Journal of Management and Governance **8:** 229–254, 2004.

Board Activities and the Denationalization of Ownership – The Case of Sweden

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Abstract. This article investigates the effects of a denationalization of ownership on the activities of corporate boards. A simultaneous change in investors' identity on the Swedish stock exchange and the board activities of large Swedish firms was observed during the late 90s. Drawing on the heritage hypothesis we conjectured that there could be a relationship between increased international ownership and increased board activities on firm level. The results show that board activities in terms of range of activities and engagement in the decision process increased during the 90s. No relationship was found between change in ownership identity and board activities, instead the increase in activities seemed to be a general phenomenon, while ownership change was firm specific. To explain this result a hypothesis of legitimization seeking behaviour and indirect influence of denationalization, specific to the period in question, is formulated.

Key words: board of directors, denationalization of ownership, patterns of activities

1. Introduction

During the last decades a globalization of markets for capital has taken place. One effect of this is an increased portion of foreign investments on most national stock markets. As a result, for markets characterized by concentrated ownership this has been dispersed. Thus, traditional national structures of ownership have started to change. This brings the issue of the importance of owners' identity for the function of the corporate governance system to the fore. Dominant owners have been claimed to influence corporate strategy (Porter, 1990; Gedajlovic and Sharpiro, 1998), board structures (Denis and Sarin, 1999) and corporate performance (Morck et al., 1988; Yermack, 1996). The issue of the owners' influence on the boards' activities, however, remains unexplored.

In this article, the matter of whether a change in the national pattern of ownership influences the activities of the boards is elaborated. Interest in this originates from observing changes within the governing structures of Swedish publicly held firms. Between 1994 and 1999, the foreign ownership of the total stock value on the Stockholm stock exchange increased from 21% to 39%. During the same period there were substantial changes in the activities of the various boards of directors. The simultaneous shift in ownership characteristics and board activities raised the issue of whether or not a relationship existed between the denationalization of ownership in a specific country and the activities of the corporate boards. To this end, a study of boards' activities and denationalization of ownership in listed Swedish companies was carried out. The theoretical points of departure are Fama's (1980) model for corporate governance and Williamson's (1983, 1996) transaction cost economics theory. This model is complemented by the position that variations in the role of the owner in different corporate governance systems also provide variations in how owners may influence the board of directors (the heritage hypotheses, cf. Moerland, 1995; Roe, 1993; Gedajlovic and Shapiro, 1998; Whitley, 1994). Our aim is to develop a theoretical framework for the effect of denationalization on board activities and to test this framework in a specific national context. Our thesis is that denationalization of ownership and increased ownership dispersion alter the relationships between the owners and the board of directors and thus influence the division of functions between the owners and the directors on the board.

The investigation focuses on the direct influence of denationalization and increased dispersion of ownership on the board's activities. The results indicate that this focus is insufficient in order to understand this relationship and we conclude the article with a discussion of the possible indirect effects changes in ownership structure might have on the boards' activities and proposes an agenda for future research.

2. Ownership Influences on Board Activities

Shareholders' influence on board activities has been widely discussed in the literature. From a property rights perspective, Alchian and Demsetz (1972) define the shareholder's rights to be to: (1) hold the residual claims; (2) observe input behaviour; (3) be the central party common to all contracts with inputs; (4) alter the membership of the team; (5) be entitled to sell these rights. The right to influence the board is accordingly limited to observation of input behaviour and alteration of the membership of the team (board of directors, and management). Shareholders all have the same rights; their content is not changed by the accumulation of shares. Building on Alchian and Demsetz, Fama (1980, p. 291) limits the functions of owners of a modern firm to be of those who hold the residual claims and who are entitled to sell their central contractual residual claims. In Fama's (1980, p. 293) description of the firm, insider directors should dominate the board of directors, as they are

> "most directly in the line of fire from lower managers when the markets for securities and managerial labor give poor signals about the performance of the firm. Because of their power over the firm decisions, their market-determined opportunity wages are also likely to be most affected by the market signal about the performance of the firm".

Thus, the influence of the owner on the board depends on the importance management places on the firm's reputation and performance on the capital market. According to Fama (1980, p. 294), the board "is viewed as a market-induced institution, the ultimate internal monitor of the set of contracts called a firm, whose most important role is to scrutinize the highest decision makers within the firm".

If the assumptions of Fama (1980) hold true, there is no reason to assume that owner identity would affect the work of the board. The division of work between the board and the top management team would be more or less an internal affair for the board. Fama's model is built on the assumption of effective markets and dispersed ownership. If owners matter, it will be through the degree of ownership concentration and liquidity of the market. However, while the degree of dispersion or concentration of share ownership of a firm is irrelevant for the content of the ownership function from a property rights perspective, it is certainly relevant from a transaction cost theory perspective, where control is characterized as either a hierarchical (internal) or a market (external) relationship (Collin, 1990, 1998; Williamson, 1996). Besides the right to hold the residual claims, shareholders with a hierarchical relationship to the firm they hold shares in will exercise all their rights, except perhaps the one to sell the rights, while shareholders with a market relationship will only exercise their entitlement to sell their rights. Denominators for which kind of relationship a shareholder establishes are the ownership structure of the firm, and its relative size, i.e. risk of the investment compared with other investments in the shareholder's portfolio. In a firm with a high level of ownership concentration (relatively few investors) it is more likely to find shareholders, equity owners, who establish a hierarchical relationship to the firm than in a firm with dispersed ownership. Hence, in this case the overall ownership structure of firms within a governance system indicates the behaviour of shareholders in relation to the firms where they hold shares.

