

# THE SPECIFICITY OF CORPORATE GOVERNANCE IN SMALL STATES: INSTITUTIONALISATION AND QUESTIONING OF OWNERSHIP RESTRICTIONS IN SWITZERLAND AND SWEDEN

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## Introduction

For a long time, the literature on corporate governance has been dominated by analyses on the relations between shareholders and management and was concerned with very restrictive issues, such as the way shareholders could monitor the management to act in their interests. However, recent studies have increasingly adopted a broader view. In this new perspective, corporate organisation is not only determined by an efficiency logic (minimisation of transaction or agency costs) but also by institutional factors (Jackson 2001). Corporate governance is thus embedded in national institutions and can be broadly defined as the interactions between the central actors of companies (owners, managers and workers), codified in some regulatory framework (company law, financial market regulations and labour law) produced by the state or by collective actors.

Moreover, this new perspective tends to adopt a historical viewpoint in order to understand how and why corporate institutions differ across countries. However, it focuses mainly on large countries and tends to neglect small countries. One of the main arguments of the present paper is that small European countries have specific corporate governance mechanisms: the concentration of ownership, the high density of cross shareholdings and interlocking directorates, which are often interrelated, and the establishment of various forms of “selective protectionism” concerning the market for corporate control (distortion of voting rights or “pyramidal structure”, which allow the control over subsidiaries).

In the first part of this chapter, we will highlight the common characteristics of corporate governance mechanisms in Switzerland and Sweden, and the way in which they have been institutionalised. We will put forward the historical construction of these defensive instruments. In both countries, these mechanisms were consolidated in the thirties or just after the Second World War. In Sweden, they have been an important element of the “historical compromise” between capital and labour, which have characterised this country since the end of the 1930s, whereas in Switzerland these corporate governance mechanisms were only established progressively through self-regulation in the corporate sector. Despite a very different national political configuration, Sweden and Switzerland resorted to similar mechanisms of selective protectionism that distinguish small European nations from larger ones.

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Secondly, we will analyse the recent changes undergone by Swiss and Swedish corporate governance systems. Due to the interaction of external (liberalisation of financial markets, increasing multinationalisation of production) and domestic pressures, such as the rising importance of institutional investors and the changing preferences of decisive actors (banks in particular), the traditional functioning of corporate governance has been called into question. In both countries, the trend has clearly been toward a more liberal orientation, characterised by more transparency, the increasing power of institutional investors and the growing importance of foreign shareholders.

## **I. Two models of corporate governance, and a third one?**

During the last twenty years, characterised by the increasing liberalisation of markets, especially of financial markets, corporate governance has become a central topic studied by economists, legal experts and even political scientists. It has been common to distinguish between the two major models of corporate governance: the Anglo-Saxon (or market-centred) and the Continental European (bank-centred) models (see La Porta et al. 1999; Hall and Soskice 2001; Streeck 2001). Whereas the Anglo-Saxon model is characterised by large and liquid capital markets and an active market for corporate control, where outside shareholders can dislodge poorly performing management by way of take-over bids, the Continental European model can be described as a network-oriented system, where large corporate groupings (banks, insurance and industrial companies) are intricately interrelated in a structure of cross shareholdings, which has generated relative managerial autonomy from financial interests. The management was thus more able to balance the claims and interests of the company stakeholders (suppliers, banks, workers and large communities) (Block 1998).

Comparisons of corporate governance systems have underlined particularly that these two models mainly differ in the way firms are financed and controlled. The ownership of shares by banks reflects this distinction between the two systems. In the Anglo-Saxon countries, banks do not hold shares in industrial concerns. In the US, the holding of shares in industrial companies is strictly limited and in the UK, institutional investors (pension funds and insurance companies) dominate holdings in industrial companies, not the banks (Walter 2000: 114-116). In Continental Europe, there is a long tradition, dating back to the 19<sup>th</sup> century, of banks being involved in the management and the development of industrial companies as shareholders (and creditors).

The classification of corporate governance into bank- and market-centred models is not the only distinctive factor of their mechanisms. Economists recently highlighted another element, which distinguishes Anglo-Saxon countries from Continental Europe. The concentration of ownership is much higher in continental Europe and the Scandinavian countries than in the UK and the US (La Porta et al. 1999; Becht and Barca 2001)<sup>2</sup>. By these two criteria (bank-centred and the importance of ownership concentration), Switzerland and Sweden clearly belong to the Continental model.

