Developing Codes of Conduct: Regulatory Conversations as Means for Detecting Institutional Change

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The introduction of a new corporate governance code in Sweden, modeled after prevailing Anglo-Saxon norms of corporate governance, offers the opportunity to investigate global regulatory convergence. Using the metaphor of regulatory space, this article analyzes the positions of the parties who submitted formal responses to the introduction of “The Swedish Code of Corporate Governance—A Proposal from the Code Group.” While the globalization of financial markets might forecast unconditional acceptance of the proposed code by business and financial interests, the analysis of who made comments, and what was said, reveals three categorically distinct groups: Swedish business “insiders” connected to the existing institutional framework who opposed changes that would erode traditional division of functions, including collective responsibility for the actions of company boards; “outsiders” (i.e., foreign investors and more marginal Swedish investors) aligned with Anglo-Saxon internationalization of the markets who would change the system of corporate accountability; and the professions (i.e., auditors), who advocated for their professional interests. Of the three groups, Swedish business insiders were most successful in gaining support for their positions. Although international financial and political interests were key to the introduction of the Code in the first place, the article demonstrates how the dynamics of national (local) culture and power structures influence the transfer of regulatory law across jurisdictions.

I. INTRODUCTION

A. TRANSLATIONS OF CODES OF CORPORATE GOVERNANCE BETWEEN CONTEXTS

The transfer of new types of regulation between different national contexts is likely to result in two things. First, the transferred regulation will be...

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adjusted in accordance with local conditions; and second, the local traditional institutions will change in the face of the new regulation. This double-sided process may be difficult to describe and analyze, but one way of framing the process is to utilize the metaphor of regulatory space and to investigate the regulatory conversations that occur during the transfer and implementation of the new regulation. In this article we undertake such a project with reference to the development of the code of corporate governance in Sweden. We begin by introducing corporate governance codes and the case of Sweden.

Although in most countries, business laws have existed for approximately two hundred years, what we now refer to as corporate governance appeared only in the early 1990s (Corbett & Bottomley 2004: 61). The first code of corporate governance was a British invention, closely linked with the British context and legal tradition. In 1991, in the aftermath of several financial scandals and collapses, the Financial Reporting Council, the London Stock Exchange, and the accounting profession established the Committee on the Financial Aspects of Corporate Governance. The Committee was chaired by Sir Adrian Cadbury, and their report, issued in December 1992, became widely known as “the Cadbury Report.” It recommended a Code of Best Practice for the boards of all companies listed at London Stock Exchange and included rules regarding the structure and composition of the board, the contract and remuneration of the executive directors, financial control, and transparency. In Britain, the Cadbury code has been succeeded by a number of new reports and codes covering new issues and parties in the corporate governance system. In general, corporate governance codes often include discussions regarding board composition, the transparency of the information provided by the company, the jurisdiction of the government, and the business community and/or professional associations within the business community.

Since their introduction in Britain, corporate governance codes have met with enormous international success. Interest groups, such as the European Association for Stock Dealers (EASD), Organization for Economic Cooperation and Development (OECD), individual countries, and other actors on the financial markets, have all issued corporate governance codes (Collins 2004: 15; Black 2004; Corbet & Bottomley 2004). The European Corporate Governance Institute (ECGI) lists on its Web site (www.ecgi.org/codes/all_codes.php) over 140 different codes from all over the world and from different pan-national or international organizations. The initiators of the codes and the status of the codes vary substantially, as do the number of codes issued in different countries. Regulatory jurisdiction varies between countries with a stronger emphasis on self-regulation in the Anglo-Saxon countries and a stronger emphasis on legislation and governmental control in, for example, the Scandinavian countries (Spamann 2006: 23). Many nations have multiple codes that are issued by different bodies and enforced in different ways. Most of these codes are issued by private organizations and do not involve formal sanction systems. The relatively rapid diffusion
of codes for corporate governance may be viewed as a part of the global convergence of corporate governance systems, a situation one might expect to arise in the aftermath of the globalization of the financial markets (Oxelheim 1997; Oxelheim & Randoy 2003). Our view is that the convergence of corporate governance is not merely a matter of law. Convergence requires complementary institutional change, that is, changes in the behavior and “taken-for-granted” assumptions of key actors affected by the code.

B. THE CASE OF SWEDEN

We investigate whether the tendency toward global convergence is observed during the referral process of a proposed corporate governance code, initiated in Sweden by the governmental commission, “Commission for Trust.” The commission was established in order to rebuild trust in the Swedish business community and the financial markets, trust that was eroded in the aftermath of several international and national business failures, such as Enron, Parmalat, and the insurance company Skandia, respectively. Because corporate governance codes regulate the relationships between, and the obligations of, different parties within the corporate governance system, the codes have implications for the interests, composition, and power of key interest groups. Such groups include, among others, majority owners, minority owners, management, and professional service firms.

The Swedish corporate governance system has been traditionally characterized by concentrated ownership, with salient active owners who work in close cooperation with the trade unions and the state (see Puxty et al. 1987; Lubatkin et al. 2005; Collin 1998). Recently, there have been indications that this system has changed due to the increasing share of foreign ownership on the Stockholm Stock Exchange and the importation of Anglo-Saxon norms regarding boards of directors and corporate governance (Agnblad et al. 2002; Henreksen & Jacobsson 2003; Söderström et al. 2003), although the degree of change and the effects of these changes have not been well documented (for exceptions, see Jonnergård & Kärreman 2004; Jonnergård, Kärreman & Svensson 2004; Oxelheim & Randoy 2003, 2005).

A study of the Commission of Trust’s import of a code of conduct presents an opportunity to evaluate the ways that efforts to globalize corporate governance influence and are influenced by the Swedish community. Importing an idea such as the corporate governance code provides structure and space for new regulation, and it may create an opportunity to interpret and reinterpret concepts, which, in turn, may lead to an opportunity to challenge old truths and power structures. Neither the contents nor implementations of an imported code of conduct may be determined beforehand. A single word or concept may be interpreted and applied in one country differently from how it is applied in the next. For example, corporate boards in Britain used to be composed mainly of corporate executive managers. In Britain, therefore, the rules for increasing the
number of nonexecutive directors in order to support the board’s control function were highly relevant. The idea that nonexecutive directors are important presupposes a perceived need for them, as well as a relatively dispersed ownership. In contexts such as the Swedish one, where there is a tradition of active majority owners and few executive directors on the board, these preconditions are less relevant. Accordingly, when the code of conduct was developed, the concept of nonexecutive was reinterpreted and became “not connected with the major owners.” In this way the notion of nonexecutives in the Cadbury code took on new meaning in the Swedish governance system. In this article, we focus on the debate concerning the proposal of a corporate governance code in the processes of referral. This debate has been both lively and extensive, dealing with issues such as the rights of the owners, the composition of boards, and the transparency of financial accounting. In contrast to other countries, the discussion in Sweden has dealt with the possibility of restricting the power of the major owners rather than with the agency problems related to top management teams. We examine the interests expressed in the formal comments submitted during the code development process and the influence those comments have had on the final code. We also examine the communities of interest that form in response to the Code and their impact on the changing composition of the Swedish business community.