Depending on the theoretical perspective, therefore, one may derive both the view that the owners' identity does not matter and the view that it has an impact on the work of the board. Empirically, however, research indicates that the functions of owners are context dependent. A study undertaken by Gedajlovic and Shapiro (1998) focused on the relationship between ownership and performance. They found that the relationship between ownership and management via the board was contingent on, among other things, the country in question and institutional differences. This implies that institutional aspects and country specifics must be considered when investigating the relationship between owners, the board of directors, and management (Charkham 1994; Roe 1993).

2.1. OWNERSHIP IN DIFFERENT CORPORATE GOVERNANCE SYSTEMS

The existence of different corporate governance systems has been given considerable attention in the literature. The most frequently compared national corporate governance systems are those of the USA, Germany and Japan. From this research, two general systems of corporate governance have been identified: the Market-Oriented System and the Bank- or Network-Oriented System (e.g. Agnblad et al., 2001; Berglöf, 1994; Moerland, 1995; Porter, 1992). The dimensions for comparison among different national corporate governance contexts have been developed further by Gedajlovic and Shapiro (1998). They compare governance structures according to the strength of external and internal constraints on managerial discretion (cf. Walsh and Seward, 1990). Internal constraints reflect the power and composition of the board, including the ease by which shareholders can appoint or remove board members, while external constraints pertain to the rule of the markets (Gedajlovic and Shapiro 1998, p. 535). The dimensions are operationalized as; (1) type of owners (identity and dispersion); (2) role of the board of directors (composition, owner/management representatives); (3) shareholders' power (which is interrelated with (1) and (2)); (4) threat of takeovers, (5) financing. A board composed mainly of outsiders with strong shareholder power is indicative of strong internal control mechanisms. Frequent takeover threats and a firm's dependence on raising external financing are used as indications for strong external control mechanisms. Applying these dimensions, Gedajolvic and Shapiro (1998) classified Canada as having strong external and internal control mechanisms, France and Germany as having primarily strong internal control mechanisms, and the USA and UK as having primarily strong external control mechanisms.

In this context, Fama's (1980) theoretical perspective would apply to a governance system that exerts strong external constraints on managerial discretion. Here, controlling the company and disciplining the managers has moved from the owners towards the market for managers and the competition among different managers. This would also be in line with the market relationship between owners and the firm described by the transaction cost theory (Collin, 1990; Williamson, 1983, 1996). In contexts where strong internal control mechanisms exist, the role of the owners is more in line with the hierarchical relationship discussed in the transaction cost theory, that of more direct involvement in the firm, including the role of disciplining managers. The function of the board as a connection between owners and management, therefore, differs in the various contexts, and the board becomes more an instrument for owners' activism in contexts where there are strong internal control mechanisms, and an instrument for performing management functions in contexts where there are strong external control mechanisms. Based on the outlined characteristics of these two approaches, the board's position could be described either as leaning towards hierarchically positioned owners – as in the former system – or as leaning towards management – as in the latter (Kärreman, 1999).

2.1.1. *The effects of a denationalization of owners*

The discussion above implies that changes in ownership will lead to changes in board behaviour as well. In countries with a traditionally relatively high concentration of ownership, a denationalization of ownership through the inflow of foreign capital to the stock market will probably coincide with a greater degree of dispersed ownership. This will reduce the incentives for shareholders to pay the price to control the firm, i.e. to exercise internal control mechanisms due to a hierarchical relationship. In contexts where internal control mechanisms have been strong, this would imply a lower emphasis on these and a higher emphasis on external control, and a market relationship. For the new categories of shareholders some of the culturally and socially embedded information about managers and directors will probably not be easily accessible. The existence of an effective market for top managers, as well as the signalling function of the capital market, would therefore increase the opportunity for achieving effective corporate governance. According to research supporting (e.g. Randoy and Oxelheim, 2001) the view that the internationalization of the capital markets leads to a convergence in the different corporate governance systems, the system emphasizing external control mechanisms seems to gain ground (see Guillén, 1999 for a countervailing viewpoint). This is due to both the dispersion of ownership, and the so-called home-country effect. In other words, investors prefer to invest in companies or countries with similar corporate governance structures and with which they are familiar. This would imply that corporate governance systems converge in a direction that at least the major investors would be familiar with. Given the dominance of North American investors, a system emphasizing external controls would emerge. From this one may conclude that in a context previously dominated by internal constraints on managerial behaviour and a hierarchical relation between owners and the board of directors, a denationalization of ownership will imply a greater emphasis on external constraint and owners' control through the market.

From the directors' perspective, changes such as those discussed above create some uncertainties. First, in a corporate governance system characterized by market relationships between the shareholders and the firm, the content of the work of the board must be based more on assumptions of what the shareholders expect than on directives from a hierarchically positioned dominant shareholder, who specifically can formulate intentions and directives that are in line with all shareholders' interest. In other words, the owner control function steps out of the boardroom. The uncertainty this implies increases when the directors' knowledge about the shareholders is deficient, as it is in the case of a denationalization of shareholding. Second, in a hierarchical relationship it is possible for shareholders represented on the board to evaluate the directors' contribution and also to promote well-functioning directors to other directorships or positions at top management level. In a market relationship, based on external control mechanisms, the owners' evaluation of directors is made from a distant position. Accordingly, the labour market for directors functions quite differently in such a setting. To handle these uncertainties the board of directors will move towards a more managerial content of their work, leaving a greater part of the controlling function up to the market in order to signal their own competence to the market, than it would in a relationship with shareholders characterized as hierarchical.

This discussion further implies that the influence of international investors will vary between different national contexts according to the traditional importance of owners in a specific context (Moerland, 1995). In the USA, for example, shareholders seem to have a less influential role in the recruitment and evaluation of the corporate board, than in, for example, Sweden, where traditionally strong linkages between dominant shareholders and directors of the board have been present. In the Swedish context, the internationalization of capital may therefore affect the board. The board will be aware of international investors and act accordingly. The directors will expect investors from a different governance system to represent something different, and to behave in another way than investors from within the same corporate governance system.

