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International Corporate Governance

- A Comparison of the Corporate Governance Systems
in Germany and Sweden

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Abstract

- Title:** International Corporate Governance - *A Comparison of the Corporate Governance Systems in Germany and Sweden.*
- Seminar date:** 2006-06-08
- Course:** Master thesis in business administration, major: Strategic Management, 10 Swedish Credits (15 ECTS).
- Authors:** Anna Kruk, Marie Nilsson
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- Key words:** Corporate governance, Germany, Sweden, content analysis, media
- Purpose:** The purpose of the study is to investigate how much interest media has shown selected topics in the corporate governance systems in Germany and Sweden. The four selected aspects are: ownership structure, employee representation on the boards, disclosure of board members' compensation and female directors on the boards. The reasons for and consequences of the similarities and differences will also be discussed.
- Theoretical perspectives:** The German and Swedish corporate governance systems construct the key basis of the study, emphasised on the four chosen aspects. Theories and previous research within the subject are presented and the convergence issue is discussed.
- Methodology:** The quantitative content analysis method is applied when conducting the research of the newspaper articles from *Die Welt* (Germany) and *Svenska Dagbladet* (Sweden).
- Empirical foundation:** Based on the empirical findings of the study could the four hypotheses be accepted, more or less. The topics debated within the aspects were different between the two countries. Cultural and societal differences were central reasons for these results.
- Conclusions:** As the study of the German and Swedish media has been conducted, several interesting differences in the debates on the four aspects have been found. The conclusion drawn based on these results is that the German corporate governance system, compared to the Swedish system, is less flexible and has more problems to be competitive and keep up with the international competition.

Sammanfattning

- Uppsatsens titel:** Internationell bolagsstyrning - *En jämförelse av bolagsstyrningssystemen i Tyskland och Sverige.*
- Seminariedatum:** 2006-06-08
- Ämne/kurs:** FEK 591 Magisteruppsats i företagsekonomi med inriktning Strategic Management, 10 poäng.
- Författare:** Anna Kruk, Marie Nilsson
- Handledare:** Anna Stafsudd
- Fem nyckelord:** Bolagsstyrning, Tyskland, Sverige, innehållsanalys, media
- Syfte:** Syftet med uppsatsen är att undersöka hur mycket intresse media har visat utvalda ämnen i bolagsstyrningssystemen i Tyskland och Sverige. De fyra utvalda aspekterna är: ägarstruktur, arbetstagarrepresentation i styrelsen, offentliggörandet av styrelsemedlemmars kompensationer samt kvinnliga styrelsemedlemmar. Orsakerna och konsekvenserna till likheterna och skillnaderna kommer också att diskuteras.
- Teoretiskt perspektiv:** Uppsatsen utgår från de tyska och svenska bolagsstyrningssystemen, med betoning på de fyra utvalda aspekterna. Teorier och tidigare studier inom området presenteras och konvergensproblematiken diskuteras.
- Metod:** Den använda metoden är kvantitativ innehållsanalys då tidningsartiklar i *Die Welt* (Tyskland) och *Svenska Dagbladet* (Sverige) studeras.
- Empiri:** Med stöd av de empiriska upptäckterna i undersökningen har de fyra hypoteserna kunnat accepteras, mer eller mindre. Ämnena som debatterades inom aspekterna skiljde sig åt mellan de båda länderna. De kulturella och samhällsliga skillnaderna var utav central betydelse för resultaten.
- Slutsatser:** Efter att ha genomfört studien utav tysk och svensk media fann vi ett antal intressanta skillnader i debatten kring de fyra aspekterna. Slutsatsen som dras utifrån resultaten är att det tyska bolagsstyrningssystemet är mindre flexibelt än det svenska och därmed har större problem att vara konkurrenskraftigt och hävda sig i den internationella konkurrensen.

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1 Introduction

In this chapter, the background and problem discussion constituting the basis for the problem, which this thesis is to analyse, are presented. Furthermore, the purpose and the delimitations of the thesis are treated. The outline of the study is eventually described.

1.1 Background

Corporate governance has been a very important aspect within corporations for a long time. It was developed during the 19th century as the firms went through many crucial developments, which have created the foundation of the corporations that exists today. Firms grew larger, more technology advanced, and the firms employed more people, which all in all meant that the need for larger capital sources was accompanying. For these reasons private ownership of investment property, later on stocks, got “accepted as a social norm”. The shareholders owned the stock themselves, but gave up the right to control the use of the corporation’s property, which got delegated to skilled managers. Ever since has the separation of ownership and control been central of the struggles over corporate governance. (Monks & Minow 2001)

With the separation of ownership and control as a starting point, Jensen and Meckling (1976) and Fama and Jensen (1983) conducted studies based on the agency theory in the 70s-80s. Since then, the agency theory has become one of the most important corner stones of the corporate governance we have today. They argued that managers (agents) have to be monitored to make sure that they work in the best interest of the company and its shareholders (principals) and not abuse their position.

In connection to this, in the mid 80s, the term “corporate governance” had it’s truly break through in the US and has had a strong and essential development since. Still, it was first as the Enron case was revealed in March 2002 that the importance of corporate governance became truly well-known to the worldwide public.

The problems and shortcomings in corporate governance implicated by the Enron case became obvious not only to the public, but to the governments as well. It was made clear that enhanced transparency was needed urgently. As a result, the

governments in the Western World have started to take more action to prevent mismanagement of the corporations in their countries. (Swedish Code of Corporate Governance 2004; Hutter *et al.* 2002)

Nevertheless, corporate governance is often discussed by the media in Germany and Sweden as well as in other developed countries. The Enron case was namely just one scandal among others. Famous European scandals are for example the Mannesmann case and the Royal Dutch case in Germany, the Skandia case in Sweden, and the Parmalat case in Italy. Cases where the managements *inter alia* decided to approve large compensation programs without the boards' approval. This, combined with a demand for clearer regulations of corporate governance from investors, has led to a fast development of corporate governance codes in the European countries.

The topic corporate governance is, as pointed out above, in every manager's, shareholders' and newspapers' use today. According to a research conducted by SAS Institutes for the time period January-September 2005, corporate governance (*bolagsstyrning*) was the word of which the use in the Swedish business newspapers had increased second most (+153 %) during 2005 compared to the research period 2003-2004 (SAS Institute 2005). This result stresses that corporate governance has not only increased in actuality and importance abroad but also in Sweden and in the Swedish newspapers.

As the problem with insufficient corporate governance seems to be an international issue, one could think that it would be better to converge the different corporate governance systems to one single system for all countries. However, corporate governance has aspects that are specific to the different countries. The reason for this is that each country has had its own way to assure that the companies are accountable for their actions and this custom is hard to change since the whole society is built upon it (Almond *et al.* 2003). As a result, laws and codes of corporate governance are produced separately in each country even if all countries try to learn from mistakes and arisen problems in other countries, preventing them from taking place in the future.

In the search for the optimal corporate governance system are benchmarks between the countries conducted. Though this procedure causes a kind of best practice to emerge, it also seems to present evidence for a convergence in corporate governance, suggesting that it isn't impossible that a united model will emerge in the future despite cultural and social differences (Almond *et al.* 2003). Nevertheless, results from several studies present mixed results on the convergence issue, there are for instance several studies pointing at the opposite, i.e. convergences are not possible and have so far not been revealed between the

German and the Anglo-Saxon system¹ (Hackethal *et al.* 2005) or within Europe (Lewis *et al.* 2004). Carati and Tourani Rad (2000) on the other hand argue that the convergence process has just recently started, where the group-based model (in Europe and Japan) slowly turn towards the market-based model (in the UK and US). Thus, they argue that the studies conducted on the convergence issue cannot prove a converging trend today, since the development has just started.

1.2 Problem Discussion

Prior studies of corporate governance systems have mainly been comparing larger economies like the UK and/or US versus Germany or Japan (Jackson & Moerke 2005; La Porta *et al.* 2000; Mintz 2005; Weimer & Pape 1999). These studies have been conducted with the intention to compare and contrast the different systems, often with the focus on the divergence issue, i.e. if the different systems are developing to be more and more like the Anglo-Saxon. Some studies are however focusing on the legal framework of corporate governance in different countries or trying to design a taxonomy of the different systems. Studies on small economies like Sweden, Switzerland, Poland, Denmark etc. have often been diminished. Studies comparing the German and Swedish corporate governance systems have been conducted almost exclusively in connection with studies of larger countries (Almond *et al.* 2003; Eriksson & Trulsson 2001).

Not disregarding, there are a few studies comparing the developments of corporate governance in smaller European countries. An example is the biennial Heidrick and Struggles' corporate governance study, which examines how the European countries are developing on board structure, board composition and disclosure of board members compensation. In their study, ten countries were included, among others Germany and Sweden. The study revealed central differences between Germany and Sweden on the board compensation and disclosure issues. (Albert-Roulhac & Breen 2005) The disclosure of board members compensation is a burning topic in Germany at moment, due to the new law regarding this issue (Homepage of Bundesministerium der Justiz). In Sweden on the other hand, the disclosure of salaries etc. is custom, due to the right of public access to official records. Since transparency is a key aspect of good corporate governance and there is a legal difference between the countries, we find it essential to include this aspect in our study.

Moreover, the biennial Heidrick and Struggles' corporate governance study showed that the number of women in the board rooms was on average low in all

¹ Explanation of the Germanic and Anglo-Saxon systems will follow in the problem discussion 1.2

countries studied, which according to Albert-Roulhac & Breen (2005) remains a major concern. This aspect, female directors on the boards, is one of the most recent and modern topics in the corporate governance debate, since the international trend indicates that more women are working at higher levels of the corporations. As Sweden alongside with Norway are considered being ahead of the rest of the world within this topic, it's interesting to compare Sweden with other countries to investigate if this is true. Are there truly significant differences between Germany and Sweden when it comes to attitudes regarding female directors on the boards, percentage ratios etc.? Or are the countries rather similar? Why do these differences/similarities exist?

We argue that the small amount of studies conducted on small countries can be due to the complexity of comparing the systems of smaller countries. Almond *et al.* (2003) conducted a study, comparing among others the German and Swedish corporate governance systems. They reveal that the Anglo-American shareholder value model² has influenced some aspects of the corporate governance systems in the two countries, e.g. the compensation of top executives, while other aspects have remained intact. They are however concluding that there is an extensive need for evidence of cross-national nature before well-founded conclusions can be drawn. It is thus of interest to compare and contrast some aspects in the German and Swedish corporate governance systems.

Sweden is often divided into the Germanic corporate governance system (Scott; De Jong; Moreland; and Weimer in Weimer & Pape 1999), which will be the viewpoint of Sweden in this study as well, as major similarities exist between the two systems. The ownership structure in Sweden is highly concentrated, due to a dual-class share system and pyramid holding companies, allowing for one or a few major owners to control large Swedish companies (Barca & Becht 2001). This is in line with the characteristics of the Germanic system. The aspect ownership structure is also being studied in this thesis as it constitutes a major and clear similarity between Germany and Sweden. Both countries are primarily characterised by a concentrated ownership structure, but have somewhat different types of major owners. Moreover, a number of studies (e.g. Barca & Becht 2001; Monks & Minow 2001; Jackson & Moerke 2005;) point out that the role of major owners is changing in Germany and Sweden, which stresses the fact that it's a burning topic going through essential developments. This aspect is thus relevant to include in this study.

² The shareholder value model of capitalism emphasises the dominance of the interests of stock holders over other stakeholders within a corporation. (Lazonick and O'Sullivan in Almond *et al* 2003)

Another essential similarity between the Germanic and Swedish system is the existence of employee representation rights. Shallowly seen, one might think that this law is constructed and emphasised equally in the two countries and is similarly dominant or weak, but this is not completely the case. According to previous studies (e.g. Lewis *et al.* 2004; Muller 1999), employee representation on the boards does hold vital consequences for all stakeholders and the corporation as a whole; therefore this aspect is, according to us, considered as important and will be included in the study.

The Germanic system is however characterised by a two-tier board system, with a management board (*Vorstand*) and a supervisory board (*Aufsichtsrat*) and is classified as an insider system. The insider system is characterised by concentrated ownership, allowing a few major owners to control the corporation. In insider systems, the owners of larger firms, often banks, have a long-term relationship with the corporation and close links with managers evolve, allowing the major owners access to internal information. (Almond *et al.* 2003; Goergen 1998)

The position of Sweden in the Germanic corporate governance system can on the other hand be somewhat ambiguous and questionable. As the Swedish board structure is not following the two-tiered system, but a one-tiered system. It can hence be argued that Sweden is positioned somewhere in between the Anglo-Saxon and the Germanic system (Swedish Code of corporate governance 2004). The Anglo-Saxon system has adopted a one-tier board of directors, which oppose to the German board system, the management and supervisory tasks of the board are united in one legal body. The external market for corporate control, also named as the takeover market, plays an important role. Yet, the Anglo-Saxon system is an outsider system, which is characterised by low ownership concentration and a strong institutionalisation of the shareholders ability to influence the companies. (Weimer & Pape 1999) These characteristics are not in line with the Swedish characteristics, which imply that Sweden might belong in the Germanic system after all. This circular reasoning has resulted in a discussion of whether the Swedish system truly belongs to the Germanic system; studies conducted on Swedish corporate governance are consequently important and interesting. In order to investigate this problem, this study is conducted with the standpoint that Sweden is positioned in the Germanic system, since this is the most common classification. This classification will however be questioned in this thesis as there obviously are some differences between the German and Swedish systems, although they are positioned in the same global corporate governance system (Germanic).

According to the committee of Swedish corporate governance, the future role of monitoring and punishment verdicts of corporations and managers not following

the code is a role of the media (Svenska Dagbladet 2005-04-08), since the code is based on a comply or explain principle and not law. This means that the media not only constitutes a media for debating the issue, but also have a central and difficult role in the corporate governance debate and therefore is seen as an origin of ethical and moral topics.

Furthermore, media possesses a great power due to its ability to mould the public opinion. What media decides to publish and how it chooses to do it, i.e. what attitudes it presents in the different issues, not only reflects what media considers as interesting for its own readers or viewers, but also what it wants to debate and considers essential. It can therefore be said that media creates a picture of the real world and consequently shapes the readers' and viewers' expectations of the real world. These expectations are reflected in the readers' and viewers' actions and thus risks being self-reinforcing. Media's attitude is therefore an important force in the society. As a consequence, media play a significant role for the future development of corporate governance and the feasible convergence between the different corporate governance systems and codes. However, studies investigating the media' role in the corporate governance debate have not been found. A comparative study of the German and Swedish corporate governance systems, analysing the information published by the media, consequently is a new and interesting way to investigate the subject.

The four aspects, emphasised and discussed previously are selected and studied as they handle diverging, relevant and burning aspects of the international corporate governance debate. We considered them as one of the most crucial topics for a comparative study of the German and Swedish systems. The four aspects are aiming to graze the current development in the debates taking place in the two countries, and therefore the role of the media is central in this study.

1.3 Purpose

The purpose of the study is to investigate how much interest media has shown selected topics in the corporate governance systems in Germany and Sweden. The selected aspects are the following:

- 1) ownership structure
- 2) employee representation on the boards
- 3) disclosure of board members' compensation
- 4) female directors on the boards

The thesis will provide a deeper understanding for the differences and similarities of the systems in the two countries and explain why these take place. Customs and social aspects will be considered when answering the question why differences exist. The consequences of these similarities and differences found in these aspects will also be discussed. Furthermore, the thesis aims to frame/outline the future development of the corporate governance debate in Germany and Sweden and graze the convergence issue, but the convergence aspect will not be a central point for the reasoning in this thesis.

1.4 Delimitation

As the thesis is conducted from an economical view, with economical theories of corporate governance and the two chosen systems as foundations for the analysis, the law aspect is studied to a limited extent. It's although important to point out that corporate governance isn't possible to study and analyse from a strict economical point of view, without a somewhat analysis of the countries corporate laws and regulations. Consequently, central laws within the selected aspects in Germany and Sweden are studied superficially and compared with each other, but no detail comparisons of the national regulations are conducted.

1.5 Outline

The master thesis consists of five chapters which all will begin with a brief presentation of their content. The continuing outline of the thesis is presented below:

Chapter 2 *Theoretical framework*

The chapter presents the theories and concepts that create the foundation of the thesis. The reader will get familiar with the global corporate governance systems and get a closer insight into the four chosen aspects in the context of the German and Swedish corporate governance systems. Theories will be presented with the aim to make the reader able to understand the discussion and argumentation further on in the thesis.

Chapter 3 *Methodology*

This chapter aims to declare the method selection with emphasis on the content analysis method. The code manual and the accomplishment of the coding are explained. Furthermore, the

course of action used to conduct the study is outlined to explain the way the method is applied and in that way enhance the possibilities to replicate the study. A discussion of the reliability and validity of the thesis will conclude the chapter.

Chapter 4 *Results and analysis*

In this chapter, the results from the study will be presented and analysed in order to answer the four hypotheses and fulfil the purpose of the thesis. The chapter concludes with a summary of the results.

Chapter 5 *Concluding discussion*

In this chapter, the results revealed and analysed in chapter 4, will be discussed further, related to previous studies and connected with each other. Furthermore, the convergence issue will be handled and the future development of the corporate governance debate in Germany and Sweden will be discussed. Final conclusions will be drawn, and topics/questions interesting for further research will be outlined.

2 Theoretical Framework

At the beginning of this chapter the theories and concepts, creating the foundation of the thesis will be presented in order to make it easy for the reader to understand the following discussion and argumentation. The reader will then get familiar with the global corporate governance systems through a brief presentation. The emphasis of this chapter is however placed on the German and Swedish corporate governance systems, which are presented with emphasis on the four chosen aspects. Thereafter, the similarities and differences between Germany and Sweden on the aspects are concretised and hypotheses formulated. Additionally, the convergence issue will be discussed, i.e. earlier studies will be reviewed. The convergence theory will serve as a framework as it comes to possible future developments within the subject, but will not be central to the further reasoning in this thesis. The chapter concludes with a summary.

2.1 The Foundation of Corporate Governance

Through the past years there have been a number of high profile corporate collapses which have arisen despite the fact that the annual report and accounts seemed to be in order (e.g. Enron, Barings Bank, Royal Ahold). These collapses have had enormous affects on many stakeholders and therefore raised questions as why such collapses occurred and how these can be prevented from happening again. The answers to these questions are linked to corporate governance. (Mallin 2004)

The separation of ownership and control is lying at the centre of the agency theory and the corporate governance development. Smith (in Mallin 2004) introduced the potential problem of managers watching over the money invested by other people with the same willingness as if it were their own. About one hundred years later was a study by Berle and Means (1932) conducted on the topic. The study conducted by Berle and Means in 1932 is often referred to as the classical study of ownership and control of corporations. They argue that the separation of ownership from control produces a condition where the interests of owners and ultimate manager may, and often do, diverge. Nevertheless, their work has been criticised by e.g. Zeitlin and Leech. (in Barca & Becht 2001)

During the 80s the activity of financial markets boomed by a wave of financial innovations. From then on, the threats to poorly performing managers have

become a reality, mainly through hostile takeovers; the 'Wall Street walk' enabled multiple shareholders to regain control. The second element was that the institutional investors' activism increased strongly in the US which gave the corporate governance debate a fast growing development in US and continued to spread to Europe. The UK was particularly the driving force of corporate governance in Europe, during the early 90s. (Rebérioux 2002; Kim & Nofsinger 2004) In 1992 the Cadbury report was published in the UK and has had a great impact on corporate governance in the UK, Europe and the rest of the world (Mallin 2002).

There is no *one* generally accepted definition of corporate governance; hence the official German and Swedish definitions follow:

“Corporate governance is a term describing good, efficient management and supervision of companies on the basis of internationally recognised standards in the interests of the company’s owners and its social environment.” (Cromme 2005 German Corporate Governance Code)

“Corporate governance deals with the management of companies with a view to meeting the owners’ required return on invested capital and thus it contributes to economic growth and efficiency.” (Code of Swedish corporate governance 2004)

The two definitions are formulated by the corporate governance committees of the two countries, appointed by respective government. As a consequence, the definitions are diverging. The most important difference between the two definitions is that the German definition states that corporate governance is supervision of the companies on an international basis while the Swedish definition has no such outward looking view. The fact that the two definitions diverge makes them unsuitable to use as impartial definitions in this thesis. Since our aim is to conduct this study in an as neutral and impartial way as possible, neither of the definitions is used here. The definition given by the OECD is used instead since it's formulated by an organisation that is impartial of both Germany and Sweden. A turn towards either of the countries is thus argued to be avoided in largest possible extent. The OECD definition of corporate governance and the definition used here is the following:

“Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” (OECD Principles of Corporate Governance 2004)

Corporate Governance is a relatively new area for the public, and came into a large focus in the beginning of the 90s in Europe, although the development from corporate governance can be tracked long before that. This while it rests on old theories, first and foremost the agency theory, the transaction cost economics and the stakeholder theory. Below a short explanation of the theories follow, the aim is to create a broader, deeper and clearer understanding for the corporate governance we enjoy today.

2.1.1 Theory Selection

The three theories following below (Agency Theory, Transaction Cost Economics and Stakeholder Theory) are essential and fundamental in the development of the corporate governance (Mallin 2004). The theories will be outlined and explained in order to provide the reader a deeper understanding of the overall corporate governance. Thus, these theories are not of major importance in the analysis, concluding discussion and conclusions of the thesis. Studies conducted on the four selected aspects in the German and Swedish corporate governance systems are instead constructing the key basis of the study.

2.1.1.1 Agency Theory

As defined by the OECD above, corporate governance refers to the involvement of a set of relationships between a company's management, its board, its shareholders and other stakeholders. These relationships are linked to the "separation of ownership and control", which is intimately associated with the agency theory.

The agency theory is describing relationships between two parties, e.g. the shareholders (principal) and board management (agent) or employees (principal) and board management (agent). The principal-agent theory treats the difficulties that arise under conditions of incomplete and asymmetric information. It's when the principal compensates an agent for performing certain acts which are useful to the principal and costly to the agent that the problem occurs. (Nygaard & Bengtsson 2002)

There are certain important conditions that are fundamental in the agency theory. First, the principal and the agent are utility maximisers. The following problem is that the agent won't act in the way the principal wishes. Consequently, the agent wants a compensation for his/her contribution to the principal. Secondly, there are

conflicts of interests between the two parties which can be related to the welfare maximisation aspect recently pointed out. The third condition considers the principal's lack of information, also referred to as asymmetric information, which means that decisions are being made on incomplete information. The shareholder/stakeholder has often difficulties with linking the performance to the compensation of the board members due to lack of sufficient information. (Nygaard & Bengtsson 2002)

Other central conditions of the agency theory are the assumptions that the agent is opportunistic, limited rational and risk averse. The opportunistic actions, e.g. lies and deceive, can be committed before and after conducting a contract. The agent could in an opportunistic situation avoid publishing certain information or act passively. As the agents are risk averse they are requiring a higher compensation when they, according to their own opinion, are forced to commit an action involving higher risks. (Nygaard & Bengtsson 2002)

Meanwhile there are elements of the agent's performance which are costly to observe and the monitoring and bond costs (resource expenditures) arise. The solution to this information problem is the creation of contracts that are aiming to ensure (as far as possible) that agents act in the way principals wish them to do. In these contracts, the desired performance and the appropriate incentives or compensations will be defined. (Jensen & Meckling 1976) Moreover, the principal-agent problematic is closely related to the moral hazard problem³.

Board directors are expected to act in the best interest of the corporation; consequently they are argued by Palmer and Hardy (2000) to have two fundamental duties. The first duty regards loyalty, which means that directors must adhere to a strict fiduciary pattern of behaviour whereby they always act in the best interest of the corporation. The second duty regards care, which also requires reasonable inquiry and monitoring of the corporation. The directors must implement procedures and make sufficient inquiry to assure that management is properly fulfilling its duties and react on issues and information vital to the corporation. (Palmer & Hardy 2000)

The reviewed duties represent a complex relationship of parties, which point out that the board structures are essential in this context. The board is responsible for working in partnership with management to achieve corporate goals. One of their objectives is furthermore argued to be to assure that the value of the corporation is maximised over long term and directors work in the best interest of the shareholders (Shareholder-oriented system, e.g. UK/US). The board can

³ The increased risk of problematical (immoral) behavior, and thus a negative outcome ("hazard"), because the person who caused the problem doesn't suffer the full (or any) consequences, or may actually benefit. Common in the contractual commitments (Homepage of Wikipedia).

furthermore consider other stakeholders, e.g. employees, creditors, suppliers etc. (Stakeholder-oriented system, e.g. Germany and Sweden). (Palmer & Hardy 2000) The principal-agent problematic is central in the corporate governance debate today, and thus is the foundation of the agency theory important in the following study.

2.1.1.2 Transaction Cost Economics (TCE)

A transaction cost is a cost incurred in making an economic exchange. The transaction cost is often viewed as closely related to the agency theory (Mallin 2002) and for that reason considered as important in the corporate governance context.

Through Williamson (in Nygaard & Bentgsson 2002) the transaction cost economics became widely known. He got inspired by the work of Coase from 1937, who at that time questioned why corporations exist when the perfect market exists. Coase (1937) argues that the transaction costs are low when well functioning exchanges of corporate activities exist. This regards the gathering of information about available alternatives; first to evaluate them and secondly to conclude contracts with them. There are economic benefits for the firm to undertake transaction internally than externally. Furthermore, the firm will become larger the more transactions it undertakes and the expansion will continue until it becomes cheaper or more efficient for the transactions to be undertaken externally. Moreover, he argues that firms may become less efficient the larger they become (Coase 1937)

Williamson (in Nygaard & Bentgsson 2002) argues that corporations don't have to become less efficient the larger they become since they can choose governance structure. His definitions of transaction costs are *frequency*, *specificity*, *uncertainty*, *limited rationality*, and *opportunistic behaviour*. The two last conditions are equivalent with those mentioned in the agency theory above. The solution of these problems is also similar to the agency theory which was to conduct contracts. Williamson has been criticised for his statement that the individuals are *opportunistic* and he has consequently changed his view to a certain extent, by arguing that the pure assumption that individuals are opportunistic make the corporation conduct contracts. He moreover argues that optimal contracts are not possible due to individuals' *limited rationality*. The contracts are constructed to minimise the opportunism and moreover are these contracts to be monitored. The contracts do constantly have to be adjusted to the new conditions and environment taking place today, which is associated with costs that are to be called transaction costs according to Williamson. The

uncertainty is associated with the limited rationality, e.g. due to lack of information or opportunistic behaviour. (Williamson in Nygaard & Bengtsson 2002)

Frequency regards the amount of identical transactions in a time period. The more identical transactions take place in a current legal structure, the lower will the transaction cost be. The *specificity* means that an asset will become worth less when it will be used in a situation for which it wasn't intended primarily. A relationship between two individuals/corporations is to a larger extent characterised by their mutual investments in specific assets. When conducting asset specific transactions is it highly probable that the cooperation will continue while they are fundamental for the choice of legal structure. (Williamson in Nygaard & Bengtsson 2002)

A study conducted by Hart (1995) reveals that corporate governance structure matter in a world with incomplete contracts, and where agency problems exist. He argues that governance structure can be used as a mechanism for making decisions that haven't been specified in the initial contract.

