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Institutional Ownership

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a paradox where long-term goals are promised in theory but short-term act occurs in practice?

Bachelors thesis

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Abstract

The development of the capital market in Sweden in recent years has transformed the ownership in companies from private owners to large institutional owners with a main focus on investment companies, insurance companies and pension funds. Institutional investors are accused of being passive owners with a strict focus on short-term financial results and of having no interest in developing companies and building long-term relationships. There has though been an increasing trend in the business sphere towards different forms of ownership activity and corporate engagement where an increasing number of institutional investors present themselves as active owners with a sense of responsibility and genuine interest in companies, due to pressure from the society. Owners are however obliged to earn profit and present positive short-term results to shareholders and customers in order to survive in the competition and we believe that it can be difficult to combine both long and short-term goals. The purpose of this study has therefore been to examine whether a paradox exists within institutional ownership where long-term goals are being promised in theory but short-term act occurs in practice.

To fulfill our purpose we have conducted interviews with the largest investment company in Sweden, Investor AB and Folksam which is one of the leading insurance and pension companies. We have also thoroughly studied the literature on the subject and followed the public debate regarding institutional ownership.

Our study revealed that institutional ownership is a complex matter and although many similarities can be found between theory and practice, we discovered that institutions and their ownership cannot be generalized. Institutional owners have different goals due to differing conditions and activity and engagement is therefore not something that suits all owners and their business concepts. A paradox between long-term promises and short-term acts do exist but not to the same extent that we initially thought. In our discussion we reason about the definition and development of institutions and ownership and come to the final conclusion that maybe there is not such a thing as institutional ownership in reality.

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1. Introduction

In this chapter we will give an introduction and background to the subject institutional ownership and present common views and issues surrounding the matter. In this part we will also explain why we have chosen to investigate this subject and why we believe that it is an important issue to discuss. Also our purpose and focus within this study will be presented.

During the last 20 years the institutional ownership in companies has increased rapidly, driven in particular by privately- and state-owned pension funds. Even institutions such as investment and insurance companies constitute large owners on the stock-market today and have contributed to the increase in institutional ownership. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Today, Swedish and international institutions manage more than 85% of the ownership in Swedish companies listed on the stock-exchange whereas individuals only hold 15%.

The consequences of this development are radical where the ownership role has been weakened and today only is perceived as a financial placement. The institutional perspective is often based on short-term goals even when it comes to managing capital with a long-term investment horizon. (www.aktiespararna.se, 090502) We are under the impression from media and current debates that institutions, especially pension funds and insurance companies, that in reality should be able to invest at a long-term perspective, base their business on short-term results which decide where the capital is being invested.

There are also many institutional owners who do not take the same responsibility for the companies as previous private owners did. Some institutional owners are prohibited by law from taking more responsibility because of a limit of shares that are allowed to be held in a company and they therefore only act as financial investors. Some people claim that the increasing development towards institutional ownership tend to create anonymous owners that lack insight and control over companies while some believe that the variety of owners with different backgrounds, financial goals and time horizons on the Swedish market is good for companies. There are however increasing opinions towards the importance of ownership engagement and that it is time for institutions to take their responsibility in order to maintain an effective economy and a functioning stock market. (www.aktiespararna.se, 090502)

We believe that there are tendencies that indicate hypocrisy since many institutions talk about how they protect the companies they invest in and have a long-term perspective but at the same time stress that maximum dividends is the most important goal. High dividends are also required to survive in the competition on the market. The pretty words about striving after a positive development of the society on a long-term basis does not agree with their behaviour since it seems like institutions rather sell of their shares and leave the company in a case of bad results than attempting to affect and change the situation in their role as owners.

This is the paradox that we believe exists, institutions promise to act on a long-term basis but in reality do what is most profitable based on a short-term perspective and it is our aim to investigate this in our study.

This is an important problem area to investigate because we believe that it is not durable to act in a short-term perspective since it may have adverse effects on companies' development and affect employees and the society as a whole. Acting on a short-term basis may dismiss the possibility for companies to take a large social and environmental responsibility which would not only be profitable for companies in the long run but also necessary for our civilisation to be able to survive on this planet.

We further believe that individuals should have knowledge about where their money is being invested and not be fooled to believe that their money contribute to the better when the reality

may be the opposite. People should not be forced to do solid researches on how the institutions administrate their money but instead be able to trust that what institutions claim in theory also happens in practice. We are the owners of capital and many of us lack the awareness and knowledge about how and where our money is invested and the consequences that derive from it. As long as there is a lack of pressure from us capital owners on the institutions to act in a different way, they can keep on running their business like before and no changes will be made.

1.1 Background

Institutions in form of insurance companies, pension funds and investment companies have in recent years become a huge actor on the capital market both internationally and in Sweden. (Hedlund, Hägg, Hörnell, & Rydén, 1985). There has been a transition from a high owner concentration dominated by individual owners to a more wide ownership with large and anonymous institutional investors.

Many are worried about the new ownership structure where institutional owners are not believed to exercise an active ownership responsibility and it is a highly debated subject. (Pålsson, 2001)

The ownership perspective has been reinforced in the Swedish economy in recent years. Ideas such as shareholder value and corporate governance are used frequently today and ownership questions are regular subjects for discussion in the corporate sphere.

The increasing focus on ownership and its content is due to the development of the capital market and new financial instruments. Together with a wide academic activity, financial control began taking place in the economy in the 90s, reaching out to never before approached contexts. At the same time an increase in indirect ownership through institutions and funds occurred that created a new group of actors so called capital trustees. These new actors had partly different motives than previous direct owners. They were interested in active stock markets that eventually lead to shorter holding periods creating short-term ownership within institutions and funds. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Shareholding has changed from a concrete investment and relation with the company in question to an abstract ownership with anonymous capital. It is today common that companies are owned by other companies and organizations where the ownership is represented by officials from various institutions. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Early institutional owners had no incentives to influence the company management what so ever and even though many institutions today claim to be more involved, the question still remains if they really have strong incentives to do so or if they are driven by purely financial results?

The external ownership has caused a worry that the company managements are becoming more focused on short-term goals to please investors while the organizational activities and long-term views suffer. Recently new views on ownership have surfaced and are challenging the capitalistic view. Apart from financial results, consideration is taken toward social responsibility and wider ownership activity. It is time to move away from narrow short-term capitalism and on to a broader perspective on ownership. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

1.2 Problem analysis

1.2.1 Why is it a topical issue?

The shift in the relationship between corporations and its shareholders has been dramatic and important. Ownership has become more and more fractionated as corporations have grown and the gap between the owners of the money and those who control it has increased. (Monks & Minow, 1995) Many people share Monks and Minow's (1995) opinion about an increased

fractionated ownership and since the companies are growing larger it is hard to see signs of a reverse in this trend. But others such as Jensen et al. (1991) points out that more and more organizations will be characterised by a concentrated ownership and that spread ownership is an obsolete form of governance. (Jensen & McKinsey, 1991)

We believe that problems with short-term act have increased along with an increased institutional ownership in companies that leads to more influence over the company's government. Since many modern companies have grown very large they need capital from external financiers and these capital requirements have enabled institutional ownership. Considering the institutions' financial demands, management and CEO: s are constantly pressured to live up to profit expectations and a consequence can be that too much energy is put into producing shareholder value instead of focusing on daily activities and developing the business. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

One effect of institutional ownership is that the owner power is being weakened concerning designation of goals for the owned company. This occurs because institutions' main purpose with the investment may be to secure for example pension savers money and through good yield reach a high refund to the pension savers. Institutions like pension funds and insurance companies are also forced by law to spread the risk by having shares in many different companies. For some institutions there are also laws that limit the size of shares possible to own in a company listed on the stock market which makes it harder for these institutions to set out long-term goals for the owned company. The owners' competence is within another area and therefore the company management is responsible for formulating these goals. (Hallgren, 1996) But at the same time the company management has to fulfil the institutional demands on constant growth in value to receive support from institutional owners.

We believe that the paradox where institutions promise long-term thinking but act on a short-term basis is mainly possible because of today's problem with supervising. These kinds of problems with institutional ownership arise when possibilities of monitoring are insufficient and it is costly both in terms of time and money to become familiarized with what institutions really do in practice. On the other hand many people may not even be interested as long as they receive high income from their capital or low premium on their insurance and they therefore do not question how institutions work and what goals they may have. But the awareness in the society about the untenable situation which we find ourselves in today, is growing. This has lead to a high pressure on change and the demands are only increasing. This has drawn attention to problems concerning institutional ownership and therefore make it a highly topical issue to investigate.

1.3 The current debate

Institutional ownership has lead to many debates in the society concerning especially the development of ownership, the short-term capitalism and the reward systems that have been highly noticed due to recent scandals within Swedish institutions. The debate about overpaid executive directors is still a pressing issue today as well as several years ago. It is according to Mallin (2004) driven by the observation that high bonuses have been paid out without a corresponding performance and Berggren (2003) says that this has been possible because the figures that the bonuses are based on can easily be manipulated due to a lack of control from owners and limited knowledge in the society. Berggren (2003) further says that these compensations have been possible to realize because there is a lack of an active ownership. Another current subject is the tendency of a shift in ownership towards governmental intervention concerning reward systems and bonuses. This will be discussed more closely in our empirical research.

Due to these current debates about institutional ownership along with a broad theoretical foundation, we believe that this is an interesting subject to examine and to come to conclusions about how institutional ownership is exercised today and what the future holds.

1.4 Purpose

Our purpose with this essay is to study institutional ownership by looking at theory and practice. On the basis of theoretical and empirical information, we hopefully will be able to draw a conclusion whether a paradox in institutional ownership exists where long-term goals are being promised in theory but short-term act occurs in practice.

1.5 Issue

To fulfil our purpose the following questions shall be answered:

What is the definition of ownership today?

What is institutional ownership and what consequences has it led to in society?

What is according to theory defined as an active institutional ownership?

How do different kinds of institutions practice their ownership in reality?

Is there a gap between owners and control today and what does the future hold for institutional ownership?

1.6 Outline

In Chapter 2 we will discuss the chosen method. Here we will thoroughly describe our mode of procedure throughout the study and explain why we have chosen a qualitative method with an inductive approach along with deductive elements.

In Chapter 3 we will present the theoretical frame of reference and describe important concepts within institutional ownership. The aim with this chapter is to create a foundation and an understanding for the issues concerning institutional ownership in order to conduct an empirical research.

In Chapter 4 the results of our empirical research will be presented with primary data from our conducted interviews and secondary data from the current debate in the society concerning institutional ownership.

In Chapter 5 the empirical results will be tested against our theoretical frame of reference and we will analyze whether the theories in practice agree with the actual work in reality.

In Chapter 6 we will discuss the results from the analysis in relation to our purpose and issue. Here also our conclusions concerning institutional ownership will be presented and suggestions to further investigation will be made.

2. Method

In this chapter we will describe our approach and strategy for this investigation, our respondents and on what criteria they have been chosen. Further we will discuss the gathering of information from additional sources and how we have worked with and analyzed the material. We will also critically reflect over the methods we have selected and how our choices might have affected the quality of this investigation.

2.1 Approach and strategy

To be able to fulfil our purpose we have focused our primary strategy on personal interviews and the respondents' answers and opinions have been a corner stone of this report.

When conducting our interviews we primarily focused on open questions which are required in order to be able to understand a phenomenon. In other words, we used a qualitative approach in our study. Qualitative data consists of material from personal interviews with open questions where the detailed answers make it easier to interpret and reason about the collected material. The goal with the qualitative approach is to create a deeper understanding for the selected object and the connections with the case in question and its surroundings. (Andersen 1998) It was important for us to be able to draw our own conclusions and reflections based on the respondents' answers and that is a main reason to why we selected a qualitative approach.

Some of our interview questions were although of a more specific character where we asked for certain numbers and the investigation therefore also had a smaller quantitative character where data is based on statistical figures and numerical results. (Nyberg, 2000)

Our aim was to look at how institutions work today and the questions were therefore formulated to receive information about the current situation. Our focus has been investment companies, insurance companies and pension funds. Through three interviews we have tried to investigate each institution and the difference between them to find out how large institutions practice their ownership in Sweden today.

Our aim with this paper is to study the theoretical frame of reference when it comes to institutional ownership and then apply it to the witnessed reality within institutions. A study where the theory is used to test the empirical results is called a deductive approach, meaning that general statements and different theories are being tested against the collected empirical material. (Johannessen & Tufte, 2003) Our method is therefore a subject of a deductive strategy where we will derive hypothesis from the existing theory and put it against empirical research in order to draw conclusions. The opposite strategy is called an inductive approach and means that the examination has its starting point in the empirical research. Data is collected in real cases as a quest to find general patterns that can lead to new theories. Conclusions are drawn from special cases to general views. (Patel & Davidsson, 1994) Our method can also to a certain degree be interpreted as having an inductive approach since our main interest lies in our conducted empirical research and because we first noticed an interesting phenomenon in reality and then searched for theories to explain the matter. We have used empirical information and our respondents' answers to come to conclusions about general views and beliefs which possibly can generate an alternative theory on institutional ownership and what the future holds for it. Our strategy can therefore be explained as a combination between a deductive and an inductive approach. The combination can be described as having its starting point in empirical research but at the same time considering the theoretical frame of reference. (Alvesson & Sköldberg, 2008) The empirical material we have collected may be used to find general patterns and create new theories.

2.2 Method for our investigation

This section describes how we have carried out the investigation. Primarily our literature study will be explained and after that our choice of respondents will be motivated. At the end of this part we will describe the process of gathering information.

2.2.1 Study of literature

We began our study by doing a general search on the internet, searching on words like institutions, institutional ownership and corporate governance. Our purpose at that stage was to find general information about our topic and current subjects concerning institutional ownership today. After that we needed to do a deeper research and started to look for similar essays to examine what had been written earlier on this subject and to get information about writers in this field. We then used different search engines like for example Google Scholar to find suitable articles. We also used literature from the Economic Library at Gothenburg's University. We extended our search to include specific institutions like pension funds, insurance companies and investment companies. Most of the theory was gathered in April. Besides the sources mentioned above, we have, especially in the later stage of our study, been following the public debate through broadcasted news and online media. That has been necessary since questions recently have been brought up which to a high degree is relevant for our subject.

2.2.2 Why these respondents?

According to Denscombe (2000) respondents can be opted through either a non-probability or a probability selection. We used the former one which means that our selected institutions do not have to be representative for all institutions. Further we have chosen our respondents subjectively based on their position and competence within the institution. To fulfil our purpose we needed to interview highly placed employees who handled questions concerning the ownership within institutions and financial placements since we believed that they could provide the most valuable information for our purpose, which according to Denscombe (2000) often is the reason to why a subjective selection is being made.

Because of current issues surrounding institutions and their ownership, we wanted to investigate two of the largest institutions in Sweden since they are a part of this public debate. We also wanted to investigate different types of institutions to see how they differed in their ownership. We decided to look at the largest investment company in Northern Europe, Investor AB, and the largest insurance and pension company in Sweden, Folksam. The reason to why we chose Investor is because we wanted a large investment company with active shareholders to see if their answers differed in questions concerning ownership compared to an institution who more or less lacks active shareholders. Folksam represent the last mentioned institution and since they both handle insurances and pensions, they administrate a large amount of the Swedish people's money. We believe that the Swedish people in general lack knowledge about how their money is being administrated by institutions like Folksam and we therefore chose this large and influential company with a significant role in the society where people would benefit from receiving this information.

2.2.3 Collection of data

Our main tool for the empirical part of this essay was qualitative interviews. According to Kvale (1997) a qualitative interview is a conversation between two parties where knowledge is being developed through a dialog and where the results are being presented in words, not tables. (Kvale, 1997) We considered this kind of interview to be the best alternative since we needed more detailed answers and a chance to ask additional questions which required that a dialog could arise. Denscombe (2000) also claims that interviews are the best way to receive detailed information from fewer respondents.

In our investigation we conducted two personal interviews and one telephone interview. An interview has different levels of standardisation and structuring. A certain degree of standardization is needed to be able to compare the results which we had to do to fulfil our purpose. Our questions were therefore written in advance and handed out to the respondents. Both institutions received the same interview guide but during the interviews we also asked additional questions based on the specific institution. The degree of structuring depends on how open the questions are. If the respondent has been given answer-alternatives it is highly structured and the opposite goes for an unstructured interview. (Patel & Davidsson, 1994) To get a deeper understanding of our problem area we mainly used a fairly low degree of structuring. Denscombes (2000) definition of our interviews would be semi-structured, which implicates that the questions are open but written beforehand and followed during the interview.

When we decided to do interviews, we first tried to contact our respondents by email on the homepages of the institutions. After a few days we still had not received any answers and instead decided to contact them personally. We went to Folksam's office in Gothenburg and called to Investor's and the pension fund company KPA's head offices in Stockholm.

KPA responded through email by saying that since they are owned by Folksam we should contact them instead and gave us contact information to the right persons. Also at Investor we received a phone number to Petra Hedengran who works at the Department of Corporate Governance. Within a week we had booked one meeting with Folksam and one with Investor which both took place in Stockholm. The interview at Investor took place the 22 of April and lasted 30 minutes. We interviewed two middle-aged women named Petra Hedengran and Charlotte Nilsson, both of them working at the Department of Corporate Governance. Our first interview with Folksam took place the 23 of April and lasted for about one hour. At Folksam we had an interview with a younger woman named Emelie Westholm working with responsible ownership. The 28 of April we also had a telephone interview with Michael Kjeller, Chief of Finance at Folksam which lasted approximately 30 minutes. All four respondents received the questions a few days before the interview. By sending out the questions in advance we hoped that they would be more prepared and thereby able to give more detailed answers. Our complete interview guide is attached as an appendix at the end of this essay.

The interview guide was designed in the same way for both institutions with only one question that differed and it was divided under the following headlines: Institutions' role in general, Investments, Ownership and CSR. But at the interview with Folksam we were aware of the fact that Emelie would not be able to answer our questions concerning their financial placements. After the interview she instead gave us the phone number to their Chief of Finance who answered these questions through a telephone interview. During all interviews the respondents were able to talk freely and additional questions were asked to receive the best possible overall impression. During the interview with Investor we were limited in time and many questions were therefore only discussed briefly. Further they could not answer questions concerning CSR and instead referred to their annual report.

Since we had many questions we were aware of the risk of receiving shorter answers but we considered all questions to be relevant for our essay and hoped for the best. At Folksam, our interview guide was divided in two, one with questions concerning ownership and one concerning placements so the amount of questions was therefore not a problem in these two interviews.

The personal interviews were carried out by one of us primarily responsible for leading the interview and one for taking notes. At the telephone interview the same person was responsible for both the questions and taking notes since we had inadequate technical

equipment. But since our respondent Michael Kjeller spoke calmly and clear during the interview, we did not feel that it was a problem. After each interview we wrote down the answers on the computer together with our personal feelings and reflections since we consider the impressions to be perishable. The compilation is represented in our empirical chapter. From annual reports and each institution's home page we have gathered further information about the ownership which also is being represented in the empirical chapter as a complement to the interviews.

2.3 Credibility

2.3.1 Literature

The majority of the literature used in the theoretical frame of reference comes from either the Economic Library at the School of Business, Economics and Law or from scholarly articles from the University Library or Google Scholar and can therefore be considered valid with credibility. The only questionable source may be the internet site Wikipedia that some consider being unreliable. We have though only used this source to define certain concepts and generally known facts which have been confirmed through other sources as well.

The additional empirical information used besides the interviews was taken from annual reports and homepages that have to be considered credible. Information about current debates was gathered from the news coverage which should be quite reliable although newspaper can always be questioned since their primary goal might be to sell single copies and not always to print the entire truth.

Some of the used literature and theories are dated as far back as to the 30s and the 60s and may be considered old but we believe that they are still very current and can be used to discuss and analyze the institutional ownership today. According to us, it is also interesting to compare the development of ownership and see if these old theories are still valid today or if there has been a significant change. We have also used more recent theories and newer literature and we therefore believe that we have a good mixture that can help us to reach our purpose with this study.

There is though a risk with a qualitative analysis that the result will be simplified because information that is not in accordance with other outcomes is being ignored. (Denscombe, 2000)

2.3.2 Primary or secondary data

There are two types of information that can be used in a study, primary and secondary information. It is optimal to use both types in order to gain several perspectives and to be able to compare the information and that is what we have aimed to do in our study.

Primary data is information that is being collected for the first time to be used to analyze and discuss a certain issue. (Jacobsen, 2002) In our case the primary data consists of interviews where we have directly received information from various respondents. Secondary data is information that has been collected by others and often with a different aim than the one in the current study. We have used secondary data in form of literature and scholarly articles in our theoretical frame of reference and current debates as a part of our empirical research. We have tried to remain critical in our use of both primary and secondary data and their relevance for our study.

2.3.3 Respondents

Even though we are satisfied with our mode of procedure there are obviously certain matters that could have been handled in a better way and maybe lead to better results.

We initially hoped for more interview respondents in order to get a better understanding of the current ownership by comparing the results with a larger amount of institutions. A larger group of respondents would have increased the credibility in our research and also given us a

wider foundation for discussions and conclusions. But it was a lot harder to gain access to people who would be appropriate for our investigation and able to answer questions about ownership and activity than we initially thought. We were warned about the difficulty of gaining access to influential respondents by our instructor and we discovered early on that companies were not very interested in participating and answering questions about their business. We believe that the resentment towards interviews is maybe due to the fact that companies are afraid of being scrutinized and questioned because they might fear that a possible hypocrisy will be discovered. Companies may promise more than they can achieve in reality within their business and they therefore try to avoid questions that can blow their cover and ruin their reputation. The access problem points to the possibility that our issue with this report is valid and that a paradox may exist.

Despite the difficulties with access, we did not give up. We were in need of respondents at fairly high positions within large institutions but considering the time limit and the distance, where most institutional headquarters are located in Stockholm, the task was easier to be said than done.

We also probably used the wrong method at our first attempt to contact possible respondents and relied on email-requests which was a mistake since it took too long to receive any kind of contact and in a lot of cases we did not even get a reply. Once we figured out that the best approach was direct phone calls, we had lost valuable days and the time schedule was very tight at that point. Considering the limited time schedule and the difficulty in getting access to the right people we are still very satisfied with our respondents and believe that we have sufficient and valuable information that can be used to form a valid discussion and draw reasonable conclusions.

2.3.4 Interviews

The credibility can also be discussed when it comes to the empirical material that we have collected from our interviews. The interview with Investor was very limited in time which meant that we did not have the possibility to discuss certain questions nor much time to ask further questions and gain a deeper understanding. Our respondents totally dominated the interview and quickly answered questions in a rehearsed way. They were probably used to answering these types of questions and therefore we unfortunately only got fairly superficial answers that we most likely could have gained from annual reports and other publications. Our respondents at Investor were not as open as we would have liked them to be and we did not get an opportunity to gain more inside information. Some questions were avoided by our respondents and instead they referred to annual reports where the information was just as defective. Considering the limited information, we may have missed out on some valuable facts that could have increased the credibility but we still managed to discover some conflicting facts that will be valuable in our discussion and analysis.

The interview at Folksam was the opposite where our respondent was very open and talkative but unfortunately lacked knowledge about important subjects and was unprepared. She was only familiar with her own area of responsible ownership which we felt was not enough for our study. Limited knowledge is obviously not very credible since the information can be angled and misleading and we therefore conducted an additional interview with the Chief of Finance at Folksam to get another perspective that would increase the credibility.

There are also some disadvantages with interviews in general discussed by Denscombe (2000) that can affect the credibility of the study. When conducting interviews the results can be affected by the identity of the respondent and his or hers subjective thoughts and it can therefore be difficult to get valid information.