This article focuses on the entrance of foreign investors into a stock market in a national corporate governance system characterized by strong internal governance mechanisms. In accordance with the conclusions drawn above, a transition of the corporate governance system towards more external control mechanisms is likely to occur. Thus, board activities may be influenced in two ways. First, the board makes a transition that leads it more towards management functions than previously. As mentioned above, this type of board functions in a system characterized by internal control mechanisms as instruments of owner activism, more so than in systems characterized by external control mechanisms. Second, the importance of the labour market for management and directors should increase, thus the importance of signalling the competence of the board of directors in this market. This information is embedded in the cultural and social context and access will be more difficult for foreign owners, who might sense that this market information is now more important, but do not know how to acquire or evaluate it.

2.2. INFLUENCES ON BOARD ACTIVITIES

Up to now, the concept of board activity has been loosely defined. Several approaches founded in different theoretical traditions have been developed in order to discuss board activities (see Zahra and Pearce, 1989; Johnson et al., 1996 for reviews). As different theories focus on varying problems, they also cover different angles of the work undertaken by boards. Research in business administration focusing directly on which activities a board performs has most often concentrated on board involvement in strategies. Judge and Zeithaml (1992), for example, showed that boards of directors were slightly more active during the formulation phase of strategy than during the evaluation phase. Zahra (1990) found that boards were more active in mission formulation than implementation. Tashakori and Boulton (1983) showed that slightly half of the companies' boards in their sample were involved mostly in the formulation, implementation and evaluation of strategic planning, while a third were involved in primarily two of these stages: formulation and evaluation. In a British investigation, Styles and Taylor (1996) found that more than 70% of the boards in the sample played a major role in developing a strategy and analysing strategic options and more than 60% of the sample played a major role in supporting strategy implications and monitoring strategic implementation. In the phases of evaluation of strategy achievement and communication of strategy, more than 50% of the boards played a major role. McNulty and Pettigrew (1999) also investigated the involvement of British directors in strategy. While all boards make strategic decisions, some also shape decisions, and a minority shape the content, context, and conduct of strategy.

From this research, it can be concluded that board activities may be described in two different dimensions. First, as a range of activities, i.e. the types of activity the boards carry out. Second, as the point in the decision-making process where the board gets involved. Approaches that focus on the first dimension may be found in handbooks and in more legally oriented literature, in which researchers and organizations try to achieve "good practice" through prescribing the range of activities a board ought to perform. Cochran and Wartick's review (1988) of the literature on corporate governance may be viewed as a North American example of this, and Hilmer and Tricker (1990) have done similar work in Australia. Here the division of different work tasks between the board, the management and the owners is highlighted. Most often policy issues are assumed to be in the hands of the management, the ultimate control issues in the hands of the owners and the board's involvement to depend on the strength of the owners. Usually the normative theories allot some control issues and the decision about strategy issues to the board of directors. However, in a situation where internal constraints on managerial discretion are changed into more external constraints it is likely that more of the control issues are allocated to the market. The performance of the board will be measured from a perspective outside the board rather than from the internal view, which is possible when dominant shareholders participate in the board work and have information about the decision processes occurring there. The board's performance will be measured by the decisions made public, such as strategic orientation and different firm policies. In other words, in this situation it is likely that the boards of directors get more involved in strategic decision and policy issues in order to signal its competence to the market.

The second dimension, board involvement, is exemplified by Fama and Jensen's model (1983), where they divide the decision-making process of an open firm (a firm with several owners) into decision control (ratification and monitoring) and decision management (initiation and implementation). While the board is presumed to be involved in decision control (ratification of proposals and monitoring and measuring of performance), the top management is presumed to dominate decision management (initiation and implementation of proposals/decisions). The Fama and Jensen model is normative in that it builds on the board as the ultimate controller of the firm (cf. Fama, 1980). As discussed above, this is more likely to occur in connection with internal constraints on managerial behaviour. In a context when greater emphasis is put on external constraints the division of decision management and decision control between the management and board of directors is more likely to occur. Empirically, North American investigations and discussions about the desirable structure of the work of boards support these ideas (Lorsch and MacIver, 1989; Lorsch, 1995).

Against the background of the above discussion, changes in ownership structure creating a shift from internal to external constraints, or vice versa, will have an impact on the way the board of directors, and top management, carry out their respective roles. This development will be accentuated if the actors on the stock market are foreign investors without experience of the practices in the context where they invest. Foreign investors are not encumbered by national institutional and structural preconceptions. Instead they lean on the financial logic; hence evaluating the performance of the management and the performance of the board of directors by means of the stock market.

Relating types of activities and board involvement to the discussion in the last Section 2.2 regarding the influences on board activities by foreign owners in a context *earlier dominated by an internal control mechanism,* may lead to the formulation of two hypotheses.

(H1) *In firms with a relatively high degree of denationalized stock ownership the board of directors will put a greater emphasis on the activities related to strategic and policy issues for the firm than boards in other firms.*

In this case, it is likely that the importance of direct owner representation on the board will decrease and that board functions will lean towards management functions, rather than owner control.

(H2) *In firms with a relatively high degree of denationalized stock ownership the board of directors will to a greater extent be involved in all steps of the decision-making process than boards in other firms.*

Thus, as the line between decision management and decision control is more likely to be blurred in a system relying on external control mechanisms, a high level of involvement is presumed to signal to the market a high level of competence among board members.