The transaction theory presents, in relationship with the agency theory, a deeper understanding for costs, which are associated with activities internally in the corporation. The theories can moreover be linked to managerial direction and control. (Mallin 2004)

2.1.1.3 Stakeholder Theory

The stakeholder theory takes not only the shareholder into account but also a wider group of stakeholders. As originally detailed by Freeman (1984), stakeholder theory attempts to ascertain which groups are stakeholders in a corporation and thus deserve management attention. A later study conducted by Friedman and Miles (2002) find the implications of contentious relationships between stakeholders and organisations by introducing compatible and incompatible interests and necessary and contingent connections as additional attributes with which to examine the configuration of these relationships. They introduce a model which combines the stakeholder theory with realist theory of social change differentiation. In the conclusion they state that it's important to map out the different stakeholders and their interests.

Shareholders and stakeholders may favour different corporate governance systems. For example are the Anglo-Saxon systems more shareholder-oriented and the German system more stakeholder-oriented, where stakeholder groups like

employees and providers of credit get more attention. Furthermore are different monitoring mechanisms essential for the two different orientations.

2.1.2 The Global Corporate Governance Systems

The complexity of corporate governance can be explained through its global occurrence including different legal, cultural, ownership, and other structural differences. The theories that have affected the development of corporate governance should be viewed in combination with the legal system, capital market development and the ownership structure. (Mallin 2004) The various corporate governance systems within Europe function somewhat differently due to how national legal systems function. Germany has e.g. a well pronounced and established law⁴ of employee representation on the supervisory board. A similar law can on the other hand be found in Sweden, but it's not as strictly legislated as in Germany. (Lewis *et al.* 2004; Swedish Code of Corporate Governance 2004) Germany has moreover developed banking systems while the country has strong legal protection of creditors, particularly of secured creditors. Without such legal rights German banks would have much less power in the German corporations. (La Porta *et al.* 2000)

Among others Scott (1985), De Jong (1989), Moreland (1995) and Weimer (1995) proposed four groups of relative rich and industrialised countries where different global corporate governance systems can be identified (Weimer & Pape 1999):

- 1) *Anglo-Saxon countries* (the USA, the UK, Canada and Australia)
- 2) *Germanic countries* (**Germany**, the Netherlands, Switzerland, **Sweden**, Denmark, Norway and Finland)
- 3) *Latin countries* (France, Italy, Spain and Belgium)
- 4) *Japan* (which is considered as isolated)

These four global corporate governance systems must not be mistaken for the corporate governance systems applied in the individual countries. We would therefore like to point out that the corporate governance systems presented here, and in which several countries are divided are named *global* corporate governance systems, e.g. the Germanic or Anglo-Saxon corporate governance systems. The individual corporate governance systems applied e.g. in Germany and Sweden are on the other hand expressed as corporate governance *systems* in this thesis. As these somewhat confusing terms have been distinguished from each other, the global corporate governance systems will be presented below.

⁴ Mitbestimmungsgesetz

The Anglo-Saxon system is a market-oriented system which serves as a mechanism for independent shareholders to influence managerial decision-making. The group-oriented system is the contradicting which characterises the Germanic system. The influence of the shareholder is strongly institutionalised in the Anglo-Saxon countries. This system has adopted a one-tier board of directors, i.e. executive and supervisory responsibilities of the board are condensed in one legal entity. The stock market plays an important role but the Anglo-Saxon system is primarily characterised by the external market for corporate control, also named as the takeover market. As a consequence is the ownership concentration referred to as low and the economic relationship are relatively short-term.

When discussing **the Germanic system**, Germany is the country referred to although a range of smaller countries are divided into this system as well. Germany has a two tier board system, i.e. a management board (*Vorstand*) and supervisory board (*Aufsichtsrat*). This dual system aims to separate management and the supervision of management. The supervisory board is composed of employees and shareholders that can influence managerial decision making. The one share, one vote principle valid in the Anglo-Saxon system isn't valid here. Companies in Germany can issue non-voting shares up to the amount of all issuing shares, and can so on limit the voting rights of the shareholders. The banks have an especially important role in Germany due to their large block holdings. The ownership concentration is consequently very high and the economic relationships are preferably long-term.

The Latin system lies somewhere in between the Anglo-Saxon and the Germanic view. In France the companies can chose between one-tiered or two-tiered board systems. The French corporate law doesn't distinguish between executive and non-executive directors on the management board. Shareholder influence is somewhat stronger than in the Germanic system, than but not as strong as in the Anglo-Saxon. Ownership concentration is generally high in the Latin system. Moreover, family owned corporations are very common, particularly in Italy and for that reason is the long-term economic relationship preferable.

In **the Japanese corporate governance system** is the cultural dimension most dominant compared to the other corporate governance systems. Family and the importance of "achieving consensus" are the cultural aspects that are most central. The Japanese board system is rather complex, an informal substructure of the board of directors is often constructed. Similar to Germany are the banks and employees essential stakeholders. The *Keiretsu* (interoperate networks) and long-term employment are especially important in this system.

As discussed in chapter 1, the Swedish board structure is not the same as the German, as the one-tier system is applied in Sweden. This stresses the somewhat

unclear and problematic position of Sweden in the global corporate governance system. Moreover, frequent misunderstandings made in international studies, regarding the Swedish board structure exist. We argue that this can be possibly due to the small amount of studies conducted on the Swedish corporate governance system. The classification made by e.g. Albert-Roulhac and Breen (2005) is somewhat incorrect. They argue that Sweden has one executive and one non-executive board which are not correct, as a unitary board exists in Sweden (Mallin 2004).

2.2 The Four Selected Aspects

In the following sections, the corporate governance in Germany and Sweden will be presented, emphasising the four selected aspects. The ownership structure is studied due to the assumption that the role of traditional major owners is changing in Germany and in Sweden. Consequently, how and in which directions these changes take place is interesting to study for each individual country, as well as in relation to previous studies. The major owner types are as well originally somewhat different in the two systems. The second aspect, employee representation on the boards, is vital as it takes place in both countries but the legal constraints are diverging. As transparency is a key aspect of good corporate governance is the aspect of disclosing information in the corporations interesting. A new law regarding the disclosure of board members' compensation was established in Germany in year 2005. Consequently, a research on the third aspect is relevant. The fourth and last aspect being studied; female directors on the boards, is one of the most recent and modern topics in the corporate governance debate. As Sweden, alongside with Norway, is considered being ahead of the rest of the world within this topic, a study of this aspect comparing Germany and Sweden can reveal interesting outcomes.

The similarities and differences between the two countries concerning these four aspects will be studied and outlined in section 2.3, as the research hypotheses will be presented. However, the individual corporate governance systems in Germany and Sweden will first be presented.

2.2.1 Corporate Governance in Germany

Historically, the German corporate governance has emphasised cooperative relationships among banks, shareholders, boards, managers and employees in the interests of labour peace and corporate efficiency. In contrast to the Anglo-Saxon

system, the corporation is not seen as a shareholder value creating device, but rather an independent economic entity consulting a coalition of various participants. (Ziegler 2000) The German corporate governance system can therefore be seen as stakeholder oriented.

The stock market plays a less important role in the German system compared with the Anglo-Saxon system, and an active external market for corporate control is almost non-existent. This can be explained through that companies are very densely held. The OECD (in Weimer & Pape 1999) approximates that the five largest shareholders in German corporations hold on average 41 % of the shares. This stands in contrast with the US and the UK where about 10 % is the comparable number. About three powerful groups and influential stakeholders can be identified in the German corporate governance: block holders, employee and/or union representatives, and banks. (Hackethal *et al.* 2005)

An important starting point when discussing the German corporate governance system is that Germany has a two-tiered board system; a management board and a supervisory board. All public limited companies (AG⁵) and private limited companies (GmbH⁶) with more than 500 employees have by law a management and a supervisory board. The management board is responsible for independently managing the corporation. Its members are jointly responsible for the management of the corporation. The task of the supervisory board is to advise regularly and supervise the members of the management board. The management board and the supervisory board cooperate closely to the benefit of the corporation. The management board informs and discusses issues of fundamental importance to the corporation with the supervisory board on a regular basis, i.e. the corporations strategic approaches, transactions of fundamental importance, risk situation, takeover offers etc. The supervisory board is composed of employees and shareholders that can influence managerial decision making. (Monks & Minow 2001; Weimer & Pape 1999)

Summarising it appears that establishing long-term relationships seem preferable in the German corporate governance, due to sizeable and stable shareholdings by non-financial corporations and banks, similar to the institutionalised influence of employees. Furthermore, it can be stressed that the German corporate governance system is dominated by the role played by the supervisory board. (Mallin 2004; Cromme 2005)

⁵ Aktiengesellschaft (see Ashauer 1999 for more details)

⁶ Gesellschaft mit beschränkter Haftung (see Ashauer 1999 for more details)

2.2.1.1 Ownership Structure

The most influential shareholders in the German corporate governance system are financial and non-financial companies, and there are significant cross-holdings, i.e. one also needs to look at the links between companies. Through the cross holdings between banks and other financial intermediaries such as insurance companies, they can together own nearly a quarter of the share. The role of the banks is especially important in the German corporate governance. They are referred to as salient stakeholders, and apart from the classical role as suppliers of debt and other financial services their influence have two dimensions; equity ownership and supervisory board seats. The German corporate governance could consequently be classified as a 'insider' system⁷. (Hackethal *et al.* 2005; Mallin 2004; Weimer & Pape 1999)

In many German companies, non-voting shares restrict the voting rights of the shareholder, which allows a few groups of owner to control the company (Monks & Minow 2001). The banks in Germany are controlled through proxy votes (*Depotstimmrecht*) which adds voting power to existing voting blocks. The proxy voting is used to concentrate voting power without concentrating ownership. This ensures market liquidity and impedes hostile takeovers. (Barca & Becht 2001) By larger corporations where not all shareholders are able to join the general assembly of shareholders (*Hauptversammlung*) can the shareholders be represented through, normally, a bank. In the most cases the shareholders abstain from their rights to give the banks their voting opinions⁸. Consequently, the banks have a very large influence in the German corporations as they often represent the majority of the share seats. (Ashauer 1999) 75 of Germany's 84 largest companies have a bank representative on the supervisory board. Moreover, in 31 of these companies that representative is also the chairman of the supervisory board. (Monks & Minow 2001) Through the extensive information gained from their lending activities, banks gain valuable information that might not be available to other stakeholders. Unfortunately, there is no guarantee that a company will disclose everything to the bank and that the bank will use the information wisely, which the Parmalat scandal demonstrate. (Mintz 2005) Adding the power of the proxy votes to the votes from direct ownership rights, the overall proportion of votes controlled by banks in the largest 100 firms in Germany is 36 %; and in the top 10 firms the control reaches over 50 % (Elston & Goldberg 2001).

⁷ The System is common in several Continental European countries, e.g. Germany and Sweden, where ownership is concentrated, allowing a few major owners control the corporation. (Mallin 2004). In insider systems do the owners of larger firms, often banks, have a long-term relationship with the corporation, and close links with managers and thus access to internal information. There is no active public takeover market acting as a market for corporate control. (Almond *et al* 2003; Hackethal *et al* 2005)

⁸ "Only 2-3 per cent of the individual depositor-shareholders exercise their right to tell the banks how to vote their shares"(Monks & Minow 2001).

The banks role has been highly criticised on a number of aspects. Banks are at the same time shareholders, representatives of other shareholders and creditors, which raise a number of problems due to conflicts of interest. The central and strong role of the banks in Germany is thus slowly decreasing. In 1998 the law Control and Transparency Law (KonTraG⁹) was introduced, which among others freed up the voting system. (Monks & Minow 2001)

Bank activities and strategies are nowadays somewhat different compared with those during the 80s. The Banks have decreased their commercial loan business and increased investment bank activities. Large corporations, on which most of the corporate governance debate is focused, have become gradually more independent from long-term bank financing. These are some reasons for the decreasing role of the banks in Germany. (Hackethal *et al.* 2005; Jackson & Moerke 2005)

Carati and Tourani Rad (2000) argue that a trend shift in the ownership structure in the group-based corporate governance system is taking place. The governments and non-financial companies reduce their involvement in non-core business sectors and institutional investors are taking up the released equity. The ownership structure is though remaining concentrated.

2.2.1.2 Employee Representation on the Boards

In corporations having more than 500 employees, employees are represented on the supervisory board. In corporations with employees 500 to 2000, the supervisory board has to be composed of one third of employee representatives, this according to the German co-determination Act (MitbestG¹⁰). The one third has moreover to be constructed of two third of the employees from the corporation and one third of union members. In corporations with more than 2000 employees is the supervisory board composed of 50 % employee representatives and 50 % of shareholders. The chairman of the supervisory board has in this structure the casting vote in the case of split resolution. The employees' right to participate in decision-making is called co-determination (*Mitbestimmung*¹¹).

The other members of the supervisory board are appointed by the general assembly of shareholders. The supervisory board is nominated for four years. For

⁹ Gesetz zur Kontrolle und Transparenz im Unternehmensbereich

¹⁰ § 7 Mitbestimmungsgesetz

¹¹ Some clarification; here is the *unternehmerische Mitbestimmung* the one discussed, i.e. the composition on the supervisory boards in the AGs and GmbHs. The *betriebliche Mitbestimmung*, which isn't to be mixed up with the one above, handles the relationship between employees and employer. (Ashauer 1999)

corporations with less than 500 employees the co-determination law is not compelling. (Kümmel & Saulgau 2002) The co-determination law is a debated topic in the German industry. The unions in Germany favour the co-determination rights, with following arguments: 1) Democracy of the economy; 2) Equality from work and capital; 3) Humanity of the working world; 4) Control of the economic power. These arguments are met by the business executives with following contrary arguments: 1) The co-determination law implies limitations of the fundamental rules (Eigentum, Vereinigungs- und Koalitionsfreiheit, freie Berufswahl und "Unternehmensfreiheit"); 2) It implies negative consequences on the competition, especially abroad as German companies can't compete on equal terms with foreign companies; 3) It has negative consequences on the capital acquisition since foreign investors could be scared away; 4) The co-determination law has negative consequences for the competent corporation management. (Ashauer 1999)

Based on the arguments put forward by the two parties it could be stated that the co-determination law has its advantages as well as its drawbacks. An established advantage is that the amount of disagreement between workers and employers leading to strikes has been minimised, which imply higher productivity. The disadvantages are not as established, but it's suspected that the Co-determination Act could have negative effects on the competition, which the business executives also state. If these effects exist at all, they should be seen as of less importance than the wage levels and the qualifications of the workers. (Ashauer 1999)

An article in the Economist (2005-01-29) is on the other hand more critical to the co-determination system in Germany. It's argued that the co-determination is proving a hindrance these days when speed and flexibility are essential in the global competition.

2.2.1.3 Disclosure of Board Members' Compensation

An individual disclosure of board members' salaries and compensations hasn't been legislated in Germany until July last year when the upper house of the German parliament (*Bundesrat*) finally approved legislation on the issue (Homepage of Bundesministerium der Justiz; FAZ 2005-07-08). The new founded law (VorstOG¹²) will regard 1000 German firms, quoted on the stock exchange, and will be applied as from the beginning of year 2006. These firms will be obligated to disclose the salaries and bonuses of all members of the management board on individual basis. Furthermore, disclosure of compensations

¹² Vorstandsvergütungs- Offenlegungsgesetz

of formerly board members is also comprised by this law. Worth noting is that a firm can evade the law when Shareholders vote with a 2/3 majority on the shareholders' general meeting and this resolution can be valid for five years. (VorstOG¹³) The law is aiming to increase transparency and control rights for and exercised by shareholders. Although the German corporate governance code says that the compensations for the members of the management board should be presented in the notes of the consolidated financial statements (the figures should be individualised), few German corporations complied with that. The compensation for the members of the supervisory board should according to the Code also be published individually, but in the corporate governance report. (German Corporate Governance Code 2005)

However, the German corporate law (AktG¹⁴), until recently, only prescribed that an aggregate figure for the board as a whole should be published. As a result, most companies defy the Code, despite signing up for it in 2002, and refuse to publish individualised figures. This makes Germany to one of the laggards among Europe's developed countries. (The Economist 2004-08-21) An important aspect here is that the individual shareholder has difficulties to assess the link between performance and compensation of the board members. The formally law of disclosing the aggregate compensation of board members and management, which was according to German corporate law to be included in the annual report, does not include all non-cash elements of the compensation. Furthermore, most German chairmen don't find disclosure of management compensation necessary; only 45 % are in favour of such a proposal (Peck & Ruigrok 2000).

2.2.1.4 Female Directors on the Boards

According to a study conducted by Jayne (2005), only 10 % of board seats were taken by women. Female representation seems to be a silent topic in the corporate governance in Germany, more focus is brought to the board structure, large block holdings by banks, employee representation etc. There are no law or proposition of legislating female representation on the boards in Germany at the moment. In the German corporate law (§100AktG) is the personal conditions/qualification described for the supervisory board member. The paragraph notifies that a member of the board has to be a natural person. The person is allowed to take seats not more than 10 supervisory board seats. Moreover is it forbidden to take seats in a corporation's supervisory board when a member of the management board in the corporation also takes seats in the other corporation

¹³ § 286 Absatz 4 b Vorstandsvergütungs- Offenlegungsgesetz

¹⁴ § 87 Absatz 1 Aktiengesetz

(*Überkreuzungsverflechtung*). Similar reasoning follows the subsidiary and parent company relationship. Female directors or representation from other minorities is not mentioned in this paragraph.

In the law of one third representation of employees on the supervisory boards (*Drittelbeteiligungsgesetz* § 4¹⁵), it is stated that the board *should* be composed of both women and men, in proportion to the percentage of women/men in the corporation. Though this law is not compelling there are no evidences that the employee representatives have a fair gender distribution on the board.

2.2.2 Corporate Governance in Sweden

Limited liability companies are obliged to have a board of directors (*Styrelse*), which then appoints a managing director, e.g. a CEO. The day-to-day management of the company is carried out by the managing director, however being subordinate to the board. According to the Swedish code of corporate governance should the board of directors be of a size and composition that enables it to fulfil its tasks. The tasks consist of taking the responsibility for the company's organisation and the management of the company's affairs. The rights of the board are though limited by the shareholders' meeting (*Bolagsstämman*), where the shareholders exercise their power. The shareholders' meeting is the highest decision-making body in Swedish corporations, for example issuing instructions to the board and electing the company's board of directors as well as the company's auditors. (Swedish code of corporate governance 2004)

Until the Swedish corporate governance code was published in 2004, the governance of Swedish corporations was regulated by the Swedish Companies Act (*Aktiebolagslagen*). It regulates, to a certain extent, matters that are regulated by e.g. codes in other countries. As it comes to matters *not* regulated by the Companies Act, Swedish corporations have been self-regulating. (Swedish Code of Corporate Governance 2004)

The in the US and UK already during the 80s so animated corporate governance debate came to Sweden first in 1993, as the Volvo-Renault deal placed corporate governance at the top of the agenda. The reason was the internal disagreements within the Volvo management, causing an intervention from the side of the largest owner institutions. (SOU 2004:47). During the same year, the Swedish Shareholder Association (*Aktiespararna*) published their guidelines for corporate governance of companies listed at the Stockholm Stock Exchange (Homepage of

¹⁵ DrittelbG § 4: (4) „Unter den Aufsichtsratsmitgliedern der Arbeitnehmer sollen Frauen und Männer entsprechend ihrem zahlenmäßigen Verhältnis im Unternehmen vertreten sein“.

ECGI). This was the first corporate governance policy and one of the first contributions to the corporate governance debate in Sweden.

2.2.2.1 Ownership Structure

Sweden has a market structure where formal institutions and governance systems are rather weak and imposes few constraints (Lubatkin *et al.* 2005). The separation of ownership and control is strong while the minority investors are weakly protected formally (Barca & Becht 2001). This favours a few major owners, able to control the Swedish listed companies to a large extent thanks to the very rare combination of dual-class shares and pyramid holdings, i.e. closed-end investment funds (Lubatkin *et al.* 2005; Barca & Becht 2001; La Porta *et al.* 2001).

The empowerment of the owners theoretically enables them to exploit the minority shareholders since the legal protection of their rights is weak. The strong enforcement and transparency in combination with the high social pressure characterising the Swedish market is however preventing them from doing so. Another drawback of the combination of dual-class shares and pyramids is a loss of dynamic between ownership and control. This leads to a lock-in effect where “transfer of control becomes excessively costly and painful”. As a result, many Swedish companies have the same institutions as their major owners for very long times. (Barca & Becht 2001)

These major owners holds large amounts of A-shares, which carries 10 or 100 votes each while B-shares only carries one, enabling them to remain in control of the companies, but let others finance them. (Almond *et al.* 2003; Barca & Becht 2001) The most powerful owners in Sweden are two pyramid holding companies, which is a result of the Bank Law established in 1934. The Swedish banks had before their establishment been important shareholders, which now was prohibited. The banks thus created holding companies that took over the portfolios and the two most powerful pyramid-holding companies; Investor and Industrivärden, were grounded. Investor was organised by SE-Banken and controlled by the Wallenberg sphere through the Wallenberg foundations, which still is the case today. The other very important pyramid holding company is Industrivärden, which was organised by Handelsbanken and was and still is controlled institutionally, i.e. the top executives of Handelsbanken control it. These holding companies are playing an important role at the Swedish stock exchange due to their possessions of considerable amounts of A-shares. (Barca & Becht 2001; Collin 1998)

In order to decrease the importance of the major owners has the vote differentiation been limited to a maximum of 1:10, when issuing new shares. This is also the most common ratio (Almond *et al.* 2005). Yet a few very old shares constitute an exception, carrying 100 votes each. A-shares with as much as 1000 votes each existed until the autumn 2004. Ericsson was by then the only company with this extraordinary high vote differentiation and decided to change it to the more ordinary 1:10. (Barca & Becht 2001; Dagens Industri 2006-02-20) Non-voting shares may not be issued in Sweden (Swedish Code of Corporate Governance 2004).

According to a study conducted by Barca and Becht (2001), the average largest shareholders in Sweden are controlling 47 % more votes than their proportion of capital contribution. In their study, Dahlquist and Robertsson (2001) found that foreign investors tend to underweight firms with dominant owners, suggesting that foreign investors dislike the dual-class share system implemented in Sweden. As foreign investors are an important financial force in the Swedish market, their attitude puts the Swedish companies under pressure, making them change (Dahlquist & Robertsson 2001). Barca and Becht (2001) are as well stating that the Swedish system is disliked by foreign investors and that a change thus is in progress.

2.2.2.2 Employee Representation on the Boards

As a result of the Social Democratic government, employees have the right to appoint representatives to the board of directors in companies quoted in Sweden. According to the Board Representation Act (*lagen om styrelserepresentation för de privatanställda*), employees in corporations with at least 25 employees, have the right to appoint two representatives and two deputies. More representatives, i.e. three representatives and three deputies, can only be appointed if the company has activities in several lines of businesses and at least 1000 employees. (SFS 1987:1245) However, the Swedish Code of Corporate Governance constraints the right of employees to appoint representatives through stating that employee representatives never may constitute a majority on the board. (Randøy & Nielsen 2002; Swedish Code of Corporate Governance)

Levinson (2001) has studied how well the representation of employees function on company boards and found that it is generally well-functioning, even if it is the owner representatives and the managing directors who are taking care of the most important issues. He states that employee representatives in Sweden demonstrate a good capability to co-operate with the corporate leaders. According to him, this makes the co-determination to simultaneously benefit the company and the

unions. This means that representation of employees on the boards can “contribute such values as trust and joint solutions to management problems”. (Levinson 2001)

2.2.2.3 Disclosure of Board Members’ Compensation

The long-term social democratic government of Sweden has led to a norm of equality, which permeates the country. This has resulted in a highly progressive tax structure and there through an income distribution being one of the highest in the Western World. (Lubatkin *et al.* 2005) The results of the Swedish tax policy and the equality norm, leading to a high social pressure, are highly visible when reviewing the compensation of Swedish CEOs. Swedish CEOs made on average twelve times more than employees in 1999, while their European counterparts made between 11 and 24 times more than the employees and CEOs in the US had salaries being 475 times higher than the average employee salaries. To summarise, it can be said that Sweden is characterised by “economic transparency, high taxes and an extensive public sector”. (Randøy & Nielsen 2002)

The strong norm of transparency has resulted in the right of public access to official records (*offentlighetsprincipen*), which according to the 2nd chapter 1 § in the press libel decree (*tryckfrihetsförordningen*) aims to “favour a free debate and an all-around information, whereby every Swedish citizen should have the right to have access to official documents”¹⁶ (Homepage of the Swedish Government; Homepage of the Swedish court organisation). This means that the compensation of board members in Sweden is public information. In what way a company compensates its board members is often made public in the firms’ annual report. A legal obligation to disclose the individual compensations is however not established. The Swedish minister of justice, supported by the committee of Swedish corporate governance, thus presented a law proposition in February 2006. Their aim is to enlarge the stakeholders’ insight and understanding of the compensation programs of Swedish companies. (The Swedish Government)

Muller (1999) reveals that there is a strong development toward decentralisation and individualisation of pay in the Swedish system, despite the fact that onetime bonuses are usually not paid in Sweden. Oxelheim and Randøy (2005) have however identified a tendency for the design of board members’ compensation to

¹⁶ "Till främjande av ett fritt meningsutbyte och en allsidig upplysning skall varje svensk medborgare ha rätt att taga del av allmänna handlingar" (2 kap. 1 § tryckfrihetsförordningen, som enligt 14 kap. 5 § som regel även gäller utlänningar.). Exists since 1766

be influenced by the American compensation system, leading to an increasing amount of bonus systems and onetime bonuses.