2.3.5 Technique

When we conducted our personal interviews we did not use any technical devices such as tape recorders or Dictaphones but instead opted for traditional notes. There is a disadvantage with not using any equipment for recording since it is difficult to write down everything and there is a risk that some information is being missed out on. It is also impossible to listen to the interview again afterwards and use quotations and that can limit the use of information and affect the credibility.

But there is also an advantage with not using recording equipment because the respondent may be inhibited by the recording and that can affect the results of the interview. (Denscombe, 2000)

We feel that we managed to write down the most important facts and we also went through the information immediately after the interviews to be sure that we did not forget something essential.

Even during our phone interview we did not use tape recording or a speaker phone but instead relied on one person to both manage the interview and handle the notes. We only had a few hours of preparation for the phone interview from the moment it was booked to the time it was conducted and we did therefore not have time to arrange any technical devices. The main disadvantage is of course that both of us were not able to participate and it was therefore quite difficult to ask additional questions while listening and taking notes at the same time. The information gained is based on what one person manages to apprehend which of course can question the credibility but we have confidence in each other's ability and we therefore did not feel that the lack of technical devices was a problem.

After gathering the empirical material, we divided the information into areas concerning investment, ownership, activity and CSR where the respondents' answers were arranged and processed through these main subjects. The areas were also used to analyze the material and connect it to corresponding subjects described in the frame of reference.

We then focused on each one of the companies and supplemented the information gained from the interviews with additional general information about each company through annual reports and homepage information.

2.3.6 Validity, reliability and objectivity

When transforming theoretical data into empirical research there are two important factors to consider, these two are validity and reliability.

Validity is used to estimate whether the result from the researched objects corresponds with reality and if gained information is valid and relevant in the specific context. (Björklund & Paulsson, 2003)

In our empirical research we have used interviews and additional public documentation that we consider to be valid and credible. The interview questions were based on the theoretical frame of reference and partly developed in consultation with our supervisor who is familiar with the subject and has a wide experience in different empirical methods.

The validity is also strengthened by having semi-structured interviews which means that the questions are relatively open and made for discussion but that there is a defined structure in the interview that the questions are based on. In our method we used semi-structured interviews where we had a clear and defined structure on what information we wanted to gather but where the questions were open and stimulated to a deeper discussion. In this case data can be controlled and confirmed while gathering and it is therefore a valid method. (Denscombe, 2000)

Reliability is based on the credibility in the used methodological measuring instruments and questions whether the same results would be achieved if the subject was to be studied several times. (Björklund & Paulsson, 2003)

The reliability in our study is hard to judge since we mostly have used a qualitative approach that is based on interviews and subjective answers from our respondents. But we believe that our respondents were very representative for our study and we are confident that the results would have been pretty much the same if the research was made again.

In order to get reliable information and avoid misunderstandings we tried to formulate neutral questions and ask them objectively so that our respondents could speak freely about the subject and not be pushed into a corner. To remain objective and have a neutral attitude towards the subject was probably the most difficult challenge since we initially had our own opinions and ideas about institutional ownership and it was hard to conceal them during the interviews with our respondents. At the same time it is not credible to rely on solely the answers of respondents since they are subjective and only representative for their thoughts and ideas about the reality. We therefore intend to use a mixture of opinions from both theoretical and empirical resources in order to come to our own personal conclusions and views on institutional ownership in reality.

We are aware of the fact that our limited amount of respondents is a disadvantage since it is hard to draw any conclusions based on such limited information. But we do although believe that our selected institutions are representative for each area and that the received information has been enough to make an interesting analysis and that it also has been enough to reach a fruitful discussion and draw conclusions about our subject.

3. Theory

In this chapter a theoretical frame of reference will be created. Important concepts and ideas regarding institutional ownership will be described and connected to the main issue with the study. The chapter will contain an introduction to the concept of institutions and ownership and continue with a deeper report concerning the development of institutional ownership with a focus on corporate governance, corporate engagement and long- and short-term perspectives within current ownership.

The theories in this chapter will also be used as a foundation when constructing questionnaires for interviews and also be analyzed against the following empirical research in the upcoming chapters.

This theoretical frame of reference is by no means complete when it comes to institutional ownership. There is plenty of more research made on the subject but it is of course impossible to include everything and we have therefore chosen to focus on the theory that we believe will give us the best foundation in order to accomplish our purpose.

3.1 Institutions

In this section we will describe the concept of institutions and familiarize the reader with the three institutions that we have chosen to focus on in this report. We believe that it is important to understand the main ideas within the institutional concept before continuing with more specific theory on the subject.

An organization which is in the business of holding assets is defined as an institution and includes banks, insurance companies, pension funds and investment companies. (www.investorwords.com, 090503)

3.1.1 Insurance Companies

Insurance companies can be divided into two divisions; one that manages possessions and the other one that manages life insurances and pensions according to the law of insurance companies. (www.notisum.se, 090414) Both of these divisions have the same ambition, maximum profit on their investments due to the importance of surviving in the competition. People want to have as much money as possible when they retire and a high profit is also important for policy holders since it reduces the compulsory premium which they have to pay to the insurance company. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Insurance companies can be listed on the stock-market and owned by shareholders or they can be defined as mutual insurance companies where the policy holders are the major owners. (www.notisum.se, 090410) Policy holders have the right to have insight and influence over the administration of their long-term invested money since it is the policy holders who represent the majority of the risk capital in the corporation. In December 2006, insurance companies together managed 2400 billion Swedish crowns where 2000 billion were managed by life insurance companies and the remaining 400 billion by possession insurance companies. Except for financing the business world, these companies also offer loans to the government and to individuals. The money is primarily invested in shares, bonds and property although the investments in property have declined several percent since the early 1990s. (www.forsakringsforbundet.com, 090403)

The primary three parties within insurance companies are owners, managers and policy holders and it is between these parties conflicts of interests arise in this industry. The goal for proprietary as well as for mutual companies is to maximize the owners' profit. (O'Sullivan & Diacon, 2003) For insurance companies the most important thing to consider when decisions are made about whether to sell or buy shares, is the size of the share portfolio in relation to

other assets of the company (Hedlund, Hägg, Hörnell, & Rydén, 1985) This is natural for insurance companies since they have a legislation to follow which forces them to diversify and spread their risk. (www.notisum.com, 090413)

3.1.2 Pension Funds

A pension fund is a pool of assets forming an independent legal entity that has the exclusive purpose of financing pension plan benefits. Pension funds are important shareholders in listed and private companies. (www.wikipedia.org, 090426)

Pension funds shall manage fund assets in such a way that the greatest possible return on the income-based retirement pension insurance is achieved. The total risk level of the investments made by pension funds must be low. In conjunction with the selection of risk level, fund assets must be invested in such a manner that high returns are achieved in the long run. (www.ap1.se, 090501)

A primary concern for the pension funds is the long-term share value of the company that capital is invested in since they invest in value and therefore are required to hold securities in their portfolios for longer periods of time in order to realize gains in shareholder wealth. (Coffee, 1991)

3.1.3 Investment Companies

A condition for an institution to be classified as an investment company is that it holds shares during a longer period of time. Other typical characteristics are that it should own a large part of the bought corporation and spread the shares widely on the financial market. The Swedish government wants to promote long-term investments and investment companies have therefore been declared exempt from the capital gains tax.

A different type of investment company is the so called private equity company that invests on a short-term basis and often changes its share portfolio. Private equity companies have therefore not been declared exempt from the capital gains tax. They often invest in funds in which they afterwards work as counsellors and these funds in their turn spread the money in many different funds and shares. (sv.wikipedia.org, 090408)

An investment company has many owners and if we observe the largest investment company in northern Europe, Investor, we can see a large growth tendency in the last 20 years. In 1984 their shares belonged to approximately 12000 shareholders (Hedlund, Hägg, Hörnell, & Rydén, 1985) and at the end of 2007 the amount of shareholders had increased to 134 321. (www.investorab.com, 090428)

Investment companies are active owners with a big interest in supervising companies they invest in and the profits from supervising belong to the owners of investment companies. There is a big difference compared to fund companies that are required to be limited companies (www.riksdagen.se, 090408) and therefore also must share the profits from supervising and invested capital with shareholders. (www.riksdagen.se, 090409)

3.2 Institutional Investment

Now that we have explained the concept of institutions we would like to describe the thoughts behind institutional investment. We believe that it is vital to understand why institutions invest the way they do in order to later in this report be able to follow the reasoning concerning investment and ownership.

Institutions, especially pension funds, often try to beat the market but these efforts have, at least in the United States, been unsuccessful but they still keep on trying. Normally, pension funds hand their money to a manager whose mission it is to analyze the financial market and evaluate previous results or they pay a consultant for objective advice on what funds to invest

in. (Monks & Minow, 1995) O'Brien and Bhushan (1990) have investigated institutions and analysts in the United States and examined the existing supply-demand relationship between the two parties. What companies analysts chose to examine depends on the interest of the institutions. For institutions it is important to gather enough information about the company they consider investing in to know for sure that it is a good investment. According to chapter 5, paragraph 2, in the Law of Investment Funds (2004:46), fund companies must have a system for managing risk which enables them to always apprehend the risk connected to an investment. There is also legislation that implicates that fund companies must diversify their capital to avoid risk in their investments. (www.riksdagen.se, 090410)

O'Brien and Bhushan (1990) also examined the risk behaviour of institutions. The result indicated that institutions between 1981 and 1987 preferred investing in companies with a higher risk. The strongest argument for this phenomenon is that if managers are rewarded based on returns and if the risk of the portfolio is less supervised, they have a good reason to invest in high risk shares because it gives managers a chance to make more money. (O'Brien & Bhushan, Analyst Following and Institutional Ownership, 1990)

But according to Monks and Minow (1995) the problem with institutional owners' safe investments still exists. They claim that there is a need of a new system that will encourage investment in high risk shares since the system we have today discourage it. Overinvestment in large companies, for example in the United States, has failed to create new jobs and neither participants in the pension plan, the companies nor the investors have received benefits from these kinds of safe investments. (Monks & Minow, 1995)

In an article written by Arbel et al. (1983), a study is made on 510 companies over a 10 year period, 1970-1979, which shows that shares strongly held by institutions perform much better than shares not held by institutions. The institutional fund managers can, according to the authors of this article, be resembled with giraffes; they only see the high trees and ignore the small trees in the jungle of shares. Problems with investing in small firms is that it is easy to reach the maximum percentage allowed by law for a institutional company to own and if a high percentage is reached, it also requires a managerial input where institutions often lack the interest and the expertise to succeed. A further disadvantage with investing in small firms is that they rarely give the dividend that institutions often require. The result of the research confirms the fact that the disadvantages mentioned above lead to institutions avoiding particular categories of firms. But the shares neglected by large institutions can often raise opportunities for small institutions since they can be under priced. Arbel et al. (1983) acknowledge this in the following quotation (Arbel, Carvell, & Strebel, 1983, s.6-7):

If, by any reason of structure, giraffes are doomed to forage among the high trees, smaller animals (not excluding the giraffes that are willing to bend their necks) should contemplate the exciting opportunities existing in the neglected, somewhat grey area down below.

3.3 Ownership

The concept of ownership is together with the concept of institutions vital for this study. We have therefore chosen to describe the basic terms and development of financial ownership early on to help increase the understanding considering that the idea with ownership is used frequently throughout the study.

Ownership is defined as the state or fact of exclusive rights and control over property. (www.wikipedia.org, 090502)

According to Monks and Minow (1995) there are three elements often used to define ownership; the right to transfer property, the right to use property and the right to regulate other people's use of property.

3.3.1 Shareholders

The modern firm consists of four main groups of actors: shareholders, boards of directors, top executives and other managers and workers. Shareholders are thought of as owners as they provide financial capital and in return receive a contractual promise of economic returns from the operation of the firm. There is a legal relation between a company and its owners where shareholders are entitled to repayment for their investment through profit and are also allowed to practice influence on decisions in the company. (Kang & Sorensen, 1999) However decisions in limited companies seldom occur and even if they do, they rarely concern the business direction. (Bergström & Samuelsson, 2001) Shareholders may have the right to supervise companies they invest in but the incentive to do so is often low since it is hard to affect in reality.

The starting point according to the Law of Limited Companies is that one share is the same as one vote. (www.notisum.se, 090411) If a shareholder owns a majority of the votes, that individual owner has total control over the company. Few people of course own such a big share but even if fewer shares are required to gain influence, not many shareholders reach that limit. (Pålsson, 2001)

An owner's formal right is to buy and sell shares, be part of the company board and to participate on shareholders meetings. When owners decide that a company is worth investing in, they either show interest by becoming more involved in the company or they keep a low profile. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

The shareholders have the right to transfer ownership to someone else, but they do not have the right to use or regulate anyone else's use of the share. This indicates that out of the three elements often used to define ownership, the shareholder only has one left. (Monks & Minow, 1995)

According to Bergström et al. (2001), the two strongest factors to why investments in shares have become so popular, is that the investors never risk losing more money than the money invested initially and because the shares are transferable. (Bergström & Samuelsson, 2001) The gap between the owners of the capital and those who control it has grown as a natural consequence of increased transformability. For the share to be transferable, the responsibility must be limited which means that shareholders have to give up their control and the shares must also trade at a fairly low rate. To make that possible, millions of shares must be issued and the consequence is a loosened connection between ownership and control. (Monks & Minow, 1995) Limited personal responsibility further reduces the incentives for the shareholders to practise active supervision. (Bergström & Samuelsson, 2001)

The easy trade along with the increasing number of shares on the financial market has been good for companies since it has increased the capital available and facilitated the transferability by keeping the share low. But increased transferability has not only been good for limited companies, the consequences have also been adverse. Companies prefer stable and long-term investors but since it is easy to withdraw from an investment, investors can leave and they often do so at signs of a trading peak.

Another side effect is that it has reduced the incentive and ability for each shareholder to spend time on gathering information and observing companies effectively. It is simply not worth it because even if they would understand the issues there is nothing they can do about it since their influence often is low. (Monks & Minow, 1995)

According to Jensen and McKinsey (1991,s.117), “the publicly held corporation, the main engine of economic progress in the United States for a century, has outlived its usefulness in many sectors of the economy and is being eclipsed”. Their point is that more and more organizations will be characterised by a concentrated ownership, and that spread ownership is an obsolete form of governance. (Jensen & McKinsey, 1991)

3.3.2 Shift in ownership

The shift in the relationship between the corporation and its shareholders has been dramatic. Ownership has become more and more fractionated as corporations have grown. In the early days the members of the board of directors were the shareholders; today these present directors just represent the shareholders and often do not even own any capital. (Monks & Minow, 1995) There has been a shift in ownership from a society where individuals owned their private companies to a state where large institutions have formal rights but still not necessarily can be defined as owners. There is no longer a clear definition of ownership and what role owners should exercise.

Berle and Means (1932) initially started the debate about the shift in corporate ownership in the 30s when they explained their theory about governance in public corporations where ownership and control is separated. Berle and Means (1932) argued that the capital, primarily in the United States, had become heavily concentrated during the previous few decades and that this had resulted in a relatively small number of companies with an enormous power. As these firms grew, it became difficult for the original owners to maintain their majority stockholdings and shares became dispersed among a large number of small shareholders. The ownership was spread over a wide number of shareholders but these shareholders were too small and too unorganized to influence how the company should be managed. (Berle & Means, 1932)

The consequence of this dispersal was the power that the company management gained and where managers were accused of having interests not necessarily in line with those of shareholders. Whereas owners preferred profits and returns in form of dividends, managers preferred either to reinvest the profits or to increase their own privileges in form of higher salaries or benefits.

Berle and Means (1932) acknowledged an increasingly spread ownership where the owners, the shareholders, relied on the board of directors to represent their interests. Over time the boards became so dominated by the management that their role as supervisors became ineffective and executives had the final say. The company management gained more power and an unbalance was created between ownership and control. The owners of capital no longer control their enterprises and those who control do not own them. (Berle & Means, 1932)

The positive side of institutional ownership is that it has contributed to dynamic, increased competition professionalism among actors but private investors are also needed. Hedlund et al. (1985) therefore promote that taxes discriminating personal ownership and favour institutional ownership are bad because there is a need for private owners as well to achieve efficiency in Swedish companies. (Hedlund, Hägg, Hörnell, & Rydén, 1985) There are tendencies pointing towards a return of control for the owners through increased ownership activity and engagement which will be discussed later on in this report.

3.4 Agency Theory

As mentioned in the previous chapter, there has been a shift in ownership where capital owners lack control over their investments and those who are in control do not own anything. This causes a problem where owners have to rely on the board of directors and the company management to fulfil their goals and that often leads to issues regarding supervising and conflicts of interests.

To understand these issues with ownership on a slightly deeper level we find it suitable to continue with the Agency Theory that explains the main problems regarding delegated ownership and leads us to the complex relationship between institutional owners and the companies in question.

An explanation to the problems arising with institutional ownership can be found in the agency theory where the relationship between the principal and the agent is discussed.

The so called agency problem occurs when parties in a cooperation have different goals and attitudes towards risk. In the agency relationship there is one party, the principal, who delegates the work to another, the agent, who performs the task. In institutional ownership the principal is the institution, for example a pension fund and the agent is the company management in which the institution is a shareholder and partly owner. An institution has specific goals with its ownership, often containing claims on maximized profits, and the management's role as an agent is to fulfil the demands of the owner. That is an authorized agreement between the institution and the company in return for institutional investment. (Eisenhardt, 1989)

Fama (1980) gives another alternative view on the relationship between the external owner and the company management. His definition of management is a type of labor whose role it is to coordinate activities and carry out contracts which can be characterized as decision making. The external owners are in this case risk bearers who agree to invest capital and accept the uncertain and possibly negative outcome that may occur. A shareholder wants to purchase securities with confidence that the price paid reflects the risks and that the securities will be priced in the future to allow the shareholder to reap rewards of the risk bearing. (Fama, 1980)

There is however several problems represented by Eisenhardt (1989) that can occur in an agency relationship that makes institutional ownership a complicated matter. The first is the agency problem that arises when the desired goals of the principal and the agent conflicts and when it is difficult or expensive for the principal to verify what the agent is actually doing. The problem is that the principal cannot verify that the agent has acted appropriately and therefore cannot be sure that its demands have been taken in consideration.

The second issue is the problem of risk sharing where the principal and the agent may have different attitudes towards risk and may because of that prefer different actions according to their risk preferences. The complication of institutional ownership lies partly in the human assumptions of self interest, bounded rationality and risk aversion and partly on organizational assumptions of goal conflicts and information asymmetry between principal and agent.

In order for the principal, in this case the institutional owner, to be sure that his demands are fulfilled, there is a need for information systems so that the agent's actions can be controlled and monitored by the owner. If the agent is under constant monitoring he will not be able to deceive the principal and will therefore more likely behave in the interest of the owner. (Eisenhardt, 1989)

3.4.1 Moral hazard

A problem often discussed in the principal agent theory is moral hazard which is an information problem that arises when possibilities of monitoring are insufficient during the validity of a contract. Shareholders select those who have the responsibility to appoint chief executives and committees and so by confiding in the administration of the company, shareholders thereby give up the possibility to constantly control and participate in the decisions within the company. (Bergström & Samuelsson, 2001)

It is thereafter the members of the board who have an important role in supervising the executive management to reduce agency costs. How much supervising that is required varies between companies. (Bergström & Samuelsson, 2001)

Moral hazard arises since it is difficult for shareholders to know if the executives satisfy the interest of shareholders prior to the interest of other groups. When shareholders only contribute with risk capital without monitoring the management, it leads to a centralization of power. The management does not have to deal with a majority of the consequences that their actions have on shareholder value and therefore there is a risk that they chose to act in a way not preferred by the shareholders.

3.4.2 Conflicts of interests

Conflicts of interests can arise between different parties and they mainly have the moral hazard character, in other words when a contract exists but when the insight into the affairs of a company is limited for one of the parties. In order for the management to get the opportunity to act as mentioned above, an inactive ownership from the shareholders is required. (Bergström & Samuelsson, 2001) But the fact that the passivity from shareholders never can be taken for granted may be enough for the management to prioritize the shareholders interest instead of their own.

Berle and Means (1932) claim that executives and managers successfully pursue their own objectives of growth and stability rather than maximizing the returns to shareholders. One of the most acknowledged issues in business economics in recent years have been to find incentives for the management and employees to act accordingly to the owner's interest and not their own professional and personal gain. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000) According to Jackson and Carter (2002), people are often motivated by self interest and act upon their personal desires instead of behaving accordingly to common interest and mutual goals. It lies in our humanity to put our own interests first and this problem exists even in institutional ownership. The company management can have subjective goals such as wages, status and power that seldom correspond with the profit goals that the owners are interested in. A company CEO may be more interested in gaining a higher position and increase wages and may therefore act in a way that is in conflict with profit goals. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

But although managers may not always have their interests aligned with the particular shareholders that are their principals, their interest may be aligned with the capitalist class as a whole. In that case both the agent and the principal will have increasing profit as their main goal which will reduce the risk of goal conflicts. (Kang & Sorensen, 1999) If the competition on the production market had been ideal, all ineffective companies with their ineffective managements would have been eliminated and the problem with supervising would not exist. But it is not like that in reality and this is therefore a large problem within ownership and companies today. (Bergström & Samuelsson, 2001)

According to Brodin et al. (2000) there is also a blind faith in owners' rationality and sense for investment. Investors are driven by intuition and feelings and their decisions should not always be considered ideal. Studies on behavioral finance claim that human irrationalities lead

to behaviors such as overconfidence in capability, focus on arbitrary references and personal interests. Many owners are personally interested in high profits on their placements only to secure their own future position and no consideration is taken towards long-term effects that can affect the owner, the company in question or other interested parties. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

3.5 Monitoring

Problems regarding moral hazard and conflicts of interests within the agency theory require a form of supervision to prevent self interest and irrationality from occurring when decisions are made. To monitor companies and their managements is an alternative solution for owners to decrease the problems and monitoring is therefore a suitable subject to continue our theory with. In this section we will introduce important terms and methods that are needed in order for owners to gain control over companies and reduce the issues regarding institutional ownership.

In order to resolve the agency theory problem and to make sure that conflicts of interests are reduced, owners needs to perform some kind of monitoring to guarantee that their interests are prioritized. In agency theory information is regarded as a commodity. It has a cost and can be purchased by owners who are interested in monitoring its agents. Organizations can invest in information systems in order to control agent opportunism and information systems can be based on for example involvement in boards of directors, participation at shareholders meetings and management by objectives.

3.5.1 Board of Directors

The most relevant information system for monitoring executive behavior is the board of directors. (Eisenhardt, 1989) Owners express demands and occasionally do follow ups on their investments to make sure that their interests are looked after. To monitor the process, the owners set up a board of directors whose job it is to make sure that the management is working accordingly to all owners' interests. The board is responsible for appointing CEO:s, Chief Executive Officers, and play an important part in the company management. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

According to Mallin (2004), it is important to have independent non executive directors who are not full-time employees, represented at the board since they often possess valuable knowledge and experience different from that of the executives. Mallin (2004) also stresses that the chairman and the CEO should have separated roles to spread the power where the chairmen's mission is to run the board and the CEO's is to run the business.