In Switzerland, the strong interrelations between universal banks and industry make its corporate governance system resemble the German case and contrast with the practice in Anglo-Saxon countries. In the early 1990s, banks in the UK and the US held less than 1% of the shares of the quoted firms, against 4,7% in Switzerland and 10% in Germany (Birchler

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<sup>2</sup> For La Porta et al. (1998) the nature of legal systems is what explains ownership concentration. French, German and Scandinavian law systems afford minority stockholders poor protection, whereas common law countries (Anglo-Saxon countries) have the strongest protection for outside investors. This argument has been criticised by Coffee (2000: 8) who argues that although “‘law matters’ legal developments tend to follow rather than precede economic change.”

1995). Swiss and German corporate governance structures share another characteristic: the system of proxy voting, which allows banks to cast votes for other shareholders. Private shareholders authorise banks that hold their shares in custody to represent their interests at the annual general meetings of the companies.

The interrelation between big banks and industries is strengthened by the role of the former in company financing<sup>3</sup>. Between 1973 and 1990, bank loans were an important source of financing for most Swiss corporations, even if self-financing remained the main source of capital: the contribution of internal funds to the financing of industrial companies is around 50%, bank loans account for around one third and corporate bond issues represent 15% of the financing (Birchler 1995: 269). From an international perspective, it seems that the role of banks in the financing of corporate activities is high in Switzerland: in the beginning of the 1990s, the indebtedness of Swiss firms was higher compared to that of US, UK and (to some extent) to German firms (Hertig 1998: 813). Thus, Swiss management has often been able to get external financing, thanks to private transactions with banks and other lenders without using the capital market, thus circumventing the pressure of capital markets on management performance.

A second feature of Swiss corporate governance is the extent of ownership concentration: at the beginning of the 1990s, 23.1% of all owners held 75% or more of the shares of the 614 largest companies (Table 1). According to Windolf and Nollert (2001), only Germany had a higher degree of ownership concentration. The concentration of ownership is closely related to the extent of individual/family ownership. Schröter (1993: 194-200) already mentioned this point when describing multinational companies in the small European countries on the eve of the First World War. This characteristic is still present nowadays (Hertig 1998).

Table 1. Ownership concentration in some developed countries (early 1990s)

Proportion of stock owned (%)	CH	NL	GER	FR	UK	US
0-4.9	17.8	23.7	9.5	37.3	48.6	95.0
5-9.9	17.6	30.0	7.8	14.2	31.0	3.5
10-24.9	17.9	9.6	17.8	15.1	10.5	1.4
25-49.9	15.6	10.1	13.9	9.4	2.6	0.1
50-74.9	8.0	6.8	12.9	8.1	2.4	-
More	23.1	19.7	38.1	15.8	4.9	-

Source: Windolf and Nollert (2001: 64)

In Sweden, there is also a close relation between banks and manufacturing industries, which goes back to the end of the 19<sup>th</sup> century. Due to the introduction of full freedom of trade for joint-stock banks with limited liability in 1864 and the rapid industrial growth during the last third of the century, private commercial banks established tight links with industry. Post-war deflation intensified these relations. In order to recoup outstanding credit and to keep industrial companies solvent, banks were forced to involve themselves more deeply in the administration of the latter (Lindgren 1987).

In the 1930s, an important change occurred. It was no longer the banks per se but rather investment companies that played the banks' industrial role. In 1934, in the aftermath of the Kreuger crash, a law was passed which prohibited the banks from acquiring and holding shares. The major banks therefore founded investment companies (Lindgren 1994). Two business groups have symbolised this interaction between the banking and manufacturing sectors: the Wallenberg group, the largest one, and the Handelsbank group. In the mid-1990s,

<sup>3</sup> Big banks (Credit Suisse and UBS) and state-owned cantonal banks are the main lenders to firms, with a combined market share of over 75% (Hertig 1998: 813).

these “bank-centred corporate group combinations” controlled corporations representing more than 50% of the stock value of the firms listed on the Stockholm stock exchange (Collin 1998: 726). However, there is one important difference: the Wallenberg empire is a family group, whereas the Handelsbank group is much more nebulously based. On this point the Wallenberg group is no longer representative of Swedish capitalism. While family ownership was predominant until the 1960s, the situation was very different twenty years later: institutional ownership had replaced family firms, the latter having sold their shares or having gone bankrupt (Isaksson and Skog 1993).