2.2.2.4 Female Directors on the Boards

The percentage of board seats occupied by women in the companies listed on the Stockholm Stock Exchange is a highly debated issue in Sweden. The equality norm and women's significant role in the market has led not only to an animated debate, but also to an engagement in the issue from the side of the Swedish government. In 2002, the Swedish minister for gender equality (*jämställdhetsminister*) stated that the government would legislate a quota of female directors on boards if the companies did not reach a ratio of 25 % by the end of 2004 (Svenska Dagbladet 2005-06-11). Despite a failure of the listed companies to reach this ratio, legislation has still not been published in the spring 2006. However, a considerable amount of women were promoted to board directors during the period 2002-2004.

The investigator of allocation of quotas, Catarina af Sandeberg, says that the required rate of at least 40 % female directors on boards might get lowered for some corporations and higher for other, due to the number of board seats and firm size. On the 1st of June 2006 will her investigation report be sent to the Government Offices of Sweden (*Regeringskansliet*) and thereafter will the report be for consideration, which normally take a couple of months. (Dagens Industri 2006-05-03)

2.3 Research Hypotheses

When reviewing the literature, a focus on the four aspects analysed is sited in this thesis, namely the ownership structure, employee representation on the boards, disclosure of board members' compensation and female directors on the boards. These aspects will be discussed and comparisons of Germany with Sweden will be made. The research questions, formulated as hypotheses, will be presented, forming the platform of the study.

2.3.1 Ownership Structure

Today a new economic convention is recognised worldwide; the *corporation*, as diverged to the *government*, is the major driver of economic growth, wealth creation and technological innovations. A widespread privatisation of corporations has located the successful corporations on the positions where they are today. The large corporations can no longer afford to compete only in their own domestic markets, and hence numerous of cross-boarder consolidations, (e.g. Eon/Sydskraft), have been observed in the last decade. This stresses the fact that governments are less willing to protect national corporations from takeovers. (Monks & Minow 2001)

The ownership structure in Germany as well as in Sweden is characterised by a concentrated ownership. Institutional investors are dominating both markets, but the major institutional owners differ. Banks normally have an important role in the German companies since they are debt suppliers, possess major shareholdings, in addition often even representing minority shareholders and there through having the majority of the share seats on the supervisory board (Ashauer 1999; Almond *et al.* 2003). The importance of the banks has resulted in long and close relationships between the banks and the listed companies in Germany (e.g. Almond *et al.* 2003; Hackethal *et al.* 2005; Lubatkin *et al.* 2005). This is however not a guarantee that the banks will receive and/or use the information in a correct way (Mintz 2005). The important role of the banks and other financial institutions is thus changing in the German corporate governance system (Monks & Minow 2001; Jackson & Moerke 2005; Hackethal *et al.* 2005). Hackethal *et al.* (2005) in addition argue that the role of the banks is changing, which has resulted in reduced participation in non-financial companies. The overly complex web of participations within the financial sector itself has become more unravelling in the last years. However, they stress that the changing role of the major owners in Germany has not changed to a larger extent.

In Sweden, on the other hand, are the major owners; families¹⁷, interest spheres¹⁸ and foreign investors¹⁹. The Swedish companies are densely held by these owners, possessing A-shares. The dual-class share system is however disliked by the foreign investors who are not used to it and seldom get the opportunity to buy A-shares. In addition, the system is associated with high costs for raising funds. As a result, some of the largest Swedish firms have converted to a one-share-one-vote

¹⁷ Included in this group are individuals and families that have founded the company or acquired control over a company (Sundin & Sundqvist in Barca & Becht 2001).

¹⁸ Firms controlled by a group of shareholders sharing interests are divided into this category (Sundin & Sundqvist in Barca & Becht 2001).

¹⁹ This group consists of all companies controlled by a foreign investor, independent of what kind of investor it is (Sundin & Sundqvist in Barca & Becht 2001).

system, suggesting that the increased involvement of foreign investors on the Swedish market has caused a slow system change. The maximum voting differential has for example been reduced from 1:1000 to 1:10, even if old shares carrying larger voting differentials still are permitted. (Barca & Becht 2001) Thus, studies (e.g. Almond *et al.* 2003; Barca & Becht 2001) imply that the role of the major owners is changing, which leads to the hypothesis that:

***Hypothesis 1 a):** The role of major owners is changing. Consequently, the role of banks and financial institutions as owners will be emphasised in the debate in German media.*

***Hypothesis 1 b):** The role of major owners is changing. Consequently, the role of interest spheres and families will be emphasised in the debate in Swedish media.*

2.3.2 Employee Representation on the Boards

According to German and Swedish law, the employees in Germany and Sweden have the right to have representatives on the supervisory board and the board of directors, respectively. In Germany, employee representatives²⁰ must possess one third to one half of the seats on the supervisory board in corporations with more than 500 or 2000 employees (Kümmel & Saulgau 2002). The unions are powerful in both countries and protect the employees' rights. Lewis *et al.* (2004) have identified possible advantages of employee involvement. These are; better decisions can be made, the implementation is more successful, needs like creativity and respect are satisfied, loyalty is increased etc. In addition, employees help monitoring the managers, who would otherwise not work in the best interest of the shareholders (Lewis *et al.* 2004). German employees are hence undoubtedly gained by the co-determination, but which effects the co-determination has on the German corporations is less clear. An article in the Economist (2005-01-29) is critical to the co-determination system in Germany. It's argued that the co-determination is proving a hindrance these days when speed and flexibility are essential to global competition. Common disadvantages are possibly; slow decision-making, workers are less informed than managers, participation is time consuming, retraining of managers and employees can be expensive etc. (Lewis *et al.* 2004).

²⁰ Workforce representatives (2/3) and union representatives (1/3) (MitbestG 7 §)

To be an employee representative is a difficult task, patronising the employees of the company simultaneous as the company itself. To which extent this is possible and which consequences the German companies takes as a result of the co-determination are issues currently debated in Germany. McDonnell (in Mintz 2005) supports employee governance as a way to ensure that corporations are governed in part in the interests of employees. He believes that employee involvement in corporate governance can work as a potentially powerful additional mechanism to control managerial opportunism and to direct the corporation towards greater efficiency. Rebérioux (2002) concludes in his study that shareholder value doesn't lead to an optimal way to govern corporations. He states that the dynamics of corporate and labour law is underestimated on both national and international level. Furthermore, the corporate and labour law help shaping the corporate governance systems today. Boatright (2004) deals with whether employee governance conflicts with shareholder governance and concludes that these two forms of governance are not conflicting. Instead, they are "complementary and mutually beneficial".

Even though the Swedish employees, like the German employees, can have representatives and are supported by unions, these rights are not as limiting as they are in Germany. Swedish employees have the *right* to appoint representatives in small companies as well as in companies having 25 employees or more (Swedish code of corporate governance 2004). This is however not a legal obligation as it is in Germany, but a right that the employees possesses, which results in a weaker position for the Swedish employees. The two countries also have cultural differences which have frequently been initiated (Hofstede; Ronen; Trompenaars; in Muller 1999). For example, Trompenaars' findings suggest that Sweden's business culture is much closer to one of the United States than those of Germany. Based upon the current debates in the two countries; the second hypothesis states the following:

Hypothesis 2: Co-determination will be debated in German media more frequently than in Swedish.

2.3.3 Disclosure of Board Members' Compensation

Transparency and disclosure is key aspects of good corporate governance. As a result, all corporate governance codes aims to ease and improve the disclosure of information to shareholders. One important aspect is to disclose the individual compensation²¹ of board members to help the shareholders take correct decisions

²¹ Compensation is here defined as the base salary as well as bonuses, stock options, stock grants and other benefits (Mallin 2002)

and prevent the board members from acting in a way that is not in favour of the company. According to the new law of disclosure the compensation of management boards and the German corporate governance code are the compensations for the members of the management and supervisory board to be presented as individualised figures in the consolidated financial statements and the corporate governance report, respectively. However, the German corporate law (AktG²²) until last year only prescribed that an aggregate figure for the board as a whole is to be published. As a result, most companies have defied the Code, despite signing up for it in 2002, and refuse to publish individualised figures. This makes Germany to one of the laggards among Europe's developed countries. (The Economist 2004-08-21) An important aspect here is that the individual shareholder has difficulties to assess the link between performance and compensation of the board members.

The disclosure of aggregate compensation of board members and management (which according to German corporate law was to be included in the annual report) didn't include all non-cash elements of the compensation. Furthermore, most German chairmen don't find disclosure of management compensation necessary; only 45 % are in favour of such a proposal (Peck & Ruigrok 2000). This, in combination with German custom, has made the compensation of board members to an important and highly debated issue in Germany. In a study conducted by v. Werder *et al.* (2005), it's found that German companies are willing to accept and comply with the prescriptions of the Code generally, but unwilling to accept the recommendations of individual disclosure of the compensation of board members. Since there's a well-established custom in Germany, not to disclose individual incomes, this is not surprising, especially as it is documented that Germany is changing slowly (e.g. Albert-Roulhac & Breen 2005). But since it now has been legislated must all German companies quoted on the stock exchange disclose the compensation on individual basis, which will first be observed in spring 2007, when the annual reports will be distributed for the fiscal year 2006.

Since disclosure of this sort of information is custom in Sweden due to the right of public access to official records, this is not an especially sensitive topic for the Swedish companies, but a normal procedure. Despite that, it can not be excluded that debates about the compensation of board members' will not be observed in the Swedish media. Our third hypothesis is therefore as follows:

Hypothesis 3a): *The disclosure of individual compensations of board members will be debated in the German media due to the new law and therefore will the origin of the debate be political.*

²² § 87 Absatz 1 Aktiengesetz

Hypothesis 3b): *In Sweden, the compensation levels will be debated as legal constraints already exist. Consequently, the origin of the Swedish debate will be rooted in media and the industry.*

2.3.4 Female Directors on the Boards

The question of female directors on the board of directors is a fairly new issue in corporate governance. During the last few decades, the proportion of women in the Swedish workforce has increased as the Social Democrats have enabled women being mothers to work through a well-organised day care. This was important during the 70s, when Sweden needed to expand its workforce, therefore starting to apply an individual taxonomy for married couples, making it favourable for the women to work. A higher share of women in the workforce together with a high percentage of well-educated women has led to a situation where the percentage of women being potential manager candidates increases. Logically seen, this in turn will lead to a change in the composition of the boards, involving more women. (Erhardt *et al.* 2003)

In Sweden and Norway it is thus argued that it's just as important that the boards represent the company as a whole as it is to have employee representatives etc. This development in the Nordic countries is ahead of the rest of the world. Norway is the first country in the world to legislate that 40 % of the board members are to be women and the Swedish government has threatened to legislate as well. If legislation is the correct way to tackle the problem is however questionable. Are women employed on a quota-base going to be treated as equals by the others? What are these women expected to achieve for the company in the name of their gender? Should 50 % of the citizens be treated as a minority just because they are a minority on the boards or should the society/industry solve this problem on their own? In an article in Dagens Industri (2006-06-08) it was argued that media' publication of corporations presenting a low percentage quota of female directors on the boards can have larger effects than a law and/or punishment fee on the issue.

Burke (2003) stresses that it's unlikely that other countries will follow the Nordic lead and establish laws; regulating the percentage of female directors on the boards. Jayne (2005) found that the proportion of women slowly increase in the boardrooms. Sweden introduced a policy in 2002, mandating publicly-listed companies to increase the percentage of female board members from 8 % to 25 % by 2004. The country's deputy prime minister said that otherwise, the process for women to reach 50 % would take 150 years at current speed. Sweden contrast

strongly with Spain and Italy where boardrooms remain an almost exclusively male sphere. Germany and the UK hold the middle ground where women occupy about 10 % of board seats compared with 8 % of directorships held in Europe's top 200 companies. (Jayne 2005)

The societal development in Germany differs from that in Sweden. The day-care services are not as extended as in Sweden, resulting in a higher percentage of housewives. Other interesting difference between the two countries concerns the united or separate tax declaration of married couples. In Sweden was the tax declaration combined until year 1970, i.e. from 1971 is the tax declaration conducted separately.

Carter *et al.* (2003) examined the relationship between board diversity and firm value, defining board diversity as the percentage of women, African Americans, Asians and Hispanics on the board of directors. They found a significant positive relationship between percentage of women or minorities and firm value. The proportion of women and minorities increases with firm size and board size and on the other hand decrease when number of insiders increase. (Carter *et al.* 2003) In addition, Shrader *et al.* (1997) investigated how the proportion of women in management positions influenced the financial performance of the firm. They found that companies are influenced positively by a high share of women in management positions. However, high percentages of women on the boards had no significant impact on the financial performance.

Burke & Vannicombe (2005) found that the slow progress made by talented, educated, ambitious women is now having some negative effects on women's views of management and the professions as a career opportunity. Senior management women tend to leave traditional organisations to become entrepreneurs. Moreover, organisations are facing an approaching shortage of qualified leaders. Burke (2003) argues that there appears to be a shortage of qualified and committed directors capable of increasing the number of qualified women on the boards.

Brenner and Schwalbach (2003) analysed the employment of female managers in their study and found a strong discrimination against female managers and that primarily large corporations are employing women in Germany. The German government has not taken any actions to promote female directors on the boards of German companies (Jayne 2005), implying that the issue is considered as of less importance in Germany compared to Sweden. Based on this, the fourth hypothesis states that:

Hypothesis 4: Female directors on the board of directors is debated in Swedish media more frequently than in German.

2.4 Is a Convergence to a Single Corporate Governance System Possible?

The world of today is characterised by globalisation and increased financial flexibility. Companies operating globally are not something unusual, which means that it is common that companies are active within more than one of the corporate governance groupings. This leads to weakened borders between the groups as e.g. board members represents different corporate governance systems and views. The globalisation of the (corporate governance) world has therefore resulted in a debate among the researchers of whether the corporate governance systems are converging and if it is at all possible to converge them to a single system. Carati and Tourani Rad (2000), for example, are of the opinion that the group based corporate governance system worked well in times of strong economic growth, segmented financial markets and local competition in the economies of continental Europe and Japan. On the other hand, they state that the product and financial market globalisation today are questioning the effectiveness of this system in the new economic environment.

Lewis *et al.* (2004) agree that the globalisation and the followed increased flow of capital across borders and growth of international investors are powerful forces pushing for a convergence, but mean that the diversity of governance structures and the difference in employee participation across EU-countries makes a convergence difficult and possibly costly. Mintz (2005) takes it even further and states that a true convergence of the corporate governance systems is impossible, given the differences in underlying financing and cultural variables in countries such as the US and UK, and Germany.

As it comes to Germany, Ziegler (2000) is of the opinion that the German corporate governance is under pressure and that it will be forced to change in the future due to its inefficiency. Hackethal *et al.* (2005) argue that the main characteristics of the traditional German system as a whole are still more or less the same, despite the important reforms and substantial changes of individual elements in their corporate governance system. The role of the big universal banks in corporate governance has changed substantially in the last years. These developments are often assumed to shift Germany towards the Anglo-Saxon model. However, a transition towards a more modern capital market-based outsider system (the US/UK) is according to Hackethal *et al.* (2005) not yet in sight and the function of the co-determination has not changed during the past decade. The co-determination²³ applied in Germany is a powerful hindrance for a transition of the German corporate governance to a converged system, according

²³ a guiding principle of German corporate governance since 1951

to the Economist (2005-01-29). Yet, until 2003, the year when the German corporate governance Code published, any talk of its abolition was unthinkable.

However, Almond *et al.* (2003) is of the opinion that Germany is slowly changing from the insider towards the outsider model. Several large German firms have merged with Anglo-Saxon companies, thus shifting the power structure. Compared with other countries however, Germany remains distinctively an insider system. In recent years, the banks have tended to give up their role as a barrier against hostile takeovers. The ownership structure, the cross-shareholdings, the co-determination and the two-tier board structure are effective barriers against hostile takeovers as well. (Almond *et al.* 2003)

The convergence aspect has been debated by Carati and Tourani Rad (2000) as well. They reveal that the group-based corporate governance system (e.g. Germany) has converged in three aspects. Firstly, the financial markets have become more sophisticated in the 90s. The equity ownership structure, on the other hand, has remained concentrated. Nevertheless, observed is that non-core shareholdings, an essential element of the traditional group-based corporate governance system, are being unwounded in Germany and France Secondly, the market for corporate control has become more active. Thirdly, a larger focus on the creation of shareholder value has been put. The evidence presented here indicates large increases in privatisation and divestiture activities in Germany and France, both representing an increased focus on shareholder value in the group-based corporate governance system.

Pollin and Vaubourg (2005) believe that a convergence to a united and unique corporate governance model would be harmful for the performance of the economies in Europe.

As indicated by the arguments presented above, the large interest in the convergence issue has resulted in a great amount of studies. The diversity of corporate governance in the non-English-speaking world is however less well understood (Jackson & Moerke 2005) as the English-speaking. The results of the studies conducted so far are somewhat mixed and new questions emerge constantly.

2.5 Summary

In this chapter it was stated that corporate governance can't be defined by one single definition, but each country has its own definition. Nevertheless, corporate governance in this study is defined according to the definition of OECD. The

basic problem within corporate governance is the principal-agent problematic, which has been discussed as well as the transaction cost economics and stakeholder theory. As the basis for the topic corporate governance had been outlined, was the focus turned towards how different countries manage it. Four different global corporate governance systems were presented and Germany and Sweden got divided into the Germanic corporate governance system according to (among others): Scott; De Jong; Moreland and Weimer (in Weimer & Pape 1999).

The specific outline of the corporate governance systems of Germany and Sweden were consequently presented with emphasis on the four chosen aspects; ownership structure, employee representation on the boards, disclosure of board members' compensation, and female directors on the boards. As these aspects had been presented were the two systems compared with each other and four hypotheses were finally formulated. These four hypotheses are creating the basis of the study. The chapter was then concluded by a discussion, based on previous studies, concerning a possible convergence between the different corporate governance systems.

3 Methodology

This chapter aims to declare the method selection with emphasis on the content analysis method. The code manual and the accomplishment of the coding is explained and described in order to make the reader as initiated as possible in the applied method. The course of action used to conduct the study is outlined to explain the way the method is applied and in that way enhance the possibilities to replicate the study. A discussion of the reliability and validity of the thesis will conclude the chapter.

3.1 Method Selection

The purpose of the thesis is, as mentioned in chapter 1, to investigate four aspects of corporate governance in Germany and Sweden. The study is accomplished through a deductive reasoning. The four aspects have been formulated to hypotheses in chapter 2 and these hypotheses will be examined in order to achieve the purpose of the thesis. As stressed in chapter 1 does media have an important role in the corporate governance debate and for that reason will a content analysis on two chosen daily newspapers be accomplished. The choice to conduct a content analysis is additionally based upon the fact that a quantitative method is the most suitable method for this kind of study since it is based on a standardised collection (hypotheses) of a large amount of data (Jacobsen 2002). Before continuing with the analysis and conclusion the results from the examination of the hypotheses will be run through the statistical program SPSS.

3.1.1 Media and Time Period

The chosen media sources for the study are the following two newspapers: *Die Welt* (Germany) and *Svenska Dagbladet* (Sweden). They were chosen while they have a nation-wide coverage and are published on a daily basis. The newspapers illustrate an estimated equally large emphasis on financial/business news and have an excellent reputation. The limitation of only analysing one newspaper per country is done to keep a controllable dimension on the study, guaranteeing that it's practicable. Additional newspapers would of course enlarge the reliability of the study, but the results wouldn't be different in any larger extent since all articles for an entire year are studied, resulting in several hundred articles being reviewed.

Die Welt is a German national daily newspaper published by the Axel Springer AG company. It was founded in Hamburg in 1946 by the British occupying forces, and was later on in 1953 acquired by the Axel Springer Empire. Today is *Die Welt* the flagship of the Axel Springer AG, which moreover take a centre-right political position. The main editorial office is situated in Berlin and the circulation is about 244 200 in approximately 130 countries. Its leading competitors are the Frankfurter Allgemeine Zeitung, the Süddeutsche Zeitung and the Frankfurter Rundschau.

Svenska Dagbladet (SvD) is a large daily national newspaper in Sweden. It was first published in 1884 and since 1998 is the Schiebsted Empire (Norway) the main owner of the newspaper. It's published in Stockholm and covers national and international news. The circulation of *Svenska Dagbladet* is about 201 100 and its main competitors are Dagens Nyheter and Göteborgs-Posten. The stated position of the editorial page is "independent conservative" (*oberoende moderat*), which means it is independent but adheres to the liberal conservatism of the Swedish Conservative Party.

The choice of newspapers could naturally have been different, but after considering the equalities of the two newspapers, mentioned above, we found the choices optimal. A further advantage of this selection is the uncomplicated access to the archives. A disadvantage could possibly be the conservative and right-political position of the newspapers, on the other hand is an advantage the fact that both newspapers enjoy the same direction. Another possible choice of newspapers could have been Handelsblatt (Germany) and Dagens Industri (Sweden). We argue that the amount of articles would probably have been larger, as both newspapers have most focus on financial/business news. The more units included in the study, the more probable is a generalisation of an entire population (Jacobsen 2002). We hence argue that a generalisation would have been more reliable if the amount of articles was larger, e.g. due to the selection of the papers Handelsblatt and Dagens Industri, but that the result would have been the same (see section 3.2 and 3.7 for further discussions about the generalisation of our results).

The time period studied has been delimited to a one-year period, from the 1st of January 2005 until the 31st of December 2005. The motive is that articles, like all news, are perishables. It's hence considered as highly desirable to examine articles of as recent date as possible in order to make the results of the thesis as interesting and adequate as possible. The year 2005 is thus found as the most reasonable time period to study.

3.2 Content Analysis

A content analysis can be defined as “a research technique for the objective, systematic and quantitative description of the manifest content of communication” (Berelson in Krippendorff 1980). Content analysis can also, somewhat more specifically, be described as a method used when documents and texts are to be analysed. The method is very flexible and is excellent for different types of media analysis. The aim is to quantify the content of the texts studied, in this case newspaper articles, in a systematic and replicable way. *Objectivity* and *systemic* are key aspects when using the content analysis method. It is important to clearly define the categorisation of the raw material in an early stage of the study, in order to obtain objectivity. (Bryman & Bell 2005) Thus are the hypotheses defined, which are examined through the content analysis, before the search is started. The articles included in the study can therefore be categorised as soon as they are found.

The objectivity is obtained as far as it's possible through a well specified code manual and carefully selected keywords. The key words used by the searches have a clear link to the relevant hypothesis; thereby clearly indicating in which category the articles found belongs. It is however important to emphasise that the articles are categorised according to their content only and *not* according to the key words used by the search (a more detailed list of key words for each hypothesis and country is found in appendix B).

The systemic of the study is another important aspect in order to limit the skewness and the faults of the study as much as possible. This is done by a consequent manner of work. (Bryman & Bell 2005) To obtain systemic, the categorisation of the articles is done consequently with assistance of a code manual (for further details see section 3.3.1. and appendix A). The design of the coding scheme is of great importance and is dependent of a clear formulation of the research question (Bryman & Bell 2005). The variables are thus explained in the code manual to achieve a coding scheme that is as complete and understandable as possible.

Two other fundamental concepts of the content analysis are *quantity* and *manifest* (Berelson in Krippendorff 1980) Quantity means that the variables are supposed to be expressed as frequency or volume, to make it possible to define statistical relations. Manifest content imply that the analysis is limited to what can clearly be described by the text. (Ekström & Larsson 2000) Instructions with purpose of usage of the variables will therefore be included in the code manual (see appendix A for more details).

Furthermore, it's relatively easy to describe how the data was chosen and construct a code scheme, which makes a replication of the study simple. (Bryman & Bell 2005) The method is also favourable when a larger amount of data is to be analysed (Ekström & Larsson 2000), which is the case of this study.

The ability to generalise the results from the content analysis is according to Ekström and Larsson (2000) high when the study is systematically constructed and formalised. They moreover argue that a well constructed content analysis enables a comparison between different media sources. The purpose of a content analysis is to reveal the individual unit, aiming to generalise it (Ekström & Larsson 2000). Through the study process we aim to avoid exercising individual prejudices and opinions on the variables that are included in the research. As the study is conducted with a formalised code scheme and specified instructions, initiated in the code manual, is the generalisation level for the chosen time period considered as high.

3.3 Coding

The coding is a very important and central part of the content analysis. An obvious starting point is the examination of available literature of how data are related to their context (Krippendorff 1980). The variables, used in the code manual, were constructed after studying a larger amount of literature on the subject corporate governance with emphasis on the four chosen aspects. The variables are our tools when conducting the analysis and so forth is each variable coded with a number (see appendix A).

A variable is a symbol which stands for any one of a set of two or more mutually exclusive values such as objects, categories and qualities (Krippendorff 1980). For each hypothesis 6-10 variables have been used. The three first variables for each hypothesis are identical, but remaining variables are somewhat specific for each aspect. They are however still similar in order to receive results for the different hypothesis that are comparable.

The accomplished pilot tests and the consultation with three objective persons, who reviewed the code manual, led to some vital modifications of the variables in the manual. The changes were conducted to increase the objectivity, quality and comparability of the study.

It's important in our study to clearly keep the four different hypotheses separate. When dealing with an article that debates two of our hypotheses will the article be

coded and analysed twice²⁴. Moreover, articles are only analysed when the hypothesis is centrally debated, i.e. articles where the issue is a sub-subject or briefly mentioned are not considered. As the heading and introduction didn't always reveal the core content of the debate, are the articles entirely read through, in the majority of the cases, before deciding whether the article should be included in the study or not.