Boards provide valuable information about the company and its goals and can be used as monitoring devices for shareholder interest. There are several levels of involvement in the board that can be measured in frequencies of board meetings, number of board members and so on. The higher the level of involvement is, the greater the possibility is that the management will act accordingly to the owners preferences. (Eisenhardt, 1989)

The board is viewed as the ultimate internal monitor whose most important role is to scrutinize the highest decision makers within the firm. This means that shareholders who want to take an active part in their ownership role should have members on the board or at least a constant communication with the board and the company management to be seriously involved and able to exercise influence and authority. Many institutional shareholders claim to be active owners but the question is how much they really do and how much is a matter of decoupling. (Fama, 1980)

The formal decision making rights lie with the owners, shareholders, and the board of directors and they have the right to make decisions about long-term investments, dividends, mergers etc. These rights can be delegated to managers who in practice hold the real decision rights. Consequently if you own an asset, you are entitled to the income of it and you can delegate or give away rights but you still have formal decision making rights that can, and according to a new phenomenon of corporate engagement, should be used actively. In practice however shareholders are seldom seen at the board of directors and their claimed activity can therefore be questioned. (Jansson, 2005)

Shareholder engagement requires activity and the best way for owners to be active and influence the management is, as mentioned, by having members on the board. But for an institutional owner to be involved and active in a company, it takes more than just the will. The success of the involvement depends on personal qualities and relations between owner representatives, the board and the management. Communication is vital and the ability to connect to and correspond with people is important for the owner to gain influence. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

It is also not always up to the owners to become members, it also depends on the CEO:s willingness to have them included. (Jansson, 2005)

An example is the recent conflict between Volvo and their large financial owner Christer Gardell. He really wanted to be a part of the board and exercise his influence but strong forces, within the company and amongst other owners, fought to keep him excluded and they succeeded. (www.affarsvarlden.se, 090503)

Board members are usually in majority men and there are no signs of an increased proportion of women in the board of directors in Sweden this year. Pernilla Ström (2009), presented as a board professional by TV4, says that the boards still recruit members from a limited group and therefore they do not make use of the competence in our society. Further she says that individual shareholders can make a difference by for example writing letters and attending shareholder meetings in which they should hold the committee responsible and question their recruiting process. (Ström, 2009, 07:52)

3.5.2 Owner representatives

It has become a great profession in dealing with principal-agent relations and handling institutional ownership through funds, investment companies and so on. This new institutional ownership has created new occupations consisting of owner representatives who work as the link between the owner and the company. They analyze, inform, give advice and trade with shares in the owner's name. It is a business where short-term capitalism is in focus and where the companies in question are viewed from an outside perspective and deeper knowledge about company activities is usually missing. The representatives interpret the owner's wishes without any intensive interaction or discussion meaning that their investment decisions are based on visible increases in share prices in short-term perspectives where profit now and not later is prioritized. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

3.5.3 Competence

To improve the efficiency of institutional active ownership there has to be an increase in knowledge about the companies. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

In order for owners and their representatives to be active and influence a company's management in a long-term perspective and manage operative activities, they need to have adequate competence so they can contribute to formal decisions and understand the business. The definition of competence is an individual's ability to perform a specific task by applying necessary knowledge and skills. A person possesses skills as long as the skills, ability and

knowledge that constitute that competence are a part of them, enabling the person to perform effective action within a workplace environment. (www.wikipedia.org, 090420)

Owners do not necessarily have better knowledge in company activities than the management and their ideals and values are by no means superior to others. So ownership involvement is not inevitably the best alternative, sometimes company management alone is more capable of producing better results than through ownership involvement. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000) Certain types of shareholders, such as investment companies, have power based on their competence and expertise. Expertise is a superior understanding of the company and its industry which can be used in managing and to make qualified decisions. (Kang & Sorensen, 1999) The expertise is usually acquired through participation in the company's governance structure, such as being a part of the board of directors, observing and participating in important strategic decisions over time and in managing the company. Owners with expertise are more likely to engage in discussions with managers regarding what is best for both the company and the owners and stand a higher chance in influencing and improving the performance. (Kang & Sorensen, 1999)

3.6 Corporate Governance

Within monitoring, as described in the previous chapter, the board of directors is viewed as the ultimate monitor and owners who want to make sure that their interests are being considered should have members on the board.

Corporate Governance on the other hand is a new way for owners to pursue their interests where relations with other stakeholders are of importance. In this chapter we will present a deeper view on the ownership concept where stakeholders play an important part and also describe the current development within institutional ownership.

Corporate governance is a term used to describe a system to govern an organization, a term which is fairly common nowadays. Today its main theme for example is how to reduce the principal-agent problem and how the financier can get income on the capital invested in a company. The principal-agent problem is meant to be minimized by using different mechanisms that satisfy certain members in the organization like shareholders, customers and employees. At the same time the system should act in accordance with the legislation. (www.wikipedia.org, 090406)

The owner structure described by corporate governance does, according to Monks and Minow (1995), consists of a relationship between different participants where the primary three are: shareholders, management and the board of directors who together decide the company's direction and performance. (Monks & Minow, 1995)

Mallin (2004) has a similar definition of corporate governance where she points out the importance of the company's relationship with its shareholders and other stakeholders. Stakeholders consist of employees, providers of credit, suppliers, customers, environmental groups in the local community and the government, in other words anyone who can be affected by the company's decisions. The biggest difference between stakeholders and shareholders is that the later ones usually have their rights protected by law as a consequence of them owning shares in a company.

Corporate governance has many important characteristics and one of them is that it prevents anyone's single influence from getting too big. It looks out for the interests of as well shareholders as stakeholders and it helps to ensure that an appropriate system of control is used to run the company. (Mallin, 2004)

Corporate governance has been affected by many different theories from financial accounting, law, management, economics and organizational behaviour. The theory that has had the

largest impact is the agency theory and another theory that has become more and more important in the corporate governance discussion is the stakeholder theory. It focuses on a wider group whose interests should be taken into account when the company makes important decisions compared to the agency theory that only focuses on shareholders. Theories explaining the importance of selecting an appropriate governance structure in the company have also had a large impact on corporate governance. (Mallin, 2004)

There is no single model of corporate governance applicable at all companies, they can be more or less relevant depending on how well developed the economy, the corporate structure and the ownership groups are. (Mallin, 2004)

According to Mallin (2004) the attention around corporate governance has grown rapidly, particularly since the beginning of 2000 with the collapse of Enron and other companies' financial problems coming up to the surface around the same time. All the collapses that have occurred unexpectedly have resulted in a lack of confidence in financial markets by investors and the development of corporate governance in recent years has mostly been driven by the need to repair the investors' faith in the market.

Investors chose companies that they believe will generate high profits now and in the future. Corporations need these investments and therefore have to present that they are being well managed, fine figures in the annual report may not be enough. Even though the company looks healthy in financial reports, the corporate governance within the company may be ineffective and that can result in an unexpected collapse. (Mallin, 2004)

A consequence of the lack of credibility has led to the fact that managers have become less powerful and more accountable. According to Kostant (1999), there is hope for a future where the managers will regain their former power and where the corporate lawyers, at least in the United States, will have an important role to play. These lawyers should be honest supervisors and by representing trust they would decrease the cost of information for shareholders and thereby make supervising and active ownership less expensive. (Kostant, 1999)

According to Mallin (2004), the explicit goal within corporate governance is maximum shareholder profit and the shareholder interests are given priority when decisions are made. Bergström et al. (2001) come to the conclusion that since profit is the premier goal in limited companies, it can also be assumed that this goal is premier to shareholders and that it should be the main purpose. (Bergström & Samuelsson, 2001)

It is yet important not to ignore stakeholders that constitute a large group with different needs. But the interest of shareholders and stakeholders does not always have to be diverse. For example pension funds invest the employees' money and they therefore represent both shareholders and stakeholders. Another example is insurance companies. They invest a policy holder's money and this policy holder can at the same time be a customer of the company where the money is being invested.

Mallin (2004) further claims that institutional investors have become more active in their ownership role over the last thirty years. They have a responsibility to invest in profitable companies which also have a potential to continue to generate profits, all in the best interest of the third party that they represent. A later trend is that the responsibility has increased to also include looking more closely at the internal governance of companies as well as its relationship to stakeholders. (Mallin, 2004)

3.6.1 The Stakeholder Model

In the shareholder model, company managers are assumed to create value for shareholders as they are seen as agents of the principal, while in the stakeholder model managers are supposed to also create value for non-shareholder stakeholders such as employees, consumers and the community.

The interest in the stakeholder model has increased over the last decades due to the importance of decisions taken by the company for different stakeholder groups.

The more groups of stakeholders there are, the more complicated it will be to reach a decision, especially as the stakeholders have different goals. Employees for example would like to have high wages, job security and long vacations while shareholders would like to have lower costs to achieve higher profits. (Jansson, 2005)

These goals are contradictory and cannot all be achieved. The question is whose goals will be prioritized and if owners really stick to corporate engagement if it jeopardizes their profit?

Managers are controlled by the market and are given incentives by shareholders, all in order to achieve the main goal of shareholder which is to maximize profits. At the same time companies claim to have non-financial goals so what will then happen if a manager has a social interest and would like to introduce measures in favor of stakeholders but where the action will reduce profits? A possible outcome will be that the shareholder dismisses the idea by withdrawing or by finding another manager that will put the shareholders interest first. The ideal outcome according to an increased corporate involvement is that the shareholder shares the same social interest and is in total agreement with the manager and believes that social goals are equally important and will pay off in the long run. In order to get owners to take corporate involvement seriously there has to be a change in the mentality of the general public which will not be possible in the short-term. (Jansson, 2005)

Shareholders are usually risk bearers but they can diversify their risk by investing in several different companies while the employees or the community might have much more at stake. Since these stakeholders have no decision making rights their thoughts and concerns should be taken into account by the owners and one way to do so is through increased corporate involvement where other goals and values are considered than purely financial ones.

With more competition, companies also have to be more careful to satisfy the interest of stakeholders such as consumers and suppliers or they will lose them to other companies. (Jansson, 2005)

3.7 Sustainable development

In the previous section the importance of stakeholders was described where their role within companies is increasing and where it has become more important to consider other interests than purely financial ones. It naturally leads us into sustainable development where stakeholders in terms of customers and the society as a whole pressure owners and companies into taking more social responsibility. In this section we will describe the development and the credibility regarding corporate social responsibility.

Clark and Hebb (2004) claim that we have reached a fifth stage of capitalism which is a result of public demand towards a more socially responsible role for today's corporations combined with greater disclosure of both financial and non-financial information. The institutional members and beneficiaries have social concerns beyond simply maintaining their own standards of living. These concerns include global climate change, sustainable development and human rights that should be taken into consideration. Institutions are though not solely interested in responsible investment for the sake of the environment but because they believe that an active engagement can lead to a comparative advantage and pay off over time. (Clark & Hebb, 2004)

According to Pless and Maak (2009) there is a public belief that companies and its leaders have an enormous potential to contribute to an improvement in the society and that they should be agents of world benefit. They claim that responsible leadership is necessary in order

to create a company that benefits not only a few shareholders but also the society as a whole. (Pless & Maak, 2009)

CSR, Corporate Social Responsibility, is a term that has been used more frequently within corporations in recent years and stands for a belief that companies should have charitable goals with their business and take social responsibility beyond national law considering questions about human rights, the environment and social rights. It is a voluntary undertaking where companies can adjust the level of engagement according to their own conditions and ambitions. (Hassel, Ljungdahl, & Larsson, 2008)

3.7.1 Social Responsible Investment

SRI, Social Responsible Investment, is also a subject discussed frequently in today's debate. Both the society and legislators have put an increased pressure on investors to take this into consideration when investments are made. Many institutions have information on their websites where they describe how they work to improve the environment and in other ways take social responsibility.

Companies today have to generate profit with respect to the environment and this has increased the importance of stakeholders when decisions are made. Increased awareness about the effects of the actions of corporations, ways to prevent them and often also increased shareholder value are perspectives gained from SRI. (Mallin, 2004)

The increased corporate involvement creates tensions between owners who prefer to remain distanced from investment decisions in companies and those owners who want their capital to be used in a more socially motivated manner. There is a growing tendency towards SRI since an increasing number of institutions believe that investing in companies that behave with certain social, ethical or environmental standards result in increased value in the long run. The longer the time horizon over which institutions hold their investments is, the higher the standards of companies must be in order to minimize risks in the future. (Clark & Hebb, 2004) K.Henry (2009) talks about the need of ethical leadership where financial goals and personal interests have to be abandoned and replaced with moral goals and ethical values. Many companies are today driven by the motto "profit at any cost" and that capitalistic view has to change. It is instead important to implement an ethical approach within a company where empathy and care for other people are key factors to create sustainability in the future. (Katshuri, 2009)

Results from an investigation made by Kreander et al. (2002), consisting of 40 ethical European funds even shows that ethical funds performed at least as well as non-ethical funds. (Kreander, Gray, Power, & Sinclair, 2005)

3.7.2 CSR-only a surface?

Even though there is an increasing will to put CSR into practice, the underlying motive is often questioned. Is the will driven by financial factors such as an aim to satisfy shareholders or is it driven by pure and real engagement for social issues and a sense of responsibility towards fellowmen in the society?

When it comes to CSR, many companies usually only apply CSR superficially to stand out as a modern and responsible firm on the market in order to earn profits by gaining popularity and customers. It is often a case of decoupling between what is presented on the outside and what is really done within the company. (Meyer & Rowan, 1977)

This means that the institutionalized environment in different ways forces organizations to adapt certain ideas affecting the formal structure in the organization but seldom the informal structure. They build up a surface to legitimise the organization but what they do in practice is often a different story. Many companies talk about social responsibility and how to work with it, but it often never becomes more than a theory since these goals rarely are consistent with

other more important goals within the organisation such as high profit. (Meyer & Rowan, 1977)

There is also skepticism towards CSR by the likes of Milton Friedman who believes that companies should focus on maximizing profits and that there is no room for social responsibility. A measure in terms of CSR is seen as an unnecessary cost and not as an investment that can create future value for both company and society. (Hassel, Ljungdahl, & Larsson, 2008)

3.8 Corporate Engagement

Monitoring, Corporate Governance and the recently described Corporate Social Responsibility, are all part of the tendencies pointing towards an increased ownership activity where owners no longer are supposed to be anonymous and passive but instead take more responsibility for their investments. This development leads us to the subject of corporate engagement. Here we will present a recently new development within ownership where owners are more engaged in the work of companies and we will also give an account of costs and consequences regarding corporate engagement.

Managers were earlier assumed to be the dominant decision-making actors with the owners' role reduced to only providing capital and awaiting pay off. But today's institutions are shifting decision roles within the company. Institutional owners act as single entities with a unified voice and they use this voice increasingly within their investment portfolios to engage companies and influence managerial decisions. This new phenomenon is called corporate engagement and concentrates on actively engaging company management in order to raise standards of behavior across a range of issues including accountability, transparency and social and environmental issues. (Clark & Hebb, 2004)

Corporate engagement offers a long-term view which promotes higher social, corporate and environmental standards that add share value while at the same time providing long-term benefits to future pension and insurance beneficiaries. Pension funds investors argue that their greater regard for long-term impacts serves owners' interests better than short-term decisions based on strictly financial results. This engagement reflects a power shift away from the company and toward shareholders and institutions that are becoming more and more active in their ownership. While it has always been acknowledged that shareholders have the right to determine the standards of the board behavior, investors' concern for non-financial attributes is a relatively new phenomenon. (Clark & Hebb, 2004)

Clark and Hebb (2004) also claim that we have reached a fifth stage of capitalism where institutional investors especially pension funds play the key role. They increase their leverage within the financial system through a newfound willingness to act as owners by beginning to use their position to exert control over the corporations they hold in their portfolios. The fifth stage of capitalism favors not only liquidity but also control and long-term investments. (Clark & Hebb, 2004)

A small number of institutional investors, usually public pension funds, have recently become more active in corporate engagement by using media condemnation as an example to influence managers. (Bethel, Liebskind, & Opler, 1998)

If shareholders are of sufficient size they may obtain active roles in the governance structure of the company, such as a seat on the board, which provides them with additional formal authority and direct involvement in key strategies. (Bhagat & Black, 1998)

But research made on the subject has failed to produce strong evidence on a correlation between the percentage of shares owned by institutions and company performance. Investors rarely conduct in discussions and conflicts about company goals and do not try to elect members to the board of directors in order to gain more influence. (Black, 1992) Only specialized investment funds with skilled managers and large amounts of shares may in some

cases improve the performance by active monitoring and engagement in the company. (Pound, 1992)

Hermalin and Weisbach (2003) have also examined the role of the board and come to the conclusion that the board composition has no effect on the company's performance. According to Mallin (2004) the evidence of whether there exists a link between the corporate engagement and the corporate performance in companies is divided. Regardless of whether there is a link between the two or not, Mallin (2004) points out the importance of shareholder activity to even be able to achieve the former one. Fama (1980) believes that individual security holders seldom have a strong interest in directly overseeing the management of a particular company. Instead they have interests in the existence of a capital market which efficiently prices the company's securities. The signals provided by an efficient capital market about the values of a company's security gives the shareholder important information about the company management and creates a foundation for investment decisions. The consequences of relying on the capital market and base investments solely on financial results can imply a short-term view that prevents deeper ownership involvement and the use of an active strategy. Basing investments on results in capital markets usually means that the institutional owners will choose companies according to profit possibility and conversely withdraw from companies if they fail to generate satisfactory results. When shareholders and institutional owners solely rely on results in the capital market, companies with development opportunities and future possibilities might not be considered good investments. (Fama, 1980) Fama (1980) further claims that looking at the market for risk bearing from the viewpoint of a portfolio theory tells us that risk bearers are likely to spread their wealth across many firms and not be interested in directly controlling the management of any individual firm.

In most cases, external owners have relatively small shares in a large amount of companies and are therefore not interested in becoming involved in the company and lack ambitions to influence decisions in the daily work. In companies with many small shareholders it is difficult to agree upon other collective goals than increasing profit and it therefore becomes inevitable to avoid a creation of short-term capitalism where only financial results matter. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Some institutions are distanced from the company and except their financial competence, do not have further ambitions to develop and influence the company in question. An increasing number of institutional owners change their ownership quickly by actively buying and selling shares which makes ownership involvement impossible considering the short-term perspective and the focus on purely financial results. Other institutional owners however want to be an active part of the company and are therefore involved in daily activities by having representatives on the board of directors and regular communication with the management. The question is if an owner's motive only should focus on financial dimensions or also include customer satisfaction, the welfare of employees, industrial development and social responsibility. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

The demands made by the owners are usually based on external claims such as profit on shares to cover the financial risk the owner takes by investing in a shareholding company. There is however often a conflict between overall financial goals and more direct goals where owners and management have different views on what is more important and what decisions that should be made in order to gain the best results. Brodin et al. (2000) claim that owners who have other interests than solely financial ones should gain more knowledge in the company's daily activities and in a better way be able to understand and estimate what decisions and goals are best for the company.

3.8.1 Costs of Corporate Engagement

Corporate engagement is costly for many institutional owners and when measured against the possible gain in share value, very few institutions come to the conclusion that it is worth getting involved with company decisions and activities. There is also a free rider problem where action undertaken by one shareholder benefits all shareholders, making it unprofitable for individual shareholders to engage in.

Black (1992) argues that regulations restrict institutional ownership to the extent that the potential private benefits of monitoring are outweighed by the private costs. The benefits are hindered by a combination of complex state and federal laws which force institutions to hold small shares in a large number of companies instead of a large share in fewer companies and by those means a stronger reason to monitor and be involved in specific companies. (Black, 1992)

Shareholders are generally widely dispersed and primarily hold small minority ownership positions making active engagement costly and therefore avoided. (Clark & Hebb, 2004) Shareholders with large equity positions have greater incentives to monitor management than small because the benefits that large shareholders receive from their monitoring activities are more likely to exceed the costs they bear. Moreover, large ownership positions can allow institutions to exert greater influence on company decisions. (Parrinoa, Siasb, & Starksa, 2003) When ownership concentration exceeds five percent, the effects of monitoring become profitable and valuable for the owners. (Clark & Hebb, 2004)

The reduction in trading costs over the last years increases incentives for institutional investors to quickly abandon a share rather than attempting to point the management in a new direction. (Parrinoa, Siasb, & Starksa, 2003) Without capitalization of future benefits, there would be fewer incentives to incur the costs required to exert informed decisive influence on the corporation's policies and managing personnel. (Alchian & Demsetz, 1972), (Hargreaves & Fink, 2003)

The costs that come along with supervising are known but there is no guaranty that the fund companies will gain anything from it. To put the cost on the shareholders through a raised fee is not an option since the customers then will chose a company with a lower fee. It is therefore important for fund companies and for others, when the costs are known but the benefits are not, to make an adjustment and if the benefits carry great weight it should result in an active ownership (Pålsson, 2001)

In an article written by Lai and Limpaphayom (2003) a study maid on Japanese insurance companies is presented which shows similar results as the investigation done by O'Sullivan and Diacon (2003). Lai and Limpaphayom (2003) have compared mutual insurance companies with insurance companies listed on the stock market and the result shows that the later ones have the highest profitability. The reason for this is motivated by a better control over the management and over possible conflicts in the company. Policy holders have a very small chance to affect the company's management which means that they lack incentives to practise an active supervision since the benefits of it do not exceed the costs. The lack of pressure from customers together with the disadvantages mentioned earlier, results in a lower efficiency for the mutual company. (Lai & Limpaphayom, 2003)

3.8.2 Consequences of Corporate Engagement

Even though it is claimed that an increasing ownership influence in company activities is desirable, a consequence may be that the role of the CEO is reduced. If owners gain more influence in the daily activities and are involved in decisions, the CEO:s duties will be diminished. The CEO position may no longer demand a capability for independent judgment

and business sense. The assignment will instead be to communicate and inform external owners about activities and decision proposals.

On the other hand, an active owner can stimulate the CEO and increase the total activity and efficiency. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Considering the owners' financial demands, management and CEO:s are constantly pressured to live up to profit expectations and the consequence can be that more energy is put into producing shareholder value instead of focusing on daily activities and developing the business. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Withdrawing of capital is a common option if the results are unsatisfying but another possible alternative for owners is the replacement of management if it does not behave in ways acceptable to a majority of the shareholders. An institutional owner with large influence in the company can use its power to replace a low achieving management and acquire better candidates. This method can possibly lead to a successful turnover and be a part of an active strategy where the owner is involved in the company decisions. But replacing management personnel is not an alternative that should be used frequently whenever the owner is unhappy with the progress.

Sustainable development requires engaged relations where long-term changes and long-term investments are necessary to build a lasting capacity for the future. (Hargreaves & Fink, 2003)

Replacements in management therefore prevent long-term relationship and sustainable leadership and should not be considered a successful strategy. Company CEO:s should not be replaced frequently because of unsatisfying results but instead be given a long-term chance to develop the business and improve results. Constant employee replacement creates short-term capitalism where priority is given only to financial results and not to long-term progress which is essential for future business development. (Alchian & Demsetz, 1972)

Hargreaves and Fink (2003) also claim that sustainable leadership requires consistency where visions and ideas have to be maintained and spread throughout the company so that they can have an impact on a long-term basis. If visions and ideas are not implemented in all parts of the organization, there is a risk that changes and policies in a company are a subject of decoupling.

3.9 Exit, Voice and Loyalty

Corporate engagement is, as mentioned, a way for owners to become more involved in companies they invest in and contribute to the business development. Owners can with their decisions to, for example, withdraw from investments or commit to long-term relationships show their motives when it comes to the level of activity.

Exit, Voice and Loyalty can be viewed as different levels of corporate engagement and we will in this section explain these terms closely and describe how and why institutions use these levels of engagement in their work. This part of the theory will eventually lead us to the core of our study focusing on long- and short-term activity that will be described in the last section.

Albert O Hirschman (1970) describes an alternative view on corporate engagement and influence in companies. He discusses three terms called exit, voice and loyalty where the two first-mentioned will primarily be our focus in this report.

3.9.1 Exit

According to Hirschman (1970) companies find out about customers and employees dissatisfaction through either exit or voice. Exit is used through resignation, sale or if someone leaves the company. Customers for example can stop buying the company's products and as a consequence the revenues will go down. Exit can also appear through a decline of membership in the company.