3. The Swedish Context – an Example of Institutional Changes

In Gedajolvic and Shapiro's classification, Sweden in 1994[1] would be placed somewhere between Canada and Germany, in having predominantly internal control mechanisms. The ownership of public companies has traditionally been highly concentrated and dominated by families or corporate owners. Financial groups have controlled a considerable part of the industrial sector in Sweden (Glete, 1994) by such means as minority ownership, cross-ownership, socialization of new managers, social networks, and interlocking directorates (cf. Collin, 1990, 1998). Often, banks act as the central orchestrator of the group. Up to the mid-eighties, this domination had been supported by the financial markets, which were highly regulated in Sweden. Among other things, stock market regulations restricted the activities of foreign investors in the Swedish market. In the late 1980s, several changes affected the financial markets. Deregulation was implemented and interest in investing in the stock market grew rapidly. The stock market attracted new actors, and the previously stable pattern of financial groups underwent changes. Among the new actors were various institutional and foreign investors. In January 1992, mutual funds, national pension insurance funds, and employee investment funds represented 15% of the total market capitalization on the Stockholm stock exchange; insurance companies and other institutions accounted for 23%; investment companies and foundations, 15%; non-financial companies, 20%; and foreign owners, 12%. Only 16% of the total market capitalization was in the hands of individuals (Isaksson and Skog, 1994, p. 280; no information about 1994 is available).

Between 1994 and 1999 the foreign ownership of the total stock value on the Stockholm stock exchange increased from 21% to 39%, or from 1020 billion SEK (Swedish Krona) to 2368 billion SEK. The degree of ownership concentration has, on the other hand, decreased slightly. In 1994, the 50 largest owners owned 50% of the total stock value on the Stockholm stock exchange. In 1999, this figure had dropped to 43.8%. It might therefore be claimed that a denationalization of ownership has taken place on the Stockholm stock exchange, as well as a minor change in owner dispersion.

The denationalization of ownership in Sweden is the basis for exploring the relationship between the origin of owners and board activities. The issue has been given considerable attention from different societal perspectives, such as researchers (Oxelheim, 1996; Agnblad et al., 2002), politicians on a national and European level, the trade unions, as well as the media. Below there is a description of the Swedish context prior to the increase of foreign ownership will be provided. An investigation is presented of Swedish listed companies for the period 1994–1999 with respect to the activities of their boards. This investigation was made in an attempt to draw conclusions regarding any possible relationship of changes in board activities with any changes in the origins of owners.

Sweden employs a system of unitary boards. The board consists of directors elected at the annual shareholders' meeting and two or more directors elected by the trade unions of the companies. Usually, the CEO is the only inside director with a management position on the board. CEO duality is not allowed in Sweden, and only in a few large companies is the chairmanship a full-time position. There exist a number of interlocking directorates among listed Swedish companies. In 1994, 694 different persons held 969 positions, and about 34% of the CEOs of listed companies held a position on the board of another listed company. The owner-elected directors comprise a majority on the board. Among the owner-elected directors, one may distinguish between those who represent a large owner and those elected primarily as a result of their expertise. Often, an informal hierarchical relationship exists inside the board, as the owner-representative is supposed to voice the intention of the larger owners, while expert directors have more of an advisory role (Kärreman, 1999). This means that there is a more direct connection in Sweden between the capital market, or at least the large owners, and the board of directors than in the relationships described in the North American literature. Thus, the board of directors may be said to have a larger governance function than those in the USA, and at the same time, the power of the shareholder is relatively great.

The ownership situation explains why hostile takeovers have been unusual in the Swedish context. This may also be rooted in the business norms in Sweden, which emphasize consensus rather than competition (Bjerke, 1998). Waves of mergers and acquisitions have occurred in Sweden, as well as in other contexts, but have been rather as a consequence of business considerations or international waves of acquisitions than as a result of bad management. This implies that the external governance mechanisms are weaker in Sweden than in, for example, the USA.

A comparison between Sweden in 1994 and some of the countries in Gedajlovic and Shapiro's investigation is shown in Table I. In this comparison, it is clear that Sweden may be said to have strong internal control mechanisms and medium external control mechanisms. A denationalization of ownership would therefore imply a reduction in ownership concentration and an increase in importance of the signalling function of the capital market as well as the labour market for management. The effects felt on the work of the board would correspond to the discussion outlined in the section above.

4. Investigating Ownership Changes and Board Activities

To explore the relation between denationalization of ownership and board activities, the development of ownership on the Swedish stock market between 1994 and 1999 was investigated, and the findings from two surveys of directors on the boards of Swedish listed companies were utilized. Below are the findings of the two surveys undertaken.

4.1. CHANGES IN OWNERSHIP, 1994–1999

The changes in ownership have been measured in three ways. All data was collected from the annually published "Owners and Power" (Sundin and Sundqvist), which contains data about firms listed on the Stockholm stock exchange. First, data about the nationality of the ownership of votes was collected and defined as Swedish or non-Swedish. Second, data about the nationality of capital was collected, and was defined in a similar manner. Third, the degree of ownership concentration of the firms in the sample was measured. The measures show that the average degree of Swedish ownership (votes) had decreased from 85.5% in 1994 to 81.3% in 1999. Moreover, the share of owned capital had also decreased, from 79.2% to 77% for the same period. It was also noted that the degree of ownership concentration in the sample had also decreased. In 1994, the degree of ownership concentration was at 0.255, while in 1999, it was 0.215 (Herfindahl index, 25 largest shareholders).