The objective is (1) to develop our knowledge of the process of convergence of corporate governance systems, taking the Swedish system as our case, and (2) to contribute to the literature on the relationship between regulation and institutional changes. We start by discussing convergence of corporate governance systems from an institutional perspective, after which we present the institutional context of Sweden and the issues raised in this context by the new code. Thereafter, the methodological device of regulatory space is presented together with the empirical material. The empirical results are discussed in relation to the importance of national culture and local elites, the influences of foreign investors and their norms of behavior, and the role of the state. We conclude with remarks regarding the ongoing institutional changes in the Swedish corporate governance system, and we discuss key insights for future research.

II. CONVERGENCE FROM AN INSTITUTIONAL PERSPECTIVE

While the advocates of a convergence between different corporate governance systems often propose that the globalization of the financial market and the Europeization project (e.g., Cernet 2004: 148; Cuervo 2002; Oxelheim & Randoy 2003) will lead to a convergence, more skeptical analyses suggest that globalization of the markets may be met with other factors that moderate the tendency toward convergence (see Guillén 2001, 2004). Inhibiting factors may include inert legal systems, vested interest in certain political
systems (e.g., Branson 2001; Fligstein & Freeland 1995; Reid 2003: 235), culture (North 1990), and power relationships within and between social groups in a society (Fligstein 2001), and they may mediate the impact of the globalization of financial markets as a driver of regulatory convergence.

In our view, convergence requires institutional change, that is, a multifaceted transformation of rules, norms, and cognition—each of which may change at different rates (Jonnergård, Kärreman & Svensson 2004; R. Scott 2001; Townley 2002; Zilber 2002). Richard Scott (2001, chapter 3) argues that the three necessary pillars of institutions: cognitive, regulative, and normative (ibid.: 85) must be aligned for complete institutionalization to unfold. The cognitive pillar stands for the “taken-for-granted” logic behind the phenomenon; the regulative pillar stands for the disciplinary aspect, that is, the rules and enforcement mechanisms of the institution, while the normative pillar includes the expedience, that is, the norms and values, inherent in the institution. Deinstitutionalization or institutionalization may begin in one of the pillars and may or may not travel to the other pillars of the institution at hand. The different pillars may be out of step with each other; for example, the people’s cognition may be aligned with a new institution, while their norms may remain steadfastly connected to an older institution (Jonnergård, Kärreman & Svensson 2004). Complete institutionalization demands consistency between cognition, norms, and practices, and is often measured through the actions it brings about (Zilber 2002). The sequences of institutional change are, however, not pre-determined (Jonnergård, Kärreman & Svensson 2004).

Since cognition and norms may be difficult to study per se (Townley 2002), one way of detecting whether an institutional change has occurred is to observe changes in the behavior of different actors (Zilber 2002) and the actors’ conversations regarding the issue at hand. That is, changes in behavior and conversations become a proxy for institutional change. When studying corporate governance, for instance, changes in power, or more precisely, change (or the lack of change) in the composition and power of the local elite in a specific national context is one observable indicator of institutional change (Aguilera & Jackson 2003; Fligstein 2001; Reid 2003: 235). Fligstein and Freeland claim:

Available evidence suggests that there will be no world market for corporate control. Property rights and governance structures are under the control of nation-states and local elites. As long as states claim sovereignty, they are unlikely to undermine their control over their economies in this way. Moreover, their local elites also have a great deal to lose from current arrangements, and they will oppose actions that would force conformity to someone else’s standards (1995: 39).

The behavior of the local elite and the emergence of new elites may therefore be viewed as critical for the development of a corporate governance system and the content of the code of conduct. They may also provide cues for detecting institutional change.
In Sweden the growing prevalence and clout of institutional investors, and the need for the intergenerational transfer of resources (O’Sullivan 2000a, 2000b) pose a challenge to the traditional Swedish model, with its few dominating strongly industry-oriented owners of large companies (see Agnblad et al. 2002; Henrekson & Jacobsson 2003; Söderström et al. 2003). Since 1990, the domestic institutional investors have largely kept their share of the Swedish stock market, whereas the foreign investors have substantially increased their ownership, and nonfinancial Swedish companies have substantially decreased their ownership. The relative decline of Swedish ownership, along with other changes, such as the adaptation of the EU legal system and a shifting toward a more “Anglo-Saxon” style of board behavior (Jonnergård & Kärreman 2004; Jonnergård, Kärreman & Svensson 2004 2004; Oxelheim & Randoy 2003), suggest that the institutional investors and foreign investors will gain in importance and power, whereas the traditional Swedish owners will lose power and position. Studying the development of the Swedish corporate governance code in light of these dynamics contributes to our knowledge of the relations between old and new elites and the processes of convergence and institutional change in Sweden.

Previous studies of the transformation of the Swedish corporate governance system have focused mainly on changes in cognition and modes of action (see Bengtsson 2005; Jonnergård, Kärreman & Svensson 2004). In this article, we focus on the actors and changes in the position and power of different interest groups as both a part and a consequence of the institutional change process. We consider how emerging and traditional entities voice their arguments and the influence these groups have on the code. From our analysis, we draw conclusions about how various actors’ positions in the regulatory space have changed, where such change has occurred, and how it has affected the power and position of the local elite.

III. REGULATION AND CORPORATE GOVERNANCE IN SWEDEN

In the 1980s the Swedish regulatory style was characterized as corporatism (Puxty et al. 1987). The business conditions of companies were regulated in close cooperation between the state, the trade unions, and the large owners of the various industries. The main features of this dynamic remain and are today reflected in the structure of the formal rule-making process. Entities affected by proposed regulations may participate in the government’s rule making through involvement in an open referral process. That is, most often the government establishes a commission with representatives of different political parties and interest groups in order to investigate an issue of public interest. The assembled commission issues a proposal and then solicits comments from those who may be affected. The process is open in the sense that anyone, whether invited or not, may participate and voice an opinion. The opinions are collected and taken under advisement, and
when the comment period ends, the proposed code is revised by the same commission and becomes formal enforceable regulations after parliament approval. The corporate governance code in Sweden was developed in this way, although with one key distinction, which we will return to shortly.

The corporate governance code has emerged from within a complex of interlocking rules (Black 2004: 55). The foundation and framework for regulating corporate governance is the Companies Act, which dates to 1975 and has been thoroughly updated to comply with the European Community (EC) directives and recommendations. The Companies Act contains rules stating what formal bodies the company should have (e.g., AGM, Board, Audit, CEO), the tasks each should perform, and how they should be appointed. In doing so, the Act serves to divide responsibility and accountability with the aim of reducing tension and conflicts of interest between owners, creditors, directors, and managers (Bergström & Samuelsson 2001). The Companies Act applies to all companies; publicly traded companies are exposed to additional forms of regulation.

The first additional regulation for publicly traded companies is the registration contract between the company and the privately owned Stockholm Stock Exchange (SSE). The SSE registration contract regulates issues regarding the timeliness of information disclosure, as well as other issues related to corporate governance, such as board independence and ownership dispersion. The rules in the registration contract are tied to the SSE disciplinary board, and a company that breaches the contract may be expelled from the stock exchange.