When a company begins to suffer in performance, the best informed shareholders are often the first ones to use exit to protect their savings. They act according to the so called Wall Street rule which implies that if shareholders do not look for an active ownership the best thing to do is to sell the shares at signs of a decline. When investors behave according to this rule it results in a survival of bad management and policies in companies since there is a lack of incentives from owners to guide them in a better direction. (Hirschman, 1970)

Selling shares in an unpleasant situation instead of staying and trying to improve the company is sometimes called that institutions “vote with their feet”, it solves the personal problem for the investor but the problem continues in the company. (Monks & Minow, 1995)

Hedlund et al. (1985) refers to Hirschman when they explain exit and say that exit behaviour indicates that there exists dissatisfaction among the investors about the way the company is managed. If an investor has a large share in a company and chooses to sell it, the effect will be a decreased value of the company's shares. This will result in difficulties loaning new capital for the company and the conclusion is that the exit behaviour has a large impact on the ability to carry out a renewal of the company. (Hedlund, Hägg, Hörnell, & Rydén, 1985) Since the company is afraid of this scenario the management is going to act in the interest of shareholders, this according to the Wall Street rule mentioned above. This rule simply speaks for the control that shareholders have despite the weak link between ownership and control. (Monks & Minow, 1995) Any shareholder can remove his wealth from control by those with whom he has differences of opinion. According to Alchian and Demsetz (1972), rather than trying to control the decisions of the management, which is harder to do with many shareholders than with only a few, it is easier to escape from continued policies with which the shareholder disagrees. (Alchian & Demsetz, 1972) This view on shareholder investment corresponds with Hirschman's exit theory where owners leave the investment if they are not satisfied with the result and relation. An exit strategy contributes to short-term investment and lacks incentives for shareholders to become more involved in companies and being a part of a sustainable business development.

3.9.2 Voice

When customers and maybe also employees instead use *voice*, they stay committed to the company and at least give it one further chance to improve by expressing their dissatisfaction to someone in the company management. Regardless if exit or voice is practised the consequence will be that the company management will have to locate the problem and correct it, in other words, to an improvement of the business. (Hirschman, 1970)

Effective ways to use voice and affect the share capital identified by Hedlund et al. (1985) is to have members on the board of directors, attend shareholders meetings, build good connections with other owners and the company management, supply guidance and exchange information. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Some people would argue that the only voice function possible to use for the shareholders today is to designate the company management who thereafter have the control and make the decisions. According to others it is important that the initiated owners keep on using voice to notice problems in a company that will not cause exit behaviour and that way send out warning signals if the company is unhealthy. This may be the case if there are obstacles for exit like high taxes on revenues and transactions or if an institution may own so many shares that a sale will cause a giant fall on the stock market and therefore chooses not to exit. Owners should also use voice in new investment proposals to counteract that bad and costly ideas are being implemented which probably would be the case if the owners always agreed on the company managements ideas. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Hedlund et al. (1985) claim that the biggest advantage with voice is if owners use it to help and guide the company when big changing processes occur. Hedlund et al. (1985) also believe, and refer to Hirschman (1970) in this statement, that both voice and exit are important functions in different situations. The management often learns to get around them if only one of them is used during a longer period of time and therefore a combination is optimal to keep the company's efficiency at a high level. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

3.9.3 Loyalty

Hirschman (1970) also discusses a third term called loyalty. The term explains how both exit and voice can exist at the same time. If someone is very loyal to a company that person may try to find possibilities to use voice and affect the company instead of leaving right away, which often is the winning option if both of them exist and the benefits of using voice are low. Loyalty is not a way to act, it rather derives from different factors that affect how one person chooses to act. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

To sell or not to sell is often the question when it comes to institutional investment, we can refer to it as the problem referred to as the prisoners dilemma. This means that one action benefits the individual but has adverse consequences for the group and the alternative benefits the group but has adverse consequences for the individual. If a shareholder uses the right to influence the company through voice, all of the expenses should be considered in relation to the possible gain. In for example the insurance industry, this often makes activism uneconomic, so instead to vote against, they vote with management and in other words do not practice voice. (Monks & Minow, 1995) Also other dispersed institutional investors with many small investments often have the incentive to remain passive or to support management to preserve valuable business relations with the firm. (Black, 1992) They often stay loyal and therefore according to Hirschman's loyalty remain passive despite dissatisfaction. This behavior can cause the situation mentioned by Hedlund et al.(1985) where ideas, even the bad ones, are being implemented which can be costly for as well the company as for shareholders.

3.9.4 When to use voice and exit

The goal with institutional investment, whether it may be profit or company development, affects the choice between voice and exit but there are also other factors that have influence on this decision. Some of the ones mentioned by Hedlund et al. (1985) are;

1) *Competence*, if owners have enough knowledge about a specific area to make good decisions, which for example large investment companies often possess, they are better suited for exercising voice.

2) *The size of the institution and the relative size of the shareholding*, if an institution is large it means that if they use voice they will also affect the company in question. This is often impossible if the institution only has a small share. On the other hand small institutions might have more to lose if they do not speak up since they cannot spread their risk in the same way as large institutions can. This suggests that small investors sometimes should use voice instead of exit.

3) *The owner structure in the company* also affects whether the institutions chose the exit or the voice function. If there are few big owners who dominate, it is harder to exert influence than if ownership is spread. So when ownership is concentrated, exit may be the best alternative for small institutions. Some institutions like for example pension funds are also forced by law to act cautiously when they invest since they manage other people's money. (www.riksdagen.se, 090401) Voice is a more uncertain option since it is hard to know in advance whether it will have the wanted effect or in the worst case scenario, the opposite. Exit has a more certain end and has therefore often been chosen by those who dislike risk. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

3.9.5 Institutions use of voice and exit

An investigation made by Hedlund et al. (1985) in 1983, consisted of 100 of the largest institutional shareholders in Sweden and a majority of the participants claimed that they had no intention to commit to an active ownership in the companies they invested in. The reason differed, it could for example be because they considered themselves too small to even be able to affect even if they wanted to, or because of regulations, a lack of competence in the industry or because they had not reached that far in their work yet. (Hedlund, Hägg, Hörnell, & Rydén, 1985) But as we have explained before, for large institutions the exit option is problematic since it will have a huge effect on the share market and also because of the demand on their portfolios to be balanced. (Mallin, 2004) Hedlund et al. (1985) found out that the institutions that most strongly wished for more voice were the investment companies since they often invest on a long-term basis and an active owner role is therefore important. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Of the voice functions mentioned by Hedlund et al. (1985) earlier, having members on the board was fairly rare since it implied active ownership and institutions were not interested in that. To attend shareholders meetings was much more common but this is according to Hedlund et al. (1985) more a forum for gathering information and less a place for practicing voice. The use of voice is considered to be the same as an active ownership and connected with strategic investments. To have a strategic investment was most uncommon in insurance companies and pension funds and more frequent in investment companies. It was also the investment companies that had received most assignments on the board of directors and therefore had a great possibility to practice voice, which also strengthens the statement that voice is connected with an active ownership. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Hedlund et al. (1985) have also investigated what kind of institutions that use exit and voice. The exit behaviour is often practised by for example insurance companies, investment companies with financial portfolio administration and pension funds since they have a low tolerance towards risk and high demands on income from capital. In organisations where the primary interest is not profit like for example the government and investment companies with intention to develop other companies, voice behaviour should be more common.

Hedlund et al. (1985) however point out that at the end it is far more important to have owners who use exit than voice since the later can be assumed by the company management.

From their investigation Hedlund et al. (1985) could see a pattern of the most important factors that affected the decision to either sell or buy shares for institutional owners. For investment companies the most important thing to look at was the number of companies in the portfolio and the value of the vote that came along with the investment, in other words, the possibility to practice an active ownership.

Hedlund et al. (1985) present three problems with institutional ownership; number one is that many institutions have very spread shareholdings and a lack of specific competence. These two components make it impossible to practice voice and an active ownership. Number two is the difficulty to practice a fast exit when the institution owns a high share, this problem occurs because of the Swedish limited stock market which is sensitive when it comes to large changes. The last problem identified is the unclear owner profile. This can vary a lot which means that neither customers of the institution nor the company in which they invest can be sure of what their intentions are, for example if they will practice an active ownership or if they have a long- or short-term horizon. (Hedlund, Hägg, Hörnell, & Rydén, 1985)

Institutional investors' display a propensity for the passive strategy of momentum trading, meaning that they buy stocks that have performed well in the recent past and sell those that have not. This supports the view that institutions are primarily voting with their feet and using the exit strategy. (Bergström & Samuelsson, 2001)

Bergström et al. (2001) also claim that the so called new institutional investors have not yet developed a totally active ownership. In the debate some people advocate a return to the old role of the owner as the probation officer and decision maker instead of like today when these tasks belongs to the capital owners agent. This scenario can be very hard to realize especially since the majority of the shareholding today is indirect through institutions with the capital owners being far away from the control. (Bergström & Samuelsson, 2001)

According to Monks and Minow (1995) back in the old days the primary function used by shareholders to protect their savings was voice since the exit alternative was not so easy and inexpensive as it is today.

A study on 14 large Swedish institutions and their use of voice and exit represented in a school essay written by Hultman et al. (2003) indicated that there has been a transition from exit to a more and more frequent use of voice. The institutions used voice mainly through participating at shareholders meetings, voting and by taking part in the process when new members of the board were appointed. The result of the study also showed that new ways to use voice had occurred since Hedlund et al. did their study about 20 years earlier. Primary new functions were participating in the nomination committees, design of incentive programs and evaluation of the committee.

The result from Hultman et al:s (2003) study indicates a return to the old voice dominated ownership, although today by institutional instead of individual shareholders. (Hultman, Randow, Dhejne, & Ahlstedt, 2003) The impact of increased institutional ownership on corporate engagement and voice strategies is however uncertain. Black (1992) argues that institutions will continue to vote with their feet because the share ownership restrictions on individual institutions limit the private benefits of monitoring.

3.10 Long- and short-term

The use of exit, voice and loyalty gives an indication to the time horizons owners are interested in and that leads us to our last subject where institutions' long- and short-term perspectives will be presented. By gaining deeper knowledge about the subject for each section in the theory we have now reached the final level that is most connected to our purpose and the paradox we want to examine.

Institutional ownership is characterized by a large and anonymous ownership where engagement in company activities is more distant, comprehensive and fleeting than deep and long. The distance can lead to a lack of interest and knowledge about the company and an absence in owners who take long-term risks and engage in future development. A fleeting ownership however implies freedom where the company management is free to make daily decisions without interference from the owner while they have access to a large amount of capital. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Brodin et al. (2000) claim that they during an investigation of company managers found that they are in need of ownership involvement and try to attain distinctive and long-term focused owners. Many company managers believe that owners with only a financial perspective fail to contribute to the company in a significant way and are not desirable.

Managers want owners who are willing to build long lasting structures and processes of value not only for the owner but for employees, customers and the society. Long-term owners can gain competitive advantages in contributing to a well developed and hard-to-copy value chain and easier agree on goals with the management. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000) However long-term and active institutional ownership does not go hand in hand with the law for fund companies which forbids them to own shares in a company that render possibilities for them to exercise a considerable influence over the company's management. (www.riksdagen.se, 090406) Short-term investors claim that the most important competitive

advantage is the ability to compare and analyze company profitability through financial instruments. Some actors are not concerned about short-term actions since they believe that a long-term perspective equals slowness and if owners focus on their own short-term profits even long-term results will be achieved. Short- and long-term goals do not always have to be in opposition with each other. Short-term efforts and positive results can have lasting effects and stimulate long-term results where the sum of the best possible result in a short-time perspective is also the best long-term result. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

The length of involvement is also important for social influence and expertise of shareholders which is why many companies prefer long-term investors. Long involvement also makes large owners more likely to assume positions of formal authority on boards of directors and attain a higher authority. (Kang & Sorensen, 1999)

3.10.1 External interest and globalization

It has now become more important to impress external partners and interested parties that are mainly concerned with financial performance and have no interest in daily processes within the company. The company management therefore has to focus on successful short-term results to create positive attention and an effect is that also the business development is viewed at from a short-term perspective. CEO:s today have to present quarterly reports and if they do not produce satisfying results, investors may withdraw their capital, putting the company in a risky position.

This fear of losing investors and capital can lead to necessary investments not being made because it may create a negative result during a short period of time which in short-term capitalism is not accepted. External owners are only interested in yearly improvements, cost reductions, discontinuations of unnecessary departments and so on. Any actions that will save money and increase profit are desirable from an external point of view. No consideration is taken to the consequences such as unemployment and dissatisfaction that may have negative effects on the company. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

Capital markets are nowadays global and money can move easily and quickly from one country to another. Investors look for markets where they can get the highest profit in a short-term perspective and it is doubtful if investors in global capital markets will wait for long-term profits. It is much more tempting to use an exit strategy and withdraw from a non-profitable investment to gain short-term profit somewhere else. Sacrificing profit now to be better off in the future requires long-term and stable relationships between the company and its stakeholders and even though many owners claim to be active, there is still a long way to go until corporate engagement becomes mandatory. (Jansson, 2005)

3.10.2 Long- and short-term from an institutional perspective

Institutional owners can amongst other consist of insurance companies, investment companies and pension funds. Depending on the type of institutional owner, the owner policies can be different and they can organize their ownership in different ways. Share funds are driven by competition and in order to remain competitive they constantly have to produce profits for their customers, the savers, in a short-term perspective. Pension funds on the other hand have less pressure from their customers, the future beneficiaries, and should in reality be able to focus on long-term investments. Insurance companies represent something in between while investment companies usually are more active owners and claim to represent a more long-term perspective than other institutions because they invest in companies they believe in and develop during a long period of time. (Brodin, Lundqvist, Sjöstrand, & Östman, 2000)

3.10.3 Pension Funds

Like we have mentioned earlier pension funds have investors with long horizons which means that they should be able to have a long-term interest in corporations as well as in their stakeholders. (Monks & Minow, 1995) Pension fund owners are not interested in sacrificing long-term profitability for short-term results, instead they prefer to raise the company standards and performance to reduce risk over time. (Coffee, 1991)

Pension funds with large amounts of shares are more or less forced to seek ways of influencing management decisions and are not always doing it because they really want to or because they care about the company as they claim in advertising. Their motive is more likely to save their own capital than sincerely engaging in what is best for the company. (Clark & Hebb, 2004)

However, pension funds still measure performance on a quarterly basis and trade aggressively when short-term declines occur even when these declines are associated with long-term improvements. So the question is how reliable the long-term motives really are and how much is only a subject of decoupling where ideal plans are presented externally but no changes are made internally? (Clark & Hebb, 2004) According to Monks and Minow (1995) long-term thinking by pension funds is not a truthful picture of the reality in which they act in a more short-sighted manner.

Berggren (2003) criticizes the short-term thinking among the institutional investors. According to him one thing that makes short-term investment legitimate by for example pension funds, is that a long-term investment leads to a higher level of risk and according to the law they have to be careful since they manage other people's future income. But on the other hand the short-term thinking and an inactive ownership that often comes along with it can lead to companies have to move overseas and attract active foreign owners to survive. This scenario means that future Swedish pensions will be undermined since the number of employees will decline as well as the total salary paid out which constitutes the base for the pensions. Berggren claims that the result will be that pension savers invest their money to increase their future income but instead they will decrease their pensions by decreasing the total amount of pension savers, a clear goal conflict. (Berggren, 2003)

3.11 Summary

The theories presented in this chapter raise many questions about how the institutional ownership really is being practiced today. The opinions differ a lot concerning this subject and also about whether the institutions are becoming more active or not, how much influence they should exert in companies and where they should use voice to affect. There is also a strong belief that the capital owners have lost their former rights over property and there does not seem to be a consensus around what ownership means today and where the ownership is headed. Further we feel that our theory many times indicates that our claimed paradox between long- and short-term does exist at different degrees depending on the kind of institution. This brings us to questions including where does the paradox exist, to what extent and how much of these theories are valid today? To be able to draw our own conclusions about the institutional ownership today we have made an empirical study which now will be presented in the following chapter. The questions in our interviews were based on this theory chapter to help us fulfil our purpose and find out whether the paradox exists or not.

4. Empirical research

In this chapter we will present the results of our empirical research from the interviews we have conducted and the additional research we have made by examining current debates in the society.

We will begin with a presentation of general facts about the companies in question, Investor and Folksam, and then continue with presenting our interviews mainly based on answers regarding investments, ownership, activity and corporate social responsibility. Our personal reflections from each interview will also be included before moving on to the issues concerning institutional ownership in the society today.

4.1 Investor AB

4.1.1 About Investor

Investor is the largest investment company in Northern Europe and it was founded in 1916. At that time a new legislation came that made it difficult for banks to possess long-term shareholdings in industrial companies. In 1917 Investor got listed on the stock market and in the early 1970s it got a more separated role from the banks. Investor's business concept is to invest in companies listed on the stock market as well as in non listed companies. The ambition is to be engaged owners and through that develop potential successful companies to become the best in their specific industry which would lead to a good income from capital in the long run for their shareholders. Today Investor has offices in Europe, North America and Asia. The company identifies some of their strongest strategic possessions to be their international network that increases the possibility to find good investments and right co-workers, which is another strategic strength. They place a great weight on the searching process to find the best suited and most competent individuals for each position in the organization. (Årsredovisning I. , 2008)

The highest deciding authority in Investor is the shareholders meeting. Here decisions are made of how to appoint the election committee whose task then is to give proposals on candidates for the board of directors. Jacob Wallenberg is the Chairman of the board whose mission is to manage the company's affairs and appoint chief executives who will handle the company's current administration. (Årsredovisning I. , 2008)

The largest owners of shares in Investor are institutions, mainly foundations. (Årsredovisning I. , 2008) A foundation do not have any owners or members, it is a legal person and could thereby be said to own itself. The primary governing instrument for a foundation is a foundation document that indicates the purpose of the foundation and how it will be fulfilled. Furthermore it should be lead by a board of directors or an administrator. (sv.wikipedia.org, 090430) Knut and Alice Wallenberg's foundation is the largest owner in Investor and occupies 18,6 % of the capital and 40% of the votes. (Årsredovisning, 2008) The purpose of this foundation is to promote scientific research and educational programmes that will benefit the country. Their board consists of 10 members of whom five have the surname Wallenberg. (www.wallenberg.com, 090430)

4.1.2 Active Ownership

An active ownership is the reason for Investors long-term stability and this role implicates support in good as well as bad times for the companies they invest in.

Investor has five strategies for how to create value:

Invest in attractive companies, they prefer to invest in sectors located at geographic markets where they possess a good knowledge and are also able to constantly renew their share portfolio.

Drive value in the companies, to be able to affect by a large owner position, is a condition for Investor. They have an active role on the board of directors by initiating and doing follow-ups on valuable plans concerning for example operational efficiency and growth in companies.

The right person at the right place stresses the importance of having a board of directors suited for each company as well as a goal shared by the owners, board and company management.

Financial strength is required to never limit the companies when they need money to implement their strategic plans.

Disposal of holdings occurs if Investor thinks that a holding does not correspond with their demands and when a sell is considered to create value. Disposals occur through a list on the stock market, an industrial sale or through a sale to another financial actor. (Årsredovisning I. , 2008)

In 2008 Investor had 69% of their shares in core investments, 15 % in operative investments and 15 % in Private Equity-investments.

Core investments are placed in eight well established companies listed on the stock market like for example in ABB, SEB and Atlas Copco. The right composition of investments is considered important to be able to achieve a good development in the shares value. By being a significant minority, Investor practises its influence on the companies by having representatives on the board. These representatives job is to question the company management but also to support them, especially in decisions that contribute to adverse results on a short-term basis but to profit when viewed from a long-term perspective. Investor has a long-term investment horizon, for example Atlas Copco and SEB has in some form been a part of the share portfolio since the beginning of Investor's business, 93 years ago. (Årsredovisning I. , 2008)

Operative investments began in 2006 and take place in medium-sized to large companies with an international activity and good profitability. Investing in these shares means a higher risk than core investments but it is partly reduced since these investments occur through partnerships with other investors. Another benefit gained from this kind of cooperation is that the cooperative partners' networks also become available for Investor. Investments take place in companies listed on the stock market as well as in non listed companies and the ambition is to continue to increase the amount invested in non listed companies. Ownership occurs through either a majority or through a significant minority and the investment horizon is at least 5-10 years. Example of investments in this area are Grand Hotel, where Investor owns 100 % and 3 Scandinavia where Investor was one of the two founders. (Årsredovisning I. , 2008)

Private Equity-investments occur in small and medium-sized growth companies through Investor's subsidiary called Investor Growth Capital. These investments make it possible for Investor to discover new markets and technology trends at an early stage. Private Equity-investments also take place in medium-sized to large companies through the partly owned EQT funds in which Investor was one of the founders and today is the major investor. Here a strategic control is being practised through debt financed purchases in companies in the mature phase of their lifecycle; these ones are also called buy-out-investments. Companies, in which Private Equity-investments are made, are located in Northern Europe, The United States and Asia. Primarily they take place in companies not listed on the stock market where the business is mainly focused on IT and health care. The investment horizon is 3-7 years and the ownership is practised by a minority. These investments imply a high risk and the share portfolio therefore consist of a large amount of companies. An active ownership is here

practised by supporting the development of new business activity, strategy and vision. Investor also gives companies access to their network that consists of competent employees in many areas. (Årsredovisning I. , 2008)

4.1.3 CSR

Investor has a long tradition of taking responsibility for the environment in their work. In the concept CSR they include environment, human rights and improved working conditions. Investor believes that taking responsibility for stakeholders as well as for the environment in general, increases the possibility to gain a high profit in the long run. It is mainly through activity at the board of directors that Investor tries to practise influence over companies in areas concerning CSR. When they make new investments they also look at the company's risks and possibilities associated to CSR. A basic condition is that each company obeys the rules and the law in their respective industries and besides that, establish policies that are specific and relevant for their business.

Investor within its own company practices CSR by supporting the OECD Guidelines for multinational enterprises. They also have an environmental policy which means that they reduce the consumption of resources by regaining and reusing material to the highest extent possible. (Årsredovisning I. , 2008)

4.2 Interview – Investor 22/4

Now the results from our interview with Petra Hedengran and Charlotte Nilsson, both working at the Department of Corporate Governance at Investor, will be presented.

Our purpose with the interviews was to find out what kind of ownership the institution in question exercises in practice and if there are tendencies pointing towards the paradox we wish to examine.

4.2.1 Institutions role in general

Regarding a question about the effect of institutional ownership on the financial market, Petra answered that institutional owners are short-sighted but that they should not be dragged through the mud because she believes that they still do the best they can to contribute to a stable situation on the market. It is important to explain at this early stage that Petra refers to institutions and Investor in terms of them and we, in other words she excludes Investor from the institutional definition. Institutions often try to pursue certain questions, where currently the environment is a frequently discussed subject considering that it is a pressing issue today. The problem is that they do not look at what the specific companies need right now but are instead influenced by politicians and what they consider to be important in general. Further Petra talks about the capital without visible owners and the insecurity that comes along with it. "Institutional owners do not wish to receive information about the company since they do not want to get too involved, they may sell all their shares tomorrow" says Petra and then questions how any company with this kind of ownership can be able to run its business in the long-term. There are many critics today who share her concern in this question. In a recession, like the one we find ourselves in today, the companies need investors who support them and stay loyal but according to the general view on institutions, there is no guarantee that they will do that. Institutions will more likely sell their shares at signs of a fall in prices. Petra claims that it is in times like these that companies realize the importance of having large owners with a genuine interest and a personal relation to the company in question.