A paired samples test (t-test) was used to demonstrate if the changes between 1994 and 1999 were significant. From the data in Table III, it can be concluded that foreign ownership increased significantly not only in value, but also in power (votes). Regarding the proportion of capital, however, no

Table I. Cross-national comparison of corporate governance (developed from Gedajlovic and Shapiro, 1998, p. 537)[a]

	US	Canada	Germany	Sweden in 1994
Ownership dispersion	Very high	Low	Low	Low
Ownership identity	Individuals; pension and mutual funds	Family; corporate	Banks; corporate	Family; financial groups; pension funds
Board of directors	Managers; outsiders	Owners; managers; outsiders	Owners; workers	Owners; workers; CEOs; outsiders
Shareholders' powers	Low	Moderate	High	High
Takeover	High	Moderate	Low	Moderate

[a] Due to space limitations, France and the UK are excluded from the original table. Owing to lack of information, the dimension of financing is excluded.

significant difference can be seen[2]. A significant change in ownership concentration can also be noted, with ownership becoming more diffuse in 1999, as compared to 1994.

4.2. CHANGES IN BOARD ACTIVITIES

The issue of whether or not the changes in ownership influenced the boards' activities was investigated by surveying the directors on Swedish company boards. The first survey was carried out in 1994, and the second in 1999. In 1994, the survey was sent to all directors with positions on boards of companies noted on the main list (the so-called A-list) of the Stockholm stock exchange. At the time of the investigation, 104 companies were listed. Questionnaires were sent personally to the directors and the CEOs of all of these companies. As many interlocking directorates were noted, arrangements were made so that each director and CEO received only one questionnaire. It was ensured that persons within the different director categories (owner-elected, union-elected, etc.) were also included in each board surveyed. Since the directors of the boards of banks and pure investment companies usually occupied positions on one or more company board(s), these categories were excluded from the prospective survey. In the end, questionnaires were sent to the directors and CEOs of 97 companies. After two reminder letters, an overall response rate of 66% was achieved (see Table IV). In order to perform an analysis on an aggregated level, it was decided that only boards with more than one responding member were to be included in the sample. As a result, 91 boards of directors were included for further analysis.

Table II. Overall statistics regarding ownership in A-listed companies 1994 and 1999 (1 = 100%)

Variable	Mean	*N*	Standard deviation
Percentage of Swedish ownership (votes) 1999	0.78	95	0.21
Percentage of Swedish ownership (votes) 1994	0.89	105	0.17
Percentage of Swedish ownership (capital) 1999	0.75	95	0.21
Percentage of Swedish ownership (capital) 1994	0.85	105	0.19
Ownership concentration (Herfindahl index) 1999	0.20	95	0.15
Ownership concentration (Herfindahl index) 1994	0.28	105	0.20

Table III. Paired samples test – paired differences and *t*-test

Pairs	Variables	Mean	Standard deviation	*t*	Significant
Pair 1	Percentage of Swedish ownership (votes) 1999 percentage of Swedish ownership (votes) 1994	−0.05	0.142	−2.86	0.005**
Pair 2	Percentage of Swedish ownership (capital) 1999 percentage of Swedish ownership (capital) 1994	−0.02	0.187	−1.08	0.285
Pair 3	Ownership concentration (Herfindahl index) 1999 ownership concentration (Herfindahl index) 1994	0.040	0.150	−2.61	0.011**

The second survey was sent out in the spring of 1999. The population was all directors holding positions on the boards of companies (92) listed on the Stockholm stock exchange's prime lists (financial companies excluded), as well as independent companies not on the list but included in the 1994 investigation (see Table IV). Once again, after two letters of reminder, the overall ultimate response rate was 50.8%, and in all, we received answers from two or more directors on boards of 90 companies.

During the period between the two surveys, the composition of companies listed on the Stockholm stock exchange changed. A number of new companies were listed in that five-year period, while a number merged, or for other reasons were withdrawn. The population as a whole should therefore, not be seen as one representing specific firms, but rather as a population representative of a specific business community. Due to other than the changes in the companies, several individuals lost or gained a directorship during the five-year period. Approximately 25% of the individuals approached in the 1994 survey were still on the same board in 1999. The response rate for this category in the 1999 survey was 54%.

4.2.1. *Measuring activities*

Board activities were measured both along the dimensions of ‘‘range of activities’’ and ‘‘where in the decision process the board gets involved’’. The measure is built on the directors’ perceptions of their board’s activities. When discussing the results of the investigation this should be kept in mind.

4.2.1.1. *Range of activities.* In order to investigate the range of the activities of the board, a classification suggested by Tricker (1994) and Hilmer and Tricker (1990) was employed. They suggest a simple conceptual framework where the work undertaken by the board is divided into four main areas. The framework is built on a two-dimensional matrix. The first dimension represents the directors’ focus internally on the operations within the company vs externally on the environment of the company. The second dimension of the matrix represents the directors’ focus on the longer and shorter term, and to review past performance and the present situation. A simplified version of Tricker’s framework is shown in Figure 1. According to Tricker (1994, p. 149), ‘‘boards differ considerably in the way they do their work: but not in the work that has to be done’’. Tricker’s framework might be used as a descriptive framework indicating the activities that boards should perform.

To investigate the range of activities in which a board of directors is involved, an instrument was used to ask the directors of each company to assess whether the different activities were considered to be routine for their specific board. The directors were asked to answer ‘‘yes’’ or ‘‘no’’ to sixteen proposed activities. These activities are listed together with the results of the surveys in Table V. The measure is based on earlier research that included specified listings of board activities (Lundgren, 1986; Gustavsen, 1972). These listings have been classified according to the dimensions of the Tricker framework. The choice of activities included was based on the relative

Table IV. The population and response rate of the study

	1994	1999
Total number of positions	969	893
Number of individuals	694	679
Number responding	461	345
Response rate[a]	66.4%	50.8%
Number of boards with two or more responding members	91	83

[a] The response rates refer to the ratio between the number of individuals approached and the number of individuals that responded to the questionnaire.