The second form of additional regulation for publicly traded companies originates from “The Association for Stock Market Issues” (Föreningen för Aktiemarknadsfrågor), which was formed to establish and promote proper practices on the Swedish stock markets. This association was founded by what could be referred to as the “crème de la crème” of the Swedish stock market stakeholders. Association members include auditors, banks, associations for companies, insurance companies, stockbrokers, institutional investors, and the SSE. Given the composition of this regulatory body, some have suggested that the Swedish regulatory style is dominated by different interest groups (Elvander 1974; Jordan & Richardson 1983). The work of the Association for Stock Market Issues is done through two subassociations: “The Swedish Industry and Commerce Stock Exchange Committee” (Näringslivets Börskommitté), whose main function is to issue rules for participation in the stock exchange; and “the Stock Market Board” (Aktiemarknadsnämnden), whose function is partly disciplinary. The Stock Market Board issues statements that provide guidance about good practice on the Swedish Stock Market and that provide interpretations of the rules issued by “The Swedish Industry and Commerce Stock Exchange Committee.” Some of these rules are included in the registration contract, which renders them enforceable. The remaining rules are advisory, but the rate of compliance of publicly listed companies is considered “high” by the Committee itself (NBK 2003).
The corporate governance code initiated by the government’s Commission for Trust has emerged as a third form of additional regulation, and it is positioned between legislation and self-regulation. The Commission for Trust was led by a former financial minister of the ruling party and included a representative of the labor union, a former CEO of a state-dominated public firm (Telia), and a former CEO of the SSE. The commission formed the “Code group” together with the same associations that make up the “Association for Stock Market Issues” (“the crème de la crème,” above) and representatives of the smaller shareholders. The Code group developed a proposal for a code of conduct. This proposal was very far reaching and modeled on internationally accepted corporate governance standards, and consequently, it was similar to the Cadbury code. The proposed code underwent the formal process of referrals that accompanies the introduction of governmental regulation. Instead of becoming formal law, however, the final code was removed from the legislative process and incorporated into the SSE registration contract. Thus, one can conceptualize the proposed code as a form of “enforced self-regulation” (Braithwaite 1982; Hood, Oliver & Scott 2000; Fairman & Yapp 2005), where the government together with the high-profile stakeholders of the Swedish financial markets set about to impose new regulations on the publicly listed companies.

A. GOVERNANCE ISSUES RAISED BY THE NEW CODE

In this section we highlight the rules that were most fiercely debated as the code proposal moved through the governmentally mandated referral process to its eventual integration into the SSE registration contact. These include proposed changes to the rules that defined the existing systems of accountability and the division of functions between different parties in the corporate governance system. In some cases, the rules opposed traditional norms about responsibility for the governance of Swedish companies. In other instances, the rules appeared to threaten institutionalized power structures. Sweden’s distinctive pattern of corporate ownership and regulatory traditions offered potentially significant roadblocks to the wholesale adoption of the code.

Two issues connected to the annual general meeting (AGM) were highlighted in this process. The first issue focused on who should chair the AGM. The proposal stated that neither the chairman of the board nor any of the other directors may chair the annual general meeting. This proposal was withdrawn and replaced by a system through which the election committee nominates the chairman for the annual meeting. The second issue involved the creation and function of an obligatory election committee. Valberedningar, or election committee, is a Swedish practice used in political and voluntary associations to single out those candidates who will run for a democratic election. It is interesting to note here that the election committee in the code is merely another label for the type of nomination
committee that most Swedish companies already have. In the proposed code, the election committee was given very far-reaching responsibilities, which included nominating both members of the board and the auditor; evaluating both the board and the auditor; setting compensation for the board and for the auditor; and finally, determining the compensation of the election committee. In the final version of the code, the election committee was exempted from four of these tasks: the evaluation of the board (which should be performed by the board), the proposal of principles for board members’ compensation (which no one should perform), the evaluation of the auditor (which should be performed by the audit committee), and finally, the proposal of the election committee’s compensation (which no one should perform). Taken as a whole, it appears that the election committees ended up with the same mandate as that of the nomination committee.

The code group proposed that a majority of the board members should be independent vis-à-vis the firm and its management; among these at least two board members were required to be independent of the major owners. As a proxy for ensuring independence, the code proposal required that directors with a tenure exceeding eight years and directors older than seventy years provide special reasons for reelection. In the final code, the independence provisions remained unchanged, but the restrictions regarding age and tenure limits were removed.

In the code proposal, the remuneration committee was to prepare and suggest principles for executive compensation (salary, bonus, stock options, etc.), which the board was to present to the annual meeting. According to the proposal, the shareholders at the annual meeting were expected to approve these principles, and the board was to make the final decision. In the final version, this decision-making process regarding ordinary compensation was left unchanged. However, the suggested change regarding the board decisions about stock based compensation was approved. Whereas, in the code proposal, the remunerations committee was to consist of directors independent of the management, in the final version, the remunerations committee was to consist of the whole board apart from the executive directors (i.e., the firm management on the board).

Both the responsibility of the auditor and the responsibility for the financial accounts were debated in the referral process as well. The code proposal required the formation of an audit committee consisting of at least two members independent of the management and at least one member independent of the major owners. One function of the audit committee would be to assist the election committee in proposing an auditor. The proposal also named the audit committee as one of two responsible committees for evaluating the auditor (the other one was the election committee). The decision to make the audit committee responsible for appointing the auditor is in both the proposal and the final version. In the final version of the code, the whole board could function as an audit committee if directors from management are kept out. In addition, the final version of the code
states that only the audit committee may evaluate the auditor. The results of this evaluation are to be submitted to the election committee to be used as a basis for selecting an auditor and deciding how this auditor should be compensated.

The code group also proposed that the board and the CEO should include a written assurance stating the following in the annual report:

[T]o the best of our knowledge, the annual accounts have been prepared in accordance with generally accepted accounting principles for a public listed company and that the information presented is consistent with the actual conditions and that nothing of material value has been omitted that would affect the picture of the company presented in the annual report (SOU 2004:46: 40).

Furthermore, the board should demand written assurance from the chief financial officer, an assurance stating that:

the company's financial reports meet the requirements of the existing regulation in all essential respects. The assurance is also to state other circumstances that are important to the board in its assessment of the quality of the financial reports. (ibid.)

In the final version of the code, the demand for the chief financial officer’s assurance to the board was deleted, while the board and the CEO’s assurances were kept intact (see Table 1).

IV. CREATING REGULATORY SPACE THROUGH REGULATORY CONVERSATION

The metaphorical device, “regulatory space” (Hancher & Moran 1989: 277; C. Scott 2001: 330) provides a useful starting place for investigating the impact of the new corporate governance code on regulations governing the financial markets. Regulatory space is an abstract conceptual space constructed by people, organizations, and events acting in concert upon a set of specific regulatory issues subject to public decisions (see Young 1995: 57).

The “regulatory” space metaphor draws attention to the fact that regulatory authority and responsibility are frequently dispersed between a number of organizations, public and private, and that authority is not the only source of power within a regulated domain. The regulatory space approach is “holistic” in the sense that it looks at the interactions of each of the players in the space, and can recognise plural systems of authority and of other resources and a complex of interests and actions. (C. Scott 2001: 331)

Exclusions as well as inclusions of actors and/or issues are thereby important for the development of the regulatory space.