4.2.2 Investments

Petra begins answering questions concerning investments by summarizing Investors business concept which is to generate value for the shareholders in the long run and through competence affect the companies in which they invest. She also explains that they invest in industries in which they possess a good knowledge and in companies where they can see a

great potential to succeed. Petra says that the criterion which foremost decides whether an investment is of interest or not, is the amount of influence possible to attain in a company. Investor always wants to have a position that makes it possible for them to exert influence in the company. For example, if they have a significant minority ownership with 20 % of the capital and another investor has 19 % it will be difficult for Investor to achieve their goals and the investment may therefore not be an alternative. When asked the question about how often they buy respectively sell shares at Investor, Petra describes their core business and mentions the example with Scania where they held their possession for 90 years. Investor always tries to have a long-term perspective in investments but of course there is a daily trading activity as well. Sometimes they increase their existing possessions in larger investments whereas in the private equity –investments, daily trade activity is a more natural part of the business activity, says Petra. To sell of small parts of the shares in a company is more uncommon since that leads to a reduced influence and if a sell does occur, it is more likely that all shares will be sold. Petra further says that they in general make one large investment each year.

The next question concerned how much Investor focused on their portfolio and their attitude towards risk. Petra explained that portfolio thinking does exist, for example Investor mixes cyclical with non cyclical shares, but the primary drive when it comes to decisions about investments is still the possibility to create value through being active owners. This means that Investor can invest money in non successful and unstable companies as long as they can see a future potential says Petra. Sometimes it occurs through a buy-out of a company followed by a rationalization that hopefully results in the company being profitable again.

We then asked Petra and Charlotte if they could define their long- and short-term perspective since the definition can vary a lot. They said that they wished that long-term meant forever, and once again mentioned Scania and the 90 years of ownership. They also mentioned that Investor has been criticized for being an old-fashioned power company that only had long-term investments and took no risks. But Petra says that “nothing is holy” and a few years ago they sold Scania which she claims proved that Investor can take drastic measures if necessary. Petra and Charlotte then also chose to define middle-term as a much longer period of time and commitment for Investor than for other institutions.

Another question discussed the subject whether institutions contribute to an underinvestment in small companies. Both Petra and Charlotte agreed on the statement that institutions primarily invest in large and stable companies which means that there is an underinvestment in companies in the early stages of the business lifecycle. Petra then claimed that Investor through their private equity-investments partly invest in new and more risky companies. In this category Investor includes investments that occur through Investor Growth Capital, IGC, that mainly take place in small companies. “We enter these companies with the expectation that if we invest in 10 companies, 3 of them will generate profit and 7 of them will not survive” says Petra.

4.2.3 Ownership

Investor never makes an investment if it does not lead to a possibility to exert an active ownership in the company. They exert their influence by having members on the board, large networks and attending shareholders meetings. According to Petra, Investor has a plan of how to create value which they put into operation through having representatives on the board of directors who are very clear with Investors goals. In companies not listed on the stock market it is easy says Petra, “either they deliver results or we change the members of the board. It is often harder in companies listed on the stock market, we do not sell right away instead we might try to receive new power in the board of directors next year”.

When answering the question about how much pressure Investor has on presenting good results on a short-term basis, Petra says that they are clear about their long-term horizons and that they try to resist the external pressure. Shareholders are aware of Investors philosophy but quarterly results still have to be presented.

The people who represent the shareholders of Investor are solely Charlotte and Petra. They sit in the committee where they focus on issues regarding each company, have direct contact with the companies invested in and also elect people to the board. In their role as owner representatives they consider themselves having a good relation with Investor and the companies in question. Further they believe that there are a lot of competent personnel in the building and they often visit companies to point out the importance of taking an active responsibility when being a member of a company management. The ambition is to have a lot of knowledge about the companies but of course it varies with the size of the shareholding and it also depends on how much resistance they meet. Some companies are less interested in having institutional owners and then Investor often takes a step back and looks for other investment opportunities instead.

Sometimes the owner and the company management have diverse opinions but in the end it is always the company that makes the final decision. Petra however claims that if Investor thereafter is dissatisfied, they can exchange the members of the board or arrange a new assembly.

When discussing the subject board of directors more specifically, Petra says that some of the people working at Investor are members of the board. The representatives use Investors unique network which also is being used to find the right representatives. According to Petra the qualifications needed to become a member of the board have changed. "It has gone from being based on relationships to now being based on factors such as competence and experience related to what is needed in the specific situation" she says and further claims that the base for recruit has been expanded. At Investor they design a demand description that the committee have agreed on where balance between men and women, different nationalities and background is the ambition but at the end of the process the factors mentioned above will decide. The members of the board have an active role to play but as owners there are some issues that should not be interfered in, for example the company's daily activities, "that would simply be wrong" says Petra.

When it comes to shareholders meetings Investor present all of their proposals and deals with the debate afterwards. Petra agrees that the decisions are made in advance but she does not want people to think of shareholders meetings as only a forum for gathering information. "It is an important forum where issues are being brought up that sometimes may be an eye-opener and maybe also lead to rethinking", says Petra.

4.2.3 Corporate Social Responsibility

Charlotte considers CSR to be an extremely important subject, required to gain profit in the long run. Today it is an obvious matter and many foreign shareholders demand a presentation about how each company works with social responsibility. Further she does not consider it difficult to combine CSR with a positive income since the debate in the society today puts a lot of pressure on companies and it is necessary to take active responsibility. Investor has no general CSR-regulation for the companies in which they invest, it varies depending on the specific industry and line of business.

It was not possible to get any further information in this area since neither Petra nor Charlotte knew anything more about the work with CSR. Instead we were referred to read Investor's annual report which appeared to be fairly weak in providing more information.

4.3 Folksam

4.3.1 About Folksam

Folksam is one of the leading insurance companies in Sweden with more than four million policy holders. The Folksam group consists of two mutual companies, Folksam Sak that deals with insurances and Folksam Liv that manages pensions. The companies offer occupational pensions, pension savings, endowment insurances, group life insurances and other types of risk insurances.

Folksam was founded in 1908 and is completely owned by its customers meaning that the company is owned by the policy holders and that the generated profit stays within the company to the benefit of customers instead of external shareholders. (sv.wikipedia.org, 090429)

Folksam's vision is to contribute to a safe and a long-term sustainable society for the individual. The guiding star when it comes to the placement of the savers capital is to pursue a responsible capital management by an active focus on ethics, environment and gender equality. (Årsredovisning F. , 2007) Folksam is consequently an institutional owner and the goal when it comes to managing customers' assets is to attain the highest possible profit while considering certain risk and investment restrictions. Folksam administer about 200 billion Swedish crowns making them one of the largest institutional owners in Sweden. Security is therefore very important to Folksam and they mainly invest in secure and stable companies that stand a higher chance obtaining profits than more risky investments. (www.folksam.se, 090430)

Folksam has a wide portfolio with investments in a large amount of companies in order to spread the risk and are therefore often one of the ten largest owners in a company but seldom one of the five largest. (Bolagsstyrningsrapport, 2008) The recent investment in Swedbank is an exception where Folksam is the largest individual owner by holding almost 15% of the shares. (www.folksam.se, 090503)

Before deciding to invest in a company, an in-depth analysis is made on debts, assets and various restrictions as well as expected risk and profit of the company in question. These analyses then constitute the foundation for a strategic investment direction. Folksam is allowed to set aside these strategic investment decisions if it is estimated to be profitable.

Folksam's vision to work towards a secure and sustainable society is also presented in their investment decision through their ethical demands on companies. (Årsredovisning F. , 2007)

4.3.2 Owner policies

Folksam's policy as an institutional owner is appointed by the board of directors where it has become clear that the demands on institutional owners have increased and it has become more important to take social responsibility and to be involved in corporate engagement.

Folksam is aware of the importance of active ownership and believe that it is necessary in order to achieve a sustainable development. Folksam has therefore since 2002 worked actively to improve companies that violate international conventions. By being an active owner, Folksam believes that they can influence and change the society. (Bolagsstyrningsrapport, 2008) They are convinced that companies that take responsibility for the environment and human rights will be more profitable in a long-term perspective. Companies that focus on short-term results and for example have poor working conditions for their employees or a negative approach to the environment or human rights, will most likely experience declines in sales and a weakened brand resulting in lower profits for the shareholders. That is one of the reasons to why Folksam has established certain criteria where the environment, human rights and anti-corruption are being considered. Consequently that means that they engage in only ethical investments where they tempt to choose companies with positive results and an active work towards improving the environment, considering

human rights and fighting corruption. The ethical investments also mean that Folksam do not invest in companies involved with tobacco production. The ethical investment criteria are based on what the customers believe is important and lies in line with Folksam's vision of a sustainable society. (www.folksam.se, 090502)

Besides the ethical criteria, Folksam works actively towards a broadening of the competence in Swedish boards of directors. They believe that a board should consist of competent members with an even distribution of experience, ethnical background, age and sex. Folksam therefore try to influence companies in which they invest in to openly present and motivate the choices of members of the board.

The same goes for the highly debated reward systems where Folksam believes that rewards are positive and should be used to motivate employees but that they should be justified by a corresponding performance and the paid out amounts to be reasonable and well explained.

Folksam considers it to be the board's responsibility to make sure that the owners' interests are satisfied and that is why they try to influence companies to be clearer about how they elect members of the board and how and where their money is being spend. (Bolagsstyrningsrapport, 2008)

4.3.3 Influence

To influence companies, Folksam exercises its owner role in several ways. Amongst other they take part in shareholders meetings, election committees, collaborations with other owners and direct contact with company management and board of directors.

Folksam exercises their influence mainly by conducting in regular dialogs with Swedish companies and especially with their twenty largest holdings, companies in high risk businesses and companies that are subject to unfavorable incidents. Each year Folksam contacts the representatives for the twenty largest holdings by letter/email or phone and go through the ethical criteria as well as possible gender equality and reward system issues that may have occurred during the year. If the issues are considered serious, a meeting is set up with the company in question where Folksam has the ability to influence the company into taking action and improving the situation.

Folksam grades companies every year based on their work with environmental questions and human rights and those companies that are considered being in high risk lines of business are contacted and suitable measures are discussed. But also successful companies are monitored in order to perform even better and develop their work with social responsibility.

Every now and then various scandals occur where companies are involved in environmental or ethical incidents that are against Folksam's beliefs. The procedure in those cases is that Folksam carries out discussions with the company in question to make sure that it does not happen again. If Folksam comes to the conclusion that the company is incapable of change, they will withdraw their capital by selling their shares and no further investment will be made until the company improves its business. (www.folksam.se, 090505)

Folksam also takes an active part in shareholders meetings where they attend approximately twenty meetings a year and discuss ethical questions. Before shareholders meetings Folksam sends out letters to the chairman of the board to inform about the questions that will be discussed. If the results are not satisfying, Folksam will vote against proposals that are not in line with their criteria. Since 2005 they also exercise their influence on foreign meetings.

Since Folksam seldom is one of the largest owners, they lack representatives on the board of directors and are rarely a part of the election committees. Instead they often collaborate with other institutional owners and international organizations in order to be able to exert influence despite their role as a minority owner. (www.folksam.se, 090430)

4.4 Interview – Folksam 23/4

Besides the information we received from various financial documents, annual reports and homepage presentations, we also conducted an interview with Emilie Westholm who works as a company analyst at Folksam and deals with corporate governance and ownership questions.

4.4.1 Investment

Folksam's policy when it comes to investments and where to administer capital is to mainly focus on a long-term perspective. Since the customers consist of policy holders or pension savers, they have long-term goals with their investments and it is therefore necessary to invest in companies and shares that extend over a long period of time.

The definition of long-term is, according to Emilie, difficult to determine depending on what time horizon customers have and where they are at in their life. Long-term for pension savers can be anything from one year and upwards depending on how close they are to their pension and it is therefore hard to specify time limits for various investments.

Emilie says that Folksam also is under surveillance of the Finance inspection that has clear rules about investments and risk when it comes to companies dealing with other people's money, and they have to take these rules in consideration when investing capital in different companies.

4.4.2 Ownership

The common view on institutional ownership according to Emilie is that it is a weaker form of ownership. Visible owners are missing and that leads to a lack of control which makes issues such as absurd reward systems possible. It is a huge problem and institutional owners have to become more active in order to reduce these issues.

When asked about Folksam's role as an institutional owner, Emilie emphasizes that Folksam has very specific demands on companies they invest in and that they are clear with their ethical criteria by not investing in companies dealing with weapons and tobacco production. Apart from that, they have distinctive demands on companies when it comes to the environment, human rights and gender equality as mentioned earlier and they really believe in taking responsibility to make sure that companies improve their work with these issues. If companies engage in ethical and environmental work it will not only benefit the company by improving their reputation, attracting customers and increasing profit, it will at the same time benefit Folksam's customers by increasing profit on their holdings and of course benefit less fortunate countries and people in need. That is why it is extremely important for Folksam to influence and push companies in the right direction. Emilie claims that it is profitable for everyone in a long-term perspective and it should therefore be in the interest of all companies to engage in ethical and environmental issues.

Emilie also talks about gender equality and reward systems that, as mentioned earlier, is something Folksam is very passionate about. They believe that if there is a lack of gender equality in a company, then something is very wrong. The main issue for them is the question of competence. Many companies have men on the board of directors without a university degree while educated women are a minority and Folksam is persistent in their work towards openness and justification to why certain members are picked and others are not. There is a need of a broadening of competence in companies and their boards and Folksam works very hard to achieve that in their role as a responsible owner.

4.4.3 Activity

Folksam does not have representatives on the board in companies they invest in and no ambitions in having that either because they are usually minority owners and therefore too small to exert any kind of influence.

But Emilie claims that they still perceive themselves as active owners and believe in exercising influence in other ways. She admits that they do not have a lot of knowledge about

companies they invest in, especially not the smaller holdings where they have limited contact and only observe possible major ethical problems that may occur. When it comes to larger holdings, they have limited knowledge but they try to have an overall view and keep themselves updated on specific events.

Folksam is not very interested in daily activities except from when companies ask for help in certain areas and an intensified contact is established. They usually receive assistance from other partner companies with analyses and monitoring and if something alarming is discovered, Folksam take on the matter and try to resolve the situation.

Their main communication with companies is through letters every year as mentioned and according to Emilie they try hard to raise demands and have opinions and that is their definition of ownership activity. When attending shareholders meetings they work on raising awareness for ethical issues but Emilie explains that it is difficult to create a serious discussion when the largest shareholders show no interest in taking part in the debate. They remain silent because the questions of their interest have already been decided in advance and they therefore only regard the meeting as an informative forum. Emilie agrees with the common view that shareholders meetings are predetermined and mostly spent answering irrelevant questions from elderly pension savers but she believes that it is Folksam's job to raise the bar and reach a higher level where important subjects are discussed. It is an important forum for Folksam where ethical questions can be brought up and Emilie further says that if they are not noticed there, where will they be noticed? Shareholders meetings are mostly informative but also a great opportunity for influence and debate.

It is however still very hard for Folksam to exert real influence on companies because they are minor owners and have a relatively small voice.

Emilie says that they can only hope that their questions raise some attention. They have tried to collaborate with other institutions when it comes to reward systems and bonuses but no one has ever been interested and the recent scandals may give a hint of why.

To gain more influence and attention in certain questions, Folksam collaborate with mostly foreign investors who have the same ethical beliefs and interests so that they together can create more awareness. Emilie is confident that Folksam is powerful and she feels that companies are anxious to perform well and receive a high ranking on the annual reports that are published. Sometimes company manager's call to discuss what possibly went wrong and what they can do to improve.

4.4.4 Exit

When asked about situations when Folksam is unsatisfied with company performance and what it takes for them to withdraw, Emilie answered that a withdrawal is something they try to avoid to the highest extent and it is for her personally the hardest job to do. Their mission is to try to influence companies as much as possible but if a company seriously does something that is against Folksam's guidelines, if an issue becomes well documented and noticed by international organizations such as the UN or if they believe that the company will not improve, then the only remaining option is to withdraw from the investment. The suggestion about a withdrawal is presented to the company committee that then makes the final decision based on several aspects. According to Emilie, Folksam has in the past two years pulled out of five companies and they have all been foreign companies.

4.4.5 Corporate Social Responsibility

Corporate Social Responsibility is an important part of the business for Folksam.

Emilie says that their vision to contribute to a safe and sustainable society in a long-term perspective for individuals may be seen as just a cliché but claims that in Folksam's case it really is not. Folksam was one of the first companies to take social and equality questions seriously as early as in the 60's by offering insurances for everyone irrespective of gender, social status and income.

Even today Folksam is associated with CSR and it is applied in the entire organization where they for an instance have an appointed environment chief, plant trees in exposed countries, engage in wind power and have researchers working with minimizing traffic accidents. They also have demands on suppliers to use environmentally friendly and recycled material when repairing cars and so on.

Besides that they have their ethical investments where screenings are made before investing in companies and those that do not measure up to the criteria, will not be chosen.

Emilie admits that is impossible to know if companies are telling the truth about their ethical work but that there is no other option but to trust them and focus on constantly improving.

Surveys are made every year amongst customers to discover what they believe is important and the goal is to take that in consideration when shaping the ethical guidelines and investing in companies.

Emilie believes that it is up to everyone to take responsibility and do what it takes to create a better society but it is difficult to decide where the limit is for companies since their main goal at the end of the day is to generate profit. It is though becoming easier to combine profit and CSR because it is nowadays natural for companies to consider ethical and environmental issues. The attitude towards the environment and ethical questions has, according to Emilie, changed over the last few years and companies are a lot more positive and willing to engage in debates. Many companies are pressured into taking social responsibility by customers, media and the society as a whole and by doing so they make customers happy, achieve commercial success and earn more money.

Subjects involving the environment, gender equality and reward systems have now become a part of the public debate and it is now possible for Folksam to move on and focus on other subjects that they believe are important to discuss. As Emilie says; "our job is to make information public".

When it comes to implementing CSR internally in the organization, Emilie confesses that it is far from evident and that it mostly is communicated externally to customers and media. But she believes that it is about to change since they have gained more knowledge about communication and use internal magazines, blogs and breakfast meetings to spread the matter throughout the organization.

She also acknowledges that there are shortcomings in the communication with customers when it comes to information about where their money is spent and to increase the interest in ethical questions. Folksam appeals to customers that are interested in choosing what is best for the society and they want information to be easily accessible in order to attract customers and encourage activity and engagement.

4.5 Interview - Folksam 29/4

Our interview with Emilie provided us with valuable information about corporate engagement and ownership questions. But to gain more knowledge about investments and the financial side of institutional ownership we contacted Folksam's Chief of Finance, Michael Kjeller, and conducted a telephone interview.

4.5.1 Investments

Investments made in different companies are first and foremost based on the ethical investment criteria described earlier. Only companies that have fulfilled the criteria will be taken in consideration. The choice is thereafter based on the highest expected returns and the company with the highest profit will be picked first.

Michael explains that diversification is extremely important for Folksam and they have thousands of different shares in their portfolios because they partly want to represent the progress on stock markets in both Stockholm and the world and partly because they want to spread the risk. They try to beat or at least follow index and therefore have to follow the general pattern of investors when they place the capital.

Because of the diversification, individual shares only have a small effect on the total profit that the entire portfolio generates which means that one company's performance will only affect a small percentage of the total profit.

According to Michael Folksam is not interested in being active trustees, they instead focus on a more frequent trading business. Even though some strategic investments are based on a long-term perspective and are less liquid, the majority of investments are liquid and easy to sell. As Emilie also said, there are difficulties in defining long- and short-term perspectives and it is based on the specific situation, Michael claims in addition that everything has a price and can be sold based on the circumstances.

Michael admits that there is a lot of pressure from customers and media about generating constant profit especially from pension savers since insurances are more tied up and cannot be moved as easily. Folksam competes with refund rates that are based on the total profit and it is therefore important to present good results in a short period of time. The thought of performing well during time does not exist according to Michael. Only short-term results such as quarterly profits are presented in the media and no one believes in investments that get better in time.

Folksam sometimes does not perform as well as their competitors and Michael assumes that it might have to do with their ethical investments that are focused on long-term results. The competition is based on short-term results and because Folksam have chosen to have a strong ethical commitment, they sometimes invest in companies that will perform well in the future instead of right now. Michael says that there is no proof nor believe that ethical investments generate better results and this is a dilemma for Folksam but a choice they have made and will stick to.

4.5.2 Ownership

Michael's view on the increased institutional ownership is that it leads to anonymous owners who lack control and insight in companies. To avoid that, it is necessary for institutional owners to take more responsibility and there is a huge difference in ownership activity today compared to what it was like ten years ago, especially in Folksam. Michael points out that corporate engagement and social responsibility will make owners more visible and put a face to the capital. But at the same time he says that Folksam does not make demands on companies. If they perform poorly or if Folksam is not happy with the management, they will not try to impose a change or influence companies but instead rebalance the portfolio and put more weight into companies they believe in and less in those that they are not satisfied with.

According to Michael, the role of institutional investors in general is to contribute with risk capital and to contain stability in their ownership. Institutions can have opinions and ideas about their ownership but should stay out of other areas of the business. They do not have anything else to contribute with and lack the competence needed to be more active, it goes for all institutional owners including Folksam. The recent investment in Swedbank will though require more activity and involvement.

Folksam invests over 200 billion Swedish crowns and even a small part of this can mean that they become large owners, especially in smaller companies. It is though a risky business investing in smaller companies because there is often a lack of knowledge and information about their ethical work and there is an uncertainty on where they stand in certain questions. Folksam therefore tries to avoid becoming too involved with smaller companies because of the risk and responsibility that comes with the role as a major owner. Michael claims that Folksam has no interest in becoming a main owner in companies and they therefore sometimes invest in different risk capital funds and become a fund owner which is a more indirect ownership that suits them better.

4.5.3 Exit

Michael claims that Folksam does not mind buying and selling shares often and they prefer having liquid assets and free positions so that an exit strategy will be easier to accomplish. An exception is the investment in Swedbank where a withdrawal would be far more complicated to do.

According to Michael, it is a common trait for institutional investors to mainly keep liquid positions so that it is easy to withdraw from investments.

Folksam rarely sells out all shares in a company at once if they are not satisfied with the results. It is more common that they tactically rebalance the portfolio.

The national investment laws are usually not a problem for Folksam because of their diversification. They rarely want to have large shares in companies and they are satisfied with the limits.

4.6 Impressions from the interviews

4.6.1 Investor – Petra Hedengran & Charlotte Nilsson

At Investor we were welcomed with kindness and it made us happy to see that people knew we were coming and treated us with respect. The interview was held in the boardroom in which we were told that not everyone got a chance to sit in. It felt like they wanted us to feel honoured and so we did. Both Petra and Charlotte presented themselves politely but shortly thereafter Petra reminded us of who was in charge and said that we only had half an hour to our disposal. When we then began the interview she almost directly took over and started to both read the questions and answer them. It was obvious that she was used to handling interviews and had learned to think ahead before giving certain answers and to avoid saying something that could harm Investors' reputation. Unfortunately we believe that this affected some answers since she might have been inhibited to speak from her heart and instead gave us some fine empty rhetoric. Further it was hard to ask additional questions and periodically the answers also felt predetermined where we might as well had been able to receive the answers in writing instead.

4.6.2 Folksam – Emilie Westholm

The interview at Folksam was slightly different than the one at Investor. We were welcomed by a talkative and friendly Emilie and the interview was held at her office where we were seated at a common coffee-break table. The atmosphere was very relaxed and Emilie was having breakfast during the interview which we did not mind but it could have been

considered somewhat unprofessional. We had an hour to our disposal and we had plenty of opportunities to ask additional questions and discuss certain matters.

We were though disappointed that Emilie had not taken the time to read our questions in advance and she was therefore unprepared and could not answer all of our questions. Her knowledge was pretty limited apart from her own area with responsible ownership. She did not know much about other departments of the company and what goals they had with their business nor could she answer general questions about the company's policies and goals. We got the impression that she was afraid to comment on anything outside her own area and that limited the information we received from the interview. But apart from that she was very open and spontaneous and it was interesting and refreshing to hear someone talk freely about their opinions on institutional ownership compared to the respondents at Investor. Emilie was honest and straight, probably because she lacked experience from earlier interviews, and she did not hesitate saying certain things that could have been interpreted as politically incorrect.