	PAST AND PRESENT ORIENTED	**FUTURE ORIENTED**
OUTWARD LOOKING	Providing accountability	Strategy formulation
INWARD LOOKING	Monitoring and supervising	Policy making

Figure 1. The Tricker framework for board activities (simplified).

importance of different issues, as determined by earlier research. Furthermore, an attempt was made to create a balance in the number of activities chosen within the categories of monitoring and supervising, strategy formulation, and policy-making. In the 1994 investigation, no activities were chosen to cover the area of "providing accountability", as these types of activity, for example, reporting to shareholders, ensuring regulatory compliance, and reviewing audit reports, were legally prescribed, and as such, considered an obvious task for a board. It is assumed, therefore, that the activities included in this area are carried out in one way or another, and are at least not consciously ignored by directors.

In the process of aggregating data from the individual's level to that of the board, it was revealed that there were different opinions in a number of boards as to whether the activities should be considered a matter of routine or not. There are various possible explanations for this. One is that board members may have sat on the board for different periods of time, and thus have varying experience of a specific board. In order to make an estimation of the collective responses, the majority rule was used. Thus, it was observed than in 1994 the number of activities a board performed increased by aggregating the data, while in 1999, the number of activities decreased. In order to test if there were any differences between the range of activity in 1994 and 1999, a binomial test, considering the dichotomous scale, was carried out. The result of the analysis is shown in Table V.

The overall pattern for the range of board activities in 1999 corresponds to that of 1994. Boards are mainly involved in control and strategy, and less in policy issues. There are, however, significant differences within these categories of activities. Eight of the suggested activities were performed by significantly more boards in 1999 than in 1994: discussions with the auditors of the firm, evaluation of the performance of the CEO, review of the company's information policy, review of the CEO's reward system, review of reward schemes for the top management team, review of the company's personnel policy, discussions about the firm's image, and about goal-setting. Significantly, two activities

Table V. Proportion of boards performing the activity 1994–1999 binomial test

	N 1999 (total 84)	Proportion		Asymption Significant (*Z* approximately)
		1999	1994	
Monitoring and supervision				
Budget follow-up	83	0.99	0.99	0.645
Decisions about measures as a consequence of budget follow-up	83	0.99	0.99	0.645
Discussions with the auditors of the firm	79	0.94	0.77	0.000***
Visits to different firm sites	64	0.76	0.77	0.481
Evaluation of the performance of the CEO	31	0.37	0.19	0.000***
Policy				
Approval of the budget	81	0.96	0.99	0.034**
Review of the company's information policy	50	60	0.43	0.002**
Review of the CEO's reward system	66	0.79	0.42	0.000***
Review of reward schemes for the top management group	58	0.69	0.29	0.000***
Review of recruitment policy	14	0.17	0.27	0.025**
Review of the company's personnel policy	22	0.27	0.18	0.030**
Strategy				
Discussions about the general direction of the firm's activities	82	0.98	0.99	0.235
Evaluation of strategies	81	0.98	0.97	0.503
Initiation and formulation of strategies	82	0.98	0.97	0.495
Discussions about the firm's image	79	0.94	0.79	0.001***
Goal-setting discussions	79	0.94	0.74	0.000***

were perceived more often as being a part of the board's work in 1994 than in 1999: approval of the budget, and review of recruitment policy.

4.2.1.2. *Involvement in the decision process*. Board activity was measured using an instrument built on Fama and Jensen's (1983) framework. The directors of each company were asked to assess the degree to which the board of directors was involved in decision management and/or decision control. The activities they were asked to assess are reflected in the following questions

- How often do board members initiate issues on the agenda?
- How often does the board of directors change solutions suggested by the CEO?
- How often do suggestions for solutions originate within the board of directors?
- How often does the board of directors conduct a follow-up review of a large investment?

An ordinal scale ranging from one ("almost never") to five ("almost always") was used to assess the degree to which the board of directors took part in these activities. Similar scales have been used in the investigation of board involvement in specific areas such as strategy (Judge and Zeithaml,1992) and budgeting (Tashakori and Boulton,1983). Judge and Zeithaml (1992) performed a coefficient alpha analysis to check the inter-rater reliability. In their study, the alpha varied between 0.63 (formulation phase) and 0.74 (evaluation phase).

The data was aggregated from individual respondents to the board level using the median as the collective estimation, considering the ordinal nature of the Likert scale. On the 1994 population, a test was conducted to examine the homogeneity of the answers made by the respondents from within the boards. The test revealed that in not one case was there a higher deviation from the median than 1, while the majority of the boards had a much lower deviation from the median value than 1. Consequently, the use of the median value as an estimation for a board appears to be appropriate. The results are shown in Table VI.

In order to test the significance of the differences between the years surveyed, a paired samples *t*-test was applied. This test was carried out on the boards of all the companies included in both surveys. The results are presented in Table VII.

There is a significant difference between the two surveys with respect to the degree to which the directors perceive that boards get involved in the different stages of the decision processes. While most board members perceived that they rarely or never initiated issues, went against the recommendations of the CEO, or suggested solutions in 1994, these occurrences appeared to have become standard in 1999. However, the differences are significant for all items, indicating a perceived increase in the involvement of Swedish boards in this respect. To summarize, it may be concluded that both the range of activities and the involvement of the board changed between 1994–1999.