3.3.1 Code Manual

Article Size

The first variable (I, XI, XVII, XXIII) called "article size" (see appendix A) was chosen in order to make it possible to judge how much interest the aspect were given by the newspapers. The article size is argued to be a measure of the public interest in the aspect. An aspect considered by the newspapers to be of large interest to the public is in our opinion also given a large space in the paper. The articles' placement in the paper is however also a measure of its interest and thus an alternative way to measure. An article at the first pages is for instance of higher interest than articles further back in the paper and so on. As we have used the electronic versions of the articles due to the better access of old articles, it's however not possible to decide their placement in the paper. Consequentially, the size is measured in the amount of words, and not the placement of the articles. Another argument for measuring the interest in this way is that it's reliable since it isn't subject for any subjective decisions, but evident facts. The article size is, based on the results from the pilot study, divided into three groups; "small" (0-150 words), "middle" (151-500 words) and "large" (501 words or more).

Who/What has caused the Newspaper to write an Article on the Issue?

The second variable (II, XII, XVIII, and XXIV) measures what has caused the newspaper to write an article on the aspect. Our reason for including this variable is that we want to know what has originally caused the papers to write the articles we find, since this can help explaining the reason for the topic debated. The coding is conducted by using five alternatives were the first four are the origins implied to be the most common, based on the results of the pilot tests. These are "politic", "industry", "media", and "public". To prevent incorrect coding, due to a lack of appropriate coding alternatives, an fifth alternative called "unknown" is included.

The alternative "politic" is coded when the issue in the hypothesis was originally caused by a political statement, e.g. a politician discussing or establishing a new

²⁴ See Halici & Kucukaslan (2005)

law. Consequently, a political source caused the debate to develop, and political is then the source referred to in the article. The second coding alternative is the “industry”, which was coded when a person from the industry or a corporation e.g. had published documents on the issue or brought up the issue due to its occurrence in the corporation. The third variable “media” was coded when the newspaper or another media source on its own initiative had brought up the issue for discussion, in these cases wasn’t a direct action made by politicians or individuals in the industry the main cause for the debate. The media started an investigation and debate on the issue while the media considered it essential to inform the readers. An interview with one or several persons keeping focus on the issue is one example when the “media” alternative was chosen. The fourth alternative “public” was coded when an action made by a common person had caused the debated issue to take place. When coding this variable, subjective interpretation is impossible to completely exclude, for that reason were the coding alternatives specified above as well as in the code manual (appendix A). In the few situations the origin of the debate was unclear; the content of the article was discussed before coding.

Support for...

The third and last variable identical for all four aspects (III, XIII, XIX, and XXV) is measuring whether the article supports the aspect or not. The aim with this variable is to reflect what attitude the newspapers have towards the different owners. Since the newspapers debate issues relevant in their respective society and mould the public opinion, we find it probable that their attitudes are about the same as the attitudes of the society as a whole. Other ways to get hold of the equivalent information were not considered possible with the chosen method, but would have had required other methods, e.g. questionnaires. The support of the aspects is here defined as explicit and implicit statements made in the articles. As implicit statements are included, a certain degree of subjectivity in the coding of this variable is impossible to exclude completely (see section 3.7). An exclusion of implicit statements had however led to a misleading result since criticism seldom is expressed in a direct way, but in subtle ways. Four alternatives are used to code this variable: “negative attitude”, “neutral/none”, “positive attitude” and “both positive and negative attitude”. These alternatives were chosen as they were seen as the possible ones, but the choice was also based on the outcome of the pilot tests.

The Role of...

The variables IV to IX are formulated as yes or no questions and are specific for the first aspect: ownership structure. The aim with these questions is to reveal which types of owners that are discussed in the articles in order to reveal which ownership types is the most important today. Ownership types frequently discussed or presented in the newspapers are supposed to be more important than

the ones less frequently debated since the articles are written due to changes in the ownership structure. Articles discussing several ownership groups are coded for all the relevant groups simultaneously. The alternatives are based on the literature review in chapter 2, and the most essential owners in the two systems were selected. The following alternatives are: banks and financial institutions, non-financial companies, families and private owners, interest spheres, foreign investors, and finally the public sector.

In What Way is...changing/debated?

The variables X and XIV measures primarily *if* the aspects are changing, and in the case of a yes answer it's measured *how*. The variables XX and XXVI, on the other hand, measures what focus the debates have. The reason for including these variables was to reveal if and how the aspects are developing and adjusting to new conditions in the society. This information could probably have been collected in other ways, e.g. by using multiple variables. This would however imply extensive extra work, while the possibilities to collect comprehensive additional information are considered being limited and less important. We therefore decided to formulate a single general variable to keep it as simple as possible in order to receive as reliable results as possible. An extensive code manual is exhausting when coding since each article consists of large amounts of information, relevant and irrelevant, making it hard to keep the head clear when coding and avoiding incorrect coding. Five coding alternatives are given, were the first four are; "decreasing", "maintain", "increasing" and "both decreasing and increasing" which were considered as the most probable alternatives. Just like for the variable measuring what caused the article is a fifth alternative called "unknown" included to prevent incorrect coding.

The positive/negative effects of ... experienced by the company.

The two variables measuring the effects of the aspect experienced by the companies are formulated as yes or no questions and included for all aspects but the ownership structure. The reason for the exclusion of the ownership aspect was that it's comprehensive, or even impossible, to determine what effects it has on the companies. Furthermore, the probability for this topic being discussed was considered as small. The aim with these two variables is to reveal whether the attitudes revealed by the support-variable are based on deeper facts or not.

3.3.2 Coding in Practice

The articles will be coded in Excel according to the code manual, and the titles of the articles and dates of publication will be registered, organised after publication date. This will make it easier to take in. When different keywords present the

same article they can easily be detected. Before running the data in SPSS were the articles and the coding reviewed and checked once more to avoid incorrect coding and/or the inclusion of irrelevant articles in the study. After the second review were a few mistakes found and adjusted.

<i>Variable:</i> <i>Article:</i>	<i>XI:</i> <i>Article</i> <i>size</i>	<i>XII: Origin</i> <i>of the debate</i>	<i>XIII:</i> <i>Support</i>	<i>XIV: Changing</i> <i>Power</i>	<i>XV: Negative</i> <i>effects</i>	<i>XVI: Positive</i> <i>effects</i>
1	3	3	2	1	1	2
2	2	2	1	4	2	1
3	3	1	1	5	1	1

Table 1: Example of a code scheme taken from the hypothesis 2: Employee representation on the boards

When coding the ownership, employee and compensation hypotheses were only articles considered that had a clear relationship to Germany/Sweden and the situation in/for German/Swedish corporations. This resulted in 130 articles (50 for Germany and 80 for Sweden) for the ownership hypothesis, 48 articles (47 for Germany and 1 for Sweden) for the employee hypothesis and another 67 articles for the compensation hypothesis (33 for Germany and 34 for Sweden). Considering the hypothesis of female directors on boards were articles with clear relation to the chosen country considered as well as articles where the issue was debated in other countries. This choice has been made while the examples debated in the articles are often seen as role models and can be considered as a foundation for a continuing debate in the chosen countries. The search for articles relevant to the hypothesis concerning female directors hence resulted in 58 articles (18 for Germany and 40 for Sweden).

3.4 Significant Tests

Two types of significant test are conducted in order to test the significance of the observed differences in and between the two countries. As a relative small amount of articles was found in the article search, the choice of significant tests is crucial. The chi-square test is used when the differences in each country are investigated and a t-test is used when the two countries were compared with each other. Only variable alternatives relevant to study were tested and ranked according to size and power level. E.g. were the alternatives “both”, “other” and “unknown” in the related variable excluded due to its lack of relevance for the significant tests. Consequently, the significant tests of the variables contain diverging amounts of articles which is specified in appendix C-F.

3.4.1 Chi-Square (χ^2) Test

The chi-square method is a nonparametric test used for smaller samples in order to determine if an observed difference can be guaranteed to be statistically significant. The probability for differences to exist will be observed when the frequencies differ in a larger extent from the expected. It's however first when the result of the chi-square test is below 5 % (significance level), that the results is significantly guaranteed. (Wahlgren 2005)

The chi-square tests conducted in this research are performed in SPSS and the results presented in appendix C-F. The tests are conducted for each country and variable separately in order to establish where the significant differences occur. All hypotheses, except hypothesis 2 for Sweden, and all variables except the variable "in what way is....debated?" in hypothesis 3 for both countries, were examined. The hypothesis 2 for Sweden couldn't be examined as only one single article was found. The variable "in what way is....debated?" in hypothesis 3 couldn't be examined as none of the German articles solely debated the compensation level and none of the Swedish articles debated the legislation topic exclusively. As these variable alternatives were the only relevant to test, these tests couldn't be completed. Nevertheless, the results were evident enough, which is also discussed in chapter 4.

3.4.2 T-test

The purpose of the t-test is to analyse the significant difference between Germany and Sweden in relation to the research variables. Consequently, the conclusion if significant differences exist between the two countries concerning the researched variables can be drawn when the test present a significance level of 5 % or less. (Wahlgren 2005)

The t-test conducted for the two countries collectively is an independent – samples t-test in SPSS, aiming to perform a hypothesis test of the means of two independent groups (Germany & Sweden). All data was put together and specified for the two countries, and consequently grouped before conducting the test. All hypotheses except hypothesis 2, and all variables except the variables "the role of... owners" in hypothesis 1 and the variable "in what way is....debated?" in hypothesis 3, were examined. The reasoning for hypotheses 2 and 3 is equivalent with the one discussed above (see Chi-Square test). The variable "the role of...owners" in hypothesis 1 couldn't be conducted with a t-test as the variable contains several alternatives (e.g. banks, interest spheres, foreign investors etc.) which couldn't be ranked according to size and power influence.

As the t-test is comparing means of the two countries, the result of a t-test for this variable would be deceptive and therefore not included. The results of the t-tests are presented in appendix C-F in relation to each variable.

3.5 Course of Action

- Step 1** The German and Swedish corporate governance systems are studied theoretically and compared with each other. Additionally, other studies conducted at the German and/or Swedish market are studied. The findings are presented in chapter 2.
- Step 2** Hypotheses based on the theoretical foundation and the characteristics of the German and Swedish corporate governance systems are formulated.
- Step 3** The variables are defined and explained, and a code manual and scheme is constructed.
- Step 4** The archive of the newspaper *die Welt* and the database Affärsdata (*Business data*) are searched for articles in *die Welt* and *Svenska Dagbladet* considering the issues debated in the hypotheses. The search has been limited to the one-year period 2005. Key words for each hypothesis were used to find the accurate articles. Articles of interest and accuracy to the study are listed in inverted chronological order in Microsoft Word.
- Step 5** Four pilot tests are completed, one for each hypothesis, and the code manual modified.
- Step 6** Coding the data and conducting the real study, registering articles and coding systematically in Excel
- Step 7** Sort and register in Excel and SPSS, where the chi-square method and t-tests are used.

3.6 Reliability

We have chosen to conduct a content analysis, which means that the results of this study will be highly dependent on the code manual that we design. It's therefore very important how the code manual is designed, and according to Jacobsen

(2002) is it very important to make the questions concrete. As a consequence of this, are the selection and formulation of the variables included in the study conducted with great carefulness.

After formulating the variables in the code manual, a critical review of included variables and their formulation was done in order to assure that the collected data would be the wanted. Furthermore, to obtain highest possible level of objectivity, three independent persons (see section 3.1) have reviewed the code manual and given feed-back. To let colleagues or other initiated persons control the reasonability of the concretisation of a subject is a common way of assuring the validity according to Jacobsen (2002).

Based on the received feed-back, some changes were done, where after a pilot test was conducted. The results of the pilot test caused some further modifications of the formulation of the variables before the actual study was accomplished. The study is conducted electronically, using computerised search devices, which means that key words are to be used in order to find the articles wanted. The result of the study is hence dependent of the choice of key words. The chosen key words are therefore controlled by two independent persons having German respectively Swedish as mother tongue. The two independent persons were students but they don't study business administration or economics. The key words they thought should be included were applied and the result of these searches included in the study.

Furthermore, the code manual is constructed in a way to minimise misinterpretations and help avoiding multiple choice answers. Ekström and Larsson (2000) point out two important rules concerning the variable values. They should be complete and comprehensive in association to the research problem and mutually exclusive, i.e. it shouldn't be possible to code the same analyse unit in more than one way (Ekström & Larsson 2000). Although the code manual aims to describe the variables and code rules comprehensively, is a complete exclusion of incorrect coding and smaller errors not possible, which is one of the disadvantages with this method.

The coding of the articles is a critical moment as the interpretation of the coding manual is associated with the risk that it might be performed in a subjective way. That there often are elements that leave some space for interpretation when doing a content analysis in practice is argued to be the most important disadvantage of the method by Ekström and Larsson (2000). Bryman and Bell (2005) argue that it's impossible to construct a code manual without an amount of interpretation from the coders' side, due to cultural background. Consequently, a detailed code manual (appendix A) and description of the variables (section 3.3.1) were conducted.

Except the above described actions made to counter-check the disadvantages of the method is the internal validity also controlled through a comparison of our results with the results of earlier research, presented in chapter 2. To compare the results of a study with theory and the results of other studies is a very common way to validate a study's results (Jacobsen 2002).

As the content analysis is based upon secondary data, the reliability of the data used in the content analysis limits the reliability of the method, which can't be higher than the reliability of the sources used. (Bryman & Bell 2005) The choice of data sources is thus of importance and is conducted with care with clearly descriptions. As the newspapers constituting the basis for the study were to be chosen, their reliability was taken into account and only newspapers regarded as highly reliable, qualitative and convenient were considered.

Despite the presented drawbacks of the method, is the content analysis regarded as the method best suited for the kind of study conducted here and is thus the method used. The advantages of the method are used to compensate for the drawbacks. The presentation of the course of action in part 3.4 enables replications and is one way to do so.

3.7 Validity

The validity measures if it's possible to generalise the results of a study to larger populations and which accuracy such generalisations have (Krippendorff 1980; Jacobsen 2002). Jacobsen (2002) states that a quantitative method is well suited for generalisations from stick tests studied of a larger sample that hasn't been studied, which is the purpose of this study. In order to be able to generalise the results of the study, based on a few newspaper articles, to the whole German and Swedish society, we have used a two step cluster selection. In the first step is the clusters selected, i.e. the two newspapers, and in the second step are the research units selected, i.e. the articles relevant to the study (see section 3.3 for further details) (Dahmström 1996). The reliability of the results of the coded articles is then tested with the chi-square method to guarantee the validity of the conclusions drawn.

This study contains of approximately 35-80 articles per hypothesis and country, with exception of the German articles for hypothesis 4 (18) and the Swedish for hypothesis 2 (1). Consequently, the validity of the conclusions drawn based upon the results of this study can be statistically guaranteed with the exception of hypothesis 2 for Sweden. To execute a chi-square test for the hypothesis 2 regarding Sweden is however not possible due to the absence of Swedish articles.

It's highly important to remember that a generalisation is limited in time and space, i.e. the results of a study can never be generalised to other time periods than the one chosen or to other populations than the one from which the random samples has been taken (Jacobsen 2002). It's hence not possible for us to generalise our results to other time periods than the year 2005 or other countries than Germany and Sweden. In our conclusion will we therefore generalise our results to Germany and Sweden during 2005, but no other countries or time periods.

4 Results and Analysis

In this chapter, the results from the study will be presented and analysed in order to answer the four hypotheses and fulfil the purpose of the thesis. The chapter concludes with a summary of the results.

4.1 Introduction

Before presenting and analysing the results of the content analysis, we want to make the reader aware of factors that could have, and most probably even have had, an impact on our results. Factors influencing the results are impossible to eliminate, and shouldn't be. This study is a study of the present state and the factors that influence the results could be influencing the overall future development of the topic. As the relevance of these factors is unknown at the moment, they should be kept in mind through the reasoning below, but not be emphasised.

The results concerning Germany might have been influenced by the fact that the year 2005 was election year. Consequently, the politicians were more active and the debates more intense than usual. This has more or less been noticed for all hypotheses, but with less emphasis on the aspect of ownership structure. We consider this factor as being less influential on the existence/non-existence of debates and issues discussed, even if it has enlarged the amount of articles. The amount of articles originating from the politics is very likely to have been enlarged as well.

As opposed to the German results, the results concerning Sweden haven't been influenced by any general factor such as elections etc. The Skandia scandal has however been a dominant issue in Sweden, which most probably have influenced the amount of articles found on the compensation issue. However, since the results for this aspect are unequivocal, we find it less likely that the overall result depends on this factor. Another factor that has influenced our result is that the time period, assigned for the companies to voluntarily reach a ratio of 25 % of female board members, expired by the end of 2004. As the companies failed to reach this ratio, the possible consequences of this fact were discussed by the media, causing the amount of articles found for this aspect to be larger than for a "normal" year. This factor has characterised the debate on this issue and thus influenced our results. We are however considering this fact as a consequence of

the debate's development and thus argue that it isn't an isolated action, but a process in the development.

4.2 Ownership Structure

As corporate governance originates from the separation of ownership and control that took place in the 19th century, the aspect of ownership structure has been of central importance ever since. Yet, this does not imply that the ownership structure hasn't changed during the last two centuries. On the contrary, the development of the society as a whole has forced the corporations and their owners to change as well. During the most recent decades, the globalisation of the market has shaped the ownership structures of firms. Another aspect of recent date is the privatisation of firms, former owned by the public sector, aiming to enhance the efficiency of the corporations. This implies that the corporations are transformed to listed companies, owned by the public. An increasing public interest in owning shares has been developing simultaneous with the other aspects mentioned. This has resulted in an enhanced demand for information over industry events, which has caused the media to debate and report on such events.

As discussed in chapter 2, the ownership structure in Germany and Sweden is characterised by concentrated ownership (insider system). Institutional investors are dominating both markets, but the major institutional owners are somewhat different in the two systems. Banks normally have an important role in the German companies and their central role has resulted in long and close relationships between the banks and the listed companies (e.g. Almond *et al.* 2003; Hackethal *et al.* 2005). The banks' role as owners is moreover argued to be changing in the German corporate governance system (Monks & Minow 2001; Jackson & Moerke 2005). In Sweden, on the other hand, are the major owners; families, interest spheres and foreign investors which possess A-shares. The major owners' ability to control firms while not contributing as much financially has made the Swedish dual-class share system unpopular among foreign investors. They are not especially familiar with it, seldom get the opportunity to buy A-shares, and thus argue for a change in the ownership structure. We formulated our first hypothesis based on these facts. As the hypothesis constitutes the basis of our research, it's presented below in order to remind the reader of the research basis.

***Hypothesis 1 a):** The role of major owners is changing. Consequently, the role of banks and financial institutions as owners will be emphasised in the debate in German media.*

Hypothesis 1 b): *The role of major owners is changing. Consequently, the role of interest spheres and families will be emphasised in the debate in Swedish media.*

The search for articles dealing with major owners and their role in the companies resulted in 50 articles being relevant to the hypothesis for Germany and another 80 articles for Sweden. The German articles were found to be significantly larger than the Swedish, although the Swedish articles were notably often of middle size (see appendix C). We are thus presuming that media in both countries often write articles where the ownership structure is presented comprehensively and in its context. That German articles are significantly larger, can be interpreted as a consequence of the complex ownership structures caused by the frequent occurrence of cross-holdings in Germany.

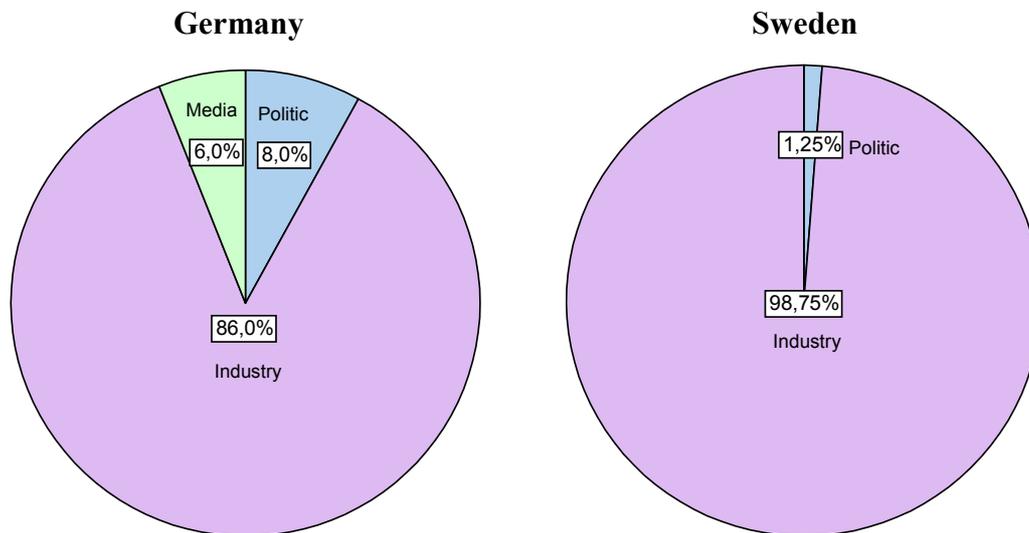


Figure 1: Origin of the debated issues in Germany and Sweden.

According to the results of our study, the industry itself was significantly the most common starting point of the issues debated in both countries (see Figure 1 above and appendix C). We are interpreting this as the media being reporting industrial events such as M&A's and corporate scandals, causing ownership restructurings. It should also be noted that the amount of articles caused by political statements/actions and articles initiated by media are significantly few in both countries, although 14 % of the German articles were caused by either of these two originators.

The articles have a neutral approach to the major owners in both countries, but the German articles are more often presenting a positive or negative attitude than the Swedish. We argue that this implies that the German newspaper is more debating

than the Swedish, which could be due to dissatisfaction with the present legal framework of the ownership structure in Germany. The Swedish articles are neutral significantly often, which we interpret as a lack of an active debate in Sweden, since they lack augmenting structure. This implies that the articles review events on the stock market in an objective way, which could explain the fact that the industry is the major cause of the articles.

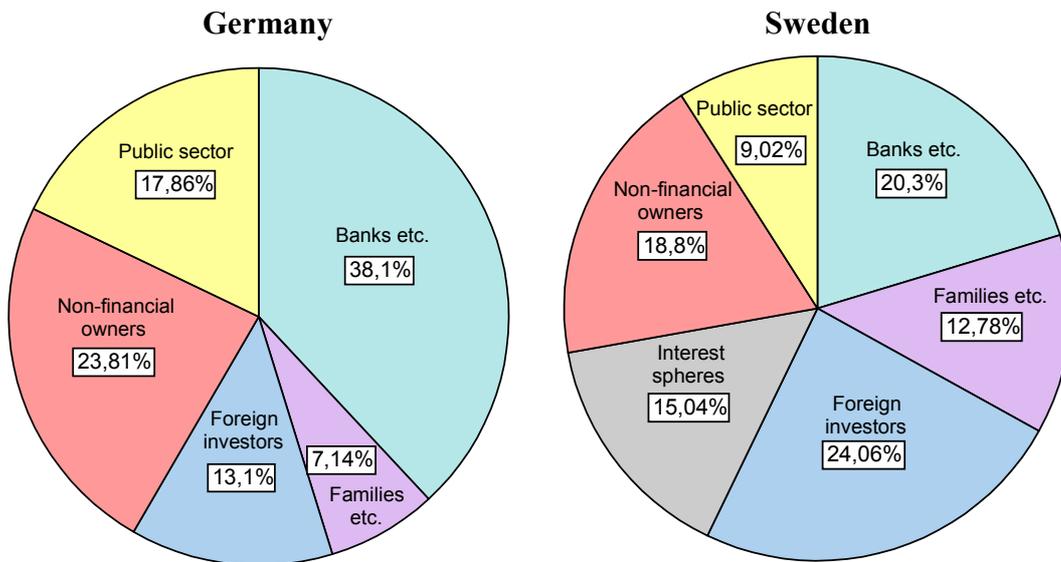


Figure 2: The major owners being debated in German and Swedish newspapers.

The results of our study of the newspapers' interest in reporting on different types of ownership are presented in figure 2 above. Almond *et al.* (2003) states that banks are more often powerful owners in Germany than in Sweden, which our results support. The banks' power to control German corporations through proxy votes is a possible explanation for the large media interest. This is supported by the fact that Swedish banks don't possess proxy votes and only debated half as often as the German banks. The extent in which Swedish banks are powerful owners shouldn't be underestimated though. Their power is however related closely with interest spheres and families.

Non-financial owners receive about equally much interest from media in the two countries. The fact that this is the third most debated ownership type in both countries could be explained by M&A-activities. Numerous of listed companies in the two countries are major owners in other corporations. We find it natural that these ownerships are extended in course of time, resulting in M&A's reported in the papers.

Families and interest spheres are not so common in Germany as in Sweden. This is also the most probable explanation for the German media's low interest in these ownership types. They are the least debated ownership types in Germany. The

Swedish counterparts are also among the ownership groups receiving least interest, but are debated more than the German (13 % vs. 7 % and 15 % vs. 0 % respectively). This result is, according to us, a consequence of the large power they possess due to the dual-class system in Sweden and their relations to the Swedish banks.

Foreign investors are the most debated ownership type in Sweden, debated almost double as often as the German counterpart. We are interpreting this as the foreign investors being more active on the Swedish market and thus receiving more interest from the media. The co-determination applied in Germany would in that case explain this result. According to Ashauer (1999), the co-determination is a possible hindrance in the international competition. We are hence of the opinion that the prominent co-determination is the most probable reason for the, compared to Sweden, low interest in foreign investors in Germany (13 % compared to 24 % in Sweden).

The public sector is debated almost double as much in Germany as in Sweden, implying that the German public sector is more active than the Swedish. A probable cause of the large interest in the German public sector could be privatisations of companies, former owned by the public sector. The low interest in the Swedish public sector could, according to us, be explained by the Swedish public sector being generally less active than the German, during 2005.

There are significant differences between the two countries when it comes to in what way the role of major owners is changing. The German articles stated that the role of major owners is decreasing significantly (see appendix C). As we found the role of the banks and financial institutes to be the most frequently debated, we argue that it's primarily their role that's decreasing. It's although difficult to fully imply that the results are truly revealing an overall significant situation of decreasing power of the German banks. Nevertheless, there *is* a debate taking place in the German newspaper about the decreasing power of major owners, which we argue is the essential part of the results found.