4.6.3 Folksam – Michael Kjeller

The first impression was that Michael was very calm and fortunately he stayed that way throughout the whole interview since it was tough to manage both writing down answers and asking questions at the same time. Since he had a whole hour available there was a lot of time to ask additional questions and get deeper explanations when something was unclear.

Further his answers differed a lot from Emilie's, it almost felt like they worked at two different companies with different goals and attitudes towards active ownership and time horizons. Her aim was to practice active ownership and contribute to saving our planet while he said that active ownership was nothing they strived for. Folksam was according to Michael primarily a supplier of risk capital and he stressed the always present pressure on profit on a short-term basis.

Since Michael was mainly focused on financial figures we question if there is not a need for Folksam to have a deeper cooperation with the non financial ingrained people in the company in order to receive the requested active and long-term investments by these institutions.

4.7 The current debate about new directions for the AP-funds

As mentioned in the introduction, institutional ownership is a highly debated subject where recent bonus scandals and signs of increased governmental involvement have occurred. We have therefore also followed the current debate in our empirical research in order to gain a broader perspective on the matter with institutional ownership and reach valid conclusions.

4.7.1 About the AP-funds

Each month an approximate fee of 10 % based on the worker's salary is being paid in to the general pension system by the employer (www.skatteverket.se, 090521) and also 7% of the tax paid by the worker on the salary goes directly into the general pension system. (www.personalekonomi.se, 090521) These payments give the employee right to an income pension which is partly being administrated by one of the AP-funds that also decides where to invest this money. The AP-funds primary role is to equalize the swings in the balance between the pension fee and the pensions in the long run. 2,5% of the 18% mentioned above is put away to a so called premium pension and some of this is administrated by the AP-funds. The worker can decide how the premium pension is going to be invested. The AP-funds have 775 different funds to choose from and if workers do not make an active choice the money will be invested in the premium saving fund which is a governmental alternative. Further it is the government along with the Ministry of Finance that appoint the board of directors in the AP-fund as well as evaluate their business. (www.regeringen.se, 090521)

The government together with the AP-funds today constitute the largest owners on the Swedish stock market. (DN/Ekonomi, 2009, 21:05)

The AP-funds invest hundreds of billions on the behalf of the Swedish people, in other words, the Swedish people are large owners on the stock market. Until now there have been clear restrictions for active and political involvement in institutional investment but now the tendency points towards an economic democracy, writes Aftonbladet. This means that the united capital-owner power is going to be used to pursue ideas that economists and the public consider to be reasonable. A lot of economists have now come to the conclusion that the quarterly capitalism that drives the investors today has detrimental effects on the development of the economy. (Aftonbladet, "Mats Odell-en fondsocialist?", 2009)

4.7.2 Changed position in the bonus issue

In the summer of 2007 LO, a union of worker organizations in Sweden, asked for an upper limit for the Swedish CEO compensations and bonuses at the stock market, something that was immediately rejected by Sweden's Municipality and Financial Market Minister Mats Odell. He believed that this would contribute to a lost focus on the primary goal, which is highest possible profit at the lowest risk for pension savers. Odell and his colleagues have however been forced to rethink considering this question because of the economic situation that exists today. (Rörbecker, 2009, 10:53) Odell recently said that it was doubtful if companies that make a loss should be able to hand out bonuses. He also questioned the incidence of bonuses in AP-funds since it is not managers who stand for the risk in the investments. In an article in Aftonbladet published in March, it is also written about the increased pressure from the Social democrats to disperse the rules about bonuses that were established in the summer of 2008 that for example enabled bonuses to be divided despite a loss in a company. (Aftonbladet, "Regeringen ser över bonusar", 2009)

4.7.3 The existing problem in the AP-funds

The debate goes on about directors hunting for short-term results and some people claim this to be one of the reasons for the economic crisis in which we find ourselves today. Companies have suffered because of directors' speculations with money that does not even belong to them but to the pension savers and as a reward for this behaviour they have received high bonuses. Franchell (2009) further talks about the directors and says that they consist of middle-aged men in grey suits that compete with each other about who has got the most money. All this occurs at the expense of pension savers and employees who in these hard economic times lose their jobs. (Franchell, 2009)

Another hot subject in the debate recently is the chairman of LO, Wanja Lundby Wedin. She has since several years back been criticizing bonuses to directors but now new information has come to light which indicates that she has contributed to the same kind of compensations within AMF. Klein (2009) writes in Aftonbladet that many people now question her credibility when she claims that her primary goal is to protect the pension savings for the members of LO within AMF and the AP-funds, at the same time as pension money is gambled away on the stock market. (Klein, 2009)

According to Aftonbladet (2009) some people claim that in order to reach a long-term and sustainable development in our society we need an assignment that only politicians elected by the people and widespread popular movements can formulate. The most important thing is that the owner responsibility becomes more than a sideline for politicians and union leaders. This is required since owners need more time set aside for this assignment to get to know the companies which will result in them being able to make better decisions suited for each company specifically. Brave owners and members of the board who can resist the greedy culture are now being asked for. (Aftonbladet/Ekonomi, 2009) Recently the chairman for the first AP-fund participated in SVT:s programme "Uppdrag granskning". There she got a question about why the AP-funds had opened up for a record high amount of bonus contracts

when they in 2008 had a loss on 200 milliard crowns, and the answer was, “We do it mainly because it is very common in this industry”. (Andrén, 2009, 10:53)

4.7.4 The significance of the new decision

As we have mentioned before, the government now has changed their opinion concerning bonuses and the AP-funds self-government. The new decision taken at the end of April, means that it is forbidden within the AP-funds to give bonuses to top directors and that they should counteract that bonuses are being paid out in companies where they are part owners by voting against it on shareholders meetings. (Gripenberg, 2009, 16:07) When it comes to the AP-funds self-government there is not a consensus about the government involvement. There are many parties in the Parliament that call for attention to the importance of the self-government for the board of directors within funds. The risk is that a small involvement now can set for a bigger governmental involvement in the future, something that according to the newspaper DN (2009) would be dangerous for the pensioners. One important reason for why governmental detail directives should be abandoned is that the result of the AP-funds administration concerns the population as a whole and not the political top leaders specifically. A worst case scenario is being painted where the detail directives lead to the AP-funds no longer being able to live up to their primary undertaking which is to generate a high profit in the long run at the lowest possible risk. (DN/Huvudledare, 2009, 00:06)

Obviously not everyone shares the same concern regarding the action the government took in the bonus question. Recently Ericsson’s shareholders meeting was held and Peter Wallenberg sat at the first row. He commented the government’s action in the bonus question and said: “Politics is politics, it is election year next year”. (Gripenberg, "AP-fonderna lägger ned sin röst", 2009, 16:07)

4.7.5 A future giant owner concentration?

It is not only compensations within the AP-funds that are being questioned but the whole organization and an eventual merger has been discussed. The reason is the loss of approximately 12,5 billion of the pension savers money caused by the active administration driven by the intention to beat index. Mats Odell says that “we now have to consider how much it is reasonable to pay to get a satisfactory spread on the risk”. Neither the economic spokesperson for the Social democrats, Thomas Östros, is totally against a merger. Although he points out that it is important to look over the risk connected to the strong and concentrated ownership that a merger would result in for the AP-funds. (Lundell, 2009, 05:57)

4.7.6 A political displacement?

”In times of financial crisis an ideology displacement takes place in Sweden” writes Melén (2009) in a news article. Recently the conservative Anders Borg was described as “the best Minister of Finance the Social democrats ever had” since he according to Swedish Industry set off an unreasonable large amount of money in the spring budget for traditional social democratic labour market policy. The turn in question concerning bonuses and governmental involvement in private companies also speaks for the conservatives taking a step to the left. Per Schlingmann, a conservative party secretary, claims that the right-wing has chosen to act on the basis of the conditions in the society today and chooses the policy that is most appropriate right now. He points out the importance of Sweden as a society to stick together and tone down the importance of being related to a specific party or -ism. Although he does not want to say that the conservatives have moved to the left, Schlingman says that to be able to hold the society together a political displacement is required. (Melén, 2009)

4.8 Summary

From our interviews we have come to the conclusion that there is a big dissimilarity between different kinds of institutions and how they practice their ownership. There is Investor who claims that they are active owners in everything they do, Folksam who claims to be active concerning ethical questions but besides that only act as providers of capital and then we have the AP-funds who until now have not exerted influence or activity in companies but where maybe an increased governmental activity is in sight. To be able to come to valid conclusions we now need to examine our collected theory and compare former results to ours to be able to see new tendencies and how to classify the practiced ownership by these institutions today. Do they just claim to be active owners without any support from theory that their behavior can be classified as an active ownership? In other words, is our belief of a present hypocrisy confirmed in reality and does the paradox exist?

5. Analysis

In this chapter we will analyze the results from the empirical research with help from our theoretical frame of reference. The analysis will follow the order presented in the theory chapter and most concepts in the frame of reference will be discussed and connected to cases in reality. The aim with the analysis is for it to lead to a deeper discussion and final conclusions that will be presented in the last chapter.

5.1 Institutional Investment

Like Monks and Minow (1995) could establish in the United States concerning pension funds trying to beat index, also seems to be the case for Folksam. According to Michael, Folksam tries to beat the market with help from different kind of consultants and analyses but it is uncertain how often they succeed. Michael said that it sometimes could be harder for them since they always have to consider the ethical criteria before making an investment which reduces the amount of possible investments. Also the AP-funds have done the same thing that, as we have mentioned earlier, has cost the pension savers 12,5 billion. (Lundell, 2009, 05:57) This behavior is mentioned in Dagens Industri as an active administration and that makes us wonder what active ownership really means. The definition seems to differ depending on who you ask. Investor claims to be active owners since they affect companies by having members on the board while Emilie at Folksam says that they are active through sending letters once a year and attending shareholders meetings. Media however seem to classify activity as constantly looking for the best investment opportunity.

Monks and Minow's (1995) statement about institutions overinvestment in large companies still seems to be well-founded. Michael says that they have to invest a majority of the capital in these kind of companies since they according to the law cannot put the capital at risk, which he also believes to be reasonable considering that they administrate people's life savings. From the recent debate about the AP- funds it seems like these kinds of investments have been expensive for institutions as well as for the pension savers, just like Monks and Minow (1995) claim to be the case in the United States. The question is what the outcome would have been if they instead had invested in companies with a higher risk? Probably it would have been even worse since we now find ourselves in a recession where many small companies have gone bankrupt and further it seems like it is the constant search for the best investment opportunity that is expensive and not the safe investment itself. If we look at the article written by Arbel et al. (1983) we can establish that many institutions seem to follow a certain pattern and primarily invest in larger companies and act as giraffes in the jungle by picking companies with the highest profit. In the article they also mention the opportunities that exist for smaller animals to find goldmines in the neglected grey area among smaller and more risky companies. We believe that Investor, based on these criteria, to a certain degree can be classified as a smaller animal. Through their subsidiary IGC they invest in smaller companies who no one else believes in where they can see a future potential and also make large profits in a long-term perspective. (Årsredovisning I. , 2008)

5.2 Ownership

Both our respondents from Folksam and Investor agree with the theoretical view on institutional ownership as anonymous and Michael points out the importance of institutions to take a larger responsibility in companies which also would make them more visible. Based on our interviews we can establish that both Emilie at Folksam and Petra at Investor talk about institutional ownership as something adverse for companies and in different ways also exclude themselves from the bad guys. Investor does not even see themselves as an institution although they according to the general definition (www.investorwords.com, 090503) are classified as an institution.

Emilie does not say it straight out but she claims that they work in a better way at Folksam than other institutions and contribute in a positive way to the welfare in the society. Michael on the other hand does not agree that Folksam's aim is to save the world but rather to act as a provider of risk capital. When it comes to Investor, something obviously has happened with the institutional definition if Sweden's largest investment company no longer consider themselves as a part of it. If they are not an institution then what are they? The definition of institutions will be discussed in the conclusion of our study.

Folksam and Investor both confirmed that the unbalance mentioned by Berle and Means (1932) between ownership and control still exists and Petra would like to see more strong and large owners. Also in the public debate this problem can be seen. It has reached a level where the government no longer believes that companies manage to make the best decision on their own and the government therefore has started to intervene through the AP-funds. The company management has lost the control to anonymous institutional owners which in the case of Investor mostly is owned by a foundation (Årsredovisning I. , 2008) that primarily owns itself. (sv.wikipedia.org, 090430) But obviously the control is also lost to the government that indirectly through the AP-funds tries to exert influence in the companies. The question is who can now be classified as the owner of these limited companies and who possesses the control? Conclusions about ownership will be drawn in the finishing discussion.

5.2.1 Active ownership or not

Michael at Folksam admits that their primary goal is profit but considering what kind of business they run and how the laws are formulated, it can be questioned if anything else is reasonable. Investor's goal is to exert an active ownership but they are a different kind of institution, at least they still seem to be an institution according to the general definition, and they have different goals and owners.

For the largest single owner in Investor, Knut and Alice Wallenberg's foundation the aim is to promote scientific research that benefits the Swedish country and that requires a deeper engagement and a more long-sighted view on projects. (www.wallenberg.com, 090430) Investor thereby has large owners who demand that they practice an active ownership.

If we turn to the issue concerning whether or not there are signs of an increased active ownership by institutions, Gordon L. Clark and Tessa Hebb (2004) claim that we have reached a fifth stage of capitalism where at least pension funds have become more active and make more long-term investments. We have though gotten the impression from Folksam that they have increased their activity in questions concerning CSR but not in other areas. Investor on the other hand has always seemed to have been an active owner when it comes to governing companies since it is a part of their business concept but Petra and Charlotte claim that they have also increased their influence in for example questions concerning gender equality in the boards as well as CSR. The effect of Folksam's activities in reality can although be questioned considering the fact that they use methods such as annual letters and activity on shareholders meetings that has been rejected by Hedlund et al. (1985) as a forum to exert influence in. Regardless of what can be called an active ownership, Michael also claims that overall there is a new trend towards more active and less diffuse ownership but deny that long-term investments and active ownership is a part of Folksam's business concept. Active ownership seems to be something that increases also in the case of the AP-funds, at least in questions concerning bonuses which can be classified as work related to CSR. But some people find this alarming since it may result in a bigger involvement by the government in the future concerning how the company managements should run the companies. (DN/Huvudledare, 2009, 00:06)

Peter Wallenberg however believes that it is just a temporary action without any greater significance for the future. (Gripenberg, "AP-fonderna lägger ned sin röst", 2009, 16:07) It is also questionable how much effect this will have since the funds primarily use their voice at shareholders meetings.

Jansson (2005) talks about the importance of the stakeholder model that especially can be noticed in Folksam. In their ethical work they ask their clients what they consider to be important and according to Emilie, the results from the investigations also reflect what Folksam aims to improve in practice. As mentioned in the theory, the stakeholders' goals may not always be consistent neither with each other nor with other shareholders. (Fama, 1980) Michael points out the importance of presenting good results on a quarterly basis and further says that they otherwise stand a risk of losing pension savers, a risk also mentioned by Jansson (2005). The policy holders are tied up during a longer time through contracts and do not administrate their money in Folksam like the pension savers do. The only difference for the policy holders if a share increases in value is that their premium can be lowered. What we try to say is that there is a conflict between pension savers who want to see their money grow rapidly and policy holders who may be more concerned about contributing to improvements on an ethical stage. It seems to be difficult to create a balance between these interests, but at the same time Emilie says that people who chose to invest in Folksam know what they stand for and their priorities of ethical issues and the improvement of the safety in the society.

The alternative to choose an institution that stands for what a person believes in does not exist in the case of the AP-funds. The majority of the money that end up in the AP-funds is thereafter invested without the possibility for the owner of the capital to affect how and where, this is simply how the Swedish pension system works. (www.regeringen.se, 090521) The AP-funds have general directives from the government and the Minister of Finance about how they should act and invest the money but that they should have any particular interest in stakeholders is hard to imagine. However if the AP-funds follow these directives it should mean that they do what is best for the society along with its population since the government always knows best, or do they?

5.3 Supervising

Eisenhardt (1989) talks about the agency problems that can arise when goal conflicts exist. Petra said that Investor only enters companies where they receive a high influence and if they do not agree with a decision made by the company management they can almost always change it either by threat or through action. Indirectly she therefore says that goal conflicts do arise but that Investor is the winner of most battles. The agency problem may in the case of Investor be larger for the company management since Investor has a large power. But on the other hand Petra claims that their primary goal is to develop the company and do what is best for it in the long run which should be in accordance with the goals of the company management. Folksam on the other hand has according to Michael primary short-term financial goals which should conflict with the goals of the company management and cause a larger agency problem. Emilie further claims that Folksam puts a lot of pressure on companies in which they invest concerning their ethical behavior which also could lead to an agency problem. According to Petra at Investor, institutions often place these kinds of high demands without consideration to what is good for the specific company which only increases complicated agency problems. The new directives given to the AP-funds concerning bonuses in companies will probably contribute to agency problems since it is a conflict between the interests of the directors who usually receive bonuses and the AP-funds that now are supposed to prevent them from being paid out.

When it comes to moral hazard and the problems with supervising, this does not seem to be a problem for Investor since they are deeply involved in the majority of the companies in which they invest. Emilie although claims that it is hard for Folksam to know if the companies really act according to what they say whereas Michael does not see it as a problem from his financial point of view and says that Folksam does not have any larger interest in the companies; if a share starts to fall on the stock market they just rebalance the portfolio. This attitude means that the companies are not under control and increases the possibility for company management to act in a non favorable way for the shareholders. (Eisenhardt, 1989) The recent scandals in the debate about unreasonable bonuses indicate that conflicts of interest do exist and are common. Berggren (2003) and Bergström et al. (2001) claim that these compensations have occurred due to a lack of active ownership and supervising and according to the debate this is exactly what has happened because the people involved seem to deny that they have known anything about it.

In the theory Jackson and Carter (2002) mention that people often are motivated by self interest which is confirmed by the recent scandals with bonuses where it is obvious that the management put their own interest first and do not consider the effect it has on shareholders or stakeholders.

If we instead look at the problem with supervising from the view of pension savers and policy holders, Emilie pointed out that they are bad at communicating what they do to their clients. Some people are more interested and they receive more information but overall there seems to be a lack of knowledge among the clients. Petra on the other hand said that Investor was very clear with their goals but that there is a large difference between these institutions since the later ones have active shareholders which is not the case in mutual insurance companies. Therefore the investment companies have more eyes on them and it is harder for them not to act in the interest of the capital owners. This indicates what Lai and Limpaphayom (2003) also could see from their comparison between Japanese mutual insurance companies and those listed on the stock market. It also seems reasonable that the company supervised by shareholders should have a higher efficiency. The example with the large loss within AP-funds, which is probably partly caused by a lack of supervising, speaks for itself.

5.3.1 Board of directors

Folksam does not have members on the board in companies they invest in says Emilie and Michael further claims that it is intentional since they do not wish to be involved in companies apart from Swedbank which is an exception. He also says that they lack the competence needed and once again claims that their primary task is to be providers of risk capital and not company developers which also Brodin et al. (2000) claim to often be the case. Brodin et al. (2000) further mention an opposite kind of institution who wants to be involved and have members on the board and Investor can be considered one of those.

As we mentioned earlier in the theory, institutional investors can be met with resistance from the CEO and company management when they want to become members of a board. (Jansson, 2005) Petra said that this sometimes does occur but that they in those cases usually chose not to invest in the company. This speaks against our theoretical frame of reference that says that companies want help from competent investors to run the business and Investor seems to be one of the most competent actors companies can get involved with. They possess large holdings and also a large influence in companies. Unlike Folksam, Investor has the required competence which according to Pound (1992) can be enough to contribute to something good in companies. The question is if the AP-funds or maybe we should say the government, has the required competence to be able to decide what is best for the Swedish companies? If their primary influence is being exerted at the shareholders meetings maybe

they will not make a difference anyway, or is it possible to do that at this forum for information?

Black (1992) argues that institutional investors rarely conduct in conflicts nor try to elect members of the board to receive more influence. It is a true picture of Folksam's work but exactly the opposite of Investor's. Maybe Black, just like Investor, excludes investment companies from the institutional concept?

As we have mentioned earlier Folksam still tries to affect the composition of the board even though they are not members, to gain greater gender equality and also Investor says that they have increased their work concerning gender equality and a broadening of competence. But by looking at a recent report (Ström, 2009, 07:52) there are no signs of a change. Middle-aged men still seem to dominate on the board of directors.(Franchell, 2009) In the interview with Investor, Petra also admitted that multitude was not the heaviest criterion when they recruited new members of the board and this can be interpreted as a form of decoupling where they present ideal visions externally but in reality do nothing to achieve them.

5.3.2 Owner representatives

The theory and practice do not really correspond when it comes to owner representatives within the institutions we have investigated. Folksam lacks owner representatives and Emilie says that they do not need to have any since they rarely are one of the larger owners.

The AP-funds are now told to use their influence to vote against bonuses but this will mainly occur at shareholders meetings and most likely they therefore do not have members of the board. Neither Investor had any clear owner representatives besides Petra and Charlotte who had the majority of the contact with clients and companies.

5.4 Corporate Governance

The reality confirms the opinion of Mallin (2004) about the growing interest for corporate governance. At Investor they even have a specific department for it. According to Petra, shareholders, the board of directors and the management cooperate to govern companies in the right direction. But Mallin (2004) also mentions the importance of several different interests that need to be taken in consideration and the need to limit anyone's specific influence from getting too big. Investor's ownership can here be questioned since they always have large share holdings, members on the board and often possess the largest power in the company. The threats mentioned by Petra, that Investor uses if they are not satisfied, gives us the impression that they do not care much about what the company in question thinks if it is not in accordance with their own goals.

Mallin (2004) also mentions that the confidence in the financial markets needs to be repaired through an increased attention at corporate governance. The recently noticed bonus scandals will once again decrease the public's faith in companies and their directors. Konstant's (1999) proposal about more involvement from corporate lawyers might be a good way to solve the problems in Sweden as well and contribute to a more honest system of how the companies manage their capital. It would also lead to a decreased supervising cost which would facilitate supervising and decrease the risk of unreasonable rewards in the future.

5.4.1 CEO:s

Investor has control over the companies CEO:s and management and according to Petra they do not hesitate to change leaders at different positions if there is a big dissatisfaction with their preformed work. This is also a common strategy for large owners according to Hargraeves and Fink (2003). The CEO:s position is though never threatened by neither Investor's nor Folksam's involvement since none of them have any interest in the company's daily activities. Alchian and Demsetz (1972) claim that it is not a successful strategy to replace CEO:s and management since it prevents a long-term and sustainable leadership. Investor seems to believe that the competence in their network is superior but how can they be

so sure of that? According to Kang and Sorensen (1999) investment companies possess an expertise, a superior understanding, through having members of the boards and if that is true, Investor and other investment companies should know best who is suitable for a certain position and who is not.

5.5 Corporate Social Responsibility

A part of being an active owner today also means that consideration should be taken towards the environment and social responsibility. Folksam may not be defined as an active owner based on their financial perspective but when it comes to CSR they are most definitely active and engaged in the matter. Emilie agrees with Pless and Maak (2005) who believe that companies need to take responsibility and contribute to a better society. Also at Investor they consider CSR to be an extremely important subject and a way to gain increased profit in the long run which also Clark and Hebb (2004) point out and consider being a comparative advantage that will pay off over time.

However Investors information about their work with CSR is pretty weak and it is fair to believe that they only put in the effort that is required by corporate law and social standards, no more, no less. They have no certain demands on companies they invest in and they do not advertise their CSR engagement in any way.