The concept of space implies that “it is available for occupation,” and that it is unevenly divided between actors (Hancher & Moran 1989: 277).
Table 1. Proposed Versus Final Rules

<table>
<thead>
<tr>
<th>Issue</th>
<th>Proposed</th>
<th>Final version</th>
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<tbody>
<tr>
<td>The Chairman of AGM</td>
<td>The chairman of the board, or any other director, shall not chair the AGM</td>
<td>The election committee proposes who should chair the AGM and the AGM decides.</td>
</tr>
<tr>
<td>The election committee</td>
<td>The election committee should evaluate the board and the auditor; should propose auditor and board to the AGM; should propose chairman of the board and principles for board member compensation; should propose election committee compensation.</td>
<td>The election committee should propose auditor and board after consulting the audit committee and board’s evaluations.</td>
</tr>
<tr>
<td>The independent director</td>
<td>A majority independent of management and at least two directors independent of dominant owners. Directors with tenure exceeding eight years and older than 70 needs special reasons upon re-election</td>
<td>No age and tenure restrictions</td>
</tr>
<tr>
<td>Management remuneration</td>
<td>Remuneration committee is required; the committee prepare and propose the principles on management remuneration, board present to AGM, AGM approves and board decides.</td>
<td>The whole board may function as remuneration committee. Regarding stock-based compensation the AGM, not the board, decides.</td>
</tr>
<tr>
<td>The independent auditor</td>
<td>Audit committee is required; the committee should evaluate and appoint the auditor</td>
<td>The whole board may function as audit committee; the audit committee should not appoint the auditor</td>
</tr>
<tr>
<td>Financial reporting</td>
<td>The CEO and the board should leave a written assurance in the annual report regarding the quality of the financial accounting. The board should demand the an assurance from the CFO regarding the quality of the financial reports</td>
<td>Only the board and CEO leave assurances.</td>
</tr>
</tbody>
</table>
Regulatory conversations—discursive activity between involved actors, organizations, and interest groups—define and redefine the space. First, they build an understanding of the definition of problems and their acceptable and appropriate solutions, as well as the function of the very regulations themselves (Black 2002: 165). Second, conversations create interpretive communities (ibid.: 174) in which interactions produce meaning, coordination, and action. The interpretive communities that develop out of regulatory conversation often display a degree of internal heterogeneity, as “actors deploy language and interpretations in a boundedly strategic manner” (ibid.: 178). Third, regulatory conversations create identities for the actors participating in the conversation. They “identity matters because it affects how individuals and organizations are viewed and thus responses to them, and because it affects action, for example, agenda setting or policy positioning” (ibid.: 183).

In sum, the metaphor of regulatory space helps to draw our attention to the positions of different actors and to detect which interests are taken into account in the regulatory process. Issues are interpreted and reinterpreted in this process, and the regulatory spaces are the scenes in which different issues and interests are voiced. It is in this space that the regulatory agenda and the destiny for different forms of regulation are set.

V. TO CONVERSE ABOUT THE CODE

In this section, we analyze the written debate concerning the referral process of a corporate governance code in Sweden to detect which positions were taken into account and what kinds of interpretive communities might have formed as a result. The referrals (i.e., written comments) are public and thereby accessible. They also offer a valid way of discerning the debate. Following Black (2002), we define three dimensions of regulatory conversation: when in the regulatory process the conversation occurs, what is discussed, and who is involved in the conversation. The “when dimension” confines our subject as we are studying a limited period of the regulatory process: the referral process. The “what” and “who” are the main dimensions used to structure our descriptions and analyses. Our analysis is limited to the written debate and, thus, clearly misses the spontaneous verbal discussions that may go on between different parties. However, the written referrals are likely to be built on inputs from such discussions and to reflect, at least in part, these discussions.

A. DATA CAPTURING THE REGULATORY CONVERSATIONS

The conversation about governance codes began when, following a process of Swedish governmental investigation, a proposal for a code was issued. It ended when a final proposal of a code was presented to the general public.
and the financial markets. The entire process—from governmental directives to proposal and onwards to the final version—was transparent. Between the proposal and the final version, the stakeholders, the general public, and other public authorities had the opportunity to put forward their opinions of the proposal in writing.

The following items form the subject of our analysis:

Initial proposal. “The Swedish Code of Corporate Governance—A Proposal from the Code Group,” is a fifty-three page document, which consists of an introduction to corporate governance in general, proposed regulations, appendices, and the statement from member who opposed adoption of the code. The regulations take up twenty-five pages and cover central dimensions of corporate governance: the annual meeting, board and auditor appointments, the board, the top management team, the auditor, and information regarding corporate governance.

Written comments. The proposal received seventy statements from different stakeholders in the code. There is evidence of great diversity in the statements, ranging from two-line notices that the stakeholder will not respond to the proposal, to statements more extensive than the proposal itself. In Table 2 the actors who participated with written comments are listed.

Final code. The final and processed version of the code, “The Swedish Code of Corporate Governance,” is a concise twenty-two page document with chapters that follow the same pattern as the proposal, save for the “auditing” chapter, which was deleted. Three reactions were gauged: total rejection of suggestions, acceptance pending changes in vital parts of the suggestions, and support for the suggestions (see Tables 3 and 4).

B. KEY ACTORS AND THEIR OPINIONS

As expected, most interest groups in the Swedish corporate governance system were involved in the referral process. We hypothesized that institutional changes within the Swedish corporate governance system would be reflected both in the parties who got involved and in the parties who shared similar opinions; therefore, they would be grouped together in the analysis. In order to classify the referral material, we first categorized the stakeholders based on presupposed similarities in the mission or function of the stakeholder and/or their membership in a specific interest group. For instance, there were sixteen written comments from different institutional investors and their organizations. Because these firms share a common purpose (to invest other people’s money) and have a common agent—principle relationships (agents of the savers, principals of the companies they invest in)—we expected them to have a common view of the code proposal. If traditional globalization arguments held true, we would expect to see actors with similar agency relationships, that is the institutional investors and foreign investors, begin to form their own interpretive communities that
would begin to dominate or greatly influence the regulatory conversation that took place. However, in some cases, the assumption of similar opinions within the category did not hold true and further subcategorization was needed. For example, in the case of institutional investors, thirteen of the written statements were from Swedish investors and three were from their British counterparts. There were marked differences between these two groups’ opinions, and thus, they were separated.

In the final categorization, which is found in Table 2, stakeholders with common interests and opinions were grouped together, and within the groups there were few conflicting opinions. However, stakeholders within a group at times focused on different questions, which suggest that not all stakeholders voiced their opinions on all issues. For example, only one of the British investors wrote that he was in favor of all board work being done in committees, while the other two British investors did not express any opinion concerning board committees (see Table 3).
Table 3. Actors and Arguments for Election Committee and Boards of Directors