The result of the study of the Swedish articles is however the contrary; in a significant amount of the articles is the role of the major owners said to be increasing. As foreign investors were found to be the most debated ownership type, we find it probable that it's their power that increases. It's however difficult to point out which ownership type that increases its power as no particular type is dominating the debate totally. What can be stated from our results is instead that a debate regarding changes *is* taking place in both countries, and that the way that the role of major owners is stated to change, differs significantly.

Finally, the bottom line is that hypothesis 1a can be accepted but that hypothesis 1b must be rejected. Banks and financial institutions are the most debated owners in Germany, but the interest spheres and families were not the most debated types of owners in Sweden. The most debated ownership type was instead found to be foreign investors.

4.3 Employee Representation on the Boards

The representation of employees on boards is an essential element of the corporate governance applied in Germany as well as in Sweden. An important point in this aspect is the legal difference between the studied countries, which was brought forward in the literature review and research hypothesis in chapter 2. Nevertheless, the central difference is that the German companies according to the co-determination law are obliged to apply co-determination while the Swedish law is expressed as a right and not an obligation to have representatives on the board.

A natural question is however, why is co-determination important, and are the advantages of exercising the right truly much larger than the disadvantages? Lewis *et al.* (2004) point out that having co-determination involves certain advantages; for example can better decision be made as employees' poses information that management lack off, it's more probable that people will implement decisions that they have decided about themselves, creativity, loyalty and respect might increase, better communication between management and employees can be established etc. Having a co-determination law can moreover help the decreasing of the agency-principal problematic while the employees get a possibility to monitor the top-executives, which was a central argument of McDonnell (in Mintz 2005). The relationship between the corporation and its managers and employees is consequently being favoured.

It can additionally be discussed and questioned if the employees should have the possibility to get involved in governance and decision-making of the corporation. The strong co-determination in Germany has for instance experienced a great deal of criticism, which will be taken into account in the analysis of the results. As the corporation is surrounded by stakeholders that all have an interest on the corporation's strategy development and decision-making, it can be discussed who truly is supposed to take seats on the boards and control the corporations. The second hypothesis will once more be presented below before taking a closer look on the results of the study:

Hypothesis 2: Co-determination will be debated in German media more frequently than in Swedish.

The results from the study are interesting for the reason that 47 articles were found in the German newspaper while only one article was found in the Swedish newspaper. The absence of Swedish articles has made statistical tests for Sweden impossible. Consequently, the significance tests were performed exclusively for the German articles. It might seem quite surprising that only one single article was found in the Swedish newspaper, although several different key words were used and the articles found were carefully investigated. In our opinion, these results are stressing the fact that the co-determination evidently is a more essential and debated issue in Germany than in Sweden. As the results from the study revealed a dominant outcome of articles from the German newspaper, the analysis and discussions presented will focus mainly on Germany.

The articles found for this aspect are significantly of middle or large size (see appendix D), which makes it clear that the debate is not shallowly held. According to us, the fact that the subject is permitted to take up much space in the newspaper imply that the subject is well established and central in the German debate.

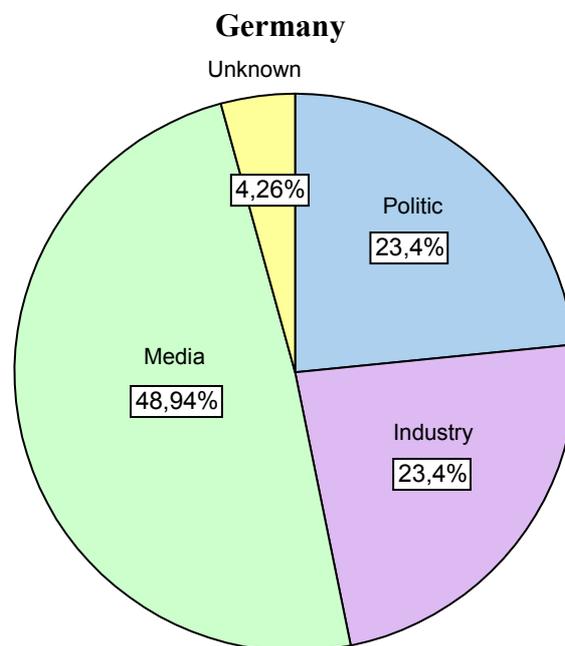


Figure 3: Origin of the debated issues in Germany (Sweden is excluded since only one relevant article was found).

Media is significantly the most common origin of the debate, but many articles originate from the politics and the industry as well. We argue that this implies that co-determination is an issue that concerns most parties in the German society. The

industry is a source of the debate being of natural importance, since it's in the corporations where the co-determination is practiced and the problems occur. Due to the debate from the side of the industry and the subject's relevance for the German people, the topic ought to have had an important role in the political debate in association with the election in 2005. Altogether, this could explain why media is the most common origin of the debate. Furthermore, we argue that media found the issue essential since it was a burning question. An additional reason for the media to write articles on the issue could be that even if co-determination is relevant to most employees, it's not everybody that understand which consequences it has for the different parties in the German society.

Despite the existing advantages of co-determination, our results reveal that the attitude towards co-determination in Germany was significantly negative, i.e. fully 45 % of the articles had a negative attitude. This result points out that the criticism of the valid Co-determination Act is prominent and we are stressing that the criticism is caused by the dissatisfaction of persons and/or corporations who are affected by its legal constraints.

Furthermore, the significantly most common opinion regarding the way the co-determination is changing, was that its power is or wished to be decreasing. This combined with the criticism found, we interpret as a desire to change the present Co-determination Act and let it be less strict in the future. We therefore argue that the advantages mentioned above don't fully overcome the disadvantages empirically observed. A possible reason could, according to Ashauer (1999), be that the co-determination is a hindrance that limits the competitive advantages of German corporations in the present environment of intense global competition.

This is supported further by the fact that a significant amount of the articles stated the co-determination having negative effects on the companies (see appendix D). According to us, the negative effects could be a result of the co-determination's possible disadvantages in the global competition. The essential components of successful global competitive advantages like speed and flexibility thus have to get improved and strengthened.

As a debate of co-determination is non-existent in Sweden, we interpret the situation in Sweden as the public, corporations; trade unions etc. being satisfied with how the present co-determination works in Swedish corporations. The single article presented in the Swedish newspaper showed a positive attitude on the issue and argued for increasing power. This is in line with the results of a study conducted by Levinson (2001). He argues that the co-operation between the employee representatives and the top executives in Sweden is characterised by mutual benefits.

We argue that a vital reason for the differences in the two countries is the fact that the business cultures are diverging. The German corporate structure is rather strongly hierarchical while the Swedish is more decentralised. The more decentralised working situation in the Swedish corporations facilitates the communication and relationship between the employees and directors, enabling fast decisions, and consequently a strong co-determination is less needed and desired.

The bottom line is that hypothesis 2 can be accepted, due to the evident amount of articles found in the German media.

4.4 Disclosure of Board Members' Compensation

This aspect is debated frequently in both countries. As transparency and disclosure of information lies at the core of corporate governance are the results from the two studied countries interesting in a comparison.

Corporate governance involves, as described by OECD, a set of relationships between the corporation's management, its board(s), shareholders and stakeholders. They all have an interest in the transparency of the company's information and disclosure of the board members' salaries and bonus systems. Through disclosure of the board members' compensations, the shareholders obtain a clearer view of the corporate governance implemented by the company. It also provides a clearer explanation of whether the performance and income of the top executives are consistent with each other or not. Additionally, the shareholder can judge if the current dividend level is justified.

Consequently, the German and Swedish laws of disclosing compensation are aiming to increase the shareholder's control rights and protect the shareholder by distributing as much information as possible and hence aim to minimise the principal-agent problematic and the transaction costs. The shareholder wants to be sure that the top executives work in the best interest of the company though the shareholders control of the company often is limited (due to the separation of ownership and control). The German companies weren't obliged to share this kind of information with the shareholders until 2006, but a new law was then established. In Sweden on the other hand, the public access to official records was established already in 1766. The Swedish shareholders are thus used to be able to get hold of this kind of information, which has led us to formulate our third hypothesis as follows:

Hypothesis 3a): *The disclosure of individual compensations of board members will be debated in the German media due to the new law and the origin of the debate will therefore be political.*

Hypothesis 3b): *In Sweden, the compensation levels will be debated as legal constraints already exist. Consequently, the origin of the Swedish debate will be rooted in media and the industry.*

In the German newspaper, we found 33 articles of relevance and another 34 relevant articles were found in the Swedish newspaper. Articles of middle size dominated significantly in both countries and no significant differences exist between the article size in the German newspaper and the Swedish (see appendix E). This stresses that the debate concerning the aspect was given about equally large scope and debated equally frequent in the two countries. In our opinion, this implies that the aspect is vital in the corporate governance debate in Germany as well as in Sweden.

There are though some differences concerning the topics debated in each country and the source which has caused the debates' occurrence. As discussed in the literature review and research hypotheses, there are some crucial differences between the two countries. In particular is the legal aspect of the disclosure of board members' compensation and the attitudes towards such actions diverging significantly (see appendix E).

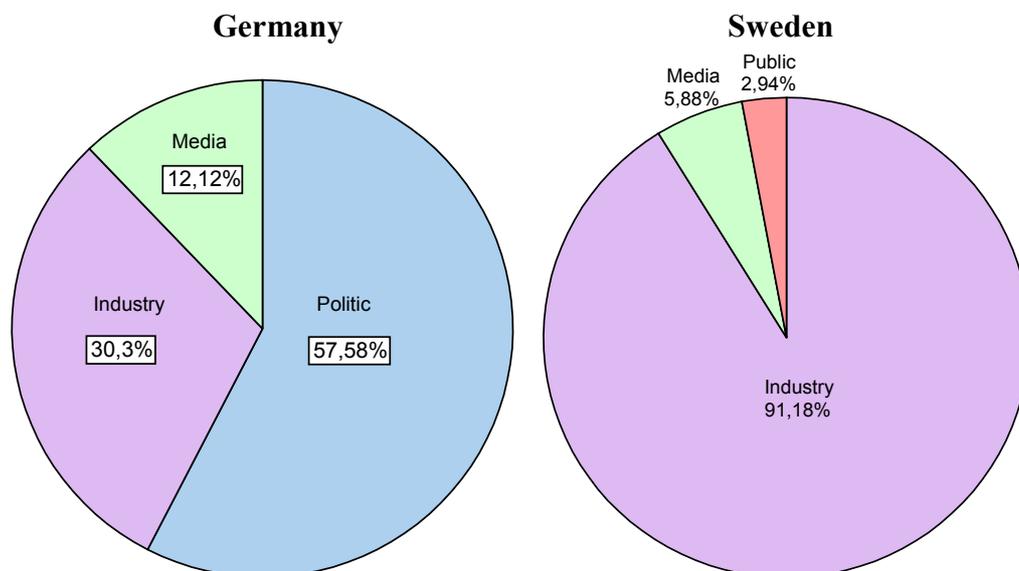


Figure 4: Origin of the debate on the compensation issue.

The German debate was dominated significantly by articles rooted in the politic (see figure 4 above and appendix E). We argue that the intensive legislation

debate held by politicians during 2005 caused this result. It was namely first during the last year (2005) that German politicians decided to put the individual disclosure of board members' compensations into law. As a consequence, it will be applied first in this year (2006) and observed earliest in the spring 2007, when the annual reports of the fiscal year 2006 will be distributed. As the legislation affects the industry, a large amount of articles were rooted in the industry as well.

The origins of the debate in Sweden differ significantly from the debate origins in Germany. A significant amount of the Swedish articles were rooted in the industry. We argue that this is due to the custom to disclose the compensations of board members in Sweden. The debate is therefore not found primarily among political debates and political law proposals, but in the industry.

Significantly few German articles were neutral, indicating that the disclosure of board members' compensation is a highly debated issue in Germany. We find it natural to interpret this as a discussion about the new law being established. It's probably controversial since it's against the German custom to disclose this kind of information. As the positive attitude is nine percentage units larger than the negative, and articles of political origin are more common than articles originating from the industry, our opinion is that the politicians argue for the disclosure and the industry against. Furthermore, this would be in line with the results of the studies conducted by Peck & Ruigrok (2000) and v. Werder *et al.* (2005). They found that the majority of the German chairmen are against disclosure of management compensations despite that they have accepted the new corporate governance code. It will therefore be highly interesting to witness the establishment of the new German law to follow its consequences. Will all German companies obey the law or will the largest companies with the biggest opponents try to avoid it?

This problematic differs from the situation in Sweden, where the articles were significantly neutral. We interpret this as the Swedish society having no larger problems with this issue and hold the existence of the right of public access to official records as the most probable reason for this.

Based on these results, it can be stated that the disclosure of board members' compensation was discussed in significantly different ways in the two countries. In Germany, the debate was always conducted in association with the legislative actions while the compensation levels were reported and sometimes criticised in Sweden (for further details, see appendix E).

As it comes to the experienced effects of the disclosure of board members' compensation, there is no difference between the two countries. Yet, the effects (both positive and negative) are discussed by the German newspaper in a larger

extent than by the Swedish. We find this a natural consequence of the cultural difference; Germany now starts to disclose this kind of information while it has been done since 1766 in Sweden.

The results from our study confirm that the disclosure of board members' compensation is a heated topic in Germany as well as in Sweden, but the debates are emphasising rather diverse topics. The reason for these differences is according to us embedded in the societal non-acceptance/acceptance of salary disclosure. The Germans are very restrictive in publishing the salary amount earned, which in the majority of the cases is kept closely private. An interesting point is how the debate on the issue will develop itself in the future. Will it be custom and completely normal to disclose individual compensations even in Germany in about ten years or more and how will the debate be shaped then, will there still be some negative attitudes from the industry? Either way, it can be stated that the results from our article study support the statement made in an article in *The Economist* (2004-08-21). Germany is there said to be one of the laggards among Europe's developed countries when it comes to the disclosure of board members' compensations. A conclusion if Germany truly is *the* laggard among all European countries can't completely be drawn, but Germany for sure is more of a laggard than many other countries, including Sweden.

Based on our results, hypothesis 3a and 3b can be accepted. The German debate is emphasising the new law while the compensation levels are debated by Swedish media. The origin of the German debate was significantly most often the politic; we argue that the reason is due to the debate on legalisation, which took place during 2005. It's however important to point out that in fully 42 % of the cases were the origins of the German debate the industry or media. The origin stated in the hypotheses for Sweden was however false. We argued that media was implied to be an important origin of the Swedish debate. This turned out to be false; the Swedish debate was significantly rooted in the industry in 91 % of the cases and in the media in as few as 6 % of the cases.

4.5 Female Directors on the Boards

This aspect is viewed as the most recent in the corporate governance debate when considering the four aspects chosen for this study. A debate about female directors on the boards can't be developed from one day to another without the emergence of a societal debate on the gender equality issue. The cultural background, social environment and custom mould people's opinions, and thus the society's view concerning social norms. The German society is designed in a way that makes most German couples choose to let the woman give up her carrier to be home with

the children, e.g. due to an united tax declaration and inflexible day-care. As a result of social democratic governance in Sweden for more than half a century, the Swedish society is designed differently. Women are encouraged to combine the family life with a carrier, resulting in competent women challenging the men for the top-seats.

Are then women supposed to compete with the men for the top-seats on equally basis or are legislative actions necessary? Are women as competent as men? How difficult is it for women to reach the board seats in the two different corporate governance systems? These are just a few of several questions that emerge when managing the aspect. As earlier argued, media take a central role in the corporate governance debate, and hence are the results from the German and Swedish newspapers highly interesting. Let us review the hypothesis before analysing the results:

Hypothesis 4: Female directors on the board of directors is debated in Swedish media more frequently than in German.

Although there are many well educated women today, the proportion found at the universities, in the corporations and in the rest of the society is not reflected in the companies' board structures. The lack of women on board seats is still obvious in both studied countries. If a change is supposed to occur in the future, it's vital that the issue is debated not only by politicians, but also by the media, and most importantly, in the corporations.

Our search for relevant articles resulted in 18 articles for Germany and 40 for Sweden. This implies that the topic is debated in Sweden more frequently than in Germany. The size of the articles however implies that no country is debating the subject significantly more than the other. The sizes of the German articles are distributed evenly while middle sized articles are dominating significantly in the Swedish paper.

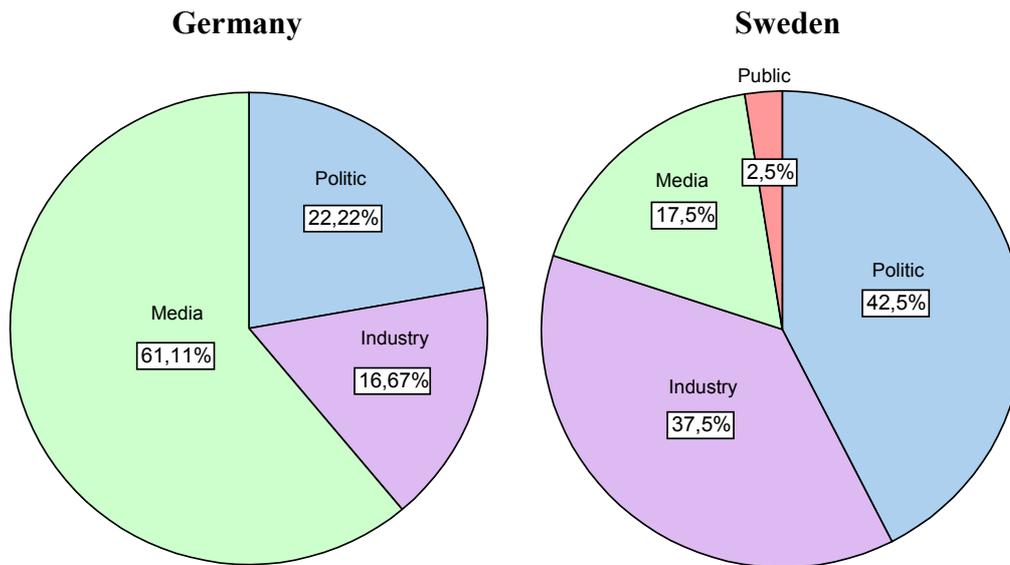


Figure 5: Origin of the debate on the issue female directors.

The origin of the debate differs significantly between the two countries, which can be seen in figure 5 above. Media is with its 61 % the distinctly most common origin of the debate in Germany (see appendix F). As earlier argued, the year 2005 however was a special year in the German politics to some extent. Angela Merkel was elected for chancellor and thus the first female chancellor in the German history. As chancellor, she is one of the most powerful women in Germany (and the world) and serves as a role model and a source of inspiration for many women. That a woman was elected for chancellor has most probably affected our results, enhancing the political interest in the aspect. This could perhaps be the start of a future, more continuous, debate on female directors on the boards and increasing power of women in the corporations in Germany.

As opposed to Germany is the origin of the Swedish debate dominated significantly by the politic and the industry. This significant difference of the debate's origin could be explained by the way the topic is debated. While the German debate is focused on the percentage of women on the boards, the Swedish debate takes one step further and focuses on a potential law, regulating the minimum ratio of female directors on the boards. As a law, if established, would be implemented by the corporations, the industry clearly has an interest in the question as well. It's thus natural that the Swedish debate is initiated by the politicians and the industry more often than the German.

A significant difference between the German and Swedish articles is that the German articles don't present any negative attitude. This result is most probably caused by the difference in focus between the two countries, mentioned above. We are of the opinion that it's natural that the debate about the percentage of

female directors doesn't cause as much negative attitudes as the establishment of a law. The establishment of legal constraints are more controversial and causes negative as well as positive attitudes. In spite of this, a neutral attitude is the significantly most common attitude in the Swedish articles and in 50 % of the German. We interpret this as the articles being rather informative in both countries.

The effects experienced by the companies differ significantly between Germany and Sweden. A significant amount of the German articles state the companies to experience positive effects of female directors (see appendix F). In the Swedish articles on the other hand, the negative effects are pointed out more often than the positive. This could seem surprising, but we are of the opinion that the negative effects are related to the discussion of an establishment of a law. A law would limit the owners' ability to exercise their rights to choose the board members they want, irrespectively of gender. We therefore find it probable that the industry has emphasised this as a negative effect for the companies.

In view of what has been discussed in this section, the results point out that the debate in Sweden is positioned at a different level than the one held in Germany. The reason is rooted in the social and custom structures in the both countries. The German articles found were debating the women in the situation of choosing the traditional housewife role or a part/full time job to a larger extent than the Swedish. The German debates were often questioning if it's possible to combine family with work, which actually isn't what the fourth hypothesis is aiming to investigate. These articles were thus excluded from the study.

Based on our results; the fourth and last hypothesis can be accepted. German media is not debating the presence/absence of female directors on the boards as frequently as Swedish media. Furthermore, we could reveal that the German debate had another focus than the Swedish.

4.6 Summary

The results from our study of the four aspects were presented and analysed in this chapter. The following results were found:

Ownership structure

- The banks are remaining strong owners in both countries, and the significantly most debated ownership type in Germany, while foreign investors are debated the most in Sweden.

- The debate taking place in the German newspaper discusses a decreasing power of major owners; in Sweden on the contrary, a debate on increasing power of the major owners is taking place.

Employee representation on the boards

- The co-determination is found to be well-debated and criticised in Germany due to experienced negative effects by the corporations. In Sweden, the debate is absent, which is interpreted as a lack of problems in this area.

Disclosure of board members' compensation

- The disclosure of board members' compensation is a heated topic in Germany, while the level of the compensations is the focus of the Swedish debate.

Female directors on the boards

- The debate of female directors on the boards was found to be more vivid in Sweden than in Germany. Moreover, the debates in Germany and Sweden had different focus. Societal and cultural differences between the two countries were implied to be the central reasons for the difference.

5 Concluding Discussion

As the study has been conducted and the four crucial aspects have been analysed, it's evident that important similarities and differences exist between the debates within the two systems. In this chapter, the results revealed and analysed in chapter 4, will be discussed further, related to previous studies and connected with each other. Furthermore, the convergence issue will be handled and the future development of the corporate governance debate in Germany and Sweden will be discussed. Final conclusions will be drawn, and topics/questions of interest for further research will be outlined.

5.1 Connections between the Four Aspects

As some connections between the four aspects will be discussed, the outline of this chapter is a bit different from the outline of previous chapters. First, the aspect ownership structure will be related with the three other aspects separately, in the normal order. Thereafter, the employee representation and compensation will be related with each other as well as the compensation with the female directors on the boards. Before the final conclusion will be drawn, a discussion about the convergence issue will take place.

5.1.1 Ownership Structure - Employee Representation

Our results revealed that banks and other financial institutions are the most debated ownership type in Germany. We are of the opinion that the fact that they are debated the most, imply that they still are the most important major owners in Germany. According to our literature review, their power consists of three crucial aspects; the banks are shareholders themselves, representatives of other shareholders (through proxy voting) and creditors. Banks thus have a better access to corporate information, decreasing their transaction costs and enhancing their monitoring ability. These aspects of power are supported by the frequent occurrence of cross-holdings, creating close relationships between the banks and the corporations (Almond *et al.* 2003; Hackethal *et al.* 2005; Lubatkin *et al.* 2005). We consequently argue that it's difficult for foreign investors to become major owners in the German corporations. This is in line with our result that one of the least debated ownership types is the foreign investors, which is interpreted

as the foreign investors having a low interest in investing in German companies.

Another factor that we point out as limiting the foreign investors' interest in German corporations is the strong co-determination. We argue that the co-determination constitutes a risk for the foreign investors due to the limitation of their ability to control the company, consequently the principal-agent problematic arise. As the foreign investors are unfamiliar with the system, the co-determination and the overall outline of the German corporate governance system is enhancing their transaction costs as well, since they have to get familiar with it. The German corporations are consequently failing to secure the potential capital source that foreign investors represent.

We are of the opinion that this explains the attitudes we found. The role of the major owners in Germany is debated to be decreasing as well as the co-determination according to our results, which in our opinion imply that these aspects are less effective in the present international competition. We also argue that the co-determination will continue to evolve in the future as it's creating hindrances for German corporations abroad, causing a significant amount of negative attitudes to be observed in the studied articles. Our opinion is also that the dominant co-determination observed in German corporations doesn't give the impression to get changed in the closest future, despite the large amount of criticism found in our article study. The central reason for this argumentation is that the discussion about its abolition, according to an article in the Economist (2005-01-29), first started a couple of years ago and that it takes time to change laws.

The co-determination is primarily aiming to decrease the principal-agent problematic taking place in the relationship between employees and management, above all due to interests' conflicts. It moreover aims to increase the ability to monitor the management's actions. However, our results point out that the co-determination in Germany has caused problems in the corporations due to its inflexibility. We are thus concluding that the parties in the German society find that the disadvantages are larger than the advantages.

Williamson (in Nygaard & Bengtsson 2002) argues that optimal contracts don't exist due to the limited rationality of individuals, thus contracts constantly have to be adjusted to the new conditions and the dynamic international competition taking place today. These adjustments are costly which, according to us, can explain the absence of a considerable amount of foreign investors in the German debate. An additional factor that can make fast changes complicated in the future is the fact that the German corporate governance is an insider system, favouring long term relationships.

The situation in Sweden is similar to the one in Germany on some aspects but different on others. A similarity is that banks were found to be debated frequently in both countries. As our literature study revealed that banks are, and traditionally have been, powerful owners in both countries, we conclude that this is the explanation for this result. This similarity between the two countries therefore can be interpreted as the ownership structure remaining concentrated and thus supporting the classification of Sweden belonging to the Germanic corporate governance system. Furthermore, the central role of banks and the concentration of ownership in Germany and Sweden, which our empirical research presented, are consistent with the results from studies e.g. conducted by Hackethal *et al.* (2005); Mallin (2004); Weimer & Pape (1999).

However, Sweden differ from Germany regarding foreign investors, which was the most debated ownership type in Sweden, but one of the least debated in Germany. In addition, the co-determination was not debated in Sweden, indicating that no larger problems with the co-determination exist in Sweden at the moment. A possible explanation for this could be the fact that the co-determination, legally seen, is weaker in Sweden. Levinson (2001) argue that the co-determination in Sweden is characterised by an involvement of employee representatives that is fruitful for the Swedish companies. Our opinion is that this could be the cause for the foreign investors to accept the design of the Swedish system, and therefore occur frequently in the Swedish debate.