Folksam however is the opposite. They are very clear about presenting their ethical criteria and responsible ownership and their engagement feels more credible considering the fact that they have been involved in questions about CSR as far back as in the 60s when no one else cared. Both Investor and Folksam say that the attitude towards CSR has changed and that it today is a natural focus for companies, mainly due to the pressure from customers and the society.

Mallin (2004) talks about the increase in SRI and one of the leading companies in that area is Folksam with their investments only being made in ethically approved companies. Folksam supports the belief of Clark and Hebb (2004) who claim that there is a growing tendency towards SRI since an increasing number of institutions believe that investing in companies that behave according to social, ethical and environmental standards will result in increased value in the long run. Henry (2009) adds that companies have to step away from the motto "profit at any cost" and implement an ethical approach in the company. Folksam may have achieved that in a sense considering that Michael says that Folksam probably loses out on some profit because of their ethical commitment but that is a choice they have made and believe in.

Emilie talks fondly about Folksam's social responsibility and says that they put a lot of effort in communicating the matter throughout the company by using breakfast meetings, internal magazines and blogs. These methods can be questioned in their ability to create serious engagement and the fact that Michael, as Folksam's Chief of Finance does not wish to answer questions about CSR and comment on their work, shows that the idea has not been implemented in the organization. Emilie confesses that the communication is mainly external and according to Meyer and Rowan (1977) that can be a sign of decoupling.

5.6 Corporate Engagement

Both Petra and Emilie claim that they work at institutions who are active owners although they work very differently. Investor always exerts a large influence and through their competence and wide network has the possibility to govern and develop companies (Årsredovisning, 2008) but Petra says that they do not intervene in the companies' daily activities because it would simply be wrong for an owner to do so. Brodin et al.(2000) however, claim that owners who have other interests than solely financial ones should gain more knowledge about the daily activities of the company and intervene in what decisions to make to gain the best results. But on the other hand, Brodin et al. (2000) also say that the

CEO's duties will be diminished if owners interfere in the daily activities, so the question is how much external involvement is really ideal for companies?

Folksam on the other hand is not active in the company's development except on the ethical stage where they try to affect but according to Hedlund et al. (1985) use fairly weak means.

We believe that Folksam's strongest power is their ability to make information public about companies' effects on the environment and the society. The use of media was also mentioned by Bethel et.al (1998) and Bhagat et.al (1998) as a way for primarily public pension funds to become more active in corporate engagement.

Companies have a lot to lose if negative information about them is published and Folksam therefore has a power that is strong enough to make companies work harder to improve their work with social responsibility. Most people seem to agree on the increased importance of a long-term thinking among investors described in the theory and in the case of Investor there is no doubt about their long-term engagement concerning the financial area, at least not in their larger investments. But their work with CSR can though be questioned concerning the limited information they present in their annual report in this area. Folksam on the other hand has a devoted and long-term engagement in questions concerning CSR but according to Michael a primary short-sighted view concerning their financial investments.

Folksam and also the AP-funds work in accordance with what Fama (1980) believes; they base their investment on the results in capital markets and partly leave the company through rebalancing their share portfolio if the company fails to generate satisfactory results. Michael also confirms Fama's opinion that many institutions spread their risk by having many smaller holdings and do not wish to get too involved in any specific company. He believes that everything has a price and Petra also claims that this is the way institutions work and that they buy and sell shares frequently without any concern about the effects for the company in question.

5.6.1 Costs of corporate engagement

The cost pension funds have to pay for being active is evident in the current debate about the AP-funds who are willing to do anything in order to beat index and we ask ourselves if it is worth it. (Lundell, 2009, 05:57) Pålsson (2001) mentions the importance of making an adjustment to see if the benefits exceed the costs and the question is if the AP-funds have really done that? Maybe this is a result of the legislation that says that pension funds should aim for the highest profit possible at the lowest risk. (Rörbecker, 2009, 10:53) Even though Michael considered the law to be reasonable considering whose money they administrate we cannot help to think that there might be something seriously wrong with the legislation if it leads to actions that cost the pension savers 12,5 billions.

Active ownership and supervising for Investor do not include the same risk and fear of making a loss since investment companies also receive the benefits from it and can exert a great influence thanks to their large possessions. (Parrinoa, Siasb, & Starksa, 2003)

5.7 Exit, Voice and Loyalty

5.7.1 Exit

Hirschman (1970) talks about the existence of exit and voice within institutional ownership and it is also evident in our empirical research. Investor rarely uses exit strategies on their large investments because they see themselves as long-term investors and do not believe in selling of shares in case of bad results. They hold the majority of their possessions for many years and rather use voice in order to improve companies and their progress. Investor is dependent of high shares in companies to be influential owners and they therefore either stay true to the company or sell of everything.

Investor however also engages in daily-trade activity with smaller holdings and there the possibility of exit is higher because the goals are focused on financial results and not so much on influence and activity. But overall, Investor cannot be considered as a typical institution where investors vote with their feet and only focus on their own benefit without having any interest in the companies they own which is Monks and Minows (1995) view on institutional ownership.

Hedlund et al. (1985) also talks about the difficulties when it comes to exit where a withdrawal can cause serious damage on the stock market and the company in question. Since Investor usually is a large owner in companies, an exit strategy can strongly affect the shares and ruin the company's chance of a renewal. That may be a reason why Investor seldom exercises exit strategies in large investments. They have long relations with companies they invest in and care for their well being so even if exit behavior occurs, it is done slowly trying to avoid causing too many negative effects.

Alchian and Demsetz (1972) claim that it is easier to use exit in situations where there are many present shareholders in the company. Since Investor strives to be the largest owner and do not invest in companies where there are several other large shareholders, that would also be a valid explanation to why Investor rarely uses exit strategies.

There are of course situations where Investor is unhappy with the results of their investment in certain companies but since they have such an influence, companies they invest in are in accordance with Monks and Minows (1995) beliefs, afraid of an exit scenario and therefore usually act in accordance with their owners' wishes. Investor imposes such a huge threat due to its large ownership where they have power over companies and can basically force them to act in a certain way by threatening with exit. By those means it is fair to say that owners have regained some of their power, if now the institution can be considered as the owner, that according to Berle and Means (1932) was lost and where there was no link between ownership and control. Whether this is a good development or not will be further analyzed in the following discussion.

Folksam on the other hand have a different approach towards exit. Emilie claims that exits are something they try to avoid to the highest extent and only exercise if a company has seriously broken Folksam's ethical criteria or been involved in scandals where Folksam believes that there is no chance of improvement.

Folksam is usually a small shareholder and Emilie's views therefore do not correspond with the theoretical view that only large companies have less incentives to exercise exit and that the smaller a shareholder is, the more likely it is that an exit strategy will be used when the results are disappointing. (Fama, 1980)

Michael, who works with financial questions and may be more involved in the process of possible withdrawals, says that Folksam actually prefer to have liquid assets in order to easier be able to sell shares and exit from companies that are no longer profitable. He does not mind selling and buying shares often but it is very seldom that Folksam sell out all of their shares like in the case of Investor.

Michael's views on Folksam's exit strategies are more in accordance with the theory where he shares the belief of Hirschman (1970) who claims that shareholders who are not interested in active ownership sell of shares at signs of declines. Michael also admits that Folksam has no intention in trying to be active owners but that they instead are more interested in financial results to benefit their customers. In Folksam's case it is more believable that their use of exit leads to short-term investment and a lack of incentives for activity as Alchian and Demsetz (1972) claim.

Neither Folksam nor the AP-funds possess the same threat as Investor and cannot force companies to change because they are afraid of a possible withdrawal. They do not have a large amount of shares and their withdrawal would therefore not be a large damage for the company. Folksam do however have a different tool and can impose a threat by publishing reports and negative information about companies. Today it is important to maintain a good reputation and companies can therefore oblige to Folksam's conditions and act according to their wishes to avoid being exposed in the media and lose customers.

But in Folksam's and the AP-funds case, a possible exit strategy may be a good thing. Their goal as pension funds is to earn maximal profit with the lowest risk and since they manage other people's money they cannot afford to gamble and make large investments in companies. It is safer to diversify the capital and in case of bad results being able to withdraw from the investment and save the customers money. So whether an active ownership is always to be desired or not will be analyzed further in the upcoming discussion.

5.7.2 Voice

According to Hedlund et al. (1985) there are different ways for owners to use voice and affect companies they invest in. By looking at the different instruments, Investor highly exercises voice by having members on the board or being involved in the process of electing them, attending shareholders meetings and building networks where information is shared and new competence and resources are gained. By having members on the board of directors, Investor can pursue their goals with the company in question and exercise voice in probably the most effective way. Attending shareholders meetings is according to Hedlund et al. (1985) not an ideal place for exercising voice and Investor primarily attends them to receive information. Investor can use voice effectively by having many external contacts that provide them with additional competence where knowledge and according to Hedlund et al. (1985) expertise is important in order to be able to be an active owner.

Folksam have no members on the board and are not involved in any election committees, which makes it hard for them to exercise voice effectively. Michael at Folksam also confesses that they lack the competence and knowledge needed to use voice. Emilie on the other hand talks about Folksam's regular attendance at shareholders meetings and their extended base of networks with other institutions. They however share Hedlund et al.'s (1985) thoughts on shareholders meetings and agree with the fact that it is mostly a forum for information but that it is the only place where they can discuss important questions and get a chance to exercise their voice strategy. The networks that Folksam tries to have with other institutions usually fail and the contacts with foreign institutions are used in hope to be able to create more awareness and gain more influence so that a voice strategy can be used. But despite Folksam's efforts, their chance of using voice effectively is very small compared to Investor. Besides trying to make a difference on shareholders meetings, Folksam also send out letters once a year to companies in an attempt to make them improve their businesses. But also this method is pretty weak since there is no direct contact with the company's management and it is very easy to ignore letters and continue with the business like before. Emilie confesses that it is difficult for them to make a lasting impact on companies and it is fair to say that even if Folksam's aim is to be an active owner they still do not have the resources required to exert influence and they therefore are not able to use voice in an efficient way.

Folksam do however have an important mission in trying to raise questions for debates and initiate discussions. Even if there are no signs of an immediate success, the answer is not to give up but to work even harder to make people aware of the injustices in the society. Although Ström (2009) claims that writing letters and attending shareholders meetings can make a difference, it probably would be more rewarding for Folksam to try different, more powerful methods to exert voice because their voice is necessary in the society today.

According to Hedlund et al. (1985), using voice is not only about trying to designate and influence company management, it is also about noticing problems in a company and sending out warning signals instead of just leaving. Investor has a skilled staff and competence in many areas and is more knowledgeable about companies they invest in and involved in their businesses. It is therefore probably easier for them to discover problems and signs of a possible decline and they stand a higher chance of improving companies and using a voice strategy. Investor's engagement is partly due to their high ownership that, as mentioned earlier prevents an exit strategy, but also a part of their business concept where they invest in companies on a long-term basis. At Investor they look for companies that have a potential to succeed and if problems occur they are willing to help and even invest additional capital if they believe in the company and its possible prosperity. Investor therefore often uses voice strategies because they are necessary to develop companies and reach their long-term goals. Folksam however are not as involved and cannot discover possible issues until it is too late. But what they can do and what is part of their business concept is to help companies that are in trouble especially when it comes to ethical issues and different scandals. Folksam offers guidance to companies in need and are willing to help them with measures to improve their business and have more consideration towards the environment and ethical problems. In that area Folksam is powerful in their use of voice and can contribute to a better society.

The use of voice is though dependant of the size of the investments. Investor does not have as much knowledge or interest in companies where they possess small holdings and are therefore not as eager to use voice and be active owners. Folksam on the other hand are almost always small owners and even if they would like to, they cannot get through their ideas and voice strategies because of their limited power. According to Hedlund et al. (1985), using voice is more uncertain since it is difficult to know in advance whether it will have the wanted effect and therefore owners that dislike risk, such as Folksam and the AP-funds, often use a safer exit strategy where the outcome is certain.

Hedlund et al.(1985) and Hirschman (1970) both talk about the importance of variation and that it is not good to only use exit or only use voice because the company management can learn to get around it if the same strategy is used every time. A combination of the two is therefore the ideal approach and something both Investor and Folksam in different ways are trying to do. Investor that was known for their consistent use of voice, their long investment horizons and lack of exit did something unexpected by selling off their long-term investment in Scania and showed that company managements cannot be certain on what strategy Investor will use and how it will affect them.

5.7.3 Loyalty

Hirschman's (1970) third term loyalty where owners are passive by staying in a company without using a voice strategy can be applied on Folksam's owner strategy where they in case of dissatisfaction only rebalance their portfolios. Folksam do not leave the company and use an exit strategy but they are not active owners either that use voice to change the situation and reduce their dissatisfaction. Instead they stay as passive owners in the company and that can be interpreted as a loyalty strategy. Even if we primarily view Folksam as a company that uses mostly exit and frequently sell of their shares, they do not sell of large amounts and the same probably goes for the AP-funds since they otherwise would not be able to beat index which requires that they to a high degree follow the market in their investments. The majority of their holdings still remain within companies and loyalty is probably the right term to use, at least when discussing the financial perspective. Folksam can also to a certain degree be accused of being loyal even when it comes to their activity in CSR considering that they have faith in troubled companies and stick by them in an attempt to help and improve their

business. However with the weakness in influence and power that Folksam possesses, their efforts are often not strong enough. It can therefore be said that Folksam in reality are loyal to companies considering the fact that it is hard for them to make changes but still remain as owners in the company.

Investor who is considered to be the ultimate user of voice can also by some means be seen as a loyal owner. They usually have very long possessions in companies and strong relations and it can therefore be easier to stay true to a company and remain loyal because of the bond than to break the relationship. Petra admits that Investor has been accused of being old fashioned because of their long relations and by selling Scania they proved that they did not keep their possessions because of loyalty but instead were ready to break the bond. Investor may be willing to change their image but they still do have a large amount of very long possessions and the question is if they really would insist on selling off shares in case of a downfall or if their strong relations would make them loyal to the company despite a negative trend. They claim that they always remain faithful to companies they believe in but maybe it is easier to have faith in companies that are long-term partners than new upcoming companies. So despite their active ownership, Investor can to a certain degree be viewed as a loyal owner.

5.7.5 Development in institutional use of voice and exit

The investigation made by Hedlund et al. (1985) in 1983 is still relatively valid today. Institutions wishing to use voice the most are still investment companies. In reality, having members on the board is not even today as common for pension funds and insurance companies as it is for investment companies like Investor. Also in accordance with Hedlund et al.'s (1985) investigation, the exit behavior is usually practiced by institutions that have a low tolerance towards risk and that are dependant of their financial portfolios where the primary interest is profit, like in the case of Folksam and the AP-funds.

Bergström (2001) claims that the new institutional owners have not yet developed an active ownership and by looking at Folksam and their work, that can be considered true. In a study by Hultman et.al (2003) the conclusion was that there has been a transition from the use of exit to a more frequent use of voice and that corresponds with both Folksam's and Investor's progress. Folksam may not be considered active owners but they want to believe that they are and they will probably work even more towards powerful voice strategies that might lead to an increased active ownership in the future. New ways of using voice have occurred according to Hultman et al. (2003) such as participation in nomination committees which Investor has adopted and it can be interpreted as a way to increase activity towards a more frequent use of voice. Black (1992) however claims that institutions will continue to vote with their feet as long as ownership restrictions and legislation limit the use of voice and an active ownership. But with a recent involvement from the government in ownership questions any outcome is possible. What the future holds for institutional ownership will be discussed in the conclusion of the study.

5.8 Long- and short-term

According to Brodin et al. (2000), institutional ownership is characterized by large and anonymous ownership where the distance can lead to a lack of interest and knowledge about companies. Without interest and knowledge there are no incentives for long-term investments and future development. Investor's work is not in accordance with this view on institutional ownership since they both have interest and knowledge about their core investments and are known for their long relationships and investments in companies.

Petra at Investor says that their definition of a long-term investment is an investment that goes on forever and where the length of commitment usually means much longer for them than for other owners. Folksam can however, based on Michael statements, agree with Brodin et al:s

(2000) description because of their expressed lack of knowledge and interest in long-term investments. Michael says that it is important to present good results in a short period of time and the thought of performing well during time does not exist at Folksam. According to Emilie though, Folksam bases their investments on a long-term perspective since their customers consist of policy holders and pension savers where it is important to buy shares that extend over a long period of time and generate long-term profits, whereas Michael believes that customer's satisfaction is gained from diversified short-term investments with low risk and high profits. It is difficult to decide how to interpret the information from Michael and Emilie but considering that Michael is the one actually working with these kind of questions while Emilie's subject is social responsibility, it is pretty safe to say that Folksam is more focused on short-term results when it comes to their investments and ownership while they pursue a long-term battle towards a better society and improved working conditions.

Brodin et al. (2000) further claim that managers nowadays desire long-term focused owners and that owners with only a financial perspective fail to contribute to the company in a significant way. According to this statement Investor would be the ideal owner while Folksam would not be desired. But this is not entirely true since Folksam recently became a majority owner in Swedbank and apparently do have important qualities. Or maybe this occurred because of an immediate need for a strong and liquid owner? Companies have different goals, some may prefer an active owner with control and knowledge while other are more interested in the gained capital and demand a distant owner where there is more freedom. Folksam and other pension funds and insurance companies are, as mentioned earlier, inhibited by the law that forbids them to own shares in a company that render possibility for them to exercise a considerable influence on a company and it makes it difficult to engage on a long-term perspective.

Eisenhardt (1989) says that many institutional owners claim to invest in long-term commitment and they should therefore have knowledge about the agent they are in corporation with. In Investor's case the ambition is to have a lot of knowledge about the companies but it varies with the size of the investment. In large long-term investments it is more likely that Investor has a great amount of knowledge while in small daily trade activities no specific knowledge is needed. Folksam is according to Michael not interested in long-term commitments and therefore does not possess any specific knowledge about companies they invest in. Also Emilie admits that they lack knowledge and it therefore points to the fact that Folksam is more of a short-term focused owner.

Kang and Sorensen (1999) add that long involvement also makes large owners more likely to assume positions of formal authority on boards of directors and so on. The fact that Folksam lacks members on the board of directors is another sign that they are more focused on short-term results while Investor is involved in nomination committees and have members on the board that leads to long involvements.

Brodin et al. (2000) talk about the importance of satisfying external partners and that it forces owners to focus on short-term results to create positive attention. Michael at Folksam agrees with the statement and says that there is a lot of pressure from media and customers about generating constant profit and since only short-term results and quarterly profits are paid attention to, that is where the main focus should be. At Investor however they say that quarterly reports do have to be presented but that they try to resist the pressure and remain focused on their long-term horizons. In the AP-funds the pressure instead comes from the government and the Minister of Finance and is primarily focused on the pension funds aim, high profit at a low risk. Since a part of our future pension is being placed in these funds whether we like it or not, the pressure from pension savers is not as large as in Folksam.

According to Monks and Minow (1995), pension funds should also have long-term horizons and engage in long-term relationship because they invest in value and should hold securities in their portfolios for longer periods to increase shareholder wealth. Emilie at Folksam shares this opinion while Michael believes that increasing shareholder wealth is done by diversified short-term investments in high profit companies. The conflict of interest might have to do with the fact that Folksam also is an insurance company and according to Brodin et.al (2000) insurance companies are usually somewhere in between a long- and short-term horizon.

Monks and Minow (1995) do however say that long-term thinking by pension funds is not always a truthful picture where in reality they act in a more short-term manner. Clark and Hebb (2004) add that a large part of the claimed long-term perspective is a subject of decoupling where ideal plans are presented externally to customers but where nothing is changed within the company. And because of customers' lack of knowledge and interest in institutional ownership, this hypocrisy can occur and continue.

5.9 Summary

In our analysis we have established that the theory can be applied on many aspects of our empirical research and there is a big difference between the views on ownership, activity and goals in an investment company such as Investor and in insurance and pension companies such as Folksam and the AP-funds. Folksam and the AP-funds also differ in their goals and attitudes towards activity although they are both pension funds mainly because the former is controlled by the demands of its clients while the later is run by the government. The paradox always seems to be present but in different areas depending on the kind of institution, its clients and what regulations they are governed by.

This analysis has opened up our eyes to interesting issues concerning ownership and institutions and the meaning of these two concepts today. We will now use the results from the analysis to further discuss these subjects in the next chapter.

6. Discussion and Conclusions

In this final chapter we will discuss matters concerning institutional ownership including its future and development and present our personal thoughts and conclusions regarding the subject. The discussion will be based on our issue and purpose that is presented in the introduction of this study as well as the previous analysis. We will also suggest further studies that can be made on the subject.

6.1 Ownership

In our theory ownership was defined as the right to transfer property, the right to use property and the right to regulate other people's use of property. We will try to unravel the ownership concept by looking at who possesses each one of those rights today.

1) The right to transfer property we consider belongs to the capital owners until they turn to an institution and hand over their property rights. The owner has a free will to decide whether to invest through an institution or not. If the capital owner chooses private investments, the right to transfer property will still be valid since the capital owner still possesses the control and the possibility to affect how the money is being used. This though requires an active ownership from the capital owner. If the capital owner instead chooses the option to let an institution manage the capital, the control and the right to transfer the property will be lost. What the investor can do though is to use exit and leave the institution and regain the control. When the capital is left in the hands of an institution, the right to transfer the money belongs to the institution but does that make them owners?

2) The right to use property belongs to the management in the company in which the institutions chose to invest. The institutions have no interest of getting engaged in the daily activities of the company so it is up to the company management to use the capital in a good way. It is only if the capital owner chooses to withdraw the money from the institution, that the right to use the property will return to the capital owner.

3) The right to regulate other people's use of property belongs to the institution if they exert an active ownership since they then can govern and control how the company management spend the invested capital. This seems to be the case for investment companies. Based on the results from our interviews it seems like pension funds and insurance companies are less aware and interested in how the company management spends the capital and this means that they transfer the right to regulate other people's use of property one step further away from the capital owner to the company management and increase the gap between the owner and the control. In other words, it is possible to suspect that the more inactive the institution is, the larger is the gap between the capital owner and the power.

Who the owner is can be looked at from several different perspectives. For example either as the one who owns the money, the capital owner, or as the one who has the property in his possession. We have decided to assume the former since we see institutions only as middlemen who are paid to administrate other people's money. If a capital owner chooses to invest through an institution, the money will end up in the institutions' possession but they will still not own the capital. There is a document that confirms who has the legal right to the property and that one is the capital owner. But the institutions are able to buy shares and when they do, the capital owner indirectly becomes an owner in a company. The institution is still not the owner since the share has been bought with somebody else's money so the capital owner can be classified as the owner but the power and control belongs to the one who has the right to administrate the money, the institution.

This definition of ownership can though only be applied if we look at this from an institutional perspective. If the investments by the capital owner are made privately, more rights of the property is kept and therefore also more power.

Ownership in this context is, as we can see, very weak and the capital owner who used to have all the rights over the property, today seems to have only one left which is to use exit and leave the institution. But before this happens, much of the money can have been lost because of bad institutional investment decisions. The right to use exit does not even exist with the money locked up in the AP-funds and neither does the right to choose if you want to invest them through the AP-funds or not. The free will mentioned earlier to choose if your money is going to be administered by an institution does therefore neither exist in this case. This means that in the case of Folksam and Investor you can choose whether you like to hand over your rights over the property or not, but in the case of the AP-funds they are taken away from you and not given back until you reach a certain age. This is how the Swedish system works but is it reasonable that the government has the right to take our ownership rights away from us and also decide when we should receive them?