4.3. RELATIONSHIP BETWEEN FOREIGN OWNERSHIP AND PATTERN OF ACTIVITIES

In order to link the changes in ownership to those in the perceived board function, it must be investigated whether the change in the pattern of activities

Table VI. Paired samples statistics for board involvement

Variable	Year	*N*	Mean (of medians)	Standard deviation
How often do board members initiate issues on the agenda?	1994	91	1.73	0.35
	1999	83	3.20	0.60
How often do suggestions for solutions originate within the board of directors?	1994	91	1.83	0.35
	1999	83	3.06	0.54
How often does the board of directors change solutions suggested by the CEO?	1994	91	1.48	0.35
	1999	83	2.60	0.54
How often does the board of directors conduct a follow-up review of a larger investment?	1994	91	2.92	0.60
	1999	83	3.95	0.60

Table VII. Differences in board involvement 1994–1999, *t*-test

Variables	*N*	Mean	Standard deviation	*t*	Significant
How often do board members initiate issues on the agenda? 1999/1994	56	−1.500	0.643	−17.449	0.000***
How often do suggestions for solutions originate within the board of directors? 1999/1994	56	−1.226	0.695	−13.196	0.000***
How often does the board of directors change solutions suggested by the CEO? 1999/1994	56	−1.179	0.619	−14.260	0.000***
How often does the board of directors conduct a follow-up review of a larger investment? 1999/1994	56	−1.083	0.942	−8.599	0.000***

is more frequent in companies where a denationalization of ownership has occurred, or where the ownership concentration has changed[3]. In Table VIII, this is investigated in 56 of the companies that were in both samples taken in 1994 and 1999.[4] Descriptive statistics are presented in Appendix One.

As can be noted in Table VIII, there are no significant correlations between changes in ownership and changes in the board's involvement in the decision-making process. The change in the pattern of activities appears to be more of a general nature, apart from those companies where ownership identity or concentration changed.

5. Discussion

We expected the denationalization of ownership to lead to a greater involvement of the board of directors at different stages of the decision-making process and more emphasis on strategic issues by the board, indicating a shift towards more external constraints on managerial behaviour and consequently a move of owner control from hierarchical forms to market control. We may now conclude that the ownership structure of Swedish listed companies between 1994 and 1999 has changed significantly in the dimensions of ownership concentration and share of foreign investments. We may also conclude that a significant increase in the involvement of the board of directors at all stages of the decision-making process has occurred during the same period of time and consequently the boards are more involved in decision management than before. Regarding the scope of the board activities the result is mixed, but the scope of control-related issues at the policy level as well as the discussion of firm-images and goals have increased. The managerial issues related to strategy and policy have as a consequence increased, but without any

Table VIII. Correlations for changes in ownership and measurements of board involvement in the decision-making process

Differences between 1994 and 1999 regarding		Ownership concentration	Ownership of votes	Ownership of capital
Board initiates decisions	Pearson correlations	−0.080	0.01	0.01
	Significant (2-tailed)	0.564	0.96	0.95
	N	56	56	56
Board suggests solutions	Pearson correlations	0.088	0.07	0.03
	Significant (2-tailed)	0.525	0.61	0.85
	N	56	56	56
Board changes CEO's suggestions	Pearson correlations	−0.151	−0.03	0.06
	Significant (2-tailed)	0.274	0.85	0.67
	N	56	56	56
Board follow-up of investments	Pearson correlations	−0.060	0.01	0.03
	Significant (2-tailed)	0.666	0.46	0.82
	N	56	56	56

notable decrease in the control issues. It was, however, not possible to relate any of the changes in board activity to changes in owner structure of the specific firm. We therefore conclude that a direct relationship between foreign ownership, as well as owner dispersion, and activity level has not been found. The changes in board activities seem to be a general shift connected to general contextual changes or variables rather than firm specific ones. However, the findings do not rule out changes in ownership as one explanation of the general change in board activities. Even though we did not find a relationship on the firm level, the pattern on a general level is as expected. This implies that the changes in ownership may have an indirect influence on the pattern of board activities, rather than being direct and firm specific.

According to Pettigrew and McNaulty (1997) and McNaulty and Pettigrew (1999) outer context influence on board members includes not only "the changing contours of the political, social and legal context which through governance debates shape expectations and aspirations of boards, but also codes of practice which can crucially affect the legitimacy of part-time board member roles" (Pettigrew and McNaulty, 1997, p. 13). This points at the governance debate and the perceived code of practice as important influences on board behaviour. A way that denationalization of ownership may influence board activities is thereby through the governance debate and discourses of acceptable codes of practice voiced in this debate. Media exposure is often connected to changes in the ownership structure of companies, and the increase in foreign ownership of Swedish businesses has been a popular public debate. Given the attention that the increase in foreign capital on the Swedish stock market has received, it is likely to get the attentions of directors of those companies not exposed to the change as well as those exposed to the change in ownership identity.

Even if most directors on Swedish boards through the governance debate have paid attention to the denationalization of ownership, this debate has to influence the behaviour of the directors before hypothesizing an indirect relationship between denationalization and board activities. A basic assumption in the study described above is that change in ownership identity leads to a change in the boards' activities. The hypothesis that the owner initiates change may, however, be turned into the hypothesis that the directors, rather than the owners, initiate a change in board activities and that these changes are intended to meet the expectations of future owners. Given the media exposure of the denationalization of ownership, it is likely that the directors experience the trend regarding ownership as turbulent and look for new ways to adjust to the situation. To achieve this, it is also likely that board members adopt the public discourse and act in order to assure future access to equity capital from the market, as well as signalling their own competence in a way that will favourably impress the future market for board members. The reasoning that expected, rather than present, gains influence action is well in line with the rationality of the stock market, where investments are made based on anticipated cash flow rather than on historical performance.

In the theory section we discussed the uncertainty changes towards a greater emphasis on external constraint and owners' control through the market may imply for the directors on the boards. Assuming that such changes are perceived as changes in the context and code of practice at large and that the activities of the board of directors are based on expected future owners our results may be interpreted as responses from the board of directors in order to reduce future uncertainty regarding the function of the board and the evaluation of the directors. Consequently, a hypothesis that opens up for future research is that the more general changes in patterns of board activities are connected to perceived expectations on future more market oriented relations between owners and the firm, rather than the present ownership structure of the firm.