A second vital motive for the differences between the debates in the two countries is, according to us, the fact that there are diverging business cultures. The German corporate organisation is strongly hierarchical and the Swedish is more decentralised. We argue that the more decentralised working organisation in the Swedish corporations facilitates the communication and relationship between the employees and directors, consequently is a strong co-determination less needed and desired.

5.1.2 Ownership Structure - Compensation

In the literature study and according to our results and discussions above, Germany and Sweden have a concentrated ownership structure. Hackethal *et al.* (2005), among others, argue that the role of major owners is decreasing in Germany although this change takes place slowly. Our study revealed a similar debate taking place regarding the decreasing role of major owners in Germany, but indications of that a change already has taken place wasn't found. We thus concluded that the German society is conservative and not capable of changing especially fast.

This conclusion is reinforced by our findings regarding the disclosure of board members' compensation. The new law was argued to be criticised by the industry, opposing the law initiative. This despite that Germany, according to an article in the Economist (2004-08-21), is one of the last countries among the developed European countries to establish a law on individual disclosure of board members' compensation. Germany is among others behind Britain, France, Ireland, the Netherlands, Italy and Sweden. This states that the German corporate governance has a limited ability of going through fast changes. Nevertheless, a change has taken place since a new law has been established.

Based on our results, we argue that the situation in Sweden is different. Sweden is a small market which stresses its dependence of well-established international trade and relationships. We therefore argue that, in the international aspect, it's more important for Sweden to be flexible and open than for Germany, which can explain some of the results in this study. The results are on the other hand contradicting the difference in the two corporate governance definitions constructed by the Corporate Governance Committees in respectively country (discussed in chapter 2; section 2.1).

It's worth noting that the corporate governance definitions of the two countries were opposing the difference found in the content analysis, conducted in this thesis. The most important difference between the two definitions is that the German definition declares that corporate governance is supervising the companies on an international basis while the Swedish definition has not outlined such a characteristic. Our results reveal debates where the Swedish corporate governance is more flexible and international oriented than the German. We therefore argue that the definition might be an aware construction from the German committee's side while the German corporate governance historically was considered as inflexible regarding certain aspects. An example of this is the German co-determination issue, which according to our results, evidently is inflexible and thus highly criticised in media.

The results of our study on the compensation and ownership issue reveal that the compensation level and the foreign investors are the most debated topics in the Swedish media. We argue that the increased involvement of foreign investors in the Swedish companies and debate in the media is a probable cause for the developed debate on the compensation issue. A study conducted by Oxelheim and Randøy (2005) revealed that boards with foreign board members, commonly with the Anglo-Saxon system as origin, entails a higher compensation of the CEO. This could according to us be a possible reason for the debate on compensation level taking place in Sweden today.

5.1.3 Ownership Structure - Female Directors

It's here argued that the major reason for the diverged result presented for the female directors, is the fact that the societal development in Germany differs from that in Sweden. Today, there are generally not equally many women working outside of the home in Germany as in Sweden. We argue that this is rooted in the country's custom, e.g. in the less developed day care in Germany. It's custom that the children come home from the day care or school to eat lunch, and for that reason it's normal that the mother stays home. The conservative, social structure in Germany can consequently not be changed over night, and so forth are women on top-management positions like board seats something uncommon and more or less extraordinary. Is it then possible to change this pattern? The answer from our side will be yes, but support from politicians, top-managers in the corporations and a general social acceptance is definitely needed. If the media in Germany will start (and continue) to report about the progresses in other countries, e.g. Norway, the debate, according to us, probably will start to flourish in Germany and the traditional social view can start to change slowly.

The main reasons for the change in tax declaration in Sweden in 1970, abolishing the united tax declaration for married couples, was the increasing debate about equal rights for women and men, and the increased need for a larger work force (The Swedish Tax Authority). In Germany, on the other hand, married couples still carry out a united tax declaration. We argue that this is a fundamental reason for a large proportion of housewives in Germany and for the small amount of articles found in the content analysis. This indicates that the debate about the low proportion of women in German corporations is infrequent. The lower proportion of women in the workforce combined with the conservatism characterising Germany, has led to a slow promotion of women to the board seats (10 % according to Jayne 2005) and an almost non-existing debate on female directors on the German boards.

One essential question from our side is; can Germany and the German corporations afford to continue the ignorance of vital and competent female working force without losing competitive advantages and/or firm value? Carter *et al.* (2003) argued that there is a significant positive relationship between the percentage of women and the firm value. Based on their results, we argue that there is a risk that no changes will be undertaken if the percentage of women in the board rooms won't be debated in the German media in the future. As a consequence, German firms will lose firm value and consequently competitive advantages. We are thus of the opinion that a debate on the issue is essential for the future development.

In an other study conducted by Burke & Vannicombe (2005) it's argued that there is a risk with such a slow progress as in Germany, since educated and ambitious women will get a negative attitude towards the management and the profession as a career opportunity. Consequently, they argue that these women will leave the traditional organisations to become entrepreneurs. This study thus supports our opinion that the German media has to increase the debate on female directors on the boards and that the corporations have to take a more active role on the issue, since they otherwise will risk losing a competent work force.

Brenner and Schwalbach (2003) found that German women making career were discriminated and that it primarily were large companies that employed them. Our opinion is that the larger companies naturally have a larger international influence, which often includes adoption of foreign corporate cultures. For that reason, the promotion of female directors on boards might be a favourable aspect in those companies. Our results regarding the ownership structure showed a high amount of articles debating non-financial owners, which we argued could be a sign of industrial events such as M&A's to be frequent. Consequently, our opinion is that the fact that we found industrial events to be discussed frequently in media e.g. M&A's of German and foreign corporations, implies that these activities occur frequently nowadays. Furthermore, we argue that the M&A's are increasing the sizes of the corporations. Based on the results of Brenner and Schwalbach (2003), we therefore find it probable that the increasing firm size increases the chances of a more vivid debate about female directors on the German boards.

We argue that the topic; female directors on the boards, unfortunately is a topic that, in the short term, won't be shaping the future corporate governance debate in Germany to any larger extent. The reason is the lack of a tendency of a growing and vivid debate in Germany today, which our results stated. Our results point out that the issue however is extremely central in the Swedish corporate governance debate. Although the percentage of women on the boards hasn't been put into law yet (June 2006), the debate will continue to flourish in the future. Even though the debate is more intense in Sweden than in Germany, both countries are presenting a similarly low average percentage of women on boards. This implies that there are still many changes to undertake.

The difference between the debates about female directors on the boards in the two countries, can according to us be explained through the differences in ownership structure. As the ownership structure in Germany still today is found and debated to be characterised by a dominant role of the banks, we argue that Germany is conservative. This conservativeness could in turn be the cause for the lack of a debate on the female directors' issue. Since the ownership structure is conservative, the issues debated also are of a conservative character. Rather than debating a higher involvement of women on higher management levels, the

disclosure of board members' compensations is debated in Germany. Our opinion is that this somewhat conservative focus is based on the ownership structure since a less conservative ownership structure probably would have prevented it. A larger involvement of e.g. foreign investors in the debates could have a renewing effect on the German corporations. Foreigners' ability to see things out of other perspectives than the traditional German owners', due to their different cultural background, might change the present structure.

Sweden could serve as an example on this aspect. The high involvement of foreign investors has slowly forced the traditionally strong owners in Sweden to change. This, in combination with the Swedish society, characterised by a, compared to Germany, high equality of opportunities between women and men, has led to a debate in Sweden that is more modern than the German. The Swedish government has stated that within two years time from 2002, female directors should constitute at least 25 % of the board members. A failure to reach this quota was stated to be followed by a legislated quota on the boards of at least 40 % of each gender. As a consequence, almost all of the concerned companies have enlarged their proportion of female directors. According to our results, the proposed law was debated extensively. In addition, based on our results, we argue that the industry takes a negative attitude and that this probably is due to the reduction of the owners' rights that a law would cause. An establishment of the law would however make Sweden to one of the first countries in the world taking governmental actions to prevent discrimination in the boardrooms.

Since Sweden and Norway are brought up as role models concerning the progresses made with the proportion of female directors on the boards, it's difficult to expect that a country with a strong traditional women role like Germany would illustrate a burning debate in the media and high percentage of women on boards in the corporations. That Germany even would come to the point of establishing a law on the issue in the shortcoming future, is doubtful according to us.

A further question from our side is how and what action will be undertaken to make women' access to the boardrooms easier. As the Swedish deputy prime minister said, legislation is necessary, or else the process for women to reach 50 % of the board seats will take 150 years. However, we ask us the question if legislation truly is necessary or if the publication of newspaper articles about corporations having few women on the boards is sufficient to make an impact? We argue that the answer to this question is yes, publication is sufficient as the media moulds peoples opinion and corporations can loose its image and interest from competent women when the issue is ignored by the top-managers. This is however a topic for further research since it's impossible to investigate this at the moment, because of the short existence of the single law (Norway) that is

established at this time. The overall benefits for the companies is however questionable as 93 % of 500 female managers in Sweden were against legislation in 2002 according to the results of a questionnaire (Svenska Dagbladet 2005-12-27).

5.1.4 Employee Representation – Compensation

One of the advantages with co-determination, argued by Lewis *et al.* (2004), is the fact that the employees help monitoring the managers, who otherwise not always would work in the best interest of the shareholders (principal-agent problematic). We found results indicating that the co-determination in Germany still is strong and thus argue that the employees have had small interest in demanding disclosure of board members' compensation, since they through the co-determination get access to information that isn't transparent to the average stakeholder. This is in our opinion one reason for the long waiting period, before a law on disclosure of compensation got established in Germany. It seems questionable that the employees didn't require this kind of information, but a possible explanation could be that those requests were announced. Yet, as the employee representatives never have full majority on the boards, these sorts of propositions couldn't get established in the corporations voluntarily. Another possibility is that the disclosure of board members' compensation was never an especially important subject for the employee representatives, instead were probably other employee related aspects more central.

The topic of establishing a law on disclosure of board members' compensations is not being debated in Sweden, according to our results, but viewed as something natural and positive for the shareholders, while the debate is intense in Germany. The debate on disclosure of board members' compensation will, according to us, with great probability continue for a couple of years in Germany as it involves many parties and raises diverging attitudes in the debate. In Sweden, on the other hand, the compensation level is debated and will be debated further, as the Swedish media evidentially already debates it frequently today.

5.1.5 Compensation – Female Directors

In the study of Brenner and Schwalbach (2003), it was found that German women were discriminated in the working life considering their possibilities of getting employed. How the situation is when it comes to the salary levels between women and men is hard to tell since this kind of information isn't disclosed in Germany.

As both Germany and Sweden now are about to establish a law on disclosure of board members' compensation on individual level, the transparency is going to be enhanced. It will thus become easier for shareholders and stakeholders to get information about the salary levels of board members. This development could result in an increased awareness of the discrimination of women, under the assumption that discrimination exists, and any differences in salaries between female and male directors will be obvious. Furthermore, a more vivid debate could take place on the issue in Germany, if the German society is open for such a debate. The issue is already debated in Sweden, but could take a new dimension as well.

5.1.6 The Convergence Discussion

As the four hypotheses now have been examined, analysed and connections between the four hypotheses have been made, there is an interesting aspect left, namely the convergence issue. Is a convergence towards one united corporate governance system possible? Can it at all be stated that there is an optimal system?

Lewis *et al.* (2004) argue that the globalisation and the following increased flow of capital across borders and growth of international investors are powerful forces pushing for a convergence of the global corporate governance systems. They are however of the opinion that the diversity of governance structures and the difference in employee participation across the EU-countries make a convergence difficult and possibly costly. This is in line with the result of our study. We found that the strong co-determination in Germany was debated frequently, while the interest from foreign investors was indicated to be weak as this ownership type was found to be debated infrequently (second smallest of the German ownership types).

Hackethal *et al.* (2005) state that the function of the co-determination in Germany has not changed during the past decade, and further argue that the main characteristics of the traditional German system as a whole are still more or less the same. A transition towards a more modern capital market-based outsider system (the US/UK) is not yet in sight according to Hackethal *et al.* (2005). The studies conducted by Lewis *et al.* (2004), Hackethal *et al.* (2005) and the results from the German media in our study on the co-determination subject stress the problematic of the co-determination's inflexibility, and we therefore argue that it creates a hindrance in a convergence process.

In a study conducted by Mintz (2005) it's argued that a true convergence of the corporate governance systems is impossible, given the differences in underlying financing and cultural variables in countries such as the US and UK, and Germany. Cultural differences were revealed and one essential aspect explaining the differences of the debates in our study. These cultural differences are according to us stressing the complexity of fully uniting the two systems. Our results of the media moreover outlined a difference in the ability of the systems to change, i.e. the systems' flexibility and thus their ability to undergo a change.

The market-based model (UK/US) is aiming at short term performance concerning the design of corporate goals while the group-based model (Germany & Sweden) is aiming at long term. The results in our study showed debates on a high concentration of major owners in both Germany and Sweden and an established debate on co-determination in Germany, which we argue stress the importance of having long term relationships and goals. The UK/US-companies prefer fast results while the German and Swedish systems consider the survival of the companies in the long reaching future as more essential, e.g. the major owners hold on to their companies even in bad times (Dagens Industri 2006-05-29).

There are although some studies (Carati & Tourani Rad 2000) that point out that a general convergence between the Germanic and Anglo-Saxon systems is taking place. They are questioning the group-based system in the new economic environment and consequently suggesting a convergence towards the Anglo-Saxon model. In our opinion, the recently established compensation law in Germany can be interpreted as a step towards the more shareholder-oriented system. Moreover, industrial events such as M&A's are debated in the media of both countries, which can be interpreted as a sign of a development towards the Anglo-Saxon system. According to Weimer and Pape (1999) is an active takeover market a central characteristic of the Anglo-Saxon corporate governance system and mergers are one of the most familiar techniques.

The differences in the corporate governance systems that were found in the hypotheses of female directors on the boards, the compensations of board members' and, to a certain extent, the employee representation, were according to us rooted in clear societal differences. Societal differences like those explained in our study make a convergence towards a united system problematic. It's moreover difficult for us to conclude if a complete convergence between the German and Swedish systems is possible in the future. We can however state that despite the globalisation and weakened role of national borders, a complete convergence does seem unlikely in the near future.

According to us, it's furthermore doubtful that the discovered differences between the debates of the media on the four studied aspects will even out in the short

coming future. In the early phase of the thesis was it discussed if Sweden truly fits in the Germanic corporate governance system, which Weimer & Pape (1999) argue that it does, or rather takes a more accurate position between the Germanic and Anglo-Saxon system (Albert-Roulhac & Breen 2005; Swedish Corporate Governance Code 2005). The analysis of the debate in the media on the four aspects showed some clear differences and similarities between the two countries, but since we haven't conducted research for the Anglo-Saxon system, it's not possible for us to argue that Sweden is more correctly positioned in the Anglo-Saxon system than in the Germanic.

Rebérioux (2002) argue that the diversity of the corporate governance systems is valuable, and is rooted in societal characteristics that together shape the competitiveness of the different corporate governance systems in Europe. He also points out that the corporate and labour laws are underestimated when grasping the convergence problematic and discussion. His conclusions might support our findings, as the majority of the differences between the debates on the German and Swedish systems were rooted in societal or cultural characteristics. In our opinion, the question if a truly optimal system exists is comprehensive, especially when the societal and cultural aspects are considered. The national corporate laws, corporate governance codes and debates concerning corporate governance issues are diverse in both countries and designed specifically for/in each country due to historical developments, cultural background and degree of international dependence. In this connection we argue that an optimal corporate governance system is comprehensive and/or even impossible to establish due to the difficulties of changing a system completely, converging it with another and thus ignoring cultural and societal differences.

5.2 Conclusion

In the early phase of the thesis, the central role that media play in the corporate governance debate and their monitoring task was stressed. Moreover, at present there is an evident lack of studies of this kind, i.e. studies of the corporate governance systems from media' point of view. For these central reasons has this study been conducted.

The purpose of this study was to investigate how much interest German and Swedish media shows corporate governance with emphasis on the four aspects; ownership structure, employee representation on the boards, disclosure of board members' compensation and female directors on the boards. Furthermore, the four aspects were selected and studied as they handle diverging, relevant and burning aspects of the international corporate governance debate. Our aim was to graze the

current development in the corporate governance debate, taking place in the two countries, through studying the four aspects. The role of media hence was especially important in this study. Finally, the differences and similarities between the two systems have been studied as well as, the reasons and consequences of their occurrence discussed, and the convergence problematic was brought up for discussion.

Based on the debates on the four aspects in the German and Swedish media, the conclusion of the study is that the German corporate governance system, compared to the Swedish system, is less flexible and has more problems to be competitive and keep up with the international competition. The main reasons for this is that the German debate regarding the ownership structure shows a more complex ownership structure due to cross-holdings and dominant owners, above all the banks. We argue that, in combination with the vivid debate on the prominent co-determination, it leads to a weak interest from foreign investors in German corporations. In addition, based on our results, we argue that the industry in Germany is very conservative and argues strongly against an individual disclosure of board members' compensation. As opposed to the industry, our results imply that the politicians argue for a modernisation of the system, among other things through establishing a law of disclosing compensation.

In alignment with the results found in this study, it's interesting to observe that the German definition of corporate governance is formulated with the purpose of opening up for influences from international systems. After conducting this study, we argue that the reason for this formulation is not as questionable as it was before, since we come to the conclusion that the German system is less flexible. We therefore find it natural that the German corporate governance committee has formulated the definition in a way that opens up for future changes. Another factor contributing to the picture of the German corporate governance system being more conservative than the Swedish is the absence of a vivid debate on the topic female directors on the boards.

The topics debated in the Swedish media are rather different than in the German. The Swedish debate on the ownership structure is characterised by traditional owners such as interest spheres and banks, even though foreign investors is the most debated ownership type. In our opinion, vital reason for the foreign investors', compared to Germany, frequent occurrence in the Swedish debate is the rather weak co-determination in Sweden. Consequently, we argue that the media forms a picture of the Swedish system as being more flexible than the German, indicating an enhanced competitiveness of the Swedish system. In contrast to Germany, Sweden is less conservative on the compensation issue due to the well established right of public access to official records. The legislation issue was therefore not criticised and thus not debated in Sweden. Our opinion is

that the public access to official records makes the Swedish system more transparent than the German. This in turn decreases the transaction costs associated with investments in Swedish corporations, and thus increases the investors' will to invest in Swedish firms.

The international trend of more and more women working at the higher levels of the corporations has caused a debate on the ratio of female directors on the boards. Sweden is seen as one of the leading countries in the world in this aspect, debating a possible establishment of a law. However, our results revealed that the initiative to legislate is met of a debate with mixed opinions, pointing out as well positive as negative effects for the concerned companies. These results oppose to the modest debate on the issue taking place in Germany.

Despite the differences between the debates in Germany and Sweden, revealed in this study, the traditional similarities such as a high ownership concentration, characterising the insider system, are found to be remaining when reviewing the topics discussed by media. As this is the only strong similarity that we found between the debates in these two countries, we argue that the position of the Swedish system in the Germanic corporate governance system remains questionable. According to our results, the Swedish system moreover is found to be less stakeholder-oriented than the German, due to the weak co-determination and the tradition to disclose information such as the compensation of board members.

If a convergence is to take place between the different corporate governance systems in the future is difficult for us to conclude. Evidently, the two studied systems are changing. The major difference is the speed and the attitudes towards these changes, which according to the picture constructed by the media are diverging between the two systems. Our opinion is that the future development of the debate depends on how the actors on the German and Swedish markets decide to handle these changes. We also argue that on the one hand, the two systems could converge with each other and form a modernised version of the Germanic corporate governance system. On the other hand, a convergence towards the Anglo-Saxon system is imaginable for both countries, even if it's more likely that Sweden develops in this direction since it's less stakeholder-oriented.

Our study can be useful in further research concerning the international corporate governance debate, especially when the aim is to investigate the relationship between the German and the Swedish systems.

5.3 Further Research

When conducting the research several new and interesting angles of the international corporate governance got brought up. As the corporate governance is an essential, ongoing and developing area there are several aspects still left undiscovered and many questions remain unanswered and new ones have evolved meanwhile. Foremost comparisons of smaller markets/countries like Sweden, Poland, Switzerland, and Norway with larger, e.g. Germany, the US or UK are attractive to accomplish in further studies. Proposals of possible interesting research topics follow below:

- A comparison of the German and Swedish corporate governance systems but emphasising other aspects than those chosen for this study. New possible aspects could be; minority groups represented on the boards, independency and objectivity of board members, the auditor's role etc. Furthermore, a comparison on the Corporate Governance Codes of the two countries could be accomplished.
- Conduct a deeper comparison of the topics debated in the German and Swedish media, by only choosing one aspect, e.g. ownership structure, and conduct a more comprehensive and detailed study on that aspect.
- An interesting aspect would be to investigate if German corporations that are more decentralised also have a different ownership structure and more flexible co-determination.
- Investigate problems and attitudes among international corporations' concerning specific corporate governance aspects. Compare annual reports of different lines of businesses and countries. Why and how are certain aspects presented and/or not being presented?
- Since it can be argued that Sweden is positioned somewhere in between the Germanic and the Anglo-Saxon corporate governance systems would a similar study like the one conducted in this thesis be interesting comparing the British and Swedish media debate on corporate governance systems.
- The method and coding variables could have been chosen and carried out in a different way. Relevant newspapers could have been *Handelsblatt* (Germany) and *Dagens Industri* (Sweden), which both have a clearer industry focus. A different and/or longer time period could be favourable, especially if the codes are to be compared.

- A more comprehensive research on the convergence issue. Is a convergence of the British, German and Swedish corporate governance possible? What are the possibilities and which constraints exist at the moment? Are the different corporate governance systems favouring globalisation and financial mobility, what can make them even more attractive? How do media treat these issues?

- In what way is the corporate governance in the new member countries of the EU (e.g. Poland, Czech, Hungary, Slovenia) differing compared to the Western European countries?

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Appendix A: Code Manual

Hypothesis 1: Ownership structure
<p>I. <i>Article size</i> Small (1) = 0-150 words Middle (2) = 151-500 words Large (3) = 501 words or more</p>
<p>II. <i>Who/What has caused the newspaper to write an article on the issue?</i> Politic (1) = political actions and statements made by politicians Industry (2) = industrial actions, documents published by the industry and statements made by industrial organisations Media (3) = media has investigated the issue or of some other cause chosen to report about it Public (4) = private persons actions and statements made by private persons Unknown (5) = the cause of the article is not known and cannot be interpreted</p>
<p>III. <i>Support for major owners</i> Negative attitude (1) = Explicit as well as implicit statements with a negative attitude Neutral/None (2) = No attitude is stated and cannot be interpreted Positive attitude (3) = Explicit as well as implicit statements with a positive attitude Both attitudes are represented (4) = Statements pro and contra are made explicitly or implicitly</p>
<p>IV. <i>The role of banks and financial institutions is debated</i> Yes (1), No (2)</p>
<p>V. <i>The role of non-financial owners (companies) is debated</i> Yes (1), No (2)</p>
<p>VI. <i>The role of families and private owners is debated</i> (Included in this group are individuals and families that have founded the company or acquired control over a company.) Yes (1), No (2)</p>
<p>VII. <i>The role of interest spheres is debated</i> (Firms controlled by a group of shareholders sharing interests are divided into this category.) Yes (1), No (2)</p>
<p>VIII. <i>The role of foreign investors is debated</i> (This group consists of all companies controlled by a foreign investor, independent of what kind of investor it is.) Yes (1), No (2)</p>
<p>IX. <i>The role of the public sector is debated</i> (Government controlled firms and firms controlled by municipalities belong in this group.) Yes (1), No (2)</p>
<p>X. <i>In what way is the role of traditionally strong owners changing</i> Decreasing power (1) = it is stressed that the power is decreasing or actions that decreases the power is reported Maintain (2) = it is stressed that the power is maintained or actions that maintains the power is reported Increasing power (3) = it is stressed that the power is increasing or actions that increases the power is reported Both decreasing & increasing power (4) = it is both stressed that the power is decreasing and that it's increasing and/or actions that decreases and increases the power is reported Unknown (5) = no statements about the power of traditionally strong owners are made</p>

Hypothesis 2: Employee representation on the boards
XI. <i>Article size</i> Small (1) = 0-150 words Middle (2) = 151-500 words Large (3) = 501 words or more
XII. <i>Who/What has caused the newspaper to write an article on the issue?</i> Politic (1) = political actions and statements made by politicians Industry (2) = industrial actions, documents published by the industry and statements made by industrial organisations Media (3) = media has investigated the issue or of some other cause chosen to report about it Public (4) = private persons actions and statements made by private persons Unknown (5) = the cause of the article is not known and cannot be interpreted
XIII. <i>Support for employee representation</i> Negative attitude (1) = Explicit as well as implicit statements with a negative attitude Neutral/None (2) = No attitude is stated and cannot be interpreted Positive attitude (3) = Explicit as well as implicit statements with a positive attitude Both attitudes are represented (4) = Statements pro and contra are made explicitly or implicitly
XIV. <i>In what way is the power of employee representation changing/wished to change?</i> Decreasing power (1) = it is stressed that the power is decreasing or actions that decreases the power is reported Maintain (2) = it is stressed that the power is maintained or actions that maintains the power is reported Increasing power (3) = it is stressed that the power is increasing or actions that increases the power is reported Both decreasing & increasing power (4) = it is both stressed that the power is decreasing and that it's increasing and/or actions that decreases and increases the power is reported Unknown (5) = no statements about the power of traditionally strong owners are made
XV. <i>The positive effects of employee representation experienced by the company are debated.</i> Yes (1), No (2)
XVI. <i>The negative effects of employee representation experienced by the company are debated.</i> Yes (1), No (2)
Hypothesis 3: Disclosure of board members' compensation
XVII. <i>Article size</i> Small (1) = 0-150 words Middle (2) = 151-500 words Large (3) = 501 words or more
XVIII. <i>Who/What has caused the newspaper to write an article on the issue?</i> Politic (1) = political actions and statements made by politicians Industry (2) = industrial actions, documents published by the industry and statements made by industrial organisations Media (3) = media has investigated the issue or of some other cause chosen to report about it Public (4) = private persons actions and statements made by private persons Unknown (5) = the cause of the article is not known and cannot be interpreted
XIX. <i>Support for disclosure of board members' compensation.</i> Negative attitude (1) = Explicit as well as implicit statements with a negative attitude Neutral/None (2) = No attitude is stated and cannot be interpreted Positive attitude (3) = Explicit as well as implicit statements with a positive attitude Both attitudes are represented (4) = Statements pro and contra are made explicitly or implicitly
XX. <i>In what way is the disclosure of board members' compensation debated?</i> Legislation (1) = it is discussed whether there should be legal constraints or not Compensation level (2) = the level of compensations is discussed in some way or plainly

<p>reported Both legislation and compensation level (3) = it is both discussed whether there should be legal constraints or not and the level of compensations is discussed or plainly reported Other (4) = all other issues discussed concerning board members' compensation</p>
<p>XXI. <i>The positive effects of disclosure of board members' compensation experienced by the company are debated.</i> Yes (1), No (2)</p>
<p>XXII. <i>The negative effects of disclosure of board members' compensation experienced by the company are debated.</i> Yes (1), No (2)</p>
<p>Hypothesis 4: Female directors on the boards</p>
<p>XXIII. <i>Article size</i> Small (1) = 0-150 words Middle (2) = 151-500 words Large (3) = 501 words or more</p>
<p>XXIV. <i>Who/What has caused the newspaper to write an article on the issue?</i> Politician (1) = political actions and statements made by politicians Industry (2) = industrial actions, documents published by the industry and statements made by industrial organisations Media (3) = media has investigated the issue or of some other cause chosen to report about it Public (4) = private persons actions and statements made by private persons Unknown (5) = the cause of the article is not known and cannot be interpreted</p>
<p>XXV. <i>Support for female directors on boards</i> Negative attitude (1) = Explicit as well as implicit statements with a negative attitude Neutral/None (2) = No attitude is stated and cannot be interpreted Positive attitude (3) = Explicit as well as implicit statements with a positive attitude Both attitudes are represented (4) = Statements pro and contra are made explicitly or implicitly</p>
<p>XXVI. <i>In what way are female directors on the boards debated?</i> Legislation (1) = it is discussed whether there should be legal constraints or not Percentage (2) = the percentage of female directors on the boards is discussed in some way or plainly reported Both legislation and percentage (3) = it is both discussed whether there should be legal constraints or not and the percentage of female directors on the boards is some way or plainly reported Other (4) = all other issues discussed concerning female directors on the boards</p>
<p>XXVII. <i>The positive effects of female directors on the boards experienced by the company are debated.</i> Yes (1), No (2)</p>
<p>XXVIII. <i>The negative effects of female directors on the boards experienced by the company are debated.</i> Yes (1), No (2)</p>

Appendix B: Key Words

The key words presented below are the key words used when relevant articles were found, all other key words are left out.