<table>
<thead>
<tr>
<th>Issue</th>
<th>Change between proposed and final code</th>
<th>Parties listened to</th>
<th>Argument(s) of parties listened to</th>
<th>Parties not listened to</th>
<th>Argument(s) of parties not listened to</th>
</tr>
</thead>
</table>
| The chairman of AGM      | A restriction in directors' chair function of the AGM was removed in favor of the election committees' appointment. | – Firms with concentrated ownership and business and industry associations  
– The legal profession  
– Consultants. | – Self-evident, owner's decision, resemble praxis and cost efficient.  
– The topic is too complicated for a code  
– Do not agree with practice | None | None |
| The election committee   | The extensive tasks of the election committee were reduced to be more similar to the tasks of the former nomination committees. | – Local institutional investors, the business and industry associations, firms with concentrated ownership  
– The local institutional investors, part of the business and industry, part of the firms with concentrated ownership and parts of the banking and finance sector | – Fear of a fifth corporate body besides the annual meeting, the board of directors, the CEO and the auditors, with no legal basis  
– The evaluation of the board would lead to a diffusion of roles and responsibilities  
– The evaluation of the auditors is an unrealistic task for the nomination committee | – Small owners and international institutional investors claimed the structure as inappropriate, as it was not independent of the owners.  
– The audit profession was in favor of the committees' evaluation of the auditor | – The election committee is not independent of owners.  
– The evaluation would increase the independency of the auditor |
| The independent director | The proposal and the code remained the same; however, the restrictions on age and tenure were removed. | – The small shareholder association.  
– The firms with concentrated ownership, the business and industry associations, the stock exchanges, the consultants, the legal profession and one representative of small owners | – Satisfied with the definition of independence  
– Disagreed with the age and tenure restrictions as this is a restriction in the rights of the owners and could be against anti-discrimination regulations. | – British institutional investors, one bank and finance, and one governmental authority.  
– One bank and finance, one firm with concentrated ownership and one small owner representative.  
– One small owner representative | – Unsatisfied, too low demands on independency  
– Unsatisfied, too high demands on independency  
– In favor of the age and tenure restriction |
Table 4. Actors and Arguments for Managerial Renumeration, Independence of Auditors and Financial Reporting

<table>
<thead>
<tr>
<th>Issue</th>
<th>Change between proposed and final code</th>
<th>Parties listened to</th>
<th>Argument(s) of parties listened to</th>
<th>Parties not listened to</th>
<th>Argument(s) of parties not listened to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management remuneration</td>
<td>The AGM should decide upon stock based compensation and the whole board could function as a remuneration committee.</td>
<td>One British institutional investor.</td>
<td>In favor of all board work in committees.</td>
<td>Swedish institutional investors, firms with concentrated ownership, firms with dispersed ownership, the consultants, and the stock exchange.</td>
<td>The remuneration committee is unnecessary(^1) as it is inefficient and conflicts with the provisions on small boards.</td>
</tr>
<tr>
<td>The independent auditor</td>
<td>Only the audit committee should evaluate the auditor and the whole board could function as an audit committee.</td>
<td>One British institutional investor.</td>
<td>In favor of all board work in committees.</td>
<td>Swedish institutional investors, some firms with concentrated ownership, and the stock exchange.</td>
<td>The audit committee is unnecessary(^2) as it is inefficient and conflicts with the provisions on small boards.</td>
</tr>
<tr>
<td>Financial reporting</td>
<td>The board and the CEO declarations remained but the CFO declaration was removed.</td>
<td>Audit profession and their supervisory authorities.</td>
<td>Approved the board and CEO assurance as it clarifies the responsibilities.</td>
<td>Swedish institutional investor, one firm with dispersed ownership, the stock exchanges and some representatives of the banking and finance.</td>
<td>Disapproved the board and CEO assurance as it does not change the responsibilities only blurs them.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Swedish institutional investor, one firm with dispersed ownership, business and industry, the stock exchanges and some representatives of the banking and finance.</td>
<td>Disapproved to the CFO assurance as it does not change the responsibilities of the CEO and the board and therefore only leads to uncertainties.</td>
<td>Audit profession and their supervisory authorities.</td>
<td>approved the CFO assurance as it clarifies the responsibilities.</td>
</tr>
</tbody>
</table>

Notes: \(^1\)However, in practice this would not be relevant because the whole board could function as a remuneration committee.  
\(^2\)However, in practice this would not be relevant because the whole board could function as an audit committee.
From the written comments to the code proposal, three interpretive communities emerged, that is, actors could be divided into three main groups where the interpretation of problems and solutions, as well as appropriate regulation was similar. We have labeled these communities as the Swedish business community, the outsiders, and the profession (see Table 2, column 3).

Given our original hypothesis, we grouped parties who got involved and those who shared like opinions together in the analysis. In short, we presumed that power had shifted from the owners of the owner-dominated companies to the institutional investors, that the institutional investors and dominant owners had different interests, and that the influence of foreign investors had increased. However, for most issues discussed during the referral process, national culture trumped agency. An interpretive community seemed to emerge based among Swedish institutional investors, business and industrial associations, and owner-dominated companies. For certain issues, this interpretive community was complemented by Swedish actors from the banking and financial sectors, and on no issue did the Swedish actors have contradictory opinions. This suggests that a sense of identity and belonging to the traditional Swedish business community was important for an actor’s position in the regulatory conversation. In part, this contradicted our assumption that an actor’s functional membership (such as being an institutional investor), would have a greater bearing on the actor’s position in the discussion.

The interpretive community was manifested in the opinions of this group. The traditional Swedish business community did not react favorably to the suggestions in the code. They opposed most suggestions that would change the line of accountability. There was strong resistance to a fifth corporate body in the form of an election committee with extended duties. In addition, the formation of the audit committee as well as changes in the decision process regarding remuneration met resistance. In addition, the suggestion of a written assurance from the board regarding the true and fair view of the annual account met opposition. The arguments were based on the fear that the code would put demands on the corporate body outside the scope of the law and would change the responsibility and decision power of the board of directors.

The second interpretive community that emerged—the outsiders—is more readily explained by agency theory (Fama 1980; Jensen & Meckling 1976). This group consisted of the international institutional investors (here, the British) and smaller (minority) owners who aligned with foreign investors on issues of independence, which may be defined as being on the margin of traditional Swedish corporate governance system. Agency theory assumes that actors are maximizing their own welfare; for example, the top management team may act in its own interest instead of in the interest of the investors, which may lead to agency problems when ownership is dispersed and separated from control. Foreign investors, smaller shareholders, and most minority owners face similar agency problems (La Porta, Lopez-De-Silanes & Shleifer 1999). This includes, in addition to the eventuality of shirking management, the possibility of private consumption by the dominant owners.
In general, the outsiders reacted most favorably to the suggestions in the code. They readily accepted the idea of committees that divide accountability and decision power between them. Their main arguments were that board committees ensure independence and “fair monitoring” of the top management group and that transparency reduces information asymmetry. These arguments mirror the arguments that have been put forward in the Anglo-Saxon world (see, e.g., Eng & Mak 2003; Mallett & Fowler 1992; the Cadbury Report; Spira & Bender 2004), as well as in research done from an agency perspective (see, e.g., Letza, Sun & Kirkbride 2004). Given the common agency problems within the group and their marginal power position in the Swedish system, a common definition of problems and solutions was not surprising.

The third salient community was the professions, or more precisely, the auditors. For auditors, the agency problem is more indirect and is related to the possibility of protecting their independence as well as their discretion (see Fant 1994). This gives them incentive to assume a position and an identity of their own in the regulatory space of corporate governance. It might, however, be an oversimplification to refer to the voice of the auditors as merely a vehicle for resolving agency problems. Another possible explanation for this grouping of actors may be found in their professional basis and the role of the auditors’ professional associations to protect both the private interest of the profession and the public’s interest that the profession fulfill its role (Parker 1994; Greenwood, Suddaby & Hinings 2002). Auditors raised their voice only on issues related to their professional function. Such issues concerned auditor independence and the competence of those evaluating the auditors’ work. Additionally, there had been reports of auditors receiving unjustified criticism for errors that are ultimately the responsibility of the board of directors and chief financial officer, so the auditors pushed to make these responsibilities clear and explicit. The arguments regarding auditors’ independence and their fear of receiving unprofessional evaluations have recently been voiced in several discussions regarding the professional role of auditors and the transparency of the audit processes (see, e.g., B. Larsson 2005; Erlingsdottir and Jonnergård 2006; Jonnergård 2003).