The question that remains to be answered is where the inspiration for the change in directors' perceptions of board activities comes from. In other words, what kind of codes of practice do they try to adjust to? One interpretation of the result described above is that the board leant more towards performing decision management in 1999 than in 1994. This implies a situation more like the north American one – and there are reasons to suspect that the north American model has been used as a common role model. One reason for choosing this model might be the so-called "home country effect", i.e., the inclination of investors to invest in companies with structures and information sources similar to those found in their home country. Noting the home country effect, directors may adapt a function like that from which the expected investors originate. As the North American institutional investors have dominated the largest foreign investors in Sweden during the late 90s (Sundqvist and Sundin, 1997, 1998, 1999) the directors of the boards may perceive a need to signal board activities more like those portrayed in the North American system and a competence that gains a reputation of advocating a board function in line with the popular North American discourse of board empowerment (Lorsch, 1995; Lorch and MacIver, 1989). As described in the theory section this implies a greater distance between owners and the firm than is traditional in Sweden, an emphasis on external constraints on managerial behaviour. The influences from the USA are further supported by the fact that the North American model is often viewed as a world-model (Oxelheim and Randoy, 2002). In other words, the North American code of practice is seen as a universal legitimated model of behaviour that is "constructed and propagated through global cultural and associational processes" (Meyer et al., 1997, p. 44). Adjusting to a universal model would enhance the board's legitimacy on the international capital market. In this way expectations regarding future owners, the search for legitimacy and the governance debate regarding codes of practice may indicate an indirect influence of denationalization of ownership on the activities of the board.

6. Conclusion

The value of foreign investments on the Swedish stock market increased substantially between 1994 and 1999. During the same period, the function (range of activities and involvement in the decision process) of the board members of the listed companies increased. In this article, no direct relationship between denationalization of ownership and the perceived board function has been found. This leads to the consideration of an indirect relationship between denationalization of ownership and board function. According to this line of thought, the perceived board function is derived rather from the expectations of future needs for equity capital (i.e. signalling to the expected investors on the capital market) and external control mechanisms in the form of the market for board members (i.e. signalling to the labour market for directors). Thus, board members act to adapt to salient discourses in the public discussion, in order to anticipate future benefits for the companies and themselves, rather than the present situation of the company.

This line of thought opens up a large agenda for future research. The first issue is to reverse the question and focus on alternative explanations for changes in perceived board functions as, for example, changes in board composition, legal framework or more general economic development in the Swedish context. The importance of other factors for the development of the board function has to be justified if anything is to be gained from taking the assumptions made above any further. The second issue is to develop the theoretical and methodological foundations for the suggested alternative frame of reference. The third issue is that empirical studies with this perspective have to be undertaken. It is only after this that the substance of this line of thought may be judged as plausible, or whether it is just a passing fancy.

At the same time as the results make us consider an indirect relation between board activities and changes in ownership it leads to a questioning of the universality of the classic models of corporate governance based on the agency theory. Instead of viewing these models as being generally applicable we suggest that they are treated as models of a situation in a specific context at a specific point in time. They are therefore, more useful for contrasting an empirical sample, than for explaining a development per se in a context other than the original one.

The results regarding board activities indicate an increase in both in board involvement in the decision process and in the scope of issues on the board agenda. In this article no attempts have be made to evaluate if these changes are desirable. One might, however, expect that the changes in board activities do influence both the relation between the owners and the board of directors and that between the top management team and the board of directors as the division of work as well as power relationship ought to be influenced by the changes. This is an important issue for the practical as well as for theoretical development, which we have to leave to future research.

Acknowledgements

We wish to thank Anna Grandori and two anonymous reviewers for helpful comments and suggestions. The financial support by the faculty of social science, Lund University, and Jan Wallander's and Tore Browaldh's research foundations, Handelsbanhen is gratefully acknowledged.

Appendix 1: Descriptive Statistics

Notes

[1] The year 1994 – as a point of departure for the first empirical investigation – is presented later in this paper. This year is considered suitable, being the first year after a deep recession (1992–1993) experienced by the Swedish economy, and was also a year when international investors started to show interest in the Swedish market.
[2] Sweden has differentiated shares where the vote may vary in the proportion of 1–10.
[3] Owing to differences in scale, this test is performed on board involvement, but not on a range of activities.
[4] Firms that were on the A-list in 1994 but not in 1999 have been included in the sample. In a few cases, we had to use data from another point of time in 1999. The reason for this was that these companies were not traded on the stock exchange at the end of 1999, but only at the beginning.

Table IX. Paired Samples statistics regarding ownership in 1994 and 1999

Variable	Mean	*N*	Standard deviation
Percentage of Swedish ownership (votes) 1999	0.813	79	0.202
Percentage of Swedish ownership (votes) 1994	0.855	79	0.190
Percentage of Swedish ownership (capital) 1999	0.770	79	0.207
Percentage of Swedish ownership (capital) 1994	0.792	79	0.214
Ownership concentration (Herfindahl index) 1999	0.215	69	0.183
Ownership concentration (Herfindahl index) 1994	0.255	69	0.195

Table X. Descriptives for change in ownership and measurements of board involvement in the decision-making process

Variable	Mean	*N*	Standard deviation
Difference between 1994 and 1999 (ownership of votes)	0.042	79	0.142
Difference between 1994 and 1999 (ownership of capital)	0.022	79	0.189
Difference between 1994 and 1999 (ownership concentration)	0.040	69	0.150
Difference between 1994 and 1999 (board initiates decisions)	1.500	56	0.643
Difference between 1994 and 1999 (board suggests solutions)	1.225	56	0.695
Difference between 1994 and 1999 (board changes CEO's suggestions)	1.180	56	0.619
Difference between 1994 and 1999 (board follows up investments)	1.083	56	0.952

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