Deteriorating conditions for household/private ownership in the post-war period were also accompanied by increased concentration of private ownership in the largest firms (Henrekson and Jakobsson 2003a). The ownership structure of Swedish listed companies is very concentrated by international standards (Agnblad et al. 2001: 234). This tendency has even increased during the 1970s and 80s: in 1978, the largest single owner accounted for 20% on average of equity in listed firms; by 1985 this share had increased to 29% (Berglöf 1993: 314).

Beyond their classification among the continental European countries, Switzerland and Sweden distinguish themselves from larger European countries on one important point: the introduction of mechanisms preserving national control over companies against foreign takeovers.

### **I.1. Preservation of national control in Switzerland and Sweden**

Small European economies share common specific characteristics in their corporate governance mechanisms: the high density of interlocking directorates and the existence of national regulations shielding their companies against the risk of foreign takeovers. Before we go into more detail regarding these characteristics of corporate governance in Switzerland and Sweden, we shall begin by showing how these characteristics are embedded in the general functioning and economic trajectory of these small open economies.

Katzenstein (1985) has argued that small European states, largely because of the small size of their domestic market and the early extroversion of their economies, developed some specific traits to cope with their international environment, which can be summarised as follow: international liberalisation, domestic compensation and flexible adjustment to fluctuations in international markets through corporatist institutions. Whereas Katzenstein, focusing on industrial policies, underlined the importance of corporatist institutions and domestic compensation in the strategy of small European states to cope with the pressures of international markets, we argue that it is also plausible to identify specific characteristics of corporate governance mechanisms (for more details, see David and Mach 2001).

Two elements seem particularly important to explain the specificities of corporate governance mechanisms in small European states: the small size and the high degree of cohesion of the business community and the combination of a free trade policy orientation with elements of “selective protectionism”. Small European states are thus characterised by a high density of intercorporate networks of the business elites and the establishment of regulations concerning company law or financial markets that tend to preserve the national control over the large export oriented companies. These two elements are structural characteristics of the functioning of corporate governance in small European countries.

Firstly, from an economic historical perspective, Schröter (1999), focusing on cartels in small European economies, underlined the close links between economic elites in these countries. This led him to speak of “co-operative capitalism in small European nations”: “In each nations they developed a *manière de voir*, or what could be defined as a mentality as to the

proper way of doing business, and a social consensus on how to proceed in economic matters. Such *manière de voir* very much included a role for the state, for as scholars have pointed out, in small nations ‘private and public sectors have had to find ways to collaborate’ even more intensively than in a case of larger nations. Such collaboration encouraged economic concentration and cartelization.” (Schröter 1999: 192, for a similar argument on Sweden: Collin 1998)<sup>4</sup>. This analysis helps to explain the density of interlocking directorates and of business networks in small European nations.

Secondly, in line with the argument of Menzel (1988) and Senghaas (1985), small European countries, despite their preference for a liberal trade policy because of their export orientation, introduced various elements of “selective protectionism”. In the words of Menzel and Senghaas, their strategy towards international markets was “associative-dissociative”: associative, because of their dependence on international markets for exports and imports, and dissociative, because these countries also introduced different measures to reduce the pressures of world markets on specific economic sectors, such as import-substitution policies, state intervention, subtle forms of protectionism or public subsidies for some economic sectors. This argument has often been used to explain the “dualist structure” of small European economies, with on one side export oriented sectors, very competitive on international markets, and on the other side, sectors producing mainly for the domestic market, largely sheltered from international competitive pressure through subsidisation (agriculture or fishing industries), technical norms or cartels by domestic producers.