Germany (Die Welt)

Hypothesis 1

Beteiligungsverhältnisse
Eigentumsverhältnisse
Hauptanteilseigner
Haupteigentümer
Besitzwechsel
Beteiligung der Banken
Depotstimmrecht
Beteiligung der Familien
Beteiligung der ausländische
Verflechtung
Beteiligung von Bankinstitute
Anteilsverhältnisse

Hypothesis 2

Mitbestimmung
unternehmerische Mitbestimmung
Arbeitnehmersvertreter im Aufsichtsrat

Hypothesis 3

Managergehälter
Vorstandsbezüge
Offenlegung Gehälter
Offenlegung Vergütung
Offenlegung Aufsichtsrat

Hypothesis 4

Frauen im Aufsichtsrat
Frauen im Vorstand
Managerin
Gleichberechtigung
Frauen als Direktoren
Top Managerinnen
Frauenquote
Frauenanteil
Frauen bei Führungspositionen

Sweden (SvD)

Hypothesis 1

Ägarstruktur
Huvudägare
Storägare - huvudägare

Hypothesis 2

Medbestämmandelagen

Hypothesis 3

Bonus+styrelse
Ersättning+styrelse
Incitamentsprogram
Kompensation+styrelse
Storägare

Hypothesis 4

Kvotering
Kvinnor i styrelser
Kvinnoandel
Jämställdhet

Appendix C: Diagrams and Tables for Hypothesis 1

Amount of articles found for hypothesis 1: Ownership structure

Germany: 50

Sweden: 80

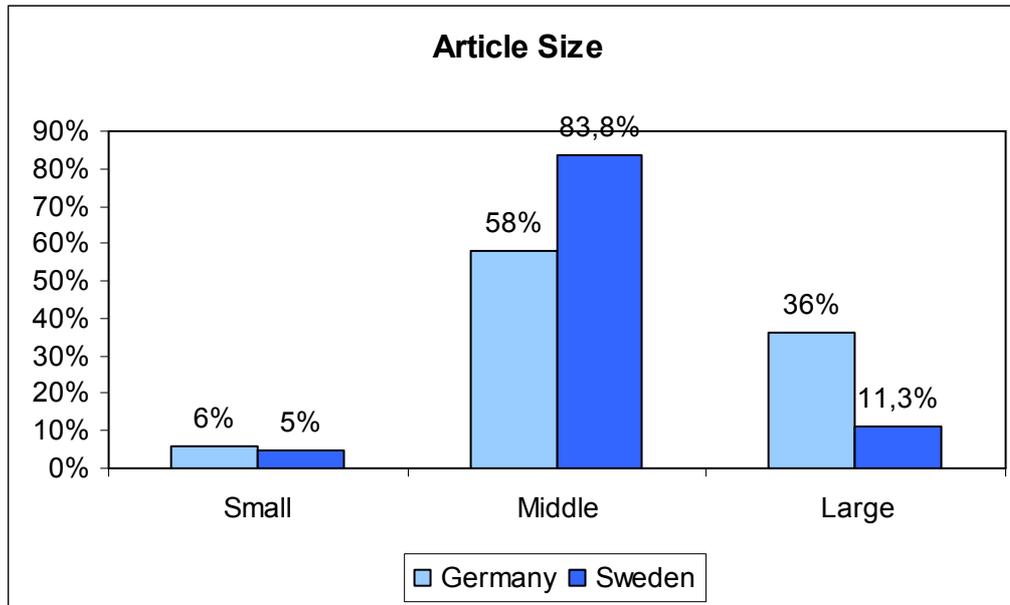


Diagram 1: Size of the articles.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Small	3	16,7	4	26,7
Middle	29	16,7	67	26,7
Large	18	16,7	9	26,7
<i>Total</i>	<i>50</i>		<i>80</i>	

Chi-Square	20,440	91,975
df	2	2
Asymp. Sig.	,000	,000

Table 1: Result of the chi-square test for the variable "article size".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) (Equal variances not assumed)	Mean Difference
Article size	Germany	50	2,30	,580	,000	,013	,237
	Sweden	80	2,06	,401			

Table 2: Result of the t-test for the variable "article size".

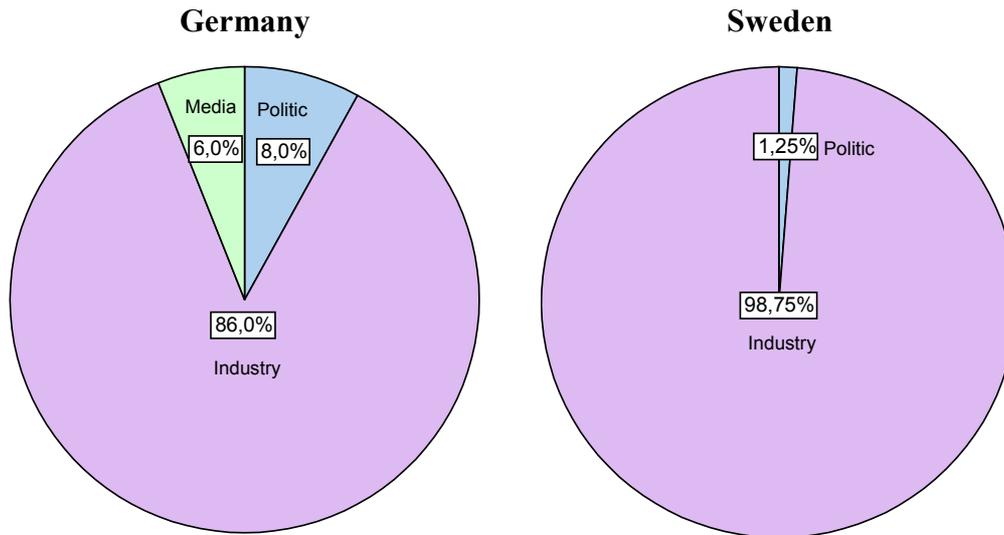


Figure 6: Origin of the debated issues in Germany and Sweden.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Politic	4	16,7	1	40,0
Industry	43	16,7	79	40,0
Media	3	16,7	-	-
Total	50		80	

Chi-Square		62,440		76,050
df		2		1
Asymp. Sig.		,000		,000

Tabel 3: Result of the chi-square test for the variable "origin of the debate".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) (Equal variances not assumed)	Mean Difference
Cause	Germany	50	1,98	,377			
	Sweden	80	1,99	,112	,002	,892	-,008

Tabel 4: Result of the t-test for the variable "origin of the debate".

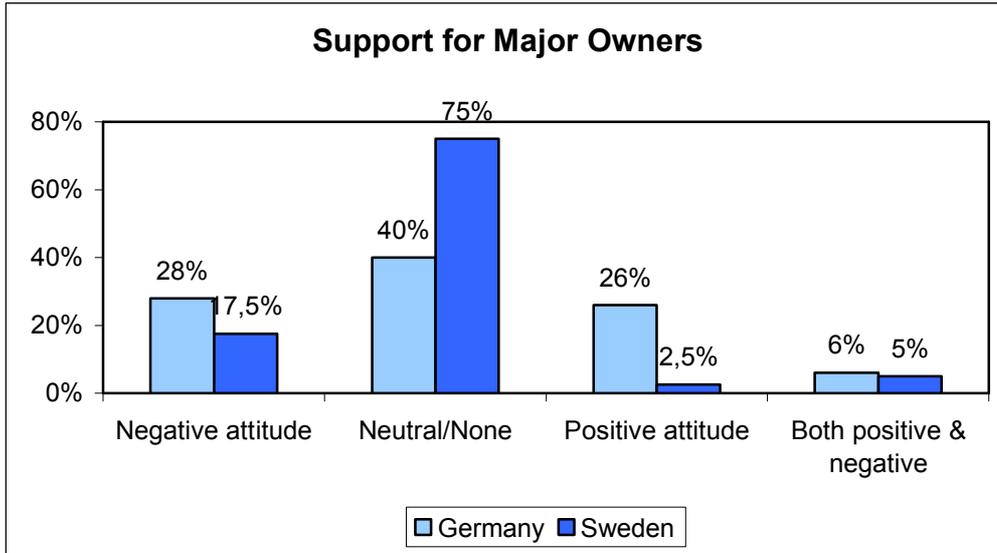


Diagram 2: Observed attitudes towards major owners.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Negative attitude	14	15,7	4	26,0
Neutral/None	20	15,7	73	26,0
Positive attitude	13	15,7	1	26,0
<i>Total</i>	<i>47</i>		<i>78</i>	
Chi-Square		1,830		127,615
df		2		2
Asymp. Sig.		,401		,000

Table 5: Result of the chi-square test for the variable "support".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) (Equal variances not assumed)	Mean Difference
Support	Germany	47	1,98	,766	,000	,882	,017
	Sweden	78	1,96	,252			

Table 6: Result of the t-test for the variable "support".

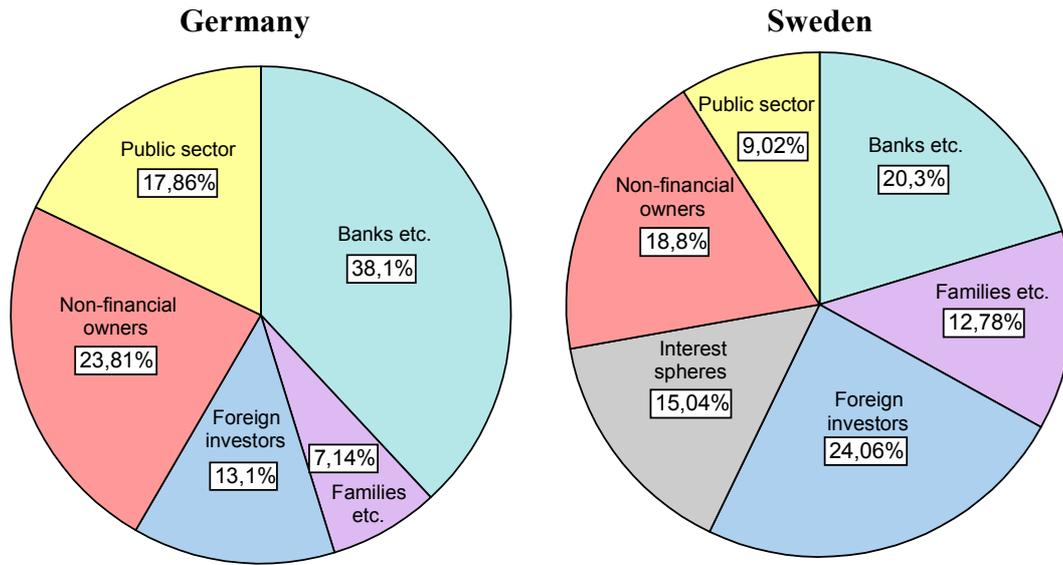


Figure 7: The major owners being debated in German and Swedish newspapers.

	Germany		Sweden	
	Obs. N	Exp. N	Obs. N	Exp. N
Banks etc.	31	16,4	27	22,0
Non-financial	20	16,4	25	22,0
Families etc.	6	16,4	17	22,0
Interest spheres	-	-	20	22,0
Foreign investors	10	16,4	32	22,0
Public sector	15	16,4	11	22,0
<i>Total</i>	<i>82</i>		<i>132</i>	
Chi-Square		23,000		12,909
df		4		5
Asymp. Sig.		,000		,024

Table 7: Results of the chi-square test for the variable “role of ...”.

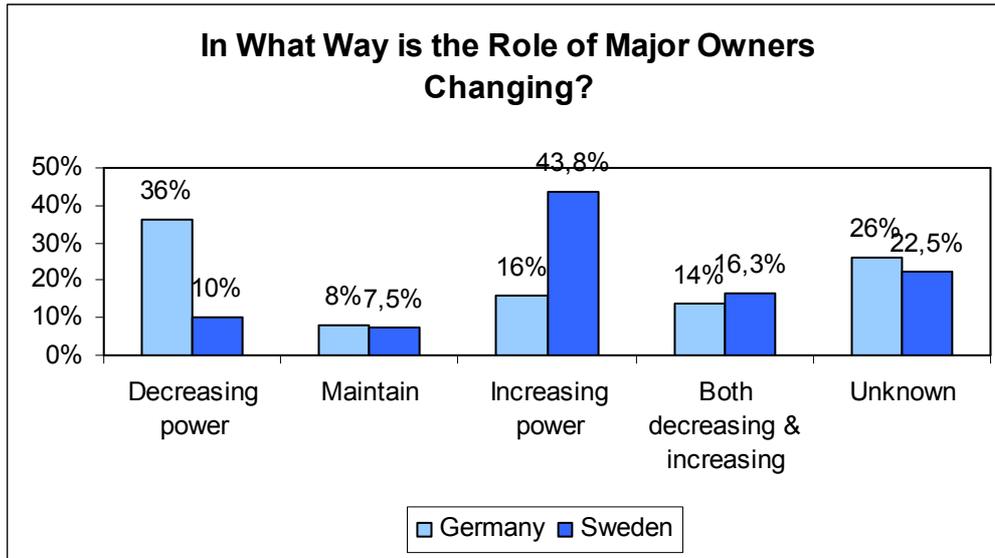


Diagram 3: Changing role of major owners.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Decreasing power	18	10,0	8	16,3
Maintain	4	10,0	6	16,3
Increasing power	8	10,0	35	16,3
<i>Total</i>	30		49	
Chi-Square		10,400		32,122
df		2		2
Asymp. Sig.		,006		,000

Table 8: Result of the chi-square test for the variable "in what way is the role of major owners changing?". (The variables "both" and "unknown" are excluded since they are irrelevant for the test.)

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) (Equal variances not assumed)	Mean Difference
Changing	Germany	30	1,67	,884			
	Sweden	49	2,55	,765	,080	,000	-,884

Table 9: Result of the t-test for the variable "in what way is the role of major owners changing?".

Appendix D: Diagrams and Tables for Hypothesis 2

Amount of articles found for hypothesis 2: Employee representation on the boards

Germany: 47

Sweden: 1

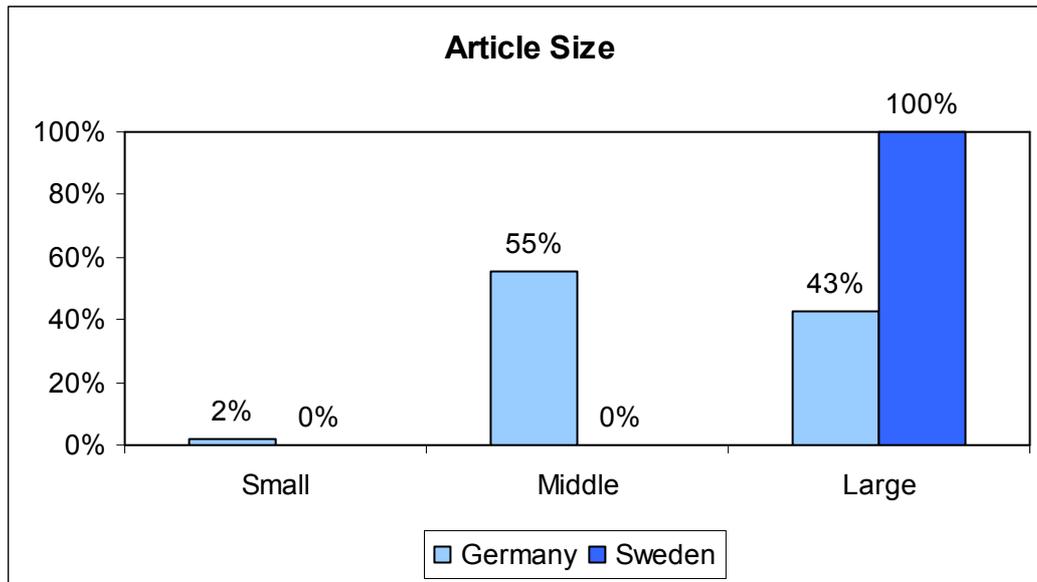


Diagram 4: Size of the articles.

Germany		
	Observed N	Expected N
Small	1	15,7
Middle	26	15,7
Large	20	15,7
<i>Total</i>	<i>47</i>	

Chi-Square	21,745
df	2
Asymp. Sig.	,000

Table 10: Result of the chi-square test for the variable "article size". (Sweden is excluded since only one article was found.)

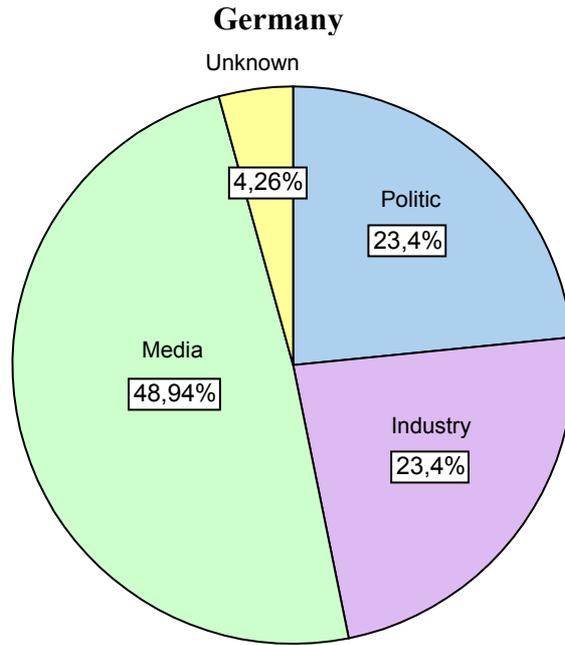


Figure 8: Origin of the debated issues in Germany (Sweden is excluded since only one relevant article was found).

Germany		
	Observed N	Expected N
Politic	11	15,0
Industry	11	15,0
Media	23	15,0
<i>Total</i>	45	
Chi-Square		6,400
df		2
Asymp. Sig.		,041

Table 11: Result of the chi-square test for the variable “origin of the debate”. (The variable “unknown” is excluded due to its irrelevance for the chi-square test while Sweden is excluded since only one article was found.)

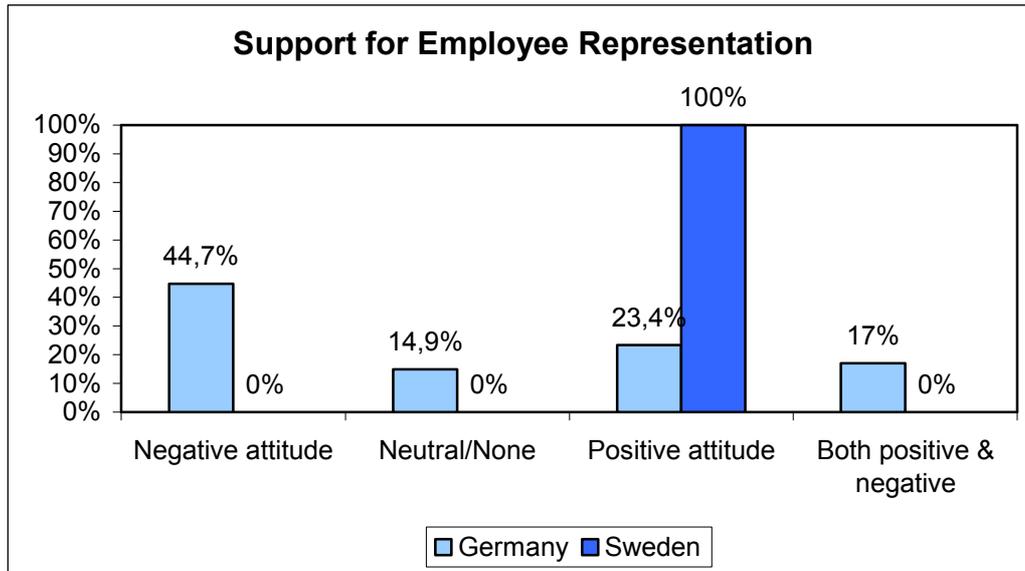


Diagram 5: Observed attitudes towards employee representatives.

Germany		
	Observed N	Expected N
Negative attitude	21	13,0
Neutral/None	7	13,0
Positive attitude	11	13,0
<i>Total</i>	39	
Chi-Square		8,000
df		2
Asymp. Sig.		,018

Table 12: Result of the chi-square test for the variable “support”. (Sweden is excluded since only one article was found.)

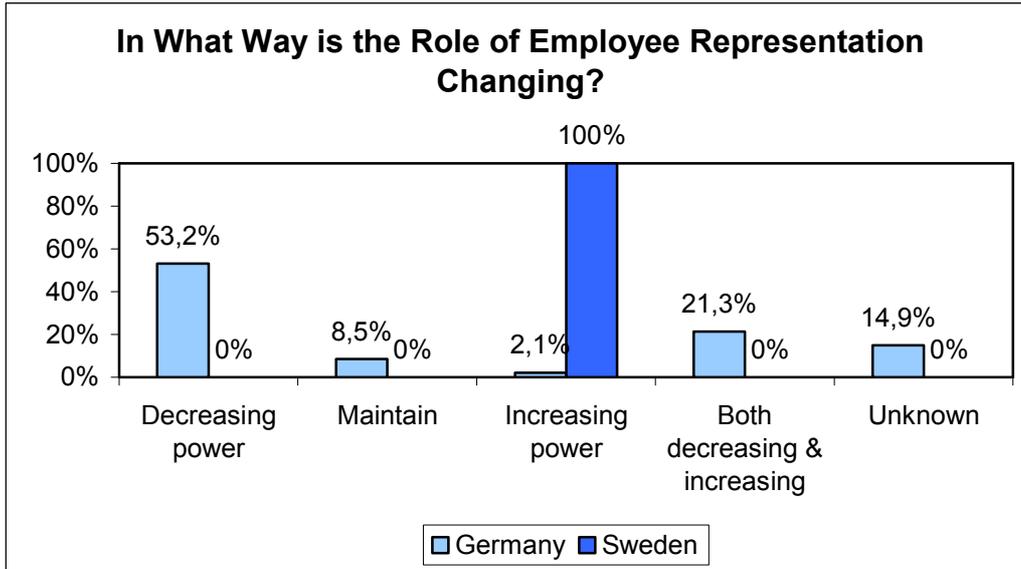


Diagram 6: Focus of the debate about the power of employee representatives.

Germany		
	Observed N	Expected N
Decreasing power	25	10,0
Maintain	4	10,0
Increasing power	1	10,0
<i>Total</i>	<i>30</i>	
Chi-Square		34,200
df		2
Asymp. Sig.		,000

Table 13: Result of the chi-square test for the variable "in what way is the role of the employee representation changing?". (Sweden is excluded since only one article was found.)