We further believe that the people who choose to invest through institutions in the first place consist of those who do not have any interest in administering the capital themselves and be active owners, so therefore an exit from one institutional company will probably only lead to an entrance in another. It can therefore be said that no greater rights over property exist for owners today in any of these three institutions. The institutions have the power since they have the ultimate control but to what degree they keep it to themselves or choose to hand it over to the company management, obviously differs. When institutional ownership is discussed maybe it should instead be referred to as institutional engagement since it is not a matter of ownership but different degrees of engagement and influence.

We have come to the conclusion that institutions are not direct owners and consequently that means that there is not such a thing as an institutional ownership. Institutions are only intermediaries and do not own either the capital they possess or the companies they have control over. However neither the capital owners nor the companies in question have any control over the property, meaning that ownership is not required to gain power and control. How can it be that institutions that do not directly own anything still can have the largest control and power over other people's property?

This question can be asked in the society at large where institutions as for example banks, that do not own any capital still can be considered being owners of our houses, cars and other private property. People invest money in banks and take loans to buy houses and cars with capital that belongs to other capital owners but it is ultimately the bank, in its role as an intermediary that is often considered being the owner until we pay off our debts. But is not the real owner of our houses actually other capital owners and are not we then also owners of other people's property? We should be that in theory but even if we own our private capital, we do not practically own anything from the moment we hand over our capital to institutions.

An interesting thought is that the capitalistic view on ownership and property is starting to fade away with these anonymous and undefined owners. If there is no clear ownership then there is no foundation for capitalism since the whole point of it is that capital is owned by private actors and them having control of the property instead of the government or other actors in the society. The possible increasing trend towards governmental involvement and the previously described thought of a mutual ownership, points towards a possible form of communism where the ownership is collective. This is not in any way a definite conclusion but just an interesting thought that shows how complex ownership issues have become.

But if the owner instead is defined as the one who has control and responsibility over the property then people investing their money are no longer owners. Instead institutions are considered to be owners and suddenly ownership contains more rights than before. The discussion about ownership and rights can go on forever and there is almost impossible to find a single definition that everyone will agree on but we believe that it is interesting to challenge the general views and see ownership from different perspectives.

However we will continue to use the term institutional ownership throughout our discussion to prevent any confusion considering that the term has been used in the entire study.

6.2 Institutions

According to the institutional definition, a business that administrates other people's capital should be considered as an institution and according to this definition investment companies such as Investor are institutions. However, we do understand Petra at Investor who does not wish to classify Investor as an institution considering the negative picture in the media where institutions are accused of having a lack of interest on long-term perspectives in companies and no incentives to exert an active ownership. Investment companies' business concept is the total opposite and therefore the possible behavior of other institutions is not in accordance with the overall behavior of investment companies.

We believe that the institutional concept is too wide and includes a broad field that fails to recognize that institutions can differ a lot, both in goals and behavior. The only common denominator today seems to be the administration of other people's money but since this is an industry that has grown so large, maybe it is time to break down the concept into several parts. One alternative is to create two definitions; one for those who develop companies and one for those who are solely providers of capital. But on the other hand, hardly any institutions would have liked to be pointed out as only providers of capital without taking any further responsibility, especially not when the pressure continues to increase on more active ownership and larger responsibility for the environment and stakeholders. We do not have the answer to what the institutional definition should include and what it should stand for but the most logical solution according to us would be if investment companies break out of the institutional concept and have their own definition while the rest can remain as institutions. This would also implicate that the picture about institutions presented in the media as well as in our paradox, would be more likely to reflect the reality.

6.3 Active ownership

After a deep study on institutional ownership and the large amount of theory pointing towards active ownership and corporate engagement, we ask ourselves if that really is the ideal solution for all institutions. We believe that the negative debate that institutions have been victims of is not really justified because as we have discussed earlier, institutions are different and not all institutions can be generalized into having the same goals. Pension funds and insurance companies' goals should be to provide maximum profit with the lowest risk for their customers and it is therefore not ideal for them to become more involved and active. They do not have the competence required to be successful in their active ownership compared to investment companies and we believe that focus would be taken away from their primary goal in order to give in for the pressure in becoming active owners just because it is being advocated for institutions. Getting involved in companies and trying to be an active owner just for the sake of it is not a good reason and will only backfire on both the institution and the company in question. It should be recognized that not all institutions are cut out for being active owners and the question is if they even have to be. We believe that the existence of institutions that only provide risk capital and are passive owners is necessary for the economy and for companies who are in need of capital but not interested in interference from external owners. The choice to allow institutional capital or not is still optional for the skeptics but many companies probably see it as an asset for the company and not so much as a problem.

If external owners without competence and true interest begin to take an active part in the company, the role of the management will be diminished and the process of decision making will be utterly complicated and confusing. We agree with our respondents that owners should stay out of the daily activities and not impose decisions on companies. Is it not better to let the

company management, who most likely has most knowledge and interest in the company, to run the business and keep external shareholders distanced from the decisions and from having a large influence?

As mentioned earlier in the study, knowledge and competence is extremely important in order to be an active owner and by pushing all institutional owners towards an active ownership, even those that do not possess the qualities needed, there is a risk that wrong decisions are made. The recent governmental interference can lead to an influence that is based on political issues where decisions are made to favor politicians and their campaigns instead of considering the actual need of the company in question. Our conclusion is therefore that active ownership should be applied carefully and only when it is justified based on the type of institutional owner. Investment companies, whose goal it is to develop companies and have long-term relationships should obviously be active, knowledgeable and powerful owners that have insight in the company business and can exert a large influence. Insurance companies and pension funds on the other hand whose goals and qualities are different should not be obliged to be influential and active owners but instead be another type of institutional owner and satisfy a different demand by offering capital on a more short-term basis without any larger interference in the company management.

6.4 Exit, voice or loyalty?

Whether institutions use voice, loyalty or exit is also a subject that we have analyzed in our study and the following question to discuss is what we personally believe to be the best alternative.

Loyalty is according to us the least favorable alternative since it is of no benefit for anyone. Institutional owners who are loyal to a company in trying times without using voice stand a high risk of losing out on valuable profit. Insurance and pension companies should not risk their customers' money by keeping capital in a company that is not providing satisfying results. Because insurance and pension companies seldom have the ability to use voice, the possibility of influencing the company to a change is low and a successful turnaround is not very likely. It means that loyal institutions put their trust and faith in the hands of the management and that is a risky thing to do during a downfall when managing other people's money. We believe that loyalty only can occur in long-term engagements when institutional owners have a specific bond to a certain company and believe in its ability to succeed despite current negative results and lack of interference from the owners. This means that insurance and pension funds that are more focused on short-term financial results only lose money by staying loyal to a company and therefore should avoid it. Investment companies on the other hand are more involved in long-term engagements and possess the knowledge and insight in a company to decide whether the company in question will be able to accomplish a successful turnaround and if they should remain loyal.

Investment companies however are according to us better suited for using voice since it is in accordance with their business concept and because they have the capability needed to use voice in an influential and effective way. However we are hesitant towards the ideal picture that Investor paints out when it comes to investment companies. No one can guarantee that investment companies always know what is best for an individual company and their involvement should be viewed at with some cautiousness. Investor and probably other investment companies have, because of their large holdings, a power that is not always necessarily positive. With power comes the ability to threat companies into acting according to the owners' rules and the investment company may become too dominant and no longer be a business partner that contributes with competence and capital but instead a higher force that the company management must obey. So investment companies' use of voice and active ownership is not always desired and companies should consider the amount of freedom they want to have before engaging in collaboration with an investment company.

We share the belief of Hedlund et al. and Hirschman that the best alternative is a mixture of both exit and voice depending on the situation and institution in question. Even though the exit strategy has been criticized we think that it is good that the possibility of a withdrawal exists. As mentioned, institutional goals vary and companies they invest in can have different needs that not only one strategy can fulfill. Our conclusion is therefore that both exit and voice are important tools for institutional owners but that they should be used with moderation and in accordance with both institutional goals and with what is best for the company in question.

6.5 What does the future hold for institutional ownership?

It is of course impossible to know how institutional ownership will develop in the future but our study has given us the tools to foresee possible tendencies and directions.

One thing is certain, the engagement in CSR has increased over the years and we believe that it will become even more important in the nearest future because of the public debate and the raised awareness in the society. Many companies have also realized that taking social responsibility leads to increased profits and positive reputation despite the type of institutional owner or business concept. Involvement in CSR is quickly becoming almost mandatory and we believe that both institutions and individual companies will be willing to increase their work and develop the meaning of CSR into new areas also on the inside of their organizations. For pension funds and insurance companies like Folksam, taking a large social responsibility can be a way to exercise active ownership which suits their business. When managing other people's money, it can be profitable to market a high engagement in ethical and environmental issues and communicating to customers that their money is used in the best way possible by contributing to a better society. So we believe that even more work will be done in that area where Folksam struggles to conquer new issues in the society and to make people aware of what is really going on within companies. Investment companies are active owners in other ways and therefore do not have the same need to engage in CSR, which Investor was an example of by lacking detailed information about their social responsibility and mainly focusing on formal documents and legislated ordinances. Investment companies' work with CSR will probably also develop in the future but not to the same extent as in insurance and pension companies who depend on it more.

Speculating about future institutional investment horizons and engagement on long- or short-term basis is also very difficult to do. We however do believe that as long as the law prevents insurance companies and pension funds from owning large shares in companies and becoming majority owners, no major changes within investment horizons will occur. These institutions will continue with mostly focusing on short-term investment because it is necessary for their business and investment companies will continue with mostly long-term engagements in accordance with their line of business. Also the globalization and the decreased transfer fees that come with it point towards an increased short-term perspective where especially insurance companies and pension funds that possess liquid assets can easily move capital from one country to another depending on where the highest profit is.

The recent debate about governmental influence in institutional ownership is probably the biggest change that can occur in the nearest future. But it is also a worrying development where suddenly the government without any insight or competence will be able to control and manage companies. We believe that the government's job is to take care of problems in the society and not interfere with the world of business especially when we are currently under the right-wings politics where the market should be free without interference from the government. The government does not have the needed competence to run a business and should therefore stay out of it and let the management do what they do best. Company

managements are of course not perfect and as we have seen lately, scandals do occur but we believe that there are other possible solutions without any direct involvement from the government. To handle the issues with bonuses and the problems with the competence and gender equality on the board of directors, our solution is to take after the development in American companies and create a new occupational branch. Lawyers or other types of competent supervisors should be appointed to control and revise the work in companies to prevent unfair bonuses being paid out and discrimination in the boardroom. The system would be similar to the mandatory revision companies have to do each year and we believe that this would increase the credibility and most importantly leave the government out of the free business.

And what can the future possibly hold for the capital owners? As we have mentioned earlier the situation is very complex and it is hard to define who the owner is today since the ownership rights have been lost or taken away from the original owner and now belong to those who cannot be defined as owners, or can they? The question is whether the communistic ideal with a collective ownership will be realized; the most recent development with an increased governmental involvement points towards this scenario in the future. Or maybe it already has occurred and the only thing missing is for us to open our eyes and accept the loss of our individual ownership rights and the fact that the capitalism has gradually been conquered by the socialism, ironically under the rule of the liberal right wing.

The fact that we have not been able to define the ownership concept but rather discovered more difficulties about it is not very surprising considering its complexity. This was also confirmed by our instructor, Östen Ohlsson, who claimed that if we succeed in defining the ownership concept we would deserve to be rewarded with the Nobel Prize.

6.6 Does the paradox exist?

Our aim with this study was to examine whether a paradox exists within institutional ownership where long-term goals are being promised but where short-term act occurs in practice.

First and foremost we have learned that institutions are different and that they cannot be judged on the same terms. Our meeting with Investor gave us the impression that investment companies to a higher extent stick to what they promise and that they in order to fulfil their goals need to engage in long-term activities and they do so very successfully. Of course they also have smaller holdings and daily activities where short-term results are more important but looking at the company as a whole we believe that they are very credible. However it is more likely that a paradox instead exists in their work concerning CSR.

But we believe that the risk of a paradox is bigger within pension funds and insurance companies that, because of the negative publicity surrounding short-term institutional ownership and pressure from customers towards long-term engagement, wish to proclaim themselves as active owners with a long-term focus but in reality cannot achieve that due to legislation and their line of business. When speaking with two respondents from the same company but with different assignments it became very evident that there was a lack of conformity between the two and a clear sign of decoupling. Emilie who worked more closely to the customers and whose job was to communicate and market active ownership and long-term involvement in companies had a totally different story to tell than Michael who worked with the actual investments and made no secret of the fact that short-term results were very important. We therefore believe that a clear paradox exists between what is said and actually done within pension funds and insurance companies. Pension funds and insurance companies like Folksam are dependent of their customers and attract them by promising that the money will be invested in long-term engagements and contribute to an improvement in the society. Customers without insight and interest can easily believe everything that is being said and

only see the matter from one perspective but we hope that with our study people will become more aware of the fact that not everything is always what it seems. It is important to question the behavior to find out that externally presented goals not always correspond with the internal work and that the methods used are not as powerful as they are presented to be.

A great part of the untruthful picture that has been painted in the media and the existence of a possible paradox are caused by the society as a whole due to the demands that we have on companies and institutions today to take their responsibility. We may have forced institutions to the paradox with long-term promises versus short-term actions since our demands on increased activity and CSR are hard to combine with our demands on short-term yields on our invested capital. Institutions are therefore forced to please the customers by at least making it look good on the outside and then get away with the actual work on the inside since customers are uninformed and lack knowledge about what is really going on within institutions.

6.7 Conclusion

Our final conclusion is that institutional ownership is a fairly complex matter and paradoxes do exist.

We do not believe that the situation is ideal in the society today but considering the circumstances, it is not surprising that paradoxes and differences in goals and ownership exist. As long as the law prohibits insurance companies and pension funds from gaining more influence in companies, no demands can be made on their ownership. Companies like Folksam and the AP-funds do the best they can during the circumstances and if changes need to be done, it is not in the hands of institutions. A change in the legislation is necessary as well as a change in attitude if the view on institutional ownership is going to change. We do not have a clear answer on how institutional ownership should be developed and what is best for both institutions and the companies in question since we have not investigated all perspectives of the matter and therefore cannot comment on what the best solution would be. But what we mainly have realized during this study is that institutions are different, have different business concepts and goals and that should be considered when talking about institutional ownership. Institutions cannot be generalized and forced into being active and focused on long-term results if it is not in accordance with their core business. That will only create goals that are impossible to achieve and take away the focus from the primary concerns. If institutions are allowed to be different, the varying demand on the market will be satisfied and institutions can be honest about their intentions and prevent paradoxes from occurring. Investment companies can focus on developing and investing in other companies that are in need of capital and expertise while insurance companies and pension funds can provide risk capital and focus on doing what is best for their customers.

We initially had a strong opinion about institutions and believed that they were hypocrites and fooled customers to believe that they worked towards long-term relationships with companies and an improvement of the society when they in fact only cared about short-term financial goals. Today, after a long journey with theoretical and empirical research, we no longer have those radical views on institutional ownership. Instead we believe that the common view is unjust because investment companies like Investor actually do invest in long-term relationship and development and have been very successful in transforming small and new companies to be leaders of their line of business. We have faith in their ability and believe that investment companies are important for the economic development. Without them, many companies may never get the chance to grow and become successful. With their large influence, investment companies could though take more social responsibility. They have enough power and influence to make a difference and should use it more than they do today.

We are though aware of the fact that companies are eager to present a positive side of their business and hide negative ones so we are not that naive to entirely believe everything that

has been said. At our short meeting with Investor we were most likely presented with only favorable information and we may have been given an idealized picture of the work within investment companies. But after gaining additional external information about the length of investments and business developments made by Investor, our impression still remains that investment companies are focused on long-term relations and corporate engagement to a higher extent than other institutions.

Insurance companies and pension funds like Folksam and maybe also the AP-funds are promising more than they actually can achieve and they should either work towards gaining more control and truly being active or they should focus on their primary goal and receive the highest possible profit on customers' money. Right now they are stuck somewhere in between and that increases the risk of hypocrisy and paradoxes because they cannot live up to their promises, it is impossible to please everybody.

We have however learned that both the definition of institutions and the concept about ownership is fairly complicated to analyze but we hope that we have at least raised some awareness to the issues concerning institutional ownership and created a foundation for further discussion.

6.8 Suggestions to further studies

Institutions will continue to be an important part of our economy for many years to come and there are plenty more subjects to examine and discuss concerning institutional ownership.

We believe that it would be interesting to examine the new governmental involvement in institutional ownership. We have only scratched the surface with our research on current debates and only analyzed it from the outside. It would bring even more to the discussion if the matter was explored from the inside by focusing on state-owned pension funds and examining how they work, how much power the government has and what the consequences may be in case of an increased involvement. The investigation would bring a further dimension to the term active ownership and it would be interesting to compare the goals and the influence in state-owned pension funds with privately owned pension funds and other institutions.

Institutional ownership is constantly under development and the globalization has created another interesting subject to explore. With more and more countries being open to foreign investments, institutional ownership is no longer only a subject of national investment but also foreign. The foreign ownership within institutions has increased dramatically over the last few years and that makes the issues with institutional ownership even more interesting. If Swedish institutions are being accused of only focusing on short-term goals and lacking interest in being active owners because of their limited knowledge and insight, what will be said when it comes to foreign investors who probably are even more distanced from companies and only invest to gain maximum profit? Or maybe foreign investors are more competent and have a pure interest in developing companies? There are many questions but few answers and therefore it would be very interesting to deepen the focus towards foreign institutional investment and ownership that would add another perspective to the subject.

We have in our study only focused on two institutional owners and also discussed a third through secondary information which means that we have based our conclusions on a fairly limited foundation. We therefore believe that our study can be expanded and include a larger amount of institutions in order to come to more precise conclusions. It would though be very interesting to examine the other perspective within institutional ownership, the companies in question, and investigate their opinions on institutional ownership. Do they prefer active owners with a large influence or are distanced providers of risk capital more desirable? To

investigate the other side of institutional ownership would be a good complement to our study where it would be possible to conclude whether the theoretical frame of reference and our empirical research are in accordance with the beliefs of the companies in question.

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8. Attachments – Interview questions

Placeringar

1. Ni investerar olika mycket i olika bolag, hur avgör ni vilka företag som är värda att investera i, vilka kriterier är det som styr? Finansiella/icke finansiella? Och hur väljer ni hur mycket ni ska investera i respektive bolag?
2. Hur ofta köper/säljer ni andelar i företag?
3. Hur riskbenägna är ni? Diversifierar ni er risk genom att sprida ert kapital på många företag? Hur hanterar ni det spridda ägandet – lägger ni större vikt vid finansiella resultat och vinster eller är ni ändå aktiva ägare?
4. Hur definierar ni lång respektive kort sikt?
5. Anser ni att ni investerar på lång eller kort sikt och skiljer det sig mellan investeringarna, vad är det som avgör i sådana fall?
6. Hur investerar ni – det finns krav på att generera avkastning men samtidigt kan det leda till investeringar i bolag som inte genererar framtida sysselsättning, finns den paradoxen och hur hanterar ni i sådana fall det? Vad väger tyngst, avkastning på kort sikt eller en hög sysselsättning och på lång sikt mycket löneintäkter som beskattas vilket sedan utgör pensionsunderlag, dvs. ett mer långsiktigt tänk. (Denna fråga ställdes enbart till Folksam)
7. Vad anser ni att institutionernas stora ägande får för effekter på finansmarknaden?
8. En del hävdar att institutioner investerar främst i stabila och stora företag vilket påverkar effektiviteten på marknaden genom att det blir en underinvestering i nya entreprenörsföretag som då får svårare att överleva. Anser ni att det är en korrekt uppfattning?
9. Hur ser ni på er roll på den finansiella marknaden och möjligheten att bidra till företagsutveckling?

Ägande

10. Hur definierar ni begreppet ägande?
11. Ser ni er som företagsutvecklare eller kapitalförvaltare? Varför?
12. Har ni finansiella krav/nyckeltal m.m. som företaget måste uppfylla under en viss period?
13. Hur stor press känner ni från kunder, aktieägare m.m. att prestera kortsiktiga resultat och ständiga vinster?

Ägarrepresentanter

14. Vilka är ägarrepresentanter och vad har de för arbetsuppgifter?
15. Hur mycket kontakt har ägarrepresentanterna med företaget och med institutionen som uppdragsgivare?

16. Vad har de för utbildning/kompetens?
17. Hur insatta är de i företagets verksamhet?
18. Vilken vikt lägger ni vid att ha bra kunskap om det bolag ni äger och skiljer det sig, i sådana fall varför?

Aktivitet

19. Hur definierar ni aktivt ägande, vad innebär det för er?
20. Har ni representanter i styrelsen? Varför/varför inte?
21. Vad är det som krävs för att bli medlem i företagets styrelse? (nätverk, kontakter, relationer etc.)
22. Förekommer det motstånd från företagets håll om att ha institutionella ägare som representanter i styrelsen?
23. Om ni har representanter i styrelsen hur går arbetet till i sådana fall? Hur mycket inflytande har ni? Är ni med och påverkar beslut? Exempel?
24. Hur mycket kontakt har ni med företagsledningen?
25. Uppstår det intressekonflikter mellan ägare och ledning och hur löses de i sådana fall?
26. Är ni med på bolagsstämmor, vad gör ni där?
27. Hur ser ni på bolagsstämman som forum – informationsforum eller en plats där man kan påverka?
28. Vilka andra ägaraktiviteter använder ni er av?
29. Medför aktivt ägarskap några kostnader eller konsekvenser i sådana fall vilka?
30. Skiljer sig ert ägande åt i det bolag ni äger aktier beroende på hur stort ägandeinnehav ni har? Varför/varför inte?
31. Anser ni att det är svårt att övervaka företagsledningarna så att de agerar i enlighet med era intressen?
32. Hur gör ni för att försäkra er om att hänsyn tas till era mål och intressen? Vad har ni för informationssystem?
33. Vad har ni för relation med VD:n i ledningen? Påverkar ni beslut som VD:n fattar?
34. Om ni är missnöjda med en lednings eller VD:s arbete, försöker ni då byta ut denne?
35. Hur mycket tid lägger ni på avvägning i det specifika fallet mellan lönsamheten av att stanna kvar och påverka respektive sälja?
36. Vilka faktorer bidrar främst till utträde ur bolaget? (negativa resultat, dåliga relationer etc.)

37. Upplever ni att stora ägarandelar gör det svårare att dra sig ur en investering?

Hållbarhet

38. Hur definierar ni CSR och vad innebär det för er att ta samhällsansvar?

39. Vem anser ni har störst ansvar för CSR? (exempel företag, privatpersoner, staten)

40. Vilka är de starkast påtryckande faktorerna för att ta samhällsansvar? (media, kunder, lagstiftning etc.)

41. Anser ni att ert arbete med samhällsansvar har utvecklats på senare tid? Hur och varför/varför inte?

42. Hur arbetar ni med att förmedla ert arbete internt och implementera det inom organisationen?

43. Vilka garantier finns det för att era ägarpolicys och ansvarsåtaganden för likväl företaget som miljön runt omkring som kommuniceras ut till kunderna verkligen beaktas vid val av placering?

44. Tvingas ni ibland ta andra vägar för att kunna presentera goda vinster och stå er i konkurrensen?

45. Är kunderna lojala och stannar kvar trots eventuella dåliga resultat om det leder till att samhällsansvar prioriteras?

46. Är det svårt att kombinera CSR eller SRI med god avkastning och hur kommer man i sådana fall runt det?

Övrigt

47. Hur insatta och medvetna är era kunder om era investeringar och var deras pengar placeras? Hur förmedlar ni det?

48. Upplever ni att det finns ett intresse från kunderna att vara delaktiga och informerade om hur deras pengar förvaltas?

49. Hur ser ni på det ökade institutionella ägandet och hur anser ni att det påverkar företagen?

50. Vad anser ni om lagstiftningen när det gäller institutionellt ägande?