Our argument is that these forms of “selective protectionism” also prevailed for the export oriented sectors and their larger companies through the establishment of specific regulations concerning company law and financial markets, which are at the heart of the functioning of corporate governance. These regulations, such as complex voting rights structures or “pyramidal” forms of control, allowed small European economies to preserve a national control over their large export oriented companies and to avoid the risk of foreign takeovers, which was particularly high in small European states.

Thus, small European economies combined a large degree of openness with elements of selective integration and domestic compensation, which were the result of the high degree of cohesion and the co-operative dimension prevailing in the political and the economic fields. The two general characteristics of small European states (the small size and the cohesion of the business community and the introduction of some forms of “selective protectionism”) are particularly salient concerning corporate governance mechanisms. From a more general perspective, it is also possible to draw a parallel between the regulations produced in labour and product markets and in the market for corporate control<sup>5</sup>. In all these different fields, small European economies tended to establish regulations, produced either by the state or by collective actors, which distort the pure functioning of market mechanisms: highly coordinated industrial relations and corporatist institutions in the labour market, as shown by Katzenstein (1985), a high degree of cartelisation in the domestic product market<sup>6</sup> as underlined by Schröter (1999), and the rules governing corporate governance, as we shall see below.

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<sup>4</sup> Whereas Schröter (1999: 204) considers that this form of “co-operative capitalism” reached its peak development during the 1930s (because of its focus on cartelisation), we think that these co-operative characteristics remained in place during the post-war period.

<sup>5</sup> Some authors have already made a similar statement about the correlation between the existence of corporatist institutions and the high density of interlocking directorships (Stokman et al. 1985; Windolf and Nollert 2001). This argument is similar to the “varieties of capitalism” approach, which stresses the institutional complementarity between the four spheres of national production systems: the industrial relations system, the education and training system, the financial/corporate governance system and the rules governing intercompany relationships (see Hall and Soskice 2001).

<sup>6</sup> But also at the international level concerning the large export oriented companies.

On the basis of Bebchuk et al. (2000) conceptualisation of *controlling-minority structure* (CMS), it is possible to distinguish between three major mechanisms allowing a shareholder to control a firm while holding only a small fraction of its equity:

- 1) The first defensive instrument is the differential voting right: a firm issues two or more classes of stock with differential voting rights<sup>7</sup>.
- 2) "Pyramiding" is the second mechanism. A controlling-minority structure "can be established with a single class of stock by pyramiding corporate structures. In a pyramid of two companies, a controlling-minority shareholder holds a controlling stake in a holding company that, in turn, holds a controlling stake in an operating company. In a three-tier pyramid the primary holding company controls a second-tier holding company that in turn controls the operating company." (Bebchuk et al. 2000: 298).
- 3) Finally cross-ownership or interlocking directorates reinforce and entrench the power of central controllers.

In Continental Europe, controlling-minority structures are more common in small than in large nations. Thus, for example, from an international perspective, Sweden and Switzerland, followed by the Netherlands, are the countries where the magnitude of deviation from one-share-one-vote through shares with differential voting rights is greatest (Table 2). Moreover, pyramiding is also used in Sweden, but much less in Switzerland.

Table 2. One-share-one-vote distortion in some developed countries (1995)

Japan	20.00
Spain	20.00
United Kingdom	20.00
Belgium	20.00
France	19.99
United States	19.19
Germany	18.61
Italy	18.04
Netherlands	15.00
Switzerland	14.18
Sweden	12.62
Average	18.56

Note: The table refers to the minimum percent of the book value of common equity required to control twenty percent of the votes. The average refers to a sample of 27 countries

Source: La Porta et al. 1999, Table IV.

Small countries are also characterised by the centralisation of their "intercorporate network", which is much higher than in large countries. Windolf and Nollert (2001) showed that the centralisation of the interlocking directorate network is strongly related to the size of the national economy. In these countries, a small number of companies can form the entire national network. In his study of business groups in Sweden, Collin (1998) also underlines that in such a small country with many large companies and accordingly with many management positions to fill, competent management is a scarce resource. From this perspective, the density of interlocking directorates is related to the small size of the "managerial" labour market.

<sup>7</sup> Bebchuk et al. (2000) underline that the instrument of dual class shares is the most efficient means to separate ownership from control (see also Agnblad et al. 2001 on Sweden).

### *1.1.1. The Swiss case: the predominance of self-regulation by the business sector*

The close relationships between banks and the industry explain the fact that bank representatives can be found on most important companies' boards: "Swiss boards have specific institutional features. In a comparative perspective, it is important to note that they have always been and still are clearly dominated by outside members. Among them, bank representatives are probably the most important category." (Meier-Schatz 1993: 310; see also Hertig 1998). All the network analysis conducted by sociologists revealed the system of interlocking directorates and the high density of the network of cross-holdings in Switzerland: representatives of the banks sit on the boards of directors of the non-financial companies, but, conversely, industrial firms also delegate representatives onto the boards of directors of banks (Rusterholz 1985; Nollert 1998). This closely meshed network implies a high degree of autonomy and self-regulation in the corporate sector, which permits long-term co-operation and control over their markets.

The concentration of ownership, and more generally the high degree of cohesion of the business community, combined with the early extroversion of the economy, favoured the adoption of "selective protectionist" measures concerning the control of national companies. The regulation called "Vinkulierung" constitutes the main instrument of this policy of selective protectionism. The term is codified in the Swiss company law and was first introduced at the end of the 19<sup>th</sup> century. The law was later reinforced in 1936. It refers to the limitations of the transferability of Swiss registered shares: "The Swiss Company Law recognizes three categories of participation paper: bearer shares, registered shares and dividend right certificates. (...) Registered shares differ from bearer shares mainly in the way they are transferred from seller to purchaser. As far as the company is concerned, it recognises as shareholders only those whose names are registered in the stock ledger. To achieve entry, the registered share must be endorsed by the seller. The buyer has to prove that the share has been correctly transferred. (...) The company has the right to restrict or refuse entry in the stock ledger on a great variety of grounds. Registered shares, whose transfer is restricted in this way are said to have been "vinkuliert"." (Kaufmann and Kunz 1991: 5). For a long time, registered stocks were only held by (domestic) investors accepted by the management. Foreign investors could only trade freely in the bearer shares. Both held voting rights (generally one vote per share). However, due to these restrictions, the price of registered share is usually lower than the price of the bearer stock. More votes can thus be controlled with the same capital by buying registered stock rather than bearer stock (Loderer and Jacobs 1995: 318 ff.). The capital structure of Nestlé in 1988 throws light on the advantages of the registered shares (Table 3).

Table 3. Nestlé's capital structure on November 15, 1988

	Voting bearer Shares	Nonvoting bearer Shares	Registered shares
Number of shares	1,073,000	1,150,000	2,227,000
Par value per shares	CH frs 100	CH frs 20	CH frs 100
Percentage of votes	32.5%	0%	67.5%
Price per share	CH frs 8,790	CH frs 1,280	CH frs 4,310
Percentage of total market value of equity	46%	7%	47%

Source: Loderer and Jacobs 1995: 321.

Nestlé was not the only firm to resort to this practice of *Vinkulierung*: in 1990, out of 112 companies, 57% had registered shares (Kaufmann and Kunz 1991: 15).

The high degree of autonomy and self-regulation in the corporate sector (due to the weakness of the central state and the early organisation of business interests) and the strong interrelations between banks and industry largely explain the institutionalisation of the process of *Vinkulierung*. The Swiss Code of Contracts of 1881 and the 1936 revision of the Company law enabled the restriction on acquiring registered shares (Kaufmann and Kunz 1991: 5). This left the business world with a large space for manoeuvre and represented the legal translation of the delegation of the state's functions to the private sector, allowing the latter to self-regulate this field.

This process went a step further in 1961. Following a decision by the Swiss Federal Court which allowed a share to be split into membership rights and asset rights and which represented a weighty threat to the protection against foreign penetration, the Swiss Bankers' Association and the public companies concluded a "mutual assistance agreement": "Companies practicing *Vinkulierung* on registered shares now attempted to design the application forms for stock ledger entry in such a way as to defend the indivisibility of a shareholder's right. The obligation to state nationality and domicile as well as the signing of an unequivocal declaration that the registered shares had been acquired genuinely as the buyer's actual, legal and financial property and not just as fiduciary property, virtually excluded front men. To supplement these measures, the banks made sure that registered shares subject to restriction did not change hands if the company's requirements for entry into the stock ledger could not be fulfilled by the purchaser." (Kaufmann and Kunz 1991: 6). This gentleman's agreement was clearly intended to avoid the intrusion of public authorities. Thus, *Vinkulierung* protected Swiss shareholders against the threat of a foreign takeover (for more details, see Kläy 1997).

The practice of *Vinkulierung* helped to reinforce and stabilise the concentration of ownership. This system allows a small group of owners, very often family owners, to retain the control of the firm and the right to determine their strategy independently, even when they float their companies on the market to raise funds from the public.

### ***1.1.2. Sweden: a compromise between social-democracy and business interests***

The predominance of the two national business groups (Wallenberg and Handelsbank) and the scope of ownership concentration was made possible largely thanks to one legal instrument: dual class shares (Agnblad et al. 2001). Table 4 illustrates the extent of this practice : "(...) a handful of very large Swedish companies have managed to retain voting right differences of 1 to 100 and even 1 to 1'000 through grandfathering, and may continue to issue shares with these voting rights. Shares with differentiated voting rights are very common among publicly traded shares in Sweden. In January 1992, unequal voting rights existed in nearly 90% of the companies on the Stockholm Stock Exchange." (Isaksson and Skog 1993: 293; see also Berglöf 1993).

Table 4 Voting right differentials between classes of shares in Swedish listed companies 1992

Voting right differential	Number of companies (202)
1 :1,000	3
1 :100	1
1 :10	165
1 :5	6
No differential	27

Source: Isaksson and Skog (1993: 294)

The Wallenberg family has been able to maintain control of its industrial empire partly through these dual class shares. At the beginning of the 1990s, it was thus estimated that if the dual class share was abolished the influence that this group enjoyed in Electrolux would be reduced from 95% to 16% of the number of votes (Reiter 2003: 109). It is interesting to stress that AB Investor, the investment company of the Wallenberg group, also resorted to a system of preferential or weighted voting rights (Lindgren 1987: 9). The Wallenberg family has thus been able to control a major portion of Swedish industry through a pyramidal structure of control.

Pyramiding also allowed Swedish firms to protect themselves from hostile take-overs (Berglöf and Sjögren 1998: 805; Collin 1998: 738-739). Moreover, up to the mid-1980s, acquisition of Swedish shares by foreigners was limited by exchange controls and by legislation, which prohibited the inflow of massive foreign capital in Swedish companies without government approval. An upper limit for foreign acquisition of shares and votes in Swedish companies was introduced through the distinction between restricted and non-restricted shares, with only Swedish citizens being allowed to acquire the former (Reiter 2003: 108; Isaksson and Skog 1993: 291). Until the end of the 1980s, less than 10% of Swedish listed shares were owned by foreigners (Henrekson and Jakobsson 2003a, figure 1).

As in Switzerland, there were selective protectionism mechanisms in Sweden, which allowed firms to protect themselves from any foreign threat. However, the institutionalisation of these mechanisms, in particular the dual class shares, differed considerably in the two countries. As we have seen, the introduction and the reinforcement of the *Vinkulierung* process in Switzerland can be explained by the high degree of autonomy and self-regulation in the corporate sector, due in part to the weakness of the central state. In Sweden, the situation is completely different: “The traditional distribution of ownership and influence - hence the system of differentiated voting rights - was a building stone for the corporatist model that characterised Sweden from the interwar period onwards.” (Reiter 2003: 119). The growing political strength of the labour movement, following the election victory of the Social Democratic Party in 1932, led to the “historical compromise” between capital and labour at the end of the 1930s. This compromise was underlain by a division of economic and governmental power between opposing classes. Having gained political power, the labour movement could influence the distribution of economic growth (development of the welfare state; active labour market policy) while business elites, as part of the compromise, enjoyed favourable conditions for investment and expansion (Korpi 1982).

The mechanisms of selective protectionism, in particular the system of dual class shares, should be analysed from this perspective. Even though the possibility of issuing dual class shares was abolished in 1944, the companies, which already had dual class shares, in fact almost all the large-scale Swedish enterprises, were allowed to retain the old system. Despite political controversy on this issue since the 1960s, the Swedish social democratic government never challenged it. For the government and the labour unions, these dual class shares had two important purposes. Firstly, they contributed to consolidating a concentrated ownership structure. The investment companies, which controlled the large Swedish multinational enterprises, offered the state a counterpart in economic policy-making in the area of industrial policy. As one government report states, “the presence of a strong owner [could] facilitate the work of trade unions.” (quoted by Reiter 2003: 108). Secondly, the dual class shares and restriction concerning foreign ownership were also considered instrumental in order to retain the control of these large firms within Sweden: “While Swedish investors had the freedom to invest anywhere in the world, foreigners were carefully screened so that control of domestic assets and manufacturing could be kept in the friendly hands of Swedish capitalists. It should be noted that this protectionist rule offered a reprieve to both Swedish firms and Social Democrats - tax rules would have been considerably less effective if many firms had been

owned by non-resident transnational corporations with their capital mobility and diverse interests.” (Kurzer 1993: 129; see also Collin 1998: 738-739).

The government also used other policies, such as capital-market and savings policies, to favour large companies and to stimulate institutional ownership (Henrekson and Jakobsson 2003b). The Swedish tax system had the same function: tax rates were very low for large Swedish companies by international standards and thus encouraged the concentration of economic power (Lundström 2001).

## II. Traditional corporate governance systems under pressure

The increasing liberalisation of product and financial markets during the last twenty years represented a profound change in the external environment of small European states. In this new economic context, the financial sector became increasingly important with the emergence of new financial actors, who developed more aggressive strategies to increase the return on equity of their portfolio investments. Moreover, it also drove “traditional actors” (banks notably) to change their preferences and strategies.

This internationalisation of capital markets puts increasing pressure on traditional corporate governance systems of European nations. The increasing influence of investors, emphasising financial liquidity, shareholder protection and accounting transparency, tends to threaten the defensive mechanisms that separate capital contribution from control. Since the end of the 1980s, due to the liberalisation of financial markets and their growing importance, some authors have argued that a converging trend is under way, in which the Continental European model is undergoing profound transformations and is beginning to look like the Anglo-Saxon model.

### II.1. Liberalisation of financial markets and changing strategies of domestic actors

The internationalisation of capital markets represents the most important change in the political economy of the developed countries over the past three decades. The breakdown of the Bretton Woods system (1973) stimulated this financial liberalisation, which is characterised by the significant growth of foreign direct investment (FDI), especially since the mid-1980s (Table 5).

Table 5. Outward and inward foreign direct investment stocks in some developed countries, 1985-2000 (in % of GDP)

	1985		1990		1995		2000	
	Out	In	Out	In	Out	In	Out	In
Sweden	10.7	5.0	21.5	5.4	31.6	13.4	53.8	36.1
Switzerland	27.0	10.8	28.9	15.0	46.3	18.6	95.1	34.2
Germany	8.6	5.3	9.2	6.8	11.1	6.9	25.2	24.1
U. Kingdom	21.9	14.0	23.4	20.8	27.4	18.0	63.2	30.1
United States	6.2	4.6	7.8	7.1	9.9	7.6	13.1	12.4

Source: UNCTAD 2000 and UNCTAD database.

For the small countries, transnational investment reached a new dimension. In Sweden and Switzerland, outward FDI stocks accounted for more than 50% of GDP in 2000. The two

countries have also witnessed a sharp increase of inward foreign investments, on an altogether different scale from what occurred in large countries. In Sweden, this rapid increase of inward FDI followed the liberalisation of financial markets decided at the end of 1980s.

This internationalisation process was even more impressive with regard to portfolio investments (stocks, bonds and bank loans), which have grown more rapidly than FDI since the breakdown of the Bretton Woods system. The evolution of market capitalisation is an indicator of this trend (Table 6). The huge growth of market capitalisation since the beginning of the 1990s is due to several factors: the liberalisation of financial markets, low interest rates, the ageing population and the larger needs for pension provisions, but also the increasing popularity of share investments.

Since the beginning of the 1990s, the picture has changed considerably for the small countries. In Switzerland and Sweden, the stock market capitalisation, which was already substantial in 1990, was similar to that of the US or the UK at the end of the decade. In these small countries, the liquidity of the stock market is largely concentrated in a small number of large companies. In Sweden, equity finance by the public market was insignificant in 1975. Thereafter, in particular since the 1980s, the situation changed. Market capitalisation levels are now close to those of the US. The government played an important role in this development through the adoption of various measures designed to improve stock market efficiency, to stimulate public interest in shares and to increase public confidence in the market (Lindgren 1994).

Table 6. Evolution of market capitalisation as a percentage of GDP (1975-1999)

	1975	1980	1985	1990	1995	1996	1997	1998	1999
Sweden	3	10	37	40	75	95	116	123	156
Switzerland	30	42	91	69	130	136	225	260	268
Germany	12	9	29	22	24	28	39	51	68
U. Kingdom	37	38	77	87	122	142	156	175	198
United States	48	50	57	56	98	114	137	157	181

Source: OECD Financial market trends (various issues)

Globalisation has two important consequences for companies in small countries. Firstly, the multinationalisation of production reaches an unprecedented level. Secondly, the growth of the market capitalisation seems to indicate the increasing importance of stock markets as capital providers for companies, a growing role of institutional investors in controlling companies, and a less important financing role of banks as well as less internal generation of capital. Thus, the liberalisation of capital markets may destabilise the “old equilibrium” (Coffee 2000: 7) and the control by traditional shareholders.

However, the potential impact of the current trend of economic globalisation on small countries' corporate governance is also related to other factors, such as the influence of the US financial centre and the progressive dissemination and imposition of American corporate governance criteria, such as new accounting standards as well as the efforts of the European Union to harmonise company law (for more details David and Mach 2001).

Furthermore, corporate governance mechanisms may also be affected by the changing preferences and strategies of domestic actors (banks, institutional investors, pension funds and multinationals) in this new economic context. Domestic actors may thus be interested in modifying the traditional functioning of corporate governance systems. The rise of institutional investors (insurance companies, pension funds, investment companies) which has

taken place in Europe since the 1980s is particularly relevant since they might threaten the traditional corporate governance systems in three ways. Firstly, they have contributed to the development of an “equity culture” through the institutionalisation of savings, which could weaken the concentration of ownership (Blommstein 1998: 56). Secondly, institutional investors have enhanced their corporate governance role in the form of an increase in market and direct control through equity and debt (Blommstein 1998: 62 and f.). These investors, searching for higher returns, have tried to favour shareholders' interests<sup>8</sup>. Thirdly, banks have changed their attitude towards share ownership as they saw themselves competing for deposits with these financial intermediaries (Block 1998: 11). Thus, banks now have stronger incentives to support higher returns on financial assets. They therefore promote financial liquidity rather than financial commitment. One consequence could be the weakening of bank-industry linkages. Lazonick and O’Sullivan (2000) have shown that with the rise of institutional investors the maximisation of “shareholder value” has become a central principle of corporate governance functioning in the US.

What about the corporate governance systems of our two countries? Is there a convergence process towards the Anglo-Saxon model and the progressive disappearance of ownership restrictions or are these nations able to keep their main traditional corporate governance features?

## **II.2. The destabilisation of the “fortress of the Alps”**

The general pressure, briefly outlined above, induced several changes in the traditional functioning of Swiss corporate governance. On the one hand, these changes resulted from the liberalisation of financial markets at the international level, which imposed new constraints on large Swiss companies and on the other hand from the emergence of new domestic financial actors (investment funds) and the changing attitude of the largest banks (for more details, see David and Mach 2001). We will now outline these major changes.

Firstly, the “process of Vinkulierung” is tending to disappear (Anderson and Hertig 1994: 525). The decision of Nestlé to allow foreigners to hold registered stock in 1988 was followed by other major companies.<sup>9</sup> There is also increasing pressure on the companies on the Swiss Market Index (which includes the 30 largest companies) to introduce a “single share”. In 1989, only 13,1% of the companies listed at the Swiss Stock Exchange had a “single share”. In 2001, this proportion reached 70.7% (out of 198 companies) (Graph 1). This does not mean, however, the end of family ownership and the victory of minority shareholders. There are still other measures, which allow Swiss corporations to channel the evolution of their shareholding structure: they may fix ceilings for voting rights at shareholders' meetings or