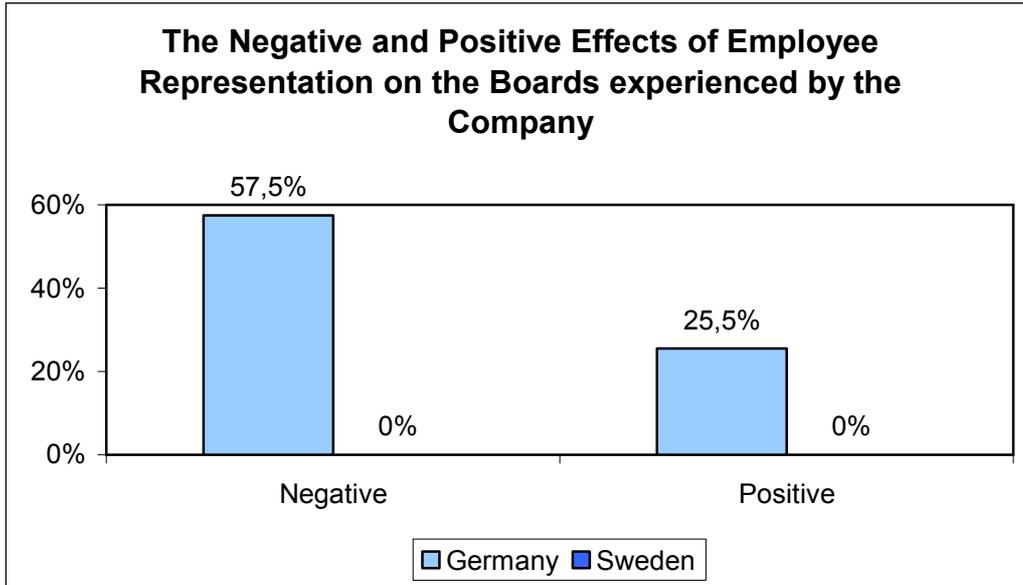


Diagram 7: Standing point towards the effects of employee representation on the boards reviewed by the newspapers.

Germany		
	Observed N	Expected N
Negative effects	27	19,5
Positive effects	12	19,5
<i>Total</i>	39	
Chi-Square		5,769
df		1
Asymp. Sig.		,016

Table 14: Result of the chi-square test for the variables "negative effects" and "positive effects". (Sweden is excluded since only one article was found.)

Appendix E: Diagrams and Tables for Hypothesis 3

Amount of articles found for hypothesis 3: Disclosure of board members' compensation

Germany: 33

Sweden: 34

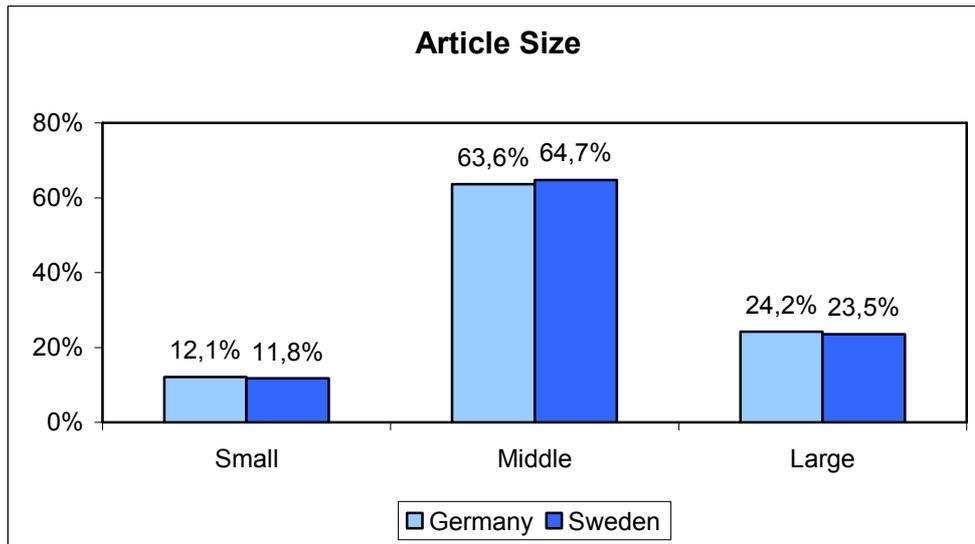


Diagram 8: Size of the articles.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Small	4	11,0	4	11,3
Middle	21	11,0	22	11,3
Large	8	11,0	8	11,3
<i>Total</i>	33		34	

Chi-Square	14,364	15,765
df	2	2
Asymp. Sig.	,001	,000

Tabel 15: Result of the chi-square test for the variable "article size".

Variable	Country	N	Mean	Std. Dev	Sig. (Equal variances assumed)	Sig. (2-tailed) (Equal variances not assumed)	Mean Difference
Article size	Germany	33	2,12	,600	,915	,981	,004
	Sweden	34	2,12	,591			

Tabel 16: Result of the t-test for the variable "article size".

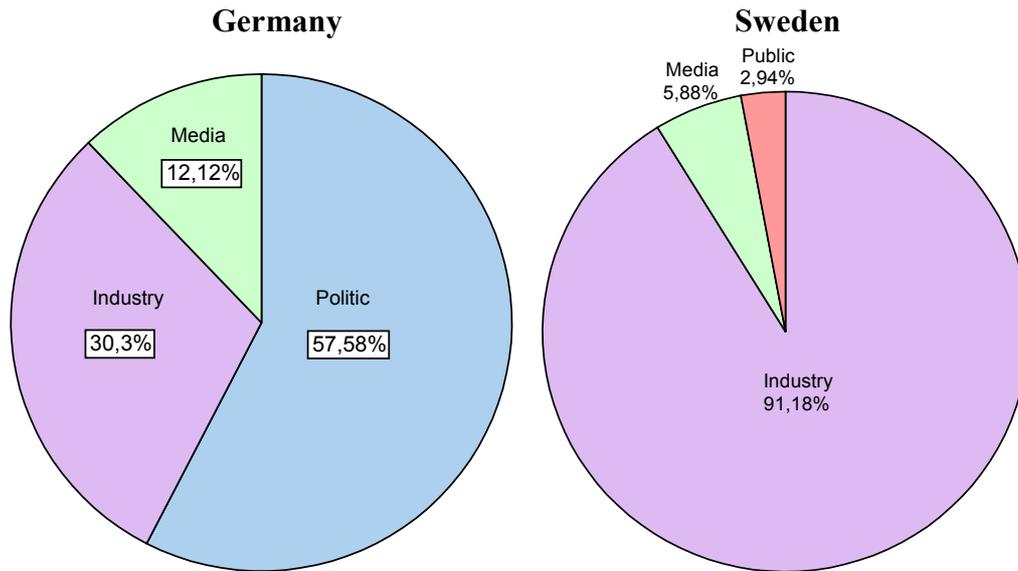


Figure 9: Origin of the debate on the compensation issue.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Politic	19	11,0	-	-
Industry	10	11,0	31	11,3
Media	4	11,0	2	11,3
Public	-	-	1	11,3
Total	33		34	
Chi-Square		10,364		51,235
df		2		2
Asymp. Sig.		,006		,000

Tabel 17: Result of the chi-square test for the variable "origin of the debate".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Cause	Germany	33	1,55	,711			
	Sweden	34	2,12	,409	,000	,000	-,572

Tabel 18: Result of the t-test for the variable "origin of the debate".

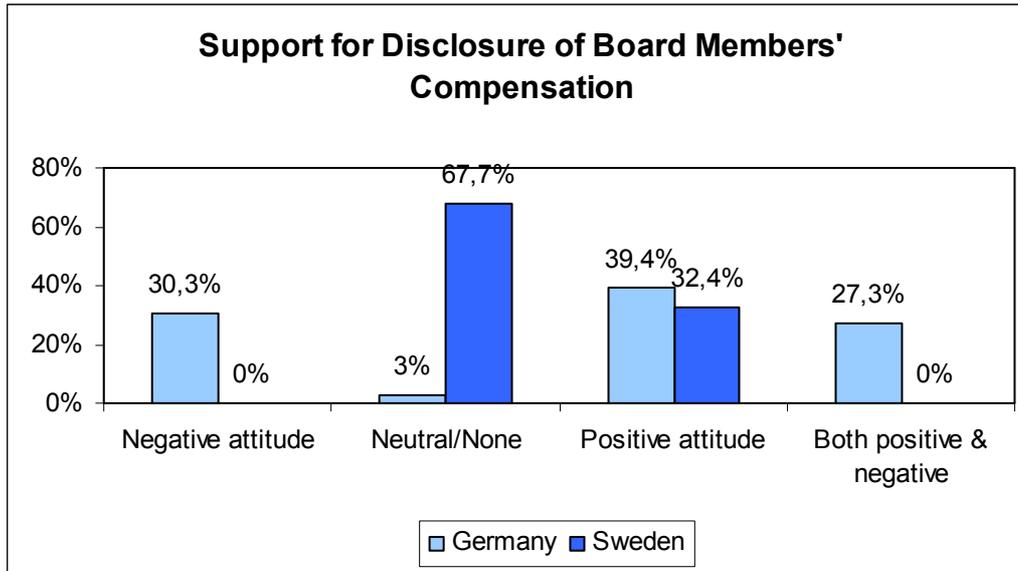


Diagram 9: Observed attitudes towards disclosure of board members' compensation.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Negative attitude	10	8,0	-	-
Neutral/None	1	8,0	23	17,0
Positive Attitude	13	8,0	11	17,0
Total	24		34	
Chi-Square		9,750		4,235
df		2		1
Asymp. Sig.		,008		,040

Tabel 19: Result of the chi-square test for the variable "support".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Support	Germany	24	2,13	,992			
	Sweden	34	2,32	,475	,000	,370	-,199

Tabel 20: Result of the t-test for the variable "support".

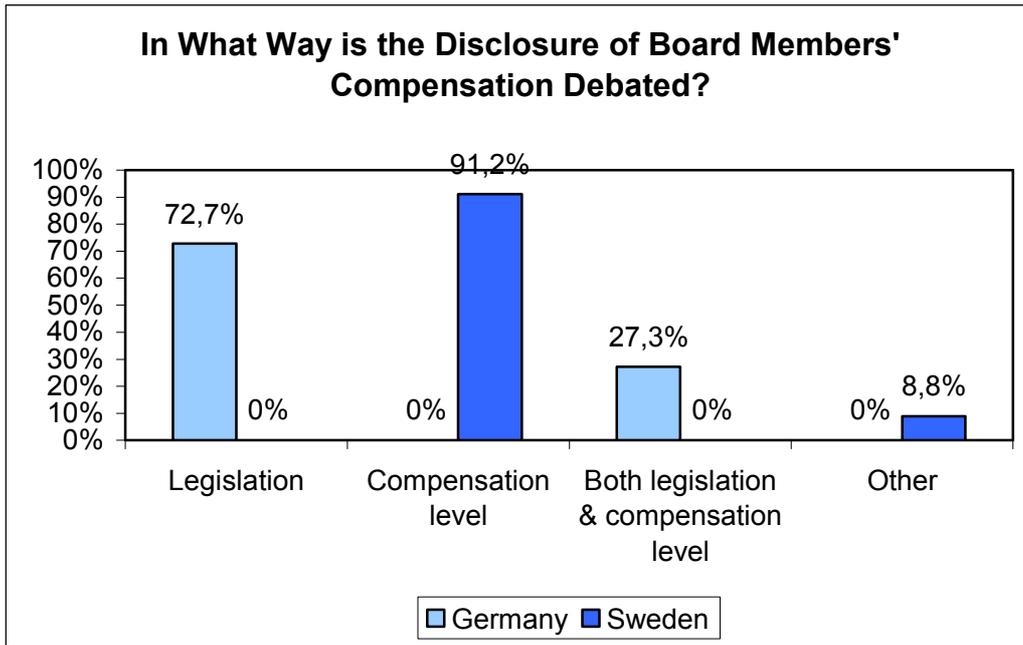


Diagram 10: Focus of the debate about disclosure of board members' compensations.

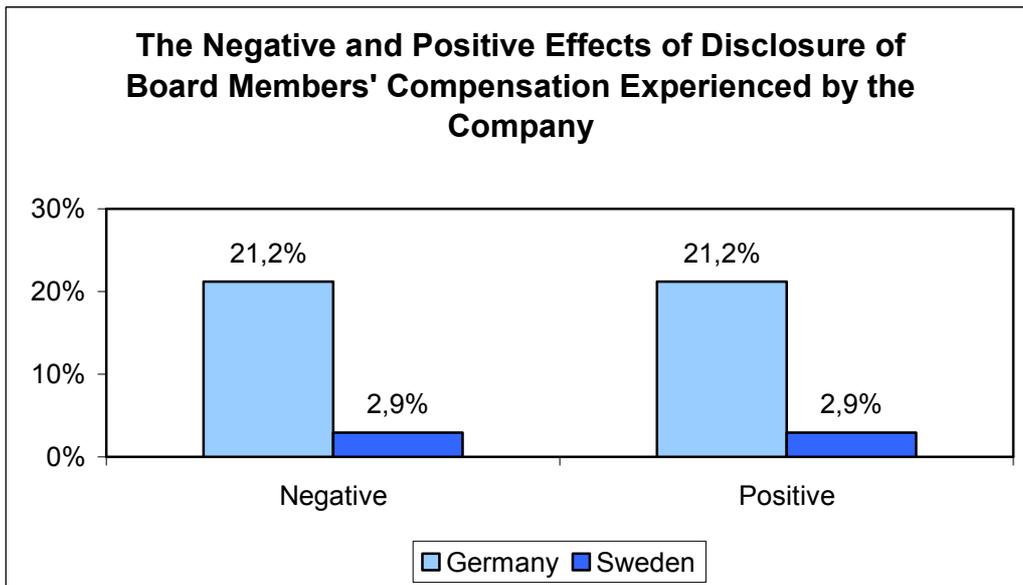


Diagram 11: Standing point towards the effects of disclosure of board members' compensation reviewed by the newspapers.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Negative effects	7	7,0	1	1,0
Positive effects	7	7,0	1	1,0
Total	14		2	
Chi-Square		,000		,000
df		1		1
Asymp. Sig.		1,000		1,000

Tabel 21: Result of the chi-square test for the variables “negative effects” and “positive effects”.

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Effects	Germany	14	1,50	,519	-	1,000	,000
	Sweden	2	1,50	,707			

Tabel 22: Result of the t-test for the variables “negative effects” and “positive effects”.

Appendix F: Diagrams and Tables for Hypothesis 4

Amount of articles found for hypothesis 4: Female directors on the boards

Germany: 18

Sweden: 40

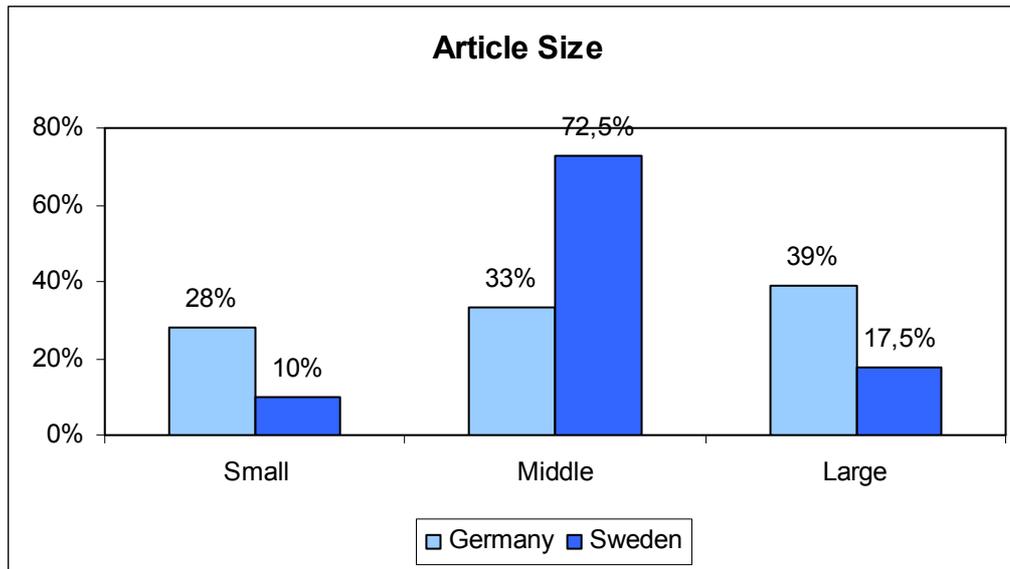


Diagram 12: Size of the articles.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Small	5	6,0	4	13,3
Middle	6	6,0	29	13,3
Large	7	6,0	7	13,3
Total	18		40	

Chi-Square	,333	27,950
df	2	2
Asymp. Sig.	,846	,000

Tabel 23: Result of the chi-square test for the variable "article size".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Article size	Germany	18	2,11	,832			
	Sweden	40	2,08	,526	,003	,867	,036

Tabel 24: Result of the t-test for the variable "article size".

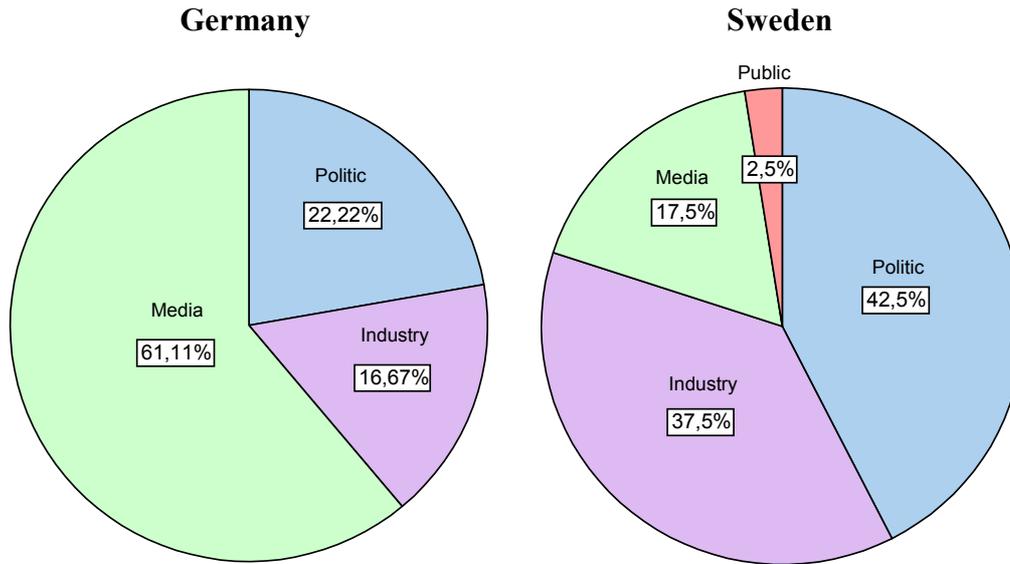


Figure 10: Origin of the debate on the female directors issue.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Politic	4	6,0	17	10,0
Industry	3	6,0	15	10,0
Media	11	6,0	7	10,0
Public	-	-	1	10,0
Total	18		40	
Chi-Square		6,333		16,400
df		2		3
Asymp. Sig.		,042		,001

Table 25: Result of the chi-square test for the variable "Origin of the debate".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Cause	Germany	18	2,39	,850			
	Sweden	40	1,80	,823	,582	,019	,239

Table 26: Result of the t-test for the variable "Origin of the debate".

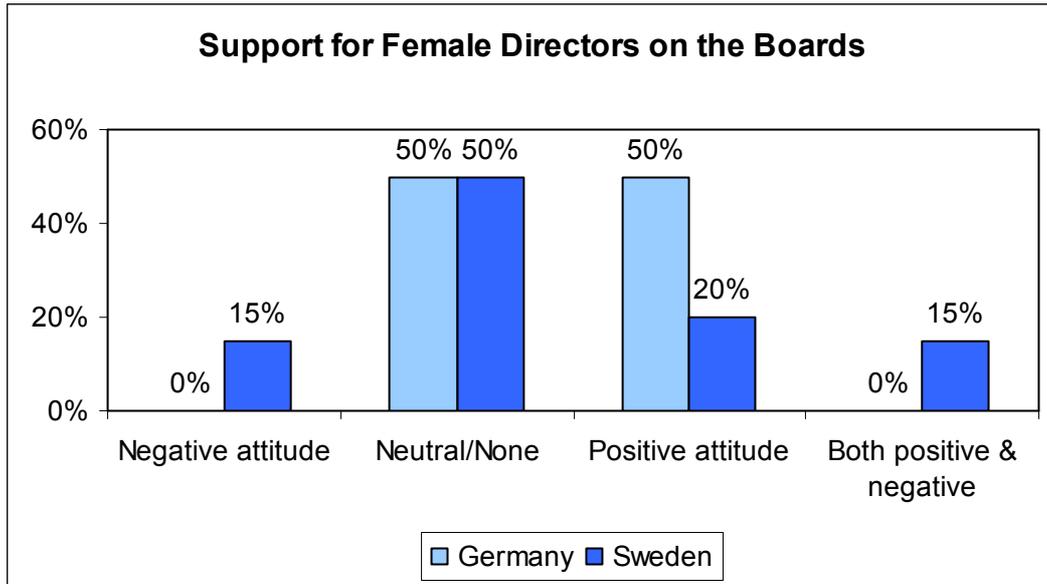


Diagram 13: Observed attitudes towards female directors on the boards.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Negative attitude			6	11,3
Neutral/None	9	9,0	20	11,3
Positive attitude	9	9,0	8	11,3
Total	18		34	
Chi-Square		,000		10,118
df		1		2
Asymp. Sig.		1,000		,006

Tabel 27: Result of the chi-square test for the variable "support".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Support	Germany	18	2,50	,514			
	Sweden	34	2,06	,649	,608	,010	,441

Tabel 28: Result of the t-test for the variable "support".

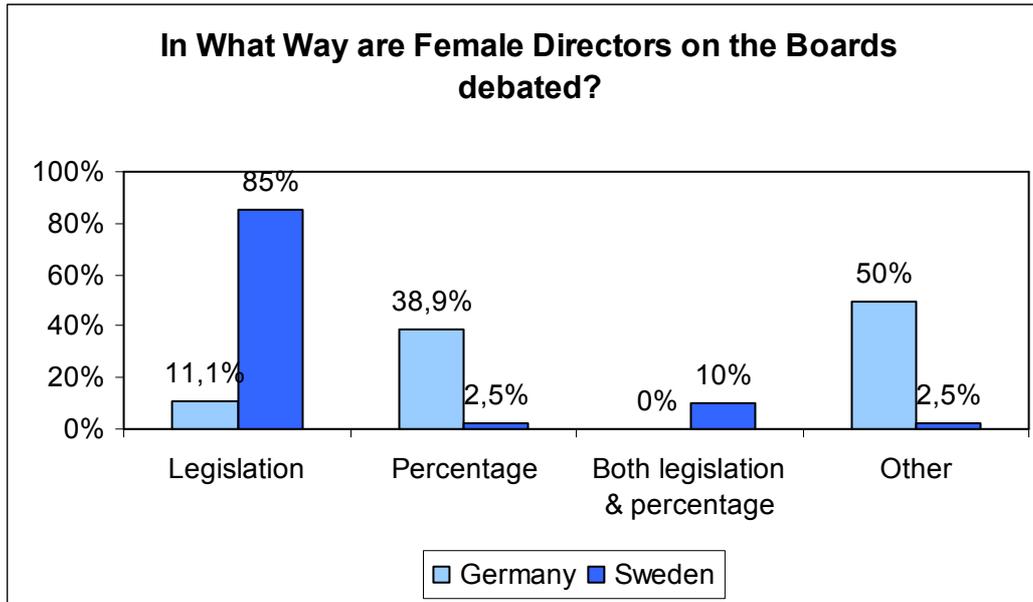


Diagram 14: Focus of the debate about female directors on the boards.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Legislation	2	4,5	34	17,5
Percentage	7	4,5	1	17,5
<i>Total</i>	9		35	
Chi-Square	2,778		31,114	
df	1		1	
Asymp. Sig.	,096		,000	

Table 29: Result of the chi-square test for the variable "in what way are female directors on the boards debated?". (The variables "both" and "other" are excluded since they are irrelevant for the test.)

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
What way	Germany	9	1,78	,441	,000	,001	,749
	Sweden	35	1,03	,169			

Table 30: Result of the t-test for the variable "in what way are female directors on the boards debated?".

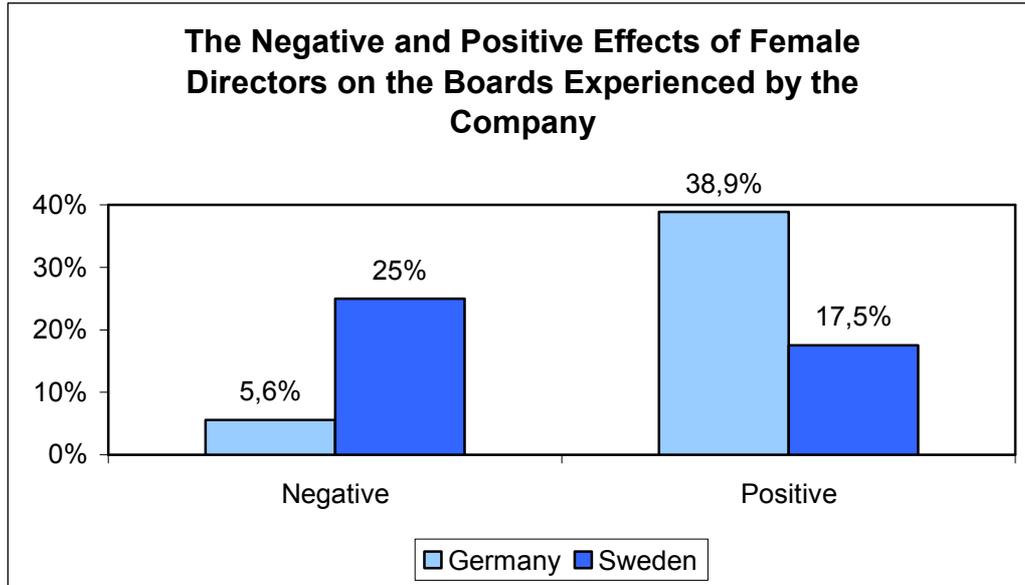


Diagram 15: Standing point towards the effects of female directors on the boards.

	Germany		Sweden	
	Observed N	Expected N	Observed N	Expected N
Negative effects	1	4,0	10	8,5
Positive effects	7	4,0	7	8,5
Total	8		17	
Chi-Square		4,500		,529
df		1		1
Asymp. Sig.		,034		,467

Tabel 31: Result of the chi-square test for the variables "negative effects" and "positive effects".

Variable	Country	N	Mean	Std. Dev.	Sig. (Equal variances assumed)	Sig. (2-tailed) Equal variances not assumed	Mean Difference
Effects	Germany	8	1,88	,354	,001	,016	,463
	Sweden	17	1,41	,507			

Tabel 32: Result of the t-test for the variables "negative effects" and "positive effects".