In summary, the regulatory conversation studied here consisted of three kinds of discourses drawn from three different interpretive communities: one emerging from the discourse of (Anglo-Saxon) internationalization, one connected to the existing Swedish institutional framework, and one connected to the interest of a particular professional group. The arguments are closely connected to the position of the actors stating them. The regulatory conversation may thus be said to deal with how to adjust to international development, how to consider international development, and how to divide accountability and responsibility in a way that agrees with the institutional framework and power relations in Sweden. This is summarized in Tables 3 and 4.
C. WHO’S VOICE WAS HEARD?

By classifying the various actors and their lines of argument, we distinguish the actors who participated in the regulatory space and determine which issues were salient in the negotiation of the code. The effects of the conversation, on the other hand, give an indication of the actors’ positions in the regulatory space. Actors may very well have participated in a conversation, but did anyone listen to them? For example, considering the difference between the proposed code and the final version (see Table 1) we found that few, if any, arguments put forward by the auditors or foreign investors carried the day (see Table 3 and 4). By contrast, arguments advanced by the traditional Swedish business society resulted in substantial changes to the code. For example, in the final version, the functions of the election committee are restricted in a way that largely mirrors existing practice (U. Larsson 2005). Also, the work of the remuneration committee was adjusted in a way that better agrees with the existing processes for rewarding the board and top management. In addition, the independence requirement was adjusted to better correspond to the owner situation in Sweden. However, this does not imply a total surrender to the viewpoints of the business community. The written assurance regarding the annual report’s presentation of a fair and true view remains in the code, and the concept of an audit committee has been introduced. Some of the other minor issues remained unchanged or were implemented with minor changes. From this we may conclude that opinions of the Swedish business community have had the most impact on the final code, while the opinion of both the outsiders and the professionals have had substantially less, or no influence on the final code.

The auditors’ lack of influence on the process is somewhat surprising given that auditors have historically had a substantive impact on the governance of auditing practice (Wallerstedt 1999; Jonnergård 2003). One of the two professional associations8 for auditors that influences regulation in Sweden was founded in 1899 with the aim of influencing the audit regulation. And since the passage of a 1944 Swedish business law, authorized auditors have held a legal monopoly for auditing listed companies, and the auditors’ professional associations have been most salient as lobbying groups (Sjöström 1994). They have been active in different governmental investigations and included in committees regarding the business law, the extension of auditing, etc. (B. Larsson 2005). Often, they have succeeded in using different business scandals for introducing measures that enhance their own legal status through, for example, an extension of the kind of businesses for which the auditors must be authorized (Wallerstedt 1999). The auditors have also been the initiators of importing new audit regulations into Sweden, which has given them advantages when dividing the regulatory space of auditing between the profession and the state. One example of this is the implementation of statutory quality control system for auditors in 2003. The statutory quality control system is based on an EC recommendation...
(2001/2565/EG). The EC recommendation implies that the quality system has to be supervised by a governmental organization. In Sweden, such an organization would be the Supervisory Board of Public Accountants, a governmental organization with the aim of controlling the auditing business. However, the Swedish auditors had already implemented a system of peer review supervised by the professional organizations. After extensive negotiations with the Supervisory Board the auditors succeeded in retaining control over their quality control, allowing the Supervisory Board only to make spot-checks of the quality controls performed by the auditors’ professional organizations (Jonnergård 2003). In this way the auditors, through proactivity and lobbying, have had a large impact on the regulation of auditing and the business law in Sweden. However, regarding their wider capacity in the corporate governance system, auditors appear to have more trouble making their voices heard. To explain this would require speculation, but the absence of influence is interesting to note; it may be an indication that a new division of the regulatory space is emerging.

In summary, the issues and norms in this regulatory space were initially established by the code group and were heavily influenced by the international development of codes, which has been itself heavily influenced by the Anglo-Saxon system. The code, at least indirectly, had its roots in the interests of the international investors. Many actors were invited to take part in the regulatory conversation, and the result of the conversation helped to redefine the playing field for corporate governance in Sweden. After the code was introduced, the members of the traditional business community were most successful in gaining support for their opinions. International investors could be silent because their interests were represented in the proposal itself. The party that did not seem to have a voice was the auditors. This is surprising, given that the code of conduct was partly initiated as a result of audit failures and the profession’s earlier success in lobbying activities. Perhaps auditors—however important they may be—were looked upon as mere assistants rather than as important participants in the corporate governance system.

VI. DISCUSSION

Above we have followed the referral processes and identified actors together with their opinions and their influences. In this section we discuss the empirical findings and the importance of national culture and local elites, the norms underlying the code, and the role of the state.

A. THE IMPORTANCE OF NATIONAL CULTURE AND LOCAL ELITES

In accordance with the arguments put forward by Fligstein (2001; see also Aguilera & Jackson 2003), we found an interpretative community amongst the Swedish business society in a general sense. Fligstein claims that local
elites share a common interest and, therefore, have similar attitudes toward changes in the corporate governance system. He has convincingly shown (1990; 2001) both how the American business society built up interpretive communities around the concept of control and how the common definition of this concept has changed over time. Jönsson (1995) has done a similar study of the Swedish business society and concludes that common definitions of problems and solutions exist within different generations of the Swedish business elite. In line with this, Bengtsson (2005) has concluded that when Swedish institutional investors influenced the governance of the firms through different investors’ activities, they used both the same means and arguments as the traditional Swedish owners of owner-dominated companies. In other words, there seems to exist an institutionalized way of acting. Swedish owners and Swedish business elites are embedded in institutional and power structures, and thus, have a common identification.

The resistance to change voiced by the Swedish business society may be explained by the inherent inertia in the deinstitutionalization of traditional norms and regulation. Oliver (1992: 567) suggests that deinstitutionalization (i.e., change of the existing norms and regulation) may be triggered by political, functional, or social pressures. While political pressure comes from mounting performance crises and functional pressure from changing economic utility, social pressure comes from increasing social fragmentation. When existing practices are perceived to be working, none of these pressures are salient. And, therefore, the preconditions for deinstitutionalization in such circumstances are lacking. In addition, one may claim that both the cognitive and regulative pillars (R. Scott 2001) of the Swedish institutionalized corporate governance pattern are challenged by the suggested code: the cognitive pillar because the code implies a convergence with the logic of the Anglo-Saxon system, and the regulative pillar because it implies a new division of responsibility. When discussing accountability issues, one should keep in mind that the boards of directors in Sweden have a widespread collective legal responsibility for the actions of the board and the company (Bergström & Samuelsson 2001). A division of functions into committees would not change this legal responsibility, and thus it implies that directors might be responsible for issues over which they have no control. This background may explain some of the arguments voiced against conditional participation in, for example, the remuneration committee and the audit committee.

B. THE CONTEXTUALIZATION OF NORMS AND THE AGENCY THEORY

The code developed in Sweden is rooted in the Anglo-Saxon tradition. As such, it contains the relevant norms and theory, the most salient of which are neoclassic economics and agent theory. Agent (agency) theory has a prescriptive and a normative aspect. As a prescriptive device, it helps us to structure relations between actors and to define conflicts of interests, such
as those noted above. However, since it emerges from the Anglo-American context, it also bears Anglo-American normative assumptions about human behavior and the proper solutions of agency problems. And agent theory may thereby be claimed to be contextual (Jonnergård & Kärreman 2004; Letza, Sun & Kirkbride 2004; Lubatkin 2005; Lubatkin et al. 2005). This implies that investors originating from Great Britain may be more influenced by agency models than are Swedish investors. Lubatkin explains this from an American perspective:

Moreover, the model may bear the markings of “made in the USA” in the sense that its assumptions about self-interest and economic rationality, if they apply at all, may more closely reflect the U.S. institutional context than they reflect that of anywhere else. (2005: 215)

The common normative base for the code and the foreign investors may partly explain the positive attitude these investors had to certain parts of the suggested code. In addition (as mentioned in Section IV B), the agency problems experienced by small shareholders and the foreign investors were similar: the two groups were minority owners and/or outside the Swedish business elite. This may have lead to information asymmetry and the problem of minority exploitation. That the two group’s interests and rationality (cognitive pillar) coincided may explain why they formed an interpretive community during the referral process.

At the outset, we had assumed that the foreign investors would claim part of the regulatory space for itself, and that this group would have a greater say because the code was largely an adjustment to international development. However, our analysis of foreign investors’ participation in the referral process appears to contradict that assumption. But to conclude that foreign investors are a less powerful group may be inaccurate. In the international arena, generally, the demands of investors have been an important starting points for corporate governance codes. One may say that the investor has set the agenda. The very introduction of the code itself may have been a way for the government to consider the demands of the foreign investors and may have been an expression of the convergence of the Swedish corporate governance system with the Anglo-Saxon system. Thus, it may well be that the foreign investors exerted their influence by setting the preconditions for regulatory conversations to take place rather than by participating in the regulatory conversation per se. Nonetheless, the opinions they voiced in the referral process were more or less ignored.

C. THE STATE AS THE SILENT DRIVER OF CONVERGENCE

One important party that did not appear in the conversation above is the state. This is particularly relevant to consider when describing a state-dominated country such as Sweden (Henrekson & Jacobson 2003; B. Larsson 2005; Puxty et al. 1987). We have earlier (see Section III) defined
the process of developing the code of conduct as enforced self-regulation (Braithwaite 1982; Brien 1998; Fairman & Yapp 2005). This is a method of governmental control of the business community without restraining its creativity and efficiency. By allowing the business community to create or be involved in creating their own standards while the state controls and accepts the standards, a cost effective system (for all parties) is achieved (Braithwaite 1982). In the case of the Swedish code of conduct, the government initiated the Commission for Trust and utilized traditional governmental referral processes in order to anchor the code in the corporate governance system. By utilizing the governmental referral processes, the government assured the code’s legitimacy in society. By using the code group and the label of self-regulation for the process, as well as for the enforcement of the code, the government assured acceptance by the business community. At the same time, the state had a decisive influence over the scope of the issues introduced into the regulatory space and it had the power to allow so called self-regulation to be enforced by law.  

The influence of the government is evident also in the code first proposed, when we consider that it consisted largely of ideas imported from various international codes. The government may be said to have been, indirectly, both the initiator of corporate governance reforms and a supporter of the internationalization of the Swedish corporate governance systems (see Cioffi 2002 for a similar situation in Germany). This partly opposes the normative economic theory that capital markets and their actors (Oxelheim 1997)—not the state—drive changes in the world’s corporate governance systems. Politics have an influence in other ways as well, such as, in the concepts that are employed in the process. For example, the concept “election committee” rather than “nomination committee” was used. Election committees are more readily associated with the vocabulary of politicians than they are with the vocabulary of the business community.  

There are several possible reasons for this proactiveness on the part of the state. Firstly, as described in the introduction, codes of conduct have been rapidly diffused throughout the world. Given this powerful diffusion of the code, it might even attain the status of a worldwide model, that is:

> Worldwide models define and legitimate agendas for local actions, shaping the structures and policies of national-states, and often local actors in virtually all of the domains of rationalized social life—business, politics, education, medicine, science, even the family and religion. (Meyer et al. 1997: 44)

Secondly, the code may be seen as part of the effort to merge and standardize the different markets within the EC (Meyer 2002). The common market is a political project in which the state has the role of enforcing basic rules for the function of the capital markets. In other words, both the Swedish state’s legitimacy as a well-developed nation and the political practice of the EC may be said to support the role the state has chosen when implementing the code.
VII. CONCLUSIONS: BUSINESS AS USUAL IN THE KINGDOM OF SWEDEN?

The regulatory conversation examined here dealt mostly with the possibilities of maintaining the old Swedish system, with its collective responsibility for the board and active owners. As shown by the various metaphors used, and the comparison between the proposed code, the public comments, and the final version of the corporate governance code, the Swedish business interests prevailed. International investors and auditors exerted no direct influence on the public debate. Given the salience of the Swedish business community and the state in these regulatory conversations, it would be a simple matter to conclude that nothing has happened, that is, that the system is characterized by institutional inertia rather than institutional change.

Does this suggest that no convergence has occurred? Well, yes and no. It does suggest that traditional power relations continue to dominate the public arena in Sweden. This finding is consistent with research that claims that there exists an inherent inertia against convergence, because local elites have at least partial control over the market institutions and may be unwilling to adopt changes that will reduce their power or their privileges (Fligstein 2001; Fligstein & Freeland 1995; Reid 2003). Even so, a certain convergence has occurred. The content of the initial proposal and the final version of the code introduced several new elements, for example, the requirement for written assurances from the board. But, contrary to the assumption in most normative research regarding the convergence of corporate governance systems (e.g., Oxelheim 1997), forces of convergence in the financial markets were indirect rather than direct. Anglo-Saxon agency norms were built into the proposed code but were a less significant part of the ensuing debate. Most significantly, we find that convergence is not simply a functional response to the needs of the financial markets. In Sweden, convergence is driven forward by the regulator, that is, the state, rather than by the financial actors.

It is, therefore, important to study not only the events that occur within the regulatory space during the referral process but also the preconditions for the regulatory conversation itself. The referral process does not involve a “free” conversation, but rather a conversation strictly limited to an exchange of written comments and suggestions. One conclusion from this is that it is not sufficient to investigate regulatory conversations per se in order to understand divisions of regulatory space or who influences the referral process. Both the initiator of the conversation and the participants are vital for such understanding. Enforced self-regulation may be a typical example of when a large-scale investigation is necessary. Enforced self-regulation, as both a concept and a phenomenon, implies that the state creates the playing field—and thus the conditions for—the regulation. At the same time, the government is supposed to stay out of the regulatory conversation and to allow different interests to divide the regulatory space.
From this perspective one may claim that the (re)institutionalization process in this case is characterized by coercive isomorphism (DiMaggio & Powell 1983: 149), that is, convergence that “stems from political influence and the problem of legitimacy” and that the pressure of deinstitutionalization is related to political rather than functional or social pressures. Accordingly, a change in the regulatory pillar of the institutionalized corporate governance system is likely to occur, while the cognitive and normative pillars may persist. In this way the state and the new regulation stand for convergence and isomorphism, whereas the local elite stands for institutional inertia based on, for example, the old regulation such as the paragraph in the Company Act regarding division of responsibility and the collective responsibility of the boards of directors. This indicates that the strength of the established elite’s resistance is connected to how deeply institutionalized previous legislation is, as well as to the behavioral patterns and power relations this institutionalized legislation has caused.

In conclusion, we have not detected salient changes in the position of power or in the relations among actors involved in the corporate governance system in Sweden as a result of the formation of a new code. Yet our research suggests that the international financial market discourse exerts substantial influence on the referral process and development of the code and that international investors also play an indirect role in this process. This influence is especially powerful because it creates the preconditions for regulatory conversations to take place rather than being a part of the regulatory conversation per se. Through this, European countries can, both individually and cooperatively, play an important role in the convergence of European corporate governance systems. Whether such a convergence will occur remains to be seen.

Finally, it may be noted that the concepts of regulatory space and regulatory conversation as methodical devices have been shown to be useful when studying regulatory processes characterized by what appears to be institutional change and convergence. These metaphors capture relevant dimensions of the processes and thereby help to account for regulatory changes in the background of internationalization.

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ULF LARSSON is a PhD student at Växjö School of Management and Economics. His dissertation concerns the processes of import of corporate governance regulation between different national contexts and the effects of such export on the local corporate governance system.
NOTES

1. The process of referral is part of the Swedish legislative process in which different authorities, organizations, and other interested actors may voice their opinions on a proposed regulation; see Section I:B.

2. Financial companies and banks have gone from owning 35.8% of the total stock value in 1990 to 31.9% in 2006. Investment companies and investment funds owned 19% of the total stock value in 1990 and 17.2% in 2006. Nonfinancial companies owned 25.3% of the total stock value in 1990 and 10.6% in 2006, and foreign owners possessed 7.7% in 1990 and 35.6% in 2006. All figures from http://www.SCB.se.

3. A new company act was implemented on January 1, 2006. The study reported here was performed under the reign of the former company act.

4. A new organization for the self-regulation was introduced in December 2005, with a new name and with inclusion some additional organization. In practice very few changes are supposed to occur as a result of this. The study was performed before the new organization was established.

5. See further Section I. A above on imported corporate governance reforms.

6. The statement emphasized that the code was too little in agreement with the international codes.

7. As noted earlier, the regulatory convergence associated with the globalization of financial markets has been framed traditionally by agency theory (see Oxelheim 1997). According to this theory the actors may be identified through their self-interest and through their agency—principal relations (Fama 1980).

8. Sweden has had two professional associations for auditors, the Association for Authorized Public Accountants, which is known by the Swedish acronym FAR and the Association for Approved Public Accountants, which is known by the Swedish acronym SRS. In 2007, the two organizations merged and is today known by the acronym FAR SRS.


10. One example of this is a suggestion from the government for the accounting of remuneration of the salaries of the CEO and boards of directors. This means a much greater transparency than suggested in the code. The traditional business society has opposed the suggested regulation with, among others, references to the code.

REFERENCES


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**LAWS CITED**

**Sweden**


APPENDIX 1
RESPONSES IN THE REFERRAL PROCESS

Academia
Jaan Grunberg and Ingemund Hägg, Uppsala University, Department of Business Studies
Stockholm School of Economics

Governmental Agencies
Bokföringsnämnden—Swedish Accounting Standards Board
Bolagsverket—Swedish Companies Registration Office
Brottsförebyggande rådet—National Council for Crime Prevention
Datanspektionen—Swedish Data Inspection Board
Ekobrottsmyndighet—Swedish National Economic Crime Bureau
Ekonomistyrningsverket—The Swedish National Financial Management Authority
Finansinspektionen—The Swedish Financial Supervisory Authority
ISA—Invest in Sweden Agency
Kammarrätten i Sundsvall—the administrative court of appeal in northern Sweden
Kommerskollegium—National Board of Trade
Länsstyrelsen i Stockholmslän—Stockholm County administrative board
NUTEK—Swedish Agency for Economic and Regional Growth
Revisornsämnden—Supervisory Board of Public Accountants
Rikspolisstyrelsen—the police authority
Riksåklagaren—public prosecutor
Skatteverket—Swedish National Tax Board
Statskontoret—The Swedish Agency for Public Management
Svea Hovrätt—the central court of appeal
Sveriges Riksbank—The Riksbank (Swedish central bank)
Svenska kommunförbundet & Landstingsförbundet—The Swedish Association of Local Authorities and Regions

Regulatory Bodies for Self-Regulation
Aktiemarknadsbolagens förening—the stock exchange firms association
Aktiemarknadsnämnden—the stock market board
Näringslivets börskommitté—The Swedish Industry and Commerce Stock Exchange Committee

Business and Industrial Associations
Företagarna—The Federation of Private Enterprises
Svenska Handelskammarrökbundet—The Swedish Chambers of Commerce
Svenskt Näringsliv—Confederation of Swedish Enterprise
Banks and Financial Associations
Finansbolagens förening—The Association of Swedish Finance Houses
Försäkringsförbundet—The Swedish Insurance Federation
Svenska Bankföreningen—The Swedish Bankers’ Association
Svenska Fondhandlare Föreningen—Swedish Securities Dealers Association

Stock Markets and Authorized Market Places
AktieTorget—The Equities Market Place
Nordic Growth Market
Stockholmsbörsen—The Nordic exchange

Institutional Owners and Their Organizations
Alecta
AMF Pension
1 AP-Fonden
2 AP-Fonden
3 AP-Fonden
4 AP-Fonden
5 AP-Fonden
6 AP-Fonden
7 AP-Fonden
Fondbolagens Förening—The Swedish Investment Fund Association
Hermes
Institutional Shareholder Services
Institutionella Ägares Förening för Regleringsfrågor på Aktiemarknaden—
the institutional owners association for stock market regulation
The National Association of Pension Funds Limited
Skandia

Organizations Representing Small Owners
Aktiespararna—The Swedish Shareholders’ Association
Lantbrukarnas Riksförbund—The Federation of Swedish Farmers
Ägarfrämjandet—the ownership promoters

Firms

Castellum
Coop
H&M
LE Lundbergföretagen
Nordstjernan
Note
TurnIT
Professions and Their Associations

FAR—the professional institute for authorized public accountants, approved public accountants and other highly qualified professionals in the accountancy sector
Internrevisorerna—The Institute of Internal Auditors—Sweden
Sveriges Advokatsamfund—The Swedish Bar Association
Sveriges Informationsförening—Swedish Public Relations Association
Sveriges Redovisningskonsulters Förbund—The Association of Swedish Accounting Consultants
Revisorsamfundet—Swedish Association of Auditors

Consultants

Björn Forslöw and Gabriel Thulin representing Directus Executive Services and Hallvarsson&Halvarsson
StyrelseAkademin Sverige—board recruitment
Styrelsepoolen—board recruitment

Trade Unions
SACO—The Swedish Confederation of Professional Associations
TCO—white-collar trade union

General Public
Lars-Göran Josefsson
Torulf Jönsson
Per-Olof Palmgren