for this project.

One contributor to the literature of financialization, Associate Professor at the University of Michigan, Greta R. Krippner, has summarized most of the different usages of financialization and the literature hereof in “The financialization of the American economy” (2005):

(i) Shareholder value: financialization as the ascendancy of ‘shareholder value’ of corporate governance[15].

(ii) Dominance of capital markets: dominance of capital markets over bank-based financial systems[16].

(iii) Increasing power of a rentier class: rising power of a rentier class both economically and politically[17]

(iv) Severe financial trading: the exponential growth in financial trading in the wake of the appearance of new financial instruments[18]

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13 Stopford, Martin, “Maritime Economics” (2009)
14 Krippner, Greta R., “The financialization of the American economy” (2005)
15 Froud, Julie; Haslam, Colin; Johal, Sikhdev; Williams, Karel, “Shareholder value and financialization: consultancy promises, management moves” (2000)
16 Phillips, Kevin, “Wealth and democracy: a political history of the American rich” (2002)
17 Duménil, Gérad; Lévy, Dominique, “Neoliberalism: The Crime and the Benificiary” (2002)
18 Phillips, Kevin, “Arrogant Capital: Washington, Wall Street, and the Frustration of American Politics” (1996)

(v) Profit through financial channels: financialization as a mode of accumulation where profit are made primarily through financial channels instead of production of commodities or trade[19]

Above is simply to demonstrate that various definitions of financialization works on different levels, and some are measurable on a macro-level and others at a micro-level. In this project, financialization needs to be measurable on a micro-level basis, and this fact provides a rough sorting in the above definitions of the term. (i) Shareholder value, (ii) dominance of capital markets and (v) profits made through financial channels are plausible definitions of financialization, in order to measure the extent of financialization for a (ship owning) company. (iii) Increasing power of a rentier class and (iv) severe financial trading most certainly have an effect on certain ship owning companies but making it measurable on a company basis will be difficult. One side of the definitions are solely covering the actions that are leading to financialization, without dealing with the consequences of the transformations. The consequences, more specifically the ones of a negative character, fills a significant role in the literature of financialization. There is a general consent, that financialization leads to an increasing risk exposure towards the financial world for both companies, individuals and economies as a whole. Shareholder value orientation can lead management of an organization to engage in more risky investments in order to boost stock price on the short-term. The increasing availability of financial products and services have enabled more individuals to become increasingly involved with financial activities adding to the individuals' exposure towards the financial markets. An economy's exposure rises as financial institutions makes up an even larger share of the economy, they are dependent on the sustainability of the work that the financial institutions deliver. A definition of financialization in this project is tied to a micro-level perspective, and a more fulfilling explanation of financialization will be in the literature review and – partly – in the theory section.

[19] Arrighi, Giovanni, "The Long Twentieth Century: Money, Power, and the Origins of Our Times" (1994)

Literature review

Financialization in connection with Danish ship-owners is not covered directly in the available literature. Relevant literature is obtainable when looking separately at the components that frames the topic. Literature covering the financialization of the shipping markets is available to a certain extent, which is considered to be somewhat related to the research of this project. Financialization's impact on both financial- and nonfinancial corporations is included in the literature, and especially the coverage of nonfinancial corporations is relevant when using a nonfinancial (ship owning) corporation as the object of research. This section will provide an overview of literature concerning financialization, and briefly present relevant research spanning from the more narrow conceptions of the term to the broader and looser usages. This is to present a more fulfilling picture of the literature provided in this field of work, and give the reader the sense that financialization is broadly applicable or at least broadly used.

Financialization as a broad concept

Professor Gerald A. Epstein, author of the book "Financialization and the World Economy", is treating the phenomenon financialization very directly. Epstein acknowledges that financialization started to transform the US economy already 3-4 decades ago[20], and defines the phenomenon as follows:

"…financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies"[21] (Epstein, 2005, page 3)

Epstein suggest that the number of financial transaction, profits generated by financial institutions, debt ratios and real interest rates can measure this "increasing role"[22]. Epstein (2005) also covers the

[20] Epstein, Gerald A, "The Financialization of the World Economy" (2005)
[21] Epstein, Gerald A, "The Financialization of the World Economy" (2005)
[22] Epstein, Gerald A, "The Financialization of the World Economy" (2005)

consequences of financialization such as a misallocation of resources. Professor Ronald Dore provides yet another broad definition of financialization:

"…the increasing dominance of the finance industry in the sum total of economic activity, of financial controllers in the management of corporations, of financial assets among total assets, of marketised securities and particularly equities among financial assets, of the stock market as a market for corporate control in determining corporate strategies, and of fluctuations in the stock market as a determinant of business cycles[23]" (Dore, 2002, page 116)

Dore's definition shares the view of Epstein's definition to the extent that both of them see an increasing role of financial activities and added importance to the groups controlling these activities. In 2008, Dore contributes further to the literature of financialization, providing four tangible measures representing financialization: (i) increasing share of financial profits, (ii) the scaling of financial markets, (iii) a – short-term - shareholder value orientation for corporations led by their owners (or their representatives and lastly (iv) the government's promotion of an "equity culture"[24].

Assistant Professor, Gautam Mukunda, at Harvard Business School addresses – like Epstein – the financialization of the US economy. Mukunda's interpretation of the phenomenon:

"Financialization is the dominance of financial markets, institutions, and elites over both the economy and the other institutions of society, including the government[25]" (Mukunda, 2014, page 74)

The shift of power that appears to concern Mukunda is stating that financialization dominates even the democratic organ, the government. Mukunda addresses the danger of having one group dominating - from a macro-level - the way society thinks, as this could potentially lead groups to act unconsciously against their own interests and consequently experience a misallocation of resources[26].

[23] Dore, Ronald, "Stock Market Capitalism vs. Welfare Capitalism" (2002)
[24] Dore, Ronald, "Financialization of the global economy" (2008)
[25] Mukunda, Gautam, "The price of wall street's Power: How the financial sector's outsize influence is undermining business" (2014)
[26] Mukunda, Gautam, "The price of wall street's Power: How the financial sector's outsize influence is undermining business" (2014)

Mukunda touches corporate behavior by referring to studies of the increasing focus on maximizing shareholder value, with as few assets as possible; this pattern appears to be more common in publicly listed companies.

These three definitions of financialization demonstrate just how broad the term is used and covering not only transformations of various character, but further defining combinations of the different transformations. Based on above definitions, it is generally unclear whether financialization is 'valid' when – for instance – 2 out of 4 transformations are present. Other work within the literature of financialization addresses one or two transformations as being signs of financialization, and "Making sense of financialization" by Zwan (2013) provides three approaches to financialization. Zwan divides the literature of financialization into three approaches: (i) Financialization as a regime of accumulation, (ii) Financialization and shareholder value and (iii) Financialization of the everyday[27]. This review will adopt Zwan's categorization of the literature, as it appears to be a suitable tool to create an overview of the main approaches of financialization.

Financialization as a regime of accumulation

This category reflects financialization as being finance-led activities taking over the more traditional economic activities such as production. Krippner (2005) provides evidence for one of these measures of financialization. Based on data from nonfinancial corporation (dating back decades), Krippner finds an increasing share of financial revenue generated by nonfinancial corporations[28], and thereby finds a pattern that, corporations -despite being nonfinancial by nature – are generating revenue from financial channels to a greater extent. Crotty (2005) suggests that nonfinancial corporations not only increase financial income but also increase its financial expenses such as interest payments and

[27] Zwan, Natascha van der, "Making sense of financialization" (2014)
[28] Krippner, Greta R., "The financialization of the American economy" (2005)

dividends[29]. In line with both Crotty and Krippner, Orhangazi (2008) states that productive gains are being distributed to shareholders (or financial channels) instead of reinvested in tangible assets[30]. Stockhammer (2012) addresses the increased fragility that follows this dominating finance-led regime of accumulation, and high price volatility on the financial markets combined with higher levels of debt makes a financialized economy more prone to financial crisis[31]

Italian economist Giovanni Arrighi proposes a more abstract and cyclical explanation. Arrighi and his co-author Silver developed a theory of long cycles of capitalist development[32] where each cycle is led by a hegemonic power[33]. *Hegemony* is "Leadership or dominance, especially by one state or social group over others"[34]. The hegemonic power will last an entire cycle and in its rising it will bring financial expansion but towards the end of a cycle a worldwide crisis will occur together with financial contraction, and in the midst of the crisis the beginning of new cycle takes form as a new hegemonic power takes over[35].
Arrighi has claimed that the world has been through 4 cycles so far[36]:

(i)	Years: 1450 - 1600s	Hegemonic power: Genoese
(ii)	Years: 1600s - late 1700s	Hegemonic power: Dutch
(iii)	Years: late 1700s - early 1900s	Hegemonic power: British
(iv)	Years: early 1900s – 2000s	Hegemonic power: The United States

In short, a hegemonic power shifts focus from production to finance – at the end of the cycle – in a try to prolong its position, this leads to a financialization and ends with a collapse (and replaces one hegemonic power with another).

29 Crotty, James "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Market on Nonfinancial Corporation Performance in the Neoliberal Era" (2005)
30 Orhangazi, Ozgur, "Financialization and the US economy" (2008)
31 Stockhammer, Engelbert "Financialization, income distribution and the crisis" (2012)
32 Arrighi, Giovanni, Silver, Beverly J., "Chaos and governance in the modern worlds system" (1999)
33 Arrighi, Giovanni, Silver, Beverly J., "Chaos and governance in the modern worlds system" (1999)
34 Oxford dictionaries, "hegemony"
35 Arrighi, Giovanni, Silver, Beverly J., "Chaos and governance in the modern worlds system" (1999)
36 Orhangazi, Özgür, "Financialization of the US Economy" (2008)

Financialization and shareholder value

Financialization is often linked to corporations increasing focus on shareholder value as a mode of corporate governance, and in this second approach Zwan (2013) draws a parallel between the regime of accumulation and shareholder value in the sense that both approaches represents a redistributive element[37]. Hence, the focus of the beneficiary changes from the rentier class (in financialization as a regime of accumulation) to the one of managers and shareholders in the shareholder value approach. Shareholder value appears to be the tool in which to secure control of a corporation – from an owner /shareholder's perspective – bearing the principal-agency theory in mind[38]. Fligstein (1990) highlight the use of shareholder value as a method of securing equal interest with managers through performance-based compensation and that the main task of the corporation has moved towards maximizing stock price and dividends. The work of Lazonick and O'Sullivan (2000) highlights a change in corporate behavior, from retaining capital within the corporation i.e. through reinvestment, to distribute the capital to the shareholders[39]. Actions attached to a 'shareholder value approach' include restructuring activities such as: cutting off underperforming branches to leave place for core competence, mergers and acquisitions and hostile takeovers[40].

Compensation of management have evidently increased both in the US, Japan and several European countries[41], and Boyer (2005) finds that the increase in compensation has been on the rise regardless of the actual management performance, and suggests that even the role of managers proves to be superior to the one of shareholders. The resources flowing towards both shareholder and management is - partly - on behalf the 'wage-earner', however, this is mostly common in the US and not very evident in European countries[42].

[37] Zwan, Natascha van der, "Making sense of financialization" (2014)
[38] Zwan, Natascha van der, "Making sense of financialization" (2014)
[39] Lazonick, William; O'Sullivan, Mary "Maximizing shareholdervalue: a new ideology for corporate governance" (2000)
[40] Davis, Gerald F.; Diekmann, Kristina A.; Tinsley, Catherine H, "The Decline and Fall of the Conglomerate Firm in the 1980s: The Deinstitutionalization of an Organizational Form" (1994)
[41] Zwan, Natascha van der, "Making sense of financialization" (2014)
[42] Zwan, Natascha van der, "Making sense of financialization" (2014)

Financialization of the everyday

The last approach provided by Zwan (2014) is the one of financialization of the everyday, now taking the citizens into the equation of financialization. A democratization of finance – presented by Erturk, Froud, Johal, Leaver and Williams (2007) – has allowed citizens to enter the world of finance (that solely served the rentier class previously). Low-income and middle-class households are now more involved in the financial world in regards to pension, consumer credit and mortgages, and this approach of financialization emphasize concern of the increasing exposure of these classes towards financial markets[43].

Stockhammer (2012) includes this 'everyday' approach of financialization in his work, and raise concern of the increasing debt ratios for households, which have increased gradually as economies were financialized[44].

Financialization in a shipping context

Karakitsos and Varnavides (2014) addresses financialization of the shipping markets in their book "Maritime Economics: A Macroeconomic Approach" (2014). They note a shift in business cycles – in industrialized countries - from demand-led in the 1950s and 1960s, changing to supply-led in the 1970s and 1980s and lastly the era characterized by excess liquidity the following 20 years. Karakitsos and Varnavides argue that this excess liquidity have led to a financialization of the shipping markets, effectively channeling severe liquidity to the commodities and indirectly affecting shipping. The rise of financial engineering and process of financialization has also influenced the shipping markets more directly. Freight rates should now be viewed as derivatives that are to be traded just as commodities, currencies etc. Traditionally freight rates derived from the fundamentals of the market, but now another factor is contributing to the equation: the risk aversion in the market and a premium is expected when risk aversion declines just as a discount is expected when risk aversion is growing[45].

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[43] Zwan, Natascha van der, "Making sense of financialization" (2014)
[44] Stockhammer, Engelbert "Financialization, income distribution and the crisis" (2012)
[45] Karakitsos, Varnavides, "Maritime Economics: A Macroeconomic Approach" (2014)

Ultimately, Karakitsos and Varnavides finds that freight rates volatility has trebled and that the short-term focus of the capital providers can collide with the long term cycles that characterizes shipping.

This literature review is representing a fraction of the literature on financialization, and as earlier mentioned, a fulfilling review of all available literature would require its own project. Hence, the main concept of financialization should be clear at this point. Financialization is a term covering transformations taking place in an economy and at different levels within the economy. Financialization can be the increasing engagement of nonfinancial corporations in financial activities, such as increasing revenue from financial channels or an increasing debt ratio. Financialization can also be a mode of corporate governance, the increasing focus on keeping the stock price high, keeping management in shape by adding performance-based compensation with the ultimate goal of enriching shareholders. Not only corporations or economies as a whole are being 'financialized', the households finds themselves with increasing debt ratios and becoming more involved with financial activities. From a shipping perspective, financialization has brought excessive liquidity into commodity trade and since shipping demand is deriving from the demand of commodities/goods, the effect has been an increasing volatility in the shipping markets. Generally, the consequences of these transformations – despite at what level they are working– are an increased exposure to financial markets and an added volatility making households, corporations and economies more prone to financial crisis.

Area of research - narrow

The literature of financialization have evidently provided proof of the existence of this phenomenon, and traces of financialization appears on macro- and micro-level. Despite the evidence provided in previous studies of financialization, the lack of a singular cohesive definition remains. Yet similarities of this phenomenon exists, and there is a general understanding of financialization as leading to an increased exposure – through deeper involvement - to financial markets whether looking on a national level, from a corporation's point of view or from a citizen's perspective.

The US has been subject of research on several occasions in regards to financialization, and considered a 'grand example' of financialization on all levels. Deregulation have opened up for new opportunities to the world of finance, Wall Street's corporate culture have financialized corporate America and affected its behavior[46] while new – and lower- income classes have been involved in financial markets more than ever before. The list of measurements of financialization of the US is as extensive as the use of the term and likely, for that same reason, the phenomenon reaches outside of the US borders. Several European economies have transformed with identical measures as the ones of financialization. Financialization's place in time is depending on which scholars – and thereby definitions – that are being studied. Arrighi (1994) studied financialization as a reoccurring process that has happened several times in the last hundreds of years, but in the collective work of Epstein (2005) the broad understanding is that financialization is tied to the transformation in the last decades. Generally, there is consent around financialization as being a transformation of the last couple of decades[47].

Research of financialization in a shipping context is limited, and it has only been possible to retrieve a few pieces of literature concerning this subject. Financialization has manifested itself on the shipping industry in various ways. Firstly, the demand for shipping services derives from the demand of (consumer) goods, and this demand is affected through more liquidity in the hands of consumers (e.g.

[46] Ho, Karen, "Disciplining Invetment Banker, Disciplining the Economy: Wall Street's Institutional Culture of Crisis and the Downsizing of Corporate America" (2009)
[47] Orhangazi, Ozgur, "Financialization and the US economy" (2008)

consumer credit) and the increased activity (and liquidity) of commodity markets. Secondly, shipping have been transformed more directly by financialization, and freight rates (price of transportation) and vessel have become assets that are tradeable on capital markets. Scholars on this topic have raised concerns, and it is indeed hard to see compliance between the short termism of financialization and the shipping industry, which is characterized by long-term cycles. The limited literature on financialization of shipping works solely on a macro-level approach, and this project will change perspective to a micro-level.

Another contributor to the literature of financialization, Berghoff (2016), investigated the appearance of financialization on a micro-level, through an analysis of a single company, Siemens, by looking at various measurements or indicators of the phenomenon.
Berghoff addresses the obvious concern when analyzing a single object:
"There is no way of determining how representative Siemens is. However, it is fair to say that, by and large, this rather conservative enterprise, whose origins reach back to 1847, followed rather than led general trends." (Berghoff, 2016, page 99)
This project will use the same approach as Berghoff (2016), but instead of Siemens, the object of research will be one single Danish ship-owner. Traditional and conservative businesses, like Siemens, are represented in Danish shipping. A handful of Danish ship-owners – such as A.P. Møller-Mærsk, TORM and Norden – are rooting back more than a hundred years, and complies with both a long history, being publicly listed and having a conservative mindset. As discussed in the literature review, financialization leads to an increasing exposure to financial markets and the likelihood of financial crisis, and out of all these traditional Danish ship-owners, one of them, suffered extremely hard from the financial crisis in 2008. The question were raised whether Danish ship-owner, TORM, were able to ride off the storm in the wake of the financial crisis in 2008. The media presented the failure of TORM as being caused by a combination of greedy shareholders and an excessive debt ratio, which, from a financialization perspective, could indicate that the ship-owner were financialized. This project will investigate whether the more than 125-year ship-owner, TORM, underwent a financialization process in the decades leading up to the financial crisis in 2008. As with the work of Berghoff (2016), choosing

just one company to research reduces the representativeness of the work. The upside is, that it gives room to go in depth with events that occurred for the selected company, and analyze whether the financialization - if apparent – were caused by conscious decisions or a simple set of coincidences.

Research question

Financialization have transformed the ways of managing households, corporations and economies. How has TORM been influenced by financialization, and has this been determining for the path that TORM followed, leading up to the financial crisis in 2008?

Structure, methodology and data

The purpose of this project is to shed light on financialization of Danish shipping, and doing so by studying TORM for symptoms of this phenomenon. This will be carried out by identifying symptoms of financialization and afterwards analyze whether the symptoms are identifiable in the case of TORM. As the literature of review might have implied, the topic of financialization applies broadly and the first step to diagnose financialization is to narrow the term by gathering relevant indicators of the phenomenon. These indicators of financialization will be gathered through relevant studies in the theory section.

A review of historic events of the ship-owning company, TORM, will be in the analysis in order to measure the extent of financialization of the company. The reason for this specific approach is an interest to review – if possible – how clear a transformation towards financialization that has occurred, and the fact that limitations of this project is more in favor of such approach compared to an industrywide analysis.

This project is a case study and complies with following criteria[48]:

- Shedding light on a 'real life' phenomenon
- The barriers between the phenomenon and the context in which it appears does not seem obvious
- Possible to use various sources to shed light on the phenomenon

The phenomenon here is financialization, and the project represents a single case study, as only one ship-owner (TORM) will be the object of research. The strength of the single case study is that it allows a more thorough research of the case, but leads to the disadvantage, which is whether its findings are representative for the broader context where it occurs. The project is not expected to provide new knowledge about the phenomenon, but rather investigate whether it has occurred in a specified context.

[48] Andersen, Ib, "Den skinbarlige virkelighed" (2013)

Collection and quality of data

Data will solely derive from secondary sources and consist of a combination of quantitative and qualitative data. Quantitative data - such as TORM year reports - are used in this project to paint a picture of the company's present financial situation, and by comparing several year reports of the same company it is possible to locate patterns and/or developments from one year to another. The year reports / quantitative data are largely considered objective, whereas the qualitative data in this project, which derives from a long list of various newspapers and publication, are naturally less objective. The utility of the newspaper articles lies in their ability to map different events of a company that the year report does not per se include, and by extracting the facts of the articles, they can prove to provide useful information.

The two data types provides a basis to track the behavior of TORM, and certainly it would have been useful to have access to primary data from TORM, which could help determining whether some of these corporate behaviors were consciously at all times or caused by other factors. Hence, this project has used only secondary data and public available data due to their relatively low barriers to access, as the time frame of this project have been limited.

Theory

This section serves to present relevant research on the topic of financialization. In order to be able to diagnose financialization's impact on TORM, it is necessary to understand the extent of the term. By presenting literature relevant to the research question, and tracking methods of how financialization has been 'located' in previous evidential research, this maneuver should provide a background for the operationalization of this project. At the end of this section, the aim is to have some firm measures of financialization that enables the project to apply these to the research object, TORM.

Profits through financial channels

Greta R. Krippner, associate Professor at the University of Michigan, defines financialization:
"Financialization as a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production. 'Financial' here refers to activities relating to the provision (or transfer) of liquid capital in expectation of future interests, dividends, or capital gain[49]" (Krippner, 2005, page 174-175)
Krippner argues that this definition is capable of containing all the other usages of financialization (mentioned in "Research Area"). Krippner's work provides evidence for the recent financialization in the American economy, and doing so by using following two measures of financialization: (i) sources of revenue of non-financial firms for financial income versus production income and (ii) the financial sectors share of profits for the economy[50]. The results of Krippner's work is conclusive in respect of confirming the tendency of the increasing share of financial income for nonfinancial corporations in the US. The US economy in the 1980s and 1990s, the ratio of financial income had increased 3 and 5 times the levels 30 and 40 years back. The financial vs nonfinancial profits had a similar behavior over the same period.

Corporate restructuring

[49] Krippner, Greta R., "The financialization of the American economy" (2005)
[50] Krippner, Greta R., "The financialization of the American economy" (2005)

Berghoff's (2016) article "Varieties of Financialization? Evidence from German Industry in the 1990s" provides a thorough analysis of the financialization of the grand German corporation, Siemens. Berghoff sets the scene in regards to the financialization of the US and Germany, and points out the lag in financialization that Germany experiences due to a mixture of cultural and political differences between the two nations.
The financialization of the US starts to take place already in the late 1970s and early 1980s. Financialization is manifested in terms of an increasing amount of 'outside directors' (e.g. board member joining from other corporations), more performance based compensation of management (partly due to new legislation), divesting and off-shoring, mergers and take overs which to a great extent were hostile and with excessive debt ratios[51].

The same transformation that happened in the US started to reoccur now in late 1980s and early 1990s Germany, and the country experienced its first hostile takeover in 1991[52]. The shareholder value approach gathered strength and were driven partly by the fear of hostile takeovers, which encouraged corporations to keep their stock prices at a maximum. Yet traditional strong forces – such as unions- in Germany were not convinced of this new transformation, and certain politicians showed their resistance towards the short-termism that financialization brought[53]. Eventually unions were marginalized as off shoring became more common (especially after the fall of the Berlin wall), and the average German got more involved with the financial markets, but not comparable to the average American whose involvement were far greater. Beginning of the 2000s, Germany passed legislation making the country more attractive for foreign investors and the share of foreign investors in DAX30 went from around 10% in 1997 to 52,6% in 2008[54].

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51 Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)
52 Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)
53 Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)
54 Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)

Berghoff noted the financialization of both countries yet the level of transformation proved to differ from one another and measures such as management compensation and citizen's involvement in financial markets remains superior in the US compared to Germany.
Berghoff (2016) shifts focus to – as he calls it – 'micro perspective' to the industrial giant, Siemens, in order to measure the change of corporate behavior in the wake of Germany's financialization. Siemens represents a conservative and traditional German corporation, and Berghoff finds the corporation suffering from its lack of adjustability to both financialization and globalization. Being surpassed on earnings by many of its competitors – who had incorporated the 'shareholder value' approach - Siemens finally found that restructuring was inevitable, but change were handled with great cautioun in the more than 160 years old corporation[55]. Siemens' first signs of restructuring were a response to losing momentum, and an attempt to get back on track the firm launched an extensive savings program in the beginning of the 1990s. During the last half of the 1990s Siemens were in critical condition after taking a blow by the financial crisis in Asia, and more drastic methods were needed for changing the situation. At last – and despite earlier skepticism - Siemens began to adopt the behavior of 'financialized' corporations such as their successful competitor GE. Jack Welch were the CEO of GE at the time, and through an uncompromising shareholder value approach, Welch increased the market value of GE from USD 14b to USD 410b[56]. Welch's methods for success consisted of closing underperforming units down, dramatically cutting costs, and introduced large stock option program in the company. Siemens changed their behavior and their rhetoric through removal and divesting of entire divisions (this had not been common in Siemens up until then), concepts such as 'lifelong employment', 'job security' and 'Siemens family' were diminished and replaced with 'performance based compensation' of managers, which got introduced in the wake of the passing of a new law in 1998[57]. Further, Siemens implemented a transparency strategy in regards

[55] Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)
[56] Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)
[57] Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)

to accounting and management performance, reason being, as Berghoff puts it: "financialization requires metrics for performance"[58] (Berghoff, 2016, page 102).

Lastly, Berghoff (2016) concludes that the US and Germany have each been affected individually and differently by financialization. A hesitant Germany lagged about 10 years behind the US before starting to adopt - partly - to financialization. Despite certain measurements of change were obvious – in the Siemens case – Berghoff states that German skepticism has reduced the force in which financialization works in Germany.

Shareholder value – increasing the stock price

The literature of financialization proves that certain corporate behavior is encouraged or simply a need in order to maximize shareholder value, but how can shareholder value be defined? Company-level measures of financialization is highly relevant to this project, and a basic understanding of the term is needed. American anthropologist Karen Ho (2009) contributes to the topic of shareholder value through her article "Disciplining Investment Bankers, Disciplining the Economy: Wall Street's Institutional Culture of Crisis and the Downsizing of Corporate America". Ho explores whether drastic restructurings in 'Corporate America' can be explained through understanding the culture, the people and practices on Wall Street, and defines shareholder value as follows:

"Shareholder value is understood by financial economists, Wall Street investment banks, and members of the investment community as a set of ideas and actions whose primary purpose is to increase the stock price of corporations to generate wealth for shareholders" (Ho, 2009, page 177)

Ho argues that shareholder value has become Wall Street's 'moral blueprint'; and is rooted in the culture on Wall Street and has flown to 'Corporate America' leading corporations to transition from social institutions caring for various stakeholders (25 years ago) to the dominating shareholder value approach today with the sole purpose to enrich the shareholders[59]. Documented through increasing

[58] Berghoff, Hartmut, "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016)

[59] Ho, Karen, "Disciplining Investment Bankers, Disciplining the Economy: Wall Street's Institutional Culture of Crisis and the Downsizing of Corporate America" (2009)

focus on short termism, downsizing and other tools proving helpful to boost the stock price. From the perspective of an anthropologist, Ho is interested in the people – such as investment bankers - on Wall Street who are preaching this code of shareholder value to ‘Corporate America’. Ho finds, that many of these workers on Wall Street are shaped by these perceptions and are certain that they can rely entirely on their models and that the models are able to explain everything, even when it comes to their own downsizing. Shareholder value can increase through some of the methods that Berghoff (2016) refers to as corporate restructuring.

Performance-based compensation and large dividend payout

In addition to proving evidence of the tendency for nonfinancial cash flows to go more in the direction financial agents, Crotty (2005) also provides material on the matter of shareholder value. Crotty argues that the role of institutional investors have played a central role in the development of shareholder value and notes a shift from the 1950s where households held 90% of corporate stock – in the US – to 42% in 2000 while US institutions then owned 46%[60]. Crotty (2005) provides data showing the extreme increase in turnover on the New York Stock Exchange (NYSE) as – partly – a result of the competitiveness for institutional investments and examples of herd behavior. One of the peaks of the turnover of NYSE were around the mid-1980s and caused by, what Crotty refers to as, the ‘hostile takeover movement’ and this period – after a couple of years of decreasing turnover - was followed by the ‘shareholder value movement’ which made the turnover on the NYSE reach for the skies once again. Crotty (2005) notes that on average a stock is held for just a year and institutional investors took advantage of their volume and drove nonfinancial corporations to increase their stock price and take actions on whatever was needed in order to boost the stock price on the short term. A useful tool for such initiative is the one of stock options, yet this incentive appears to have a dangerous backside. The typical possessor of stock options are managers and if they make the ‘right’ decisions they can profit immensely, on the other hand they should their decision lead the company in the wrong direction, then they have nothing to lose. Crotty (2005) considers these types of stock

[60] Crotty, James “The Neoliberal Paradox: The Impact of Destructive Product Market Competition and ‘Modern’ Financial Market on Nonfinancial Corporation Performance in the Neoliberal Era” (2005)

options leading to the large speculative investments that many large corporations entered in the late 1990s[61]. Crotty (2005) provides evidence of financialization in the shape of an increasing payout ratio of dividend for nonfinancial corporations in the US, and the ratio doubled from the middle of the 1980s to the end of the 1990s. In some cases, these dividend payouts drained corporations[62].

Above review provides four well-documented indicators of financialization, which provides measures for the level of financialization for nonfinancial corporations:

1. Increasing profits through financial channels
2. Shareholder value: focusing on the increase of the stock price and making the stock attractive
3. Corporate restructurings: such as hostile takeovers, mergers and a break with traditions
4. Performance-based compensation and the increase of dividends payout

Intention is to operationalize these indicators as per below procedure:

1. Increasing profits through financial channels
    a. Measure developments in financial income (dividends, interest and capital gains) using financial statements as source of data
2. Shareholder value: focusing on the increase of the stock price and making the stock attractive
    a. Locate changes in strategic dispositions or specific focus on shareholder value, this is expected to be found in year reports. Further, newspaper coverage on some of the day-to-day dispositions of the company and / or comments from managements or other stakeholders.
3. Corporate restructurings: such as hostile takeovers, mergers and a break with traditions

[61] Crotty, James "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Market on Nonfinancial Corporation Performance in the Neoliberal Era" (2005)

[62] Crotty, James "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Market on Nonfinancial Corporation Performance in the Neoliberal Era" (2005)

    a. Intention is to create an overview of the historic events in TORM – through newspaper articles and year reports – through the recent decades, and thereby locate corporate restructurings.
4. Performance-based compensation and the increase of dividends payout
    a. Measure developments in performance-based compensation and dividend paid to shareholders using financial statements as source of data

Glossary

Product tanker: tanker vessel carrying clean refined products such as gasoline and/or black oil products e.g. fuel oil[63].

Pool agreement: a construction for ship-owners to merge their vessels, and trade an accumulated fleet in one commercial pool despite various ownership. The objective is to obtain critical mass and bargaining power, the profits of the pool are distributed to the pool-members through an agreed weighting that reflects the utility of the vessel that has entered the pool.

Freight rate: the price of seaborne transportation of goods normally expressed in a dollar per metric tons or cubic meter, but also as a lump sum / fixed rate. Varies depending on distance, volume, weight, product characteristics, and naturally the supply/demand for sea borne transportation.

Newbuilding: term used for a ship that have been ordered from a shipyard for delivery sometime in the future.

[63] Stopford, Martin, "Maritime Economics" (2009)

About TORM – over 125 years at sea

The role of Danish shipping contributes to the economy of Denmark and 20% of total Danish exports are deriving from the more than 100 shipping companies within the country. Danish shipping also contributes to the world trade, and the 1800 vessels controlled from Denmark, makes sure that goods can go from A to B at a competitive price. Seaborne transportation is carrying approximately 90% of the world trade and considered the least harmful way of transformation in regards to the environment[64].

Ship-owning company TORM is one of the contributors to Danish shipping, and has been contributing for more than 125 years. Captain Christian Schmiegelow and Captain Ditlev E. Torm founded the company in Copenhagen in the year 1889. TORM was an example of the new ship-owners with a maritime background (as either Captain or Shipbroker) instead of the traditional ship-owners who were primarily grocers and people of trading who owned their ships solely to have their own goods transported[65]. The maritime expertise of the new ship-owners combined with the shift from sail-ships to steamships made a great potential for optimizing shipping services.

TORM traded their ships primarily in the North- and Baltic Sea and were listed on the Copenhagen Stock Exchange already in 1905. In 1930, TORM expanded their fleet and received their first motor ship, because of new international trade lanes[66] transporting fruit from the Middle East and Canada to England[67]. TORM's fleet amounted of 25 vessels by 1939 but half of their vessels – and 41 sailors – were lost during the Second World War.

[64] http://www.ics-shipping.org/shipping-facts
[65] Iversen, Martin J.; Sornn-Friese, Henrik, "Olie på vandene! Historien om Dampskibsselskabet TORM og udviklingen af poolkonceptet i nyere dansk skibsfart" (2012)
[66] Iversen, Martin J.; Sornn-Friese, Henrik, "Olie på vandene! Historien om Dampskibsselskabet TORM og udviklingen af poolkonceptet i nyere dansk skibsfart" (2012)
[67] Iversen, Martin J.; Sornn-Friese, Henrik, "Olie på vandene! Historien om Dampskibsselskabet TORM og udviklingen af poolkonceptet i nyere dansk skibsfart" (2012)

After the war, TORM expanded further and established liner service from the US to Europe, Mediterranean Sea and South America, which consequently resulted in TORM being the sixth largest shipping company in Denmark.

The first signs of action pointing TORM in their direction of today is manifested in 1976, when TORM acquired their first tanker vessels[68]. This proved to be a good direction, and shortly after the change of the century TORM were one of the world's leading tanker operators.

TORM are still afloat today after riding of the rough storm of financial distress, which they experienced in the wake of the financial crisis in 2008.

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68 Iversen, Martin J.; Sornn-Friese, Henrik, "Olie på vandene! Historien om Dampskibsselskabet TORM og udviklingen af poolkonceptet i nyere dansk skibsfart" (2012)

Analysis

This section consists of three separate analyses with the common goal to measure the extent of TORMs financialization – if occurred - in the last decades. The analyses are reflecting the indicators of financialization on a corporation level as presented in the theory section.

“Analysis 1. Corporate restructuring and shareholder value” is an explanatory section, which provides an overview of the historic events that occurred in TORM. The intention is firstly to provide the reader with a solid background of the events and dispositions of TORM (being relevant for Analysis 1-3) in the last couple of decades. Secondly, there will be an analytical interpretation of the events and dispositions in order to locate traces of financialization as per the characteristics – of corporate restructuring and the shareholder value approach - presented in the theory section.

“Analysis 2. Performance-based compensation and the increase of dividends payout” serves to analyze developments of the (performance-based) compensation of TORMs management and the dividend payout to the shareholders. Financialization is tied together with performance-based compensation and an increasing dividend payout to the shareholders, as these actions are enabling a maximization of shareholder value. Performance-based compensation ensures common interest of management and shareholders, and the dividend payout serves as a measuring tool for the shareholder value performance.

“Analysis 3. Increasing profits through financial channels” focus on TORMs sources of income, more specifically the income of financial character such as interest, dividend and capital gains. The analysis focuses on the parameter of financialization, which is determined by increasing financial income of nonfinancial corporations. By analyzing patterns in the financial income it should be possible determine whether there has been an increase, decrease of constant development of TORM financial income.

Analysis 1. Corporate restructuring and shareholder value

In the beginning of the 1990s, TORM was described as 'one of the least known ship-owners' on the Copenhagen Stock Exchange, still their fleet were considerably large – at the time – consisting of six product tankers, three dry bulk ships (which they owned 100%)[69] and a couple of ships in their liner service between the US and West Africa. Still analysist saw long-term potential in the TORM share as 'pure' shipping stock, as TORM did not spread their activities into other industries.

TORM was the first ship-owner - in the world - to launch a commercial product tanker pool in the early 1990s. A pool in shipping terms, is a 'pool' of vessels from various ship-owners, being held and traded in the pool, and through the accumulated fleet of the engaged ship-owners (pool-partners) it is possible to obtain a critical mass, spreading risk and obtain a stronger bargaining power. In short, TORM were first on the spot with this constellation that allowed them, together with their pool-partners, to be among the three largest players in the segment without being heavily indebted nor exposed[70].

The pool agreement proved to be a suitable tool to sharpen TORMs competitive edge by – amongst other reasons - reducing its operational costs. Another initiative that were widely used amongst Danish ship-owners in the 1990s were the replacement of Danish sailors with cheaper labor, as a method of cutting cost. TORM got coverage in the media as they have replaced Danish seamen with cheaper Pilipino or Polish crew. Since the beginning of the 1990s, 2600 Danish seamen lost their jobs[71].

In the second half of the 1990s, TORM divested their ship brokerage business in Hong Kong in order to focus on the 'core business' as ship-owner[72] and entered the offshore market through the purchase of

[69] Hansen, Thomas Steen, "Torm er en rendyrket rederiaktie" (1993), Berlingske Tidende
[70] Iversen, Martin J.; Sornn-Friese, Henrik "Olie på vandene" (2012) Erhvervshistorisk Årbog
[71] Kjærsgaard, Jan, "Den danske sømand smidt i land" (1994), Ekstra Bladet
[72] "Torm sælger skibsmæglervirksomhed i Hongkong" (1996), Børsen

two supply ships (supply ships serves oilrigs). The freight rates had attracted TORM as the revenue generated from this ship type were reaching record-levels especially in the 1997[73].

The last two years of the 1990s destroyed a rather steady and profitable decade for TORM (see below graph).

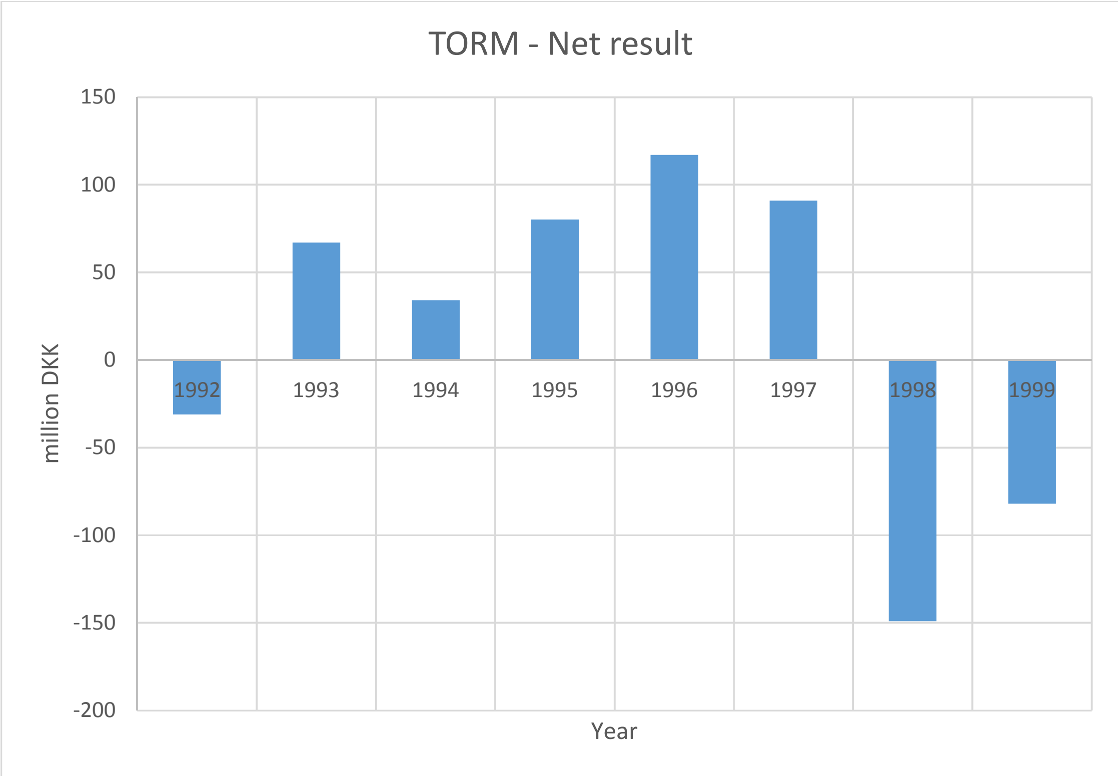

Figure 1) Source: TORM – Year Report 1995-1999

Sea change

Shortly after the presenting the result of 1999, large stock positions changed hands in TORM. Traditionally, large Danish Institutional investors had owned considerable positions in TORM, while just a minor part of the stock were liquid and traded more frequently on the stock exchange. Two foreign investors bought the large shares in TORM before the Easter of 2000. Greek industrial company, Sanyo Hellas Holding bought a 16,5% position in TORM and Liberian based company

[73] Pedersen, Stig Ørskov ”Torm satser på område med rekordrater” (1997), Reuter Finans

American Investors Co. (controlled by yet another Greek) bought a 20% position at the same time. The institutional investors (Lønmodtagernes Dyrtidsfond, Danske civil- og akademiingeniørers Pensionskasse and other pension funds) sold their positions to the Greeks at a price of 400 kr per share, which included a premium as the share – at the time - were traded at around 340 kr[74].

This large buy-in of TORM resulted in speculation of a hostile takeover attempt, and at an extraordinary board meeting in September 2000, all members of the board of directors resigned as the new investors wished the board to reflect 'the changes in the owner structure'. As a result, Greek investor Gabriel Panayotides (American Investors Co.), entered the board of directors - despite his blurry ownership of the TORM shares, which were through a complicated network of corporations[75]. Panayotides were a well-known profile in the shipping world being the owner of a 47% position in dry-bulk shipping company, Excel Maritime Carriers.

At the same board meeting, it is decided that CEO Erik Behn will be Chairman of the board, and Klaus Kjærulff will fill his position as CEO. Both Behn and Kjærulff had been with the company since 1976, and Kjærulff had played an important role in manifesting TORM in the tanker segment, as the tanker division had grown from just 2 vessels up to the 50 vessels that TORM operated as of 2000[76]. Instantly the new management setup announced their strategy: an acceleration of the growth strategy and launching a severe information strategy with the purpose of improving the liquidity of the stock[77].

The historical, traditional and slightly anonymous ship-owner had changed its tone, as 'liquidity of the stock', 'transparency' and 'investor friendliness' had become a continuous rhetoric defining the future TORM[78]. By November 2000, the share price had increased 50% to around 570 kr since the foreign investors bought their respective shares in TORM. The positive development of freight rates were

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74 Nissen, Ann "Aktieopkøb: Torm lever i fortsat uvished" (2000) Jyllands Posten
75 Rosenbak, Steen "JP-baggrund: Torms græske forbindelse" (2002) Jyllands Posten
76 "Behn ny Torm-formand, Kjærulff ny adm. Dir." (2000) Børsen
77 "Behn ny Torm-formand, Kjærulff ny adm. Dir." (2000) Børsen
78 "Flasket op med skibe" (2002) Berlingske Tidende

justifying the increasing share price[79], and the timing of the Greeks appears to be brilliant as TORM presented admirable results the coming years.

A growing fleet were an essential part of TORMs new strategy but - despite having ships in various segments – the focus were mainly on growing the tank division, in which TORM intended to become market leader (on their specific core business, product tankers)[80]. As a result, the ship-owner divested its recently acquired supply-ships and skipped the plans of covering the offshore segment[81].

Focus on increasing the stock price

Having presented very profitable results, TORM still finds a continuous lack of interest from investors and the share's liquidity remained low. In line with the presentation of their strategy in 2000, TORM launched an extensive process trying to attract investors by opening up more information about the company. The CEO emphasized the importance of getting the share price up in order to reflect the assets of the company and to reduce risk of takeovers[82].

By 2002, the increasing focus on attracting investors reflected TORM's extensive ambitions in regards to expanding their tanker fleet. In 2002 TORM owned 15 tankers but were looking to expand it by 50% the coming year as they had 8 more newbuilding's on order in the Far East. TORM were the world's largest tanker operator as they were managing a large commercial tanker pool consisting of 50 ships, yet TORM aimed to double this number by 2003[83]. An active move to reach their goals were clear when TORM decided to be listed on the NASDAQ in addition to their presence already on the Copenhagen stock exchange and thereby by a dual-listing of the stock. The reason for this move were to improve the liquidity of their share combined with better options to raise capital through international investors. The company's American financial advisor came up with the suggestion[84].

[79] Benson, Peter ”Torm-ejere forgyldes” (2000) Politiken
[80] ”Torm fik 2001-overskud på 376m. Kr.” (2002) Børsen
[81] ”Torm sælger skibe og op justerer” (2001) Børsen
[82] Overby, David ”Det gamle rederis kamp mod det konservative ry” (2002) Berlingske Tidende
[83] Nissen, Ann ”Torm vil fordoble flåden” (2002)
[84] ”Torm vil optages på Nasdaq” (2002) www.Bny.dk

The Chairman of the board and former CEO, Erik Behn, withdrew from his position in April 2002, and had no specific reasoning. Rumors said that he were close to walking out a couple of months before as board member and shareholder, Gabriel Panayotides, demanded terms and conditions changed – in regards to the dual-listing on Nasdaq - in order for Panayotides to keep control even with a smaller portion of shares[85].

Hostile takeover (attempt)

In late June 2002, TORM purchased 30,8% of Norden's shares over a weekend, and proposed another bid on remaining shares with a premium of 25% above traded level. Norden is another Danish ship-owner with mutual activities as TORM in both dry bulk and the tanker segment. TORM's maneuver expressed their desire to create a merger between the two Danish ship-owners and thereby create an even bigger shipping company gaining size to 'access the international markets of capital' as the CEO communicated in the wake of the stock buy-in at their competitor Norden[86]. Chairman of Norden stated early that a corporation between the two parties were non-existing and that shareholders of Norden had specifically rejected a merger between the two ship-owners. One of the reason for this rejection, were given by one of the major shareholder in Norden, who expressed concern about the current ownership of TORM, referring to the large position in the hands of Panayotides. The concern were regarding the business moral of Panayotides[87]. Despite the public rejection from Norden, TORM continued to purchase shares in Norden, and as of October 2002 TORM were the largest single-shareholder of Norden with 33% of the stock[88].

TORM viewed the potential merger as a safe guard for the two Danish ship-owners avoiding hostile takeovers when combined[89], while Norden viewed it as a hostile takeover. As a move to prevent, again a potential a takeover, major shareholders in Norden made an agreement in 2002 that one

[85] ”Erik Behn forlader D/S Torms bestyrelse” (2002) Børsen
[86] ”Torm vil overtage Norden for 873mio. kr., Norden tavs” (2002) Reuters Finans
[87] Nissen, Ann ”Torm øger andel i Norden” (2002) Jyllands Posten
[88] Nissen, Ann ”Torm øger andel i Norden” (2002) Jyllands Posten
[89] Nissen, Ann ”Skibsfart: Torm: Tilbud til Norden bliver bedre og bedre” (2002) Jyllands Posten

could not sell their shares without the consent from the others[90]. Furthermore, Norden CEO Steen Krabbe were equipped - in 2003 - with a so-called 'golden parachute' in order to avoid hostile takeovers such as the one attempted from TORM's side. This 'safe guard' of potential takeovers would trigger a cash payout to Krabbe consisting of 3 years' salary if Norden underwent a merger[91].

The early 2000s brought various change for TORM both in regards to the change of major shareholders and the failed attempt to take over Norden, and altogether this led to a new character of the old, traditional and previously anonymous ship-owner. TORM sold their liner service business to A.P. Moller group, and thereby TORM narrowed its business segments to solely tank and dry bulk. This move made TORM an even more suitable candidate for the potential merger with Norden as per the CEO Kjærulff[92]. Through their listing on the Nasdaq, TORM had to open up for a better communication stream to the 'outside world'. As part of their information strategy TORM starts – as the only Danish ship-owner - to host teleconferences with analysts and shareholders in connection with the launch of financial reports[93].

Shipping-boom in the making

After the failed attempt to take over Norden, the Chairman of TORM still believed that a merger or takeover would happen eventually[94]. Still TORM benefitted immensely from the acquisition of the shares, as both the stock price of Norden and Torm had increased considerably shortly after the failed takeover attempt. TORM experienced a good market in 2003, their stock price increased from around 40 kr in 2001 to 130 kr in September 2003, and their competitor Norden enjoyed the same upswing as their stock price moved from 240kr to 600 kr in the same period. TORM dually benefited as they still held the +30% position of the Norden shares, and had obtained a considerably unrealized gain by owning the stock[95]. CEO of TORM, Klaus Kjærulff, finally saw positive movements on the TORM stock

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90 Hansen, Jens Chr., ”Pagt: Musketerånd mellem aktionærer” (2003)
91 “Rederichef den bedst aflønnede topchef” (2004) Berlingske Tidende
92 Olsen, Lars ”Torm sælger sin containerdel” (2002) Berlingske Tidende
93 Nissen, Ann ”Torm øger kontakt til aktionærer” (2003) Jyllands Posten
94 Hansen, Jens Chr., ”Torms formand: Fusion med Norden fortsat en brandgod ide” (2004) Berlingske Tidende
95 ”Aktievurdering: Aktionærerne spinder guld” (2003) Jyllands Posten

price and as he expressed "*this level is more reasonable and where the stock price ought to be – as per the 'spirit' of shareholder value"*[96] *(Berlingske Tidende 3rd of August 2003).*

Fundamentals were the main reason for the great success of Danish ship-owners in the first half of the 2000s, as the demand for tonnage exceeded the supply and the result were freight rates reaching ever high-levels. Not only did the ship-owners benefit from the skyrocketing freight income, but the value of their fleet also increased[97], ultimately most Danish ship-owners presented record results. To exemplify the success of Danish shipping, stock price increases of more than 150% were experienced by three Danish ship-owners in the year of 2004[98].

In addition to having fundamentals on their side, TORM had also seen positive results on their strategical initiatives. TORM won Børsens 'Year report price 2004' because of their information strategy, which allowed the outside to get a thorough look at the company and their predictions for the future[99]. The initial idea of this information strategy were to increase the liquidity of the stock, and – to a certain extent – did the strategy succeed as the popularity and increase of the TORM share reached the category of the 20 most traded stocks on the Copenhagen Stock Exchange in 2004[100]. However, TORM management wanted more liquidity in the share and made it clear that all money they earned in the booming shipping markets were not going to be spent on share buy backs.

In mid-2004, TORM had 54% equity on their balance, which were significantly above their aim of around 30-40% equity[101]. It was not because TORM did not invest in the future fleet – they had a controllable new building program – but the earnings were simply superior compared to previous times, and it was difficult not to make money if you had ships trading in the dry bulk or tank segment.

Extreme expansion led by euphoria

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96 Hansen, Jens Chr., "Pagt: Musketerånd mellem aktionærer" (2003) Berlingske Tidende
97 Sørensen, Morten "Uventet succes for rederier" (2004) Berlingske Tidende
98 "Rederier årets højdespringere – Orion bedst" (2004) Børsen
99 "Rederiet Torm sejler guldet hjem" (2004) Ritzaus Bureau
100 Sandøe, Niels, "Torm sejler ind i KFX" (2004) Jyllands Posten
101 Hansen, Jens Chr. "Torm holder på pengene" (2004) Jyllands-Posten

The skyrocketing of freight rates created a euphoric atmosphere around the shipping industry, and enriched both ship-owners and shareholders. A natural consequence were the appetite for expansion as the ship-owners were extremely well off – financially - and investors were standing in line to get a share of the shipping profits. The world fleet grew around 7% per year from 2005-2008; meanwhile the Danish fleet grew an average of close to 17% in the same period[102]. The growing fleet were spread out on all the large shipping segments, and TORM in particular ended up being a great contributor to this fleet expansion.

TORM more or less gave up a takeover of Norden, as Norwegian interests had bought a large share of the company despite TORMs continuous interest in Norden, TORM had been excluded in any offerings of the Norden shares. Further, the new Norwegian shareholder had agreed with the existing major shareholders of Norden – except TORM – to maintain their policy of not selling their positions without each other's consent (to avoid takeovers)[103].

This left TORM in a situation where they had to find other ways to expand, as management found this to be the only tool to survive. The CEO of TORM understood the situation around 2004 to be a selection process within the shipping industry, where survival linked to expand the business. TORM intended to grow through a fleet expansion and possible through takeovers[104].

First, TORM launched a newbuilding program in 2004 consisting of 11 new ships - with a value of $1b. Dollars and with the CEO warning more ships to come[105]. Meanwhile the shipping markets were still superior and certain external factor also contributed to the wealth of TORM such as Hurricane Katrina and Rita, as the hurricanes shut down the oil production in the US, and increased the need for importing oil products to the US. TORM was on the spot and seized the opportunity in a market were

[102] Sornn-Friese, Henrik; Poulsen, Rene Taudal; Iversen, Martin Jes "Global Shipping in Small Nations" (2012)
[103] "Rasmussengruppen køber op i Norden, Torm på side spor" (2004) Reuters Finans
[104] "Kjærulff: Torm er klar til udskilningsløb" (2005) Børsen
[105] Thuesen, Brian "Torm: I gang med strategisk gearskift" (2005) direkt-dk

– already high - freight rates momentarily doubled from one week to another, this extraordinary freight increase – amongst other factors - resulted in a record revenue for TORM[106].

Stock analyst found the booming new building programs of Danish ship-owners alarming as they ‘asked’ for dropping freight rates in the near future. This approach were not shared with the CEO of TORM who acknowledged that freight rates would always go ‘up and down’ but points out that ships were being demolished and the need for new ships would remain[107]. Neither did the CFO of TORM fear overcapacity in the shipping markets despite a record amount of ships ordered for delivery the coming years[108].

During the first month of 2006, TORM announces more newbuilding’s to come valuing 13b. Kr.[109]. TORM had 28 newbuilding’s on order, which were a 67% increase of their fleet. This rapid expansion were part of their strategy in order to maintain and widen their position in the tanker segment[110]. Same year, TORM adjusted their expectations for the year in a positive manner. Due to the booming shipping markets, the value of ships had increased significantly and TORM sold a couple of their older vessels (with a large profit) a strategic move to make room for newer vessels[111]. The enormous newbuilding program that Danish ship-owners had built in just 3-4 years passed the 300 vessel mark, and consequently shipping markets would be oversupplied the coming years. The rate that the newbuilding’s were entering the market were far from the rise in demand, which were expected to grow ‘only’ around 1-1,5%[112]. Yet the ship-owners continued to present golden results and investors were still very attracted to the industry, especially TORM had received great trust from the investors

[106] ”Torm stormer frem” (2005) Finans Online
[107] Freiesleben, Thomas La Cour, ”Rederier: Ordrer på skibe eksploderer – Økonomisk Ugebrev” (2005) direkt-dk
[108] Pedersen, Niels Fjord, ”Torm: Frygter ikke overkapacitet” (2005) direkt-dk
[109] ”Torm tæt på at bestille skibe for 13 mia” (2006) Børsen
[110] ”Torm-direktør venter vækst for tankskibe” (2006) Berlingske Tidende
[111] Domino, Søren ”Torm opjusterer på skibssalg” (2006) Berlingske Tidende
[112] Volander, Mette ”Shipping: Sorte skyer over rederier” (2007) Jyllands-Posten

which could be seen in the increasing price/earnings of the TORM share that surpassed the competitors[113].

Evidently TORM did not finance their fleet expansion solely by equity, as a survey of the 14 largest Danish companies, on the Copenhagen stock exchange, were carried out in 2005 and revealed that that TORM and two other companies were the only three who had increased debt from 2001-2004[114].

The burst and the greedy Greek

Beginning of April 2007, TORM sold their large position in Norden after holding on to it for almost 5 years. The initial purchase of the Norden shares were an attempt to take over the company, this proved unsuccessful but the financial investment itself were quite the success for TORM who walked away with 4,1b. Kr on a 300m. Kr. investment[115]. The selling of the shares affected the 2007 result for TORM that generated a net-result of 4,3b. Kr, which were impressive in lieu of a total revenue of 4,5b. Kr.

One negative thing did follow the sale of the Norden shares, and that was the liquidity of the Norden share increased immediately and kicked the TORM share off the C20 index[116].

April 2007 proved to be an eventful month, just a couple of weeks after selling the Norden shares, TORM announced that - together with Canadian ship-owner Teekay – they had bought the American ship-owning company OMI. Teekay and TORM splits the fleet, staff and total purchase price between them. TORM paid 6b. Kr. and got 26 product tankers, 2 newbuilding's, 400 sailors and 125 shipping workers and TORMs desire to double their fleet seemed within reach[117]. Many investors and analysts commented on TORMs purchase of OMI, and most of them agreed that the purchase price were too high. The freight rates were expected to decrease due to the oversupply of ships– and thereby

[113] Domino, Søren "Investorer har tillid til Torm" (2006) Berlingske Tidende
[114] Risom, Jakob "Aktionærpleje overgår investeringer" (2005) Berlingske Tidende
[115] Volander, Mette "Torm ønsker vækst via opkøb" (2007) Jyllands-Posten
[116] Sandøe, Niels "Torm med i vinderflåden" (2008) Jyllands-Posten
[117] "Torms dobbelmål" (2007) Jyllands-Posten

devaluation of the fleet – would drown the cost savings and synergy effect that the takeover could bring[118].

At the peak of the shipping boom in 2008, CEO Klaus Kjærulff resigned from the company after 33 years within TORM, and he “handed over a company on a silver platter” as he referred to the delivery of record results the last couple of years. His replacement were found at Norden[119].

The financial crisis broke the dry bulk segment violently and immediate in the fall of 2008, but TORMs exposure towards the dry bulk segment were limited as their fleet were focused mainly on the tanker segment. Yet analysts were concerned whether the tanker market could absorb the 200 vessels entering the market in 2009[120]. By spring 2009, the crisis had spread to the tanker segment, and freight rates dropped 75-85% and immense pressure were placed on TORM[121]. For the first time in years, TORM reduced their expectations for the yearly result[122]. Recent years high dividends payout to shareholders, excess fleet expansion and acquisitions of competitors had drained TORMs finances. Their debt had increased from 4,3b. Kr. ultimo 2006 to around 10,5b. Kr. in June 2009[123]. TORM invested heavily when the markets were peaking and this resulted in an immediate loss of value when the markets dropped[124].

Major shareholder and board member in TORM, Gabriel Panayotides, experienced his dry-bulk company, Excel Maritime (listed on the NYSE) being in trouble, bleeding severely as Panayotides had purchased another ship-owner – like TORM - when the market were at its peak. The sudden drop of the market combined with severe debt financing made the conditions hard for the company to survive, and speculation circled whether Panayotides would sell his shares in TORM to obtain liquidity[125]. Panayotides had been – to the despair of other shareholders in TORM – insisting on

[118] ”Torms dobbeltmål” (2007) Jyllands-Posten
[119] Benson, Peter ”Udskiftning: Torms topchef presset ud” (2008) Berlingske Tidende
[120] ”Torm i et vadested” (2008) Berlingske Tidende
[121] Johnsen, Morten ”Torm under pres efter tankkollaps” (2009) Berlinske Tidende
[122] ”Torm nedjusterer” (2009) Børsen
[123] ”Johnsen, Morten ”Markedskollaps sætter Torm under pres” (2009) Berlingske Tidende
[124] Johnsen, Morten ”Store tab lurer i Torm” (2010) Berlingske Tidende
[125] Hansen, Jens Chr ”Pengemangel i ejerkreds kan bringe Torm i spil” (2009) Berlingske Tidende

dividend payout from TORM even when it was clear that the Danish ship-owner needed the money in the company.

The year report covering 2010 shows a net result of negative 700m. Kr. and TORM remained in a critical condition and suffered from excessive debt and a continuous bad tanker market. In the summer of 2011 TORM is granted an additional 2 years from the banks on a large debt position (480m. Kr.), the reason for the postponing is the poor outlook to make any money in the tanker market in the near future[126].

TORM underwent a clear transformation from being a rather anonymous ship-owner to being among the top 20 companies listed on the Copenhagen stock exchange. The company changed its profile significantly in order to be more 'investor friendly' through transparency and focus on the liquidity of the stock. Striving to expand the fleet, TORM attempted to take over one of their competitors, Norden, through acquiring a large position of the Norden's stock, but did not succeed with the takeover. Hence, holding on to the Norden shares proved to be a golden investment for TORM and provided liquidity – upon selling the shares – to grow the company further, which they did through the purchase of OMI. TORM profited at the peak of the shipping boom and reinvested at the same peak, and this maneuver left TORM vulnerable when the crisis incurred. The financial situation worsened and the company found itself 'exploited' by a major shareholder, who insisted on receiving dividends from TORM at a time when the money were need utmost within the company.

Now, were these events, outcomes and dispositions a mere result of financialization? It can be difficult to tie single events up to the indicators of financialization (presented in the theory section). Hence, following events appear to bear some correlation with the characteristics – corporate restructuring and shareholder value focus - of financialization:

A dominant shareholder taking control

The starting point for TORMs transformation manifests shortly after the Greek investors joined the circle of shareholders in the Easter of 2000. By September 2000, all members of the board resigned as

[126] Knudsen, Jacob "Banker letter livet for Torm" (2011) Jyllands-Posten

per the wish from major shareholders (the Greek investors) to have the members of the board to reflect the new shareholder composition[127]. Consequently, one of the Greek investors, Panayotides, joined the board and additionally the CEO was replaced. The large Greek buy-in of the TORM stock could be considered a hostile takeover – despite the rumors – but it appears to be an example of investors taking control of a corporation through the financial markets.

Extensive transparency strategy

A new strategy were launched shortly after the change of management in TORM in 2000, and part of this strategy consisted of introducing a more 'open' TORM. By 2001, management of TORM were striving to deliver more detailed information about their activities, results, strategies and an effective communication towards the international stock markets[128]. This conscious move to increase transparency is somewhat comparable with Berghoff's (2016) analysis of Siemens, as they – like TORM – launches a transparency strategy. Berghoff states the reason for such initiative being: "…financialization requires metrics for performance"[129] *(Berghoff, 2016, page 102).*

"2001 was a milestone for TORM in regards to strategic focus and to emphasize creation of shareholder value" (TORM – Year Report 2001; page 4)

Focus on increasing the liquidity of the stock price

TORMs new strategic moves were to make way for obtaining the ultimate goal: to become market leader within their segment in order to maximize both their results and shareholder value[130]. Shareholder value and stock price are closely related as presented in the theory section, and TORMs ambitions to increase liquidity of the stock were very clear in their strategy of 2001. TORM launched a dual-listing of the stock, being available on the Copenhagen Stock Exchange and now additionally on NASDAQ in New York, as a mean to increase liquidity in the stock, strengthen communication with

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[127] TORM - Year Report 2000 (2001)
[128] TORM - Year Report 2001 (2002)
[129] Berghoff, Hartmut "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016) page 102
[130] TORM – Year Report 2001 (2002)

existing – and potential – shareholders and to secure a dynamic pricing of the stock[131]. This is very much align with Karen Ho's (2009) definition of shareholder value being "*ideas and actions whose primary purpose is to increase the stock price of corporations to generate wealth for shareholders" (Karen Ho, 2009, page 177).*

Divesting

TORMs ambition to become market leader within their segment consequently meant the divestment of segments that TORM were involved in, but where they had little influence or no sign of a competitive advantage within the segment[132]. It was clear that TORM intended to focus on tankers – and dry bulk to a certain extent – and that meant the end of their US-West Africa liner business, which had been with TORM for decades, together with their activities in offshore (supply vessels).

Takeover (attempt)

Over a weekend in July 2002, TORM acquired more than 30% of the stock of their competitor, Norden. The purchase was the first move as a part of TORMs plan to merge the two Danish-ship owners together, and TORM followed with an offer for purchasing the remaining stock of Norden. Norden openly rejected both the offer but also any corporation with TORM, despite rejection, TORM continued to purchase the stock and, at this point, considered a hostile takeover attempt. Norden initiated safe guards to protect against the hostile takeover such as equipping their CEO with a "golden parachute" and internal agreements with major shareholders – except TORM – to agree before selling any of their shares. Berghoff (2016) describes financialization of German economy being more driven by financial processes and a general neoliberal euphoria[133], and to illustrate this transformation in shape of the appearance of hostile takeovers. Despite being unsuccessful in their takeover, TORM followed a method that is very much associated with financialization.

[131] TORM – Year Report 2001 (2002)
[132] TORM – Year Report 2001 (2002)
[133] Berghoff, Hartmut "Varieties of Financialization? Evidence from German Industry in the 1990s" (2016) page 89

Analysis 2. Performance-based compensation and the increase of dividends payout

Following section will analyze the compensation levels of TORMs management - including the board of directors - at the time from the early 2000s and up until the years following the financial crisis of 2008. Both performance based- and fixed compensation will be included. Further, the section will include an analysis of the dividend payouts to the shareholders of TORM over the same period.

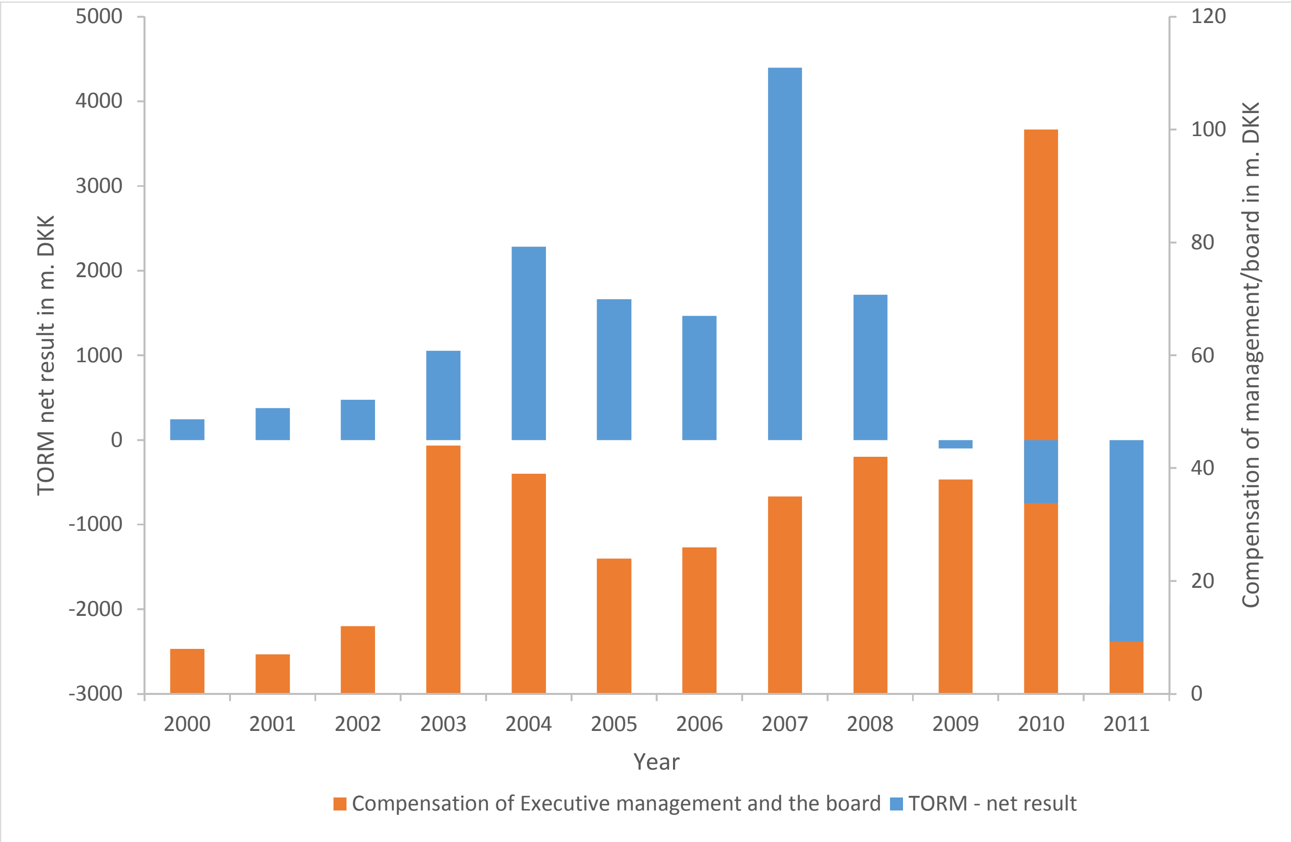

Figure 2) Source: TORM – Year Report 2000-2011

TORMs net result increased dramatically during the majority of the 2000s (see graph above), and compensation of executive management and the board of directors' reflected this trend. It proves that better net-results would trigger a proportionally better compensation. The reason for the extreme level of compensation in 2010 were due to a payout to CEO Jacob Meldgaard – as agreed in

2008 - when Meldgaard left Norden to join TORM as compensation for unrealized profits from his Norden stock options[134].

The TORM compensation packages consisted of bonuses that were obtained when certain financial goals were reached. The year reports from TORM prior 2005 did not specify the share of bonuses in the compensation of executive management including board of directors, but from 2005 and onwards the share of fixed compensation, bonus and pension for each member of either executive management of the board of directors were shared in the year reports. TORM determined the size of bonuses on several measures such as the ROIC (return on invested capital), the employees fixed compensation and an evaluation of the performance of the individual[135].

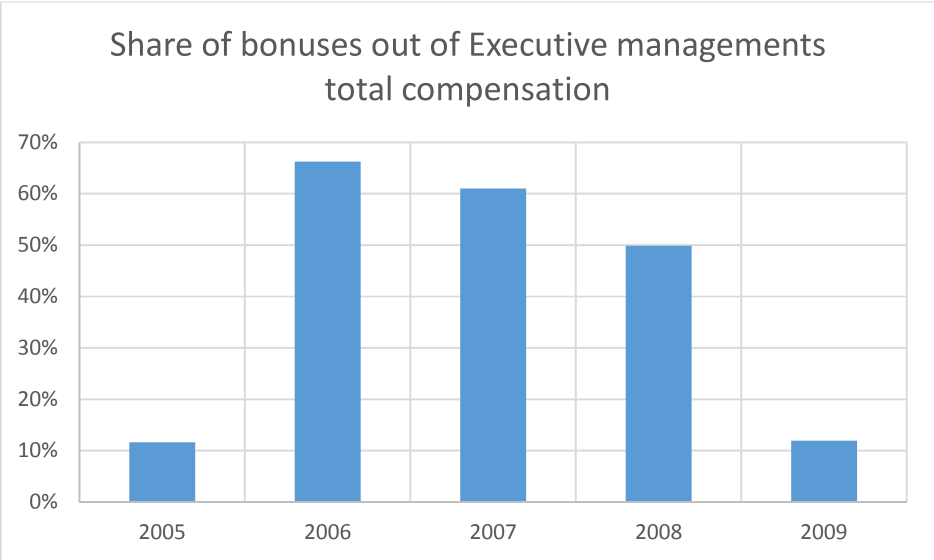

Figure 3) Source: TORM – Year Report 2005-2009

Above graph shows, the share of bonuses had a severe development in second half of the 2000s, and evidently, the share of performance-based compensation increased considerably, peaking in 2006 with more than 65% of the total executive compensation covered by bonuses. The years following 2009, TORMs poor results did not trigger any bonuses.

134 Ussing, Jakob ”Kriseramt Torm forgylder ledelsen (2011) Berlingske Tidende
135 TORM - Year Report 2007 (2008)

Stock option program

TORM used an additional form of compensation in shape of stock option programs. TORM launched two severe stock option programs in the 2000s, the first one in 2001 and an additional program in 2007.

The first program included 23 persons; including executive management, the board of directors and other leading employees at TORM. Being included in the program meant a granting of options to purchase stock in the period 2001-2003, the options had to be exercised earliest one year after they were granted and latest 3 years after they were granted[136]. Media named it 'the most lucrative option program in Denmark', as the skyrocketing of the TORM share triggered many leading TORM employees to 'cash in' on their stock. By the spring of 2005, several of these 23 had used their stock options[137]. The management team of TORM secured a profit of around 120m. Kr.over the 3 years – from 2003-2006 – through their stock-option program.

Both TORM and Norden caught a lot of publicity for their stock option programs. Management of TORM and – especially – Norden received compensation above the one of their fellow-listed companies on the Copenhagen Stock Exchange. Norden topped the top10 (in Denmark) with an average compensation per director of 43m. Kr. 2003-2005, and TORM lands as number 7 with an average of 12m. Kr[138]. CBS lector Ken L. Bechmann commented on these excessive compensations, both in regards to Norden and TORM, and concludes that it is a grey-area in regards to these stock options. Bechmann points out the importance of companies to announce the time of the realization of the options as this is in the 'spirit of the law[139]. Bechmann emphasizes that the success of these option-programs is a combination of skill and simply good timing – especially in regards to the shipping companies who has experienced record-making freight rates[140]. CEO of TORM at the time (2005), Klaus Kjærulff defended the stock options program:

[136] TORM – Year Report 2002 (2003)
[137] Hansen, Jens Chr. "Torm-ledelse høster optionsgevinster" (2005) Berlingske Tidende
[138] Kragballe, Søren "Norden-direktører blev topscorer" (2006) Jyllands-Posten
[139] Hansen, Jens Chr., "Chefaflønning: Chefers aktieløn i børs-gråzone" (2004) Berlingske Tidende
[140] Kragballe, Søren "Norden-direktører blev topscorer" (2006) Jyllands-Posten

"If you look at our stock, our market value has increased eight folded in the same period. Additionally we have most likely paid the largest dividend amongst the C20-companies at 23 kr per share. On that note, we have happy shareholder and – yet at a less extent – this have benefitted our leading employees who have participated in the option program"[141] – (Berlingske Tidende, 18th of April 2006)

In the spring of 2007, TORM launches a second bonus- and option program concerning their 350 Danish shipping employees in order to attract and maintain a high standard of their staff. The options are only profitable if TORM performs better than their peer-group, which makes sure that there is a performance-based incentive in the program[142]. TORMs performance were poor in lieu of the financial crisis and no large profits extracted from the program.

Dividend

The financially good times that TORM experienced in the 2000s evidently influenced the compensation of key employees and the board of directors, but when going through the year reports of those profitable times, it is clear that the shareholders were not left behind.

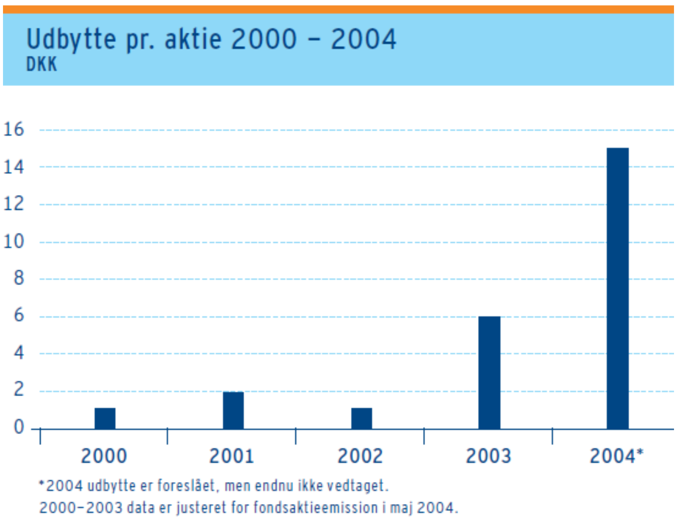

Figure 4) Source: Graph from TORM Year Report 2004

[141] Domino, Søren "120 millioner til Torm-ledelse" (2006) Berlingske Tidende
[142] Volander, Mette "Bonusguld til 350 Torm-ansatte" (2007) Jyllands-Posten

Above graph shows the increasing dividends per share in early 2000s, TORM created another record year in 2005 and paid out large dividends to shareholders. TORM paid 23 kr. per share compared to 15 kr. the year before[143]. The timing of TORMs purchase of the large position in Norden were close to being perfect, and contributed to the financial well-being of TORM. Norden performed extremely well and paid out extraordinary dividends to shareholders, and in 2004, TORM received 130m. Kr. from its competitor[144]. Large sums were paid to the shareholders but large sums were equally made in the shipping industry.

Below graph illustrate the dividend payout as a share of the net-result, in order to locate trends in the payout ratio. Two years – 2005 and 2007 – appears to be out of the ratio that has been paid to the shareholders in the previous decade. The peak in 2007 were caused by TORM selling their Norden shares at a total price of 4,1b. Kr., TORM announced that 2b. Kr. would be paid in dividends to enrich the shareholders instead of the original plan of a share buy-back program[145]. The increasing dividend per share were proportional with the better net results TORM delivered.

143 ”Torm-direktør venter vækst for tankskibe” (2006) Berlingske Tidende
144 Løcke, Lars Ole ”Pengeregn over ejerne af Norden” (2004) Politiken
145 Volander, Mette ”To mia. i ekstraordinært udbytte: Penge til Torm-ejere” (2007) Jyllands-Posten

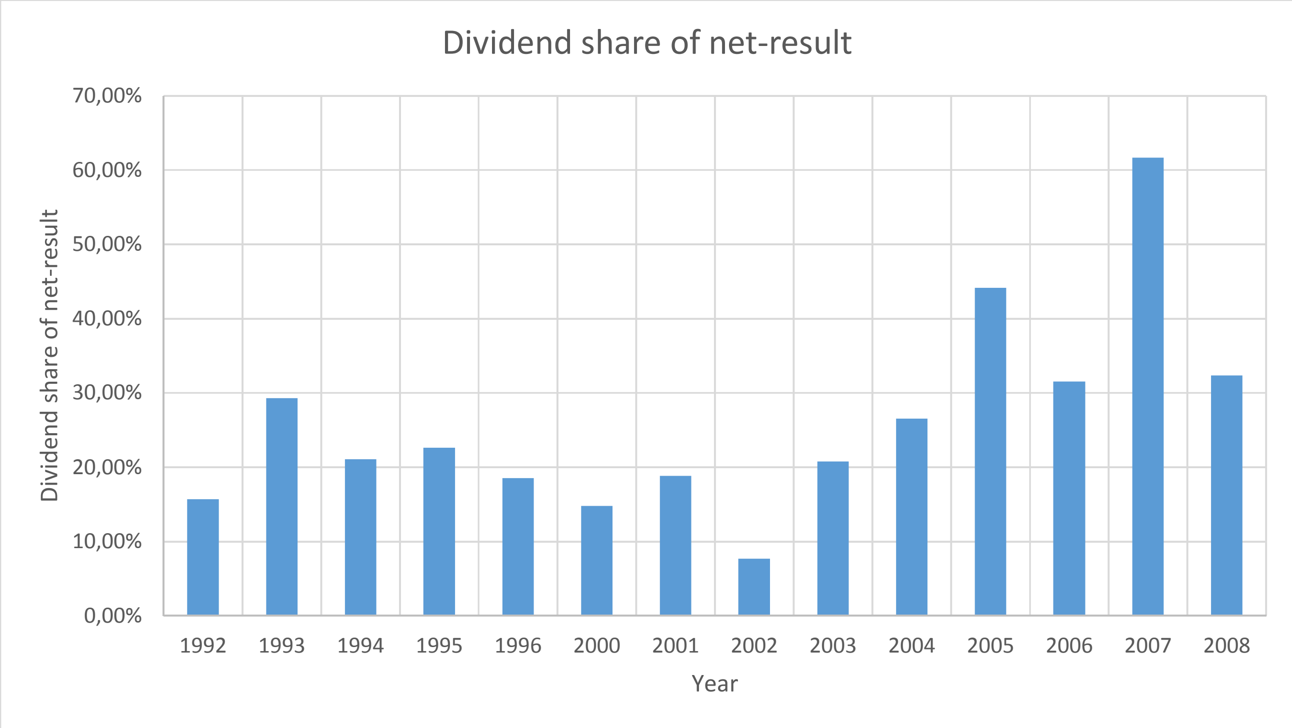

Figure 5) Source: TORM – Year Report 1995-2008

Paying decent dividends were an important part of the presentation – in 2007 - of TORMs updated strategy, which involved heavy expansion, split of shares and promises of higher dividends[146].

Hence, the financial situation changed radically after the crisis hit the tanker market in 2008. TORM had expanded - through buying OMI Corporation – but this happened when markets were sky-high and when the freight rates – together with the ship values – dropped, TORM went from being financially well off to fighting for its very existence. To make matters worse, TORM experienced a major shareholder (and board member) acting against of what appeared to be the best for the company.

Despite the critical conditions facing TORM, Gabriel Panayotides (largest shareholder in TORM at the time and board member) demanded dividends in the spring of 2009. Half a year before the same situation occurred resulting in dividend payout of 300m. Kr. and now demanded another 300m. Kr.

[146] Volander, Mette ”Torms værdier skal arbejde” (2007) Jyllands-Posten

Other shareholders were furious of this ‘drain’ of TORM when the shipping company needed the money the most. Panayotides’ other shipping activities were bleeding heavily and the reason for this push for dividends are presumably to supply cash for these other activities[147]. Less than a year after paying 300m. Kr. worth of dividends to the shareholders, TORM is facing one of their worst crisis the history of the country. The current fleet of TORM were valued by Danske Bank, which concluded the market value of the ships had dropped to just 650m. Kr. beginning of 2010[148]. Chairman of the board, N.E. Nielsen, were a main target, as many shareholders showed their mistrust toward him in the wake of the large compensation granted to both the new CEO Jacob Meldgaard, his compensation amounting 62m. Kr. for ‘jumping ship’ from Norden to TORM[149], and ex-CEO Kjærulff, who received close to 30m. Kr. in ‘farewell’ compensation[150]. Lastly, Nielsen was accused by minor shareholders for his poor judgement in regards to the massive dividends paid in times when the money were scarce in the company[151].

As TORM improved their results, the compensation of both executive management and the board of directors grew proportionally. A large share of this compensation were performance based, executive management received more than 50% of their compensation in shape of bonuses in three consecutive years (peaking in 2006 with a bonus share of 65% of total executive compensation). In early 2000s, TORM launched a stock option program that ended up securing executive management, board of directors - and leading employees - a profit of around 120m. Kr. in the years 2003-2006, which was also a result of the financial well-being of the TORM stock price. Generally, Danish ship-owners got a lot of attention for their above average compensation, compared to other industries. It was not only the executive management and the board of directors who benefitted from TORMs success; the shareholders likewise received large amounts of cash in terms of dividend in the 2000s. However,

[147] Johnsen, Morten ”Mytteri blandt Torm-aktionærer” (2009) Berlingske Tidende
[148] Johnsen, Morten ”Store tab lurer i Torm” (2010) Berlingske Tidende
[149] Ussing, Jakob ”Kriseramt Torm forgylder ledelsen (2011) Berlingske Tidende
[150] Johnsen, Morten ”Torm-chef fik tocifret millionbonus” (2009)
[151] Johnsen, Morten ”Småaktionærer vil vælte Torm-rederiets formand” (2011) Jyllands-Posten

when comparing the dividend share of the net result a couple of decades back, then the ratio in which TORM paid dividend where just slightly above – if not on level – with historic dividend payout. Hence, years such as 2007 – when TORM sold their large share in Norden – does clearly stand out from earlier years. One thing was that TORM paid out large dividends when they performed well, but TORM ended up continuing to pay out dividends after the financial crisis occurred, as the major shareholder, Panayotides, needed liquidity to keep his other shipping company afloat.

Increasing share of performance-based compensation and stock options

A larger share of performance-based bonuses dominated the compensation packages that TORMs executive management received in the last half of the 2000s. The share of bonuses peaked in 2006, when 65% of executive managements' total compensation were bonuses[152]. To qualify for the bonuses certain financial goals had to be achieved (amongst other requirements).

Also, TORM employees were introduced to a severe stock option program in early 2000s[153], and in lieu of the good performance, the employees who were engaged in the program could cash in a decent profit.

Both performance-based compensation, such as bonuses, and stock options are in the spirit of shareholder value, and thereby financialization, as it is aligning the interests of managers and owners (shareholders) of the corporation. It is securing common goals in shape of financial results and the desire of increasing the stock price. The amounts shipping executives, both TORM and Norden included, were receiving – both stock options and bonuses – were at a much higher level, than the level of the other executives of the top 20 companies listed on the Copenhagen Stock Exchange.

High dividend payout

TORMs dividend per share increased substantially during the 2000s, and peaked in 2007[154] when TORM paid 2b. kr. to the shareholders of the company.

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[152] TORM – Year Report 2006 (2007)
[153] TORM – Year Report 2001 (2002)
[154] TORM – Year Report 2007 (2008)

In the literature of the financialization of the US economy, Crotty (2005) describes a severe increase in nonfinancial corporation's dividend payout as a result of the ascendancy of shareholder value, and consequently draining the nonfinancial corporations reserves[155]. TORM did evidently increase their dividend per share, but when looking at the payout ratio as a share of the net result, than it appears that the payout ratio are on the same level as in the 1990s (except 2005 and 2007).

TORM maintained a relatively large dividend payout ratio in 2008[156], despite the occurrence of the financial crisis, and a combination of pressure from major shareholders, and the fact that the tanker segment was not immediately hit by the crisis (in contrast to the dry bulk segment), seems to have determined the decision to maintain dividend payout. Consequently, the tanker segment were hit hard by the crisis and TORM found their previously financial stable shape being destroyed and their reserves drained.

155 Crotty, James "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Market on Nonfinancial Corporation Performance in the Neoliberal Era" (2005)
156 TORM – Year Report 2008 (2009)

Analysis 3. Increasing profits through financial channels

The golden times for shipping in the 2000s created opportunities to make money on the shipping markets, without necessarily offering the service of transporting goods from A to B. For the ship-owners, the volatility in the freight rates created profitable solutions for ship-owners to acquire vessels when freight rates / vessel prices were low, and sell – or rent out - part of their fleet when markets topped. Ship-owners sources of income exceeded – at times - the revenue generated in transporting goods from A to B. In 2005, Torm sold ships with a profit of 600m. Kr. (Norden: 800m. Kr.)[157]. The process of buying/selling ships at right time of business cycles is not a new phenomenon to the shipping industry, which is known to be very cyclical[158], but the volatility of the industry increased in the 2000s together with potential profits generated by buying/selling ships.

New financial instruments were introduced as well, and as of 1 February 2006, it was possible to trade TORM futures and options through the Copenhagen Stock Exchange[159].

Income generated from financial sources

TORMs large purchase of Norden shares in 2002 were an attempt to merge the two Danish ship-owners, it did not succeed with what was considered a hostile takeover (attempt). Despite the failure of the takeover, TORM chose to hold on to the shares and ended up considering them as a financial investment. The timing of the purchase were somewhat close to being perfect, as shipping markets exploded shortly after, and TORM were dually effected by the upswing. Holding the large position in Norden were detectable on the balance of TORM, the years 2002-2006 when TORM held the position, the share of financial assets amounted up to 30% of their total assets (see below graph).

[157] Wichmann, Sonny, ”D/S Norden tjener tykt på skibshandel” (2005)
[158] Stopford, Martin ”Maritime Economics” (2009)
[159] ”Tjen penge på markedets bevægelser” (2006) Berlingske Tidende

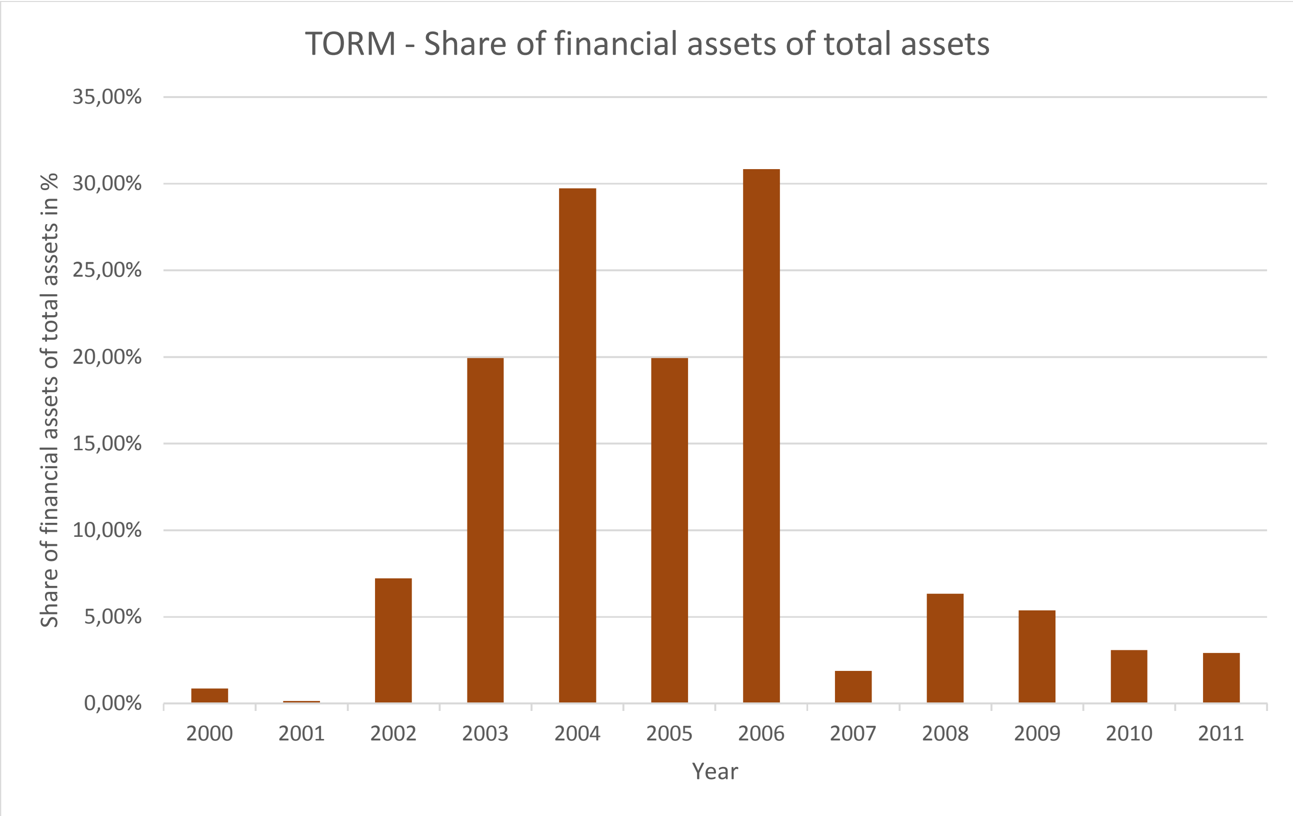

Figure 6) Source: TORM – Year Report 2000-2011

Never in the history of TORM had the company ever had such a large share of financial assets on their bbalance, and the success of their 'competitor' Norden contributed significantly to a financially solid situation for TORM. While TORMs stock price had increased from around 40 kr in 2001 to 130 kr in September 2003, the stock price of Norden had moved from 240kr to 600 kr in the same period[160]. By October 2003, TORM increased their expectations to their result in 2003. The increasing expectations were a sole result of their ownership in the large position of Norden shares, which had increased significantly in value[161]. The market continued for a few years to be in favor of the ship-owners and TORM received large amounts of dividend from Norden up until the position in Norden were sold in 2007.

160 "Aktievurdering: Aktionærerne spinder guld" (2003) Jyllands Posten
161 "Torm opjusterer pga. kursstigninger i Norden" (2003) Erhvervsbladet.dk

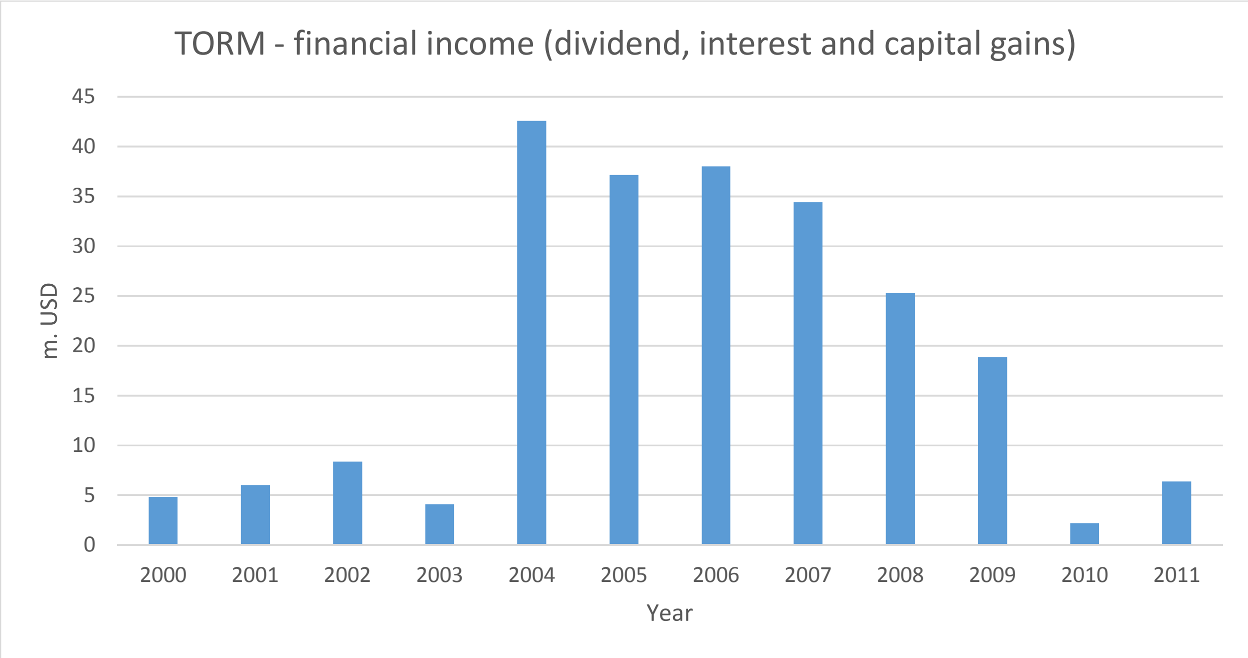

Figure 7) Source: TORM – Year Report 2000-2011

Beginning of April 2007, TORM sold their large position in Norden after holding on to it for almost 5 years. The initial purchase of the Norden shares were an attempt to take over the company, this proved unsuccessful but the financial investment itself were quite the success for TORM who walked away with 4,1b. Kr on a 300m. Kr. investment[162]. After selling their large financial asset, their financial income started to decrease.

The increasing freight rates in the 2000s had immediate impact on the value of the assets/ships, generating the freight income. Ship-owners made large profits by selling ships at the 'right' time during the 2000s, but they also had to secure a proper fleet for the future. TORM bought – over a weekend in 2002 – 30% of the shares in their competitor Norden, with the intention to combine the two companies. Hence, Norden considered this move as a hostile takeover attempt and rejected any sort of corporation. TORM held on to the shares in Norden despite the rejection, and this turned out

[162] Volander, Mette "Torm ønsker vækst via opkøb" (2007) Jyllands-Posten

to be a valuable investment for TORM. The stock price of Norden exploded shortly after TORMs large buy-in, and the position in Norden ended up covering 30% of TORMs balance in shape of financial assets. TORM experienced a large increase in their financial income after acquiring the Norden, and saw a decrease shortly after selling them in 2007 which implies a 'one of' example rather than a long-term trend.

Increase in financial income for nonfinancial corporations

TORMs financial income rose explosively during the 2000s, and the main reason were their large position in Danish shipping company Norden, this stock position amounted up to 30% of the total assets of TORM[163].

Increase in financial income for nonfinancial corporations is an essential indicator of financialization, Krippner (2005) uses this measure to confirm the tendency in regards to the financialization of the US economy[164].

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163 TORM – Year Report 2002-2008 (2003-2009)
164 Krippner, Greta R., "The financialization of the American economy" (2005)

Discussion

The research within this project has been successful in terms of determining firm indicators of financialization rooted in the existing research on the topic. In addition once the parameters were clear, the analysis were conducted in connection with the object of research (TORM), and despite sources deriving solely from either year reports or newspaper articles, it was possible to achieve satisfying results on that basis. As for the validity of the research, the newspaper articles were a necessary source of data in order to create a 'picture' of the historic situation of TORM, as no primary data were available. Hence, for the results of this research it has been possible to cross check events with the year reports, and thereby improve the validity of the results. Still, some of the year reports proved to be slightly outdated, as year reports specifying executive managements composition of compensation – in regards to bonuses (performance-based compensation) were not included before 2005. Also, certain year reports were not available to the author.

For future research within this field, a more thorough determination of the indicators of financialization would be ideal. Despite the valid indicators used in project – as the indicators were well documented and accepted in the literature – the selection of these can appear rather stochastic, and a more extensive discussion of financialization would be useful. Also, getting hold of primary data would be ideal to further strengthen the validity of the project. As addressed in the methodology and theory section, choosing just one company is not adding anything significantly to the existing research, due to its poor representativeness, so ideally including more objects of research would provide a more broad research with a stronger representativeness. Hence, it was conscious decision only to analyze TORM as this allowed the project to go in depth with the company, but still stay within the formal limitations of this project.

The results of this project is much similar to previous studies conducted in the field of financialization, as this is confirming a certain set of behavior located. Yet most of the literature on financialization are working on locating a general pattern in an economy, this project has solely focused on TORM. Now, for the future it could be interesting to have further research conducted on the topic of financialization in Danish economy as well as financialization within the shipping industry. The shipping industry is known to be driven by long-term cycles, and how/if this can comply with the short termism of financialization.

Conclusion

While there is little doubt that the corporate behavior of TORM has changed considerably over the last decades, there is far more uncertainty tied to whether this change of behavior derives from financialization, as the loose usage of financialization has made it difficult to concretize the term. This project has aimed to determine the level of financialization within TORM over the last decades, by extracting concrete indicators of financialization from the existing literature, and the indicators of financialization being: (i) increasing profits through financial channels, (ii) focus on shareholder value, (iii) corporate restructuring and (iv) increase in (performance based) compensation and dividend payout.

TORM underwent a severe transformation from being a traditional and anonymous ship-owner, to being one of the most traded stocks on the C20 index and listed in both Copenhagen and the New York Stock Exchange. The turning point for this change is around the time when TORM got a new – large – foreign shareholder in 2000, shortly hereafter, there were a change of management and new strategies focused specifically on maximizing shareholder value. The large shareholder, Panayotides, also secured a spot for himself with the board of directors, after the former board members had been replaced in order to reflect the new ownership structure of TORM.

After these structural and internal changes, TORM focused intensely on increasing the value of their stock and effectuated this through severe information transparency (a big step for the former anonymous ship-owner) and the dual listing on the Nasdaq stock exchange. These actions clearly relate to the shareholder value approach as Karen Ho (2009) describe as *"a set of ideas and actions whose primary purpose is to increase the stock price of corporations to generate wealth for shareholders" (Karen Ho, 2009, page 177).* The ascendancy of shareholder value is one of the well-used (and documented) indicators of financialization.

TORM bought a large position of the stocks of their competitor Norden in 2002, this large acquisition were considered a hostile takeover attempt. The mindset behind hostile takeovers – whether successful or not – is tied to the process of financialization, and Berghoff (2016) sees hostile takeovers as a symbol of financialization's arrival in an economy. Despite the failure of taking over Norden, the financial investment of the large stock position proved to be extremely profitable for TORM. Krippner (2005) argues that financialization can be seen through an increase of financial income for nonfinancial corporations, and at the same time as Norden stock price reached for the skies as did the financial income for TORM in shape of large dividend payouts and unrealized capital gains from the stock position. Financial assets counted for around 20-30% of the balance of TORM in the mid 2000s.

Compensation of TORMs executive management team and the board of directors grew proportionally with the results that the company delivered, as a large share of the compensation package consisted of bonus programs. Still the share of bonus compared to the total compensation of executive management reached as high as 65% in 2006. TORM also launched an extensive stock option program in early 2000s, which ended up enriching executive management, board of directors and leading employees with a total profit of 120m. Kr. in a 3 year period (2003-2006), and were referred to as 'the most lucrative option program in Denmark' by the media.

One of the methods of measurement for shareholder value – and thereby financialization – can be by looking at the dividend payout ratio. Crotty (2005) linked financialization with the increasing dividend payout, and in the case of TORM, their dividend payout were increasing considerably. Hence, when looking at the dividend share of the net result then it has not changed significantly – despite a couple of extraordinary years such as 2007 – from the levels in the early 1990s.

The selected indicators of financialization are pointing in the direction that TORM were financialized to a certain extent during the 2000s. Hence, some indicators such as "the increasing financial income for nonfinancial corporations" are indeed evidential in the case of TORM, but the sole reason was the stock position held in Norden, and once TORM sold the position their financial income dropped significantly. TORM did not purchase the shares as a financial investment, but rather as an attempt to take over the other ship-owner. On the other hand, the ascendancy of shareholder value appeared to have been a very conscious decision, which were highly prioritized in the corporate strategy of TORM. In addition, the large dividends paid to the shareholder were likewise a conscious decision.

Were these indicators of financialization determining for the crisis that TORM ended up in? On basis of this project, it is invalid to draw any conclusions in this respect. However, the parameters played a central role in the path that TORM followed and many of the dispositions were made in the name of shareholder value.

The finding of this project have found traces of a financialization in a Danish company, and naturally the question arises whether the Danish economy as a whole has been financialized? Further research would be relevant, and yet the same ‘problem’ arises: how do you define financialization, and how can you measure financialization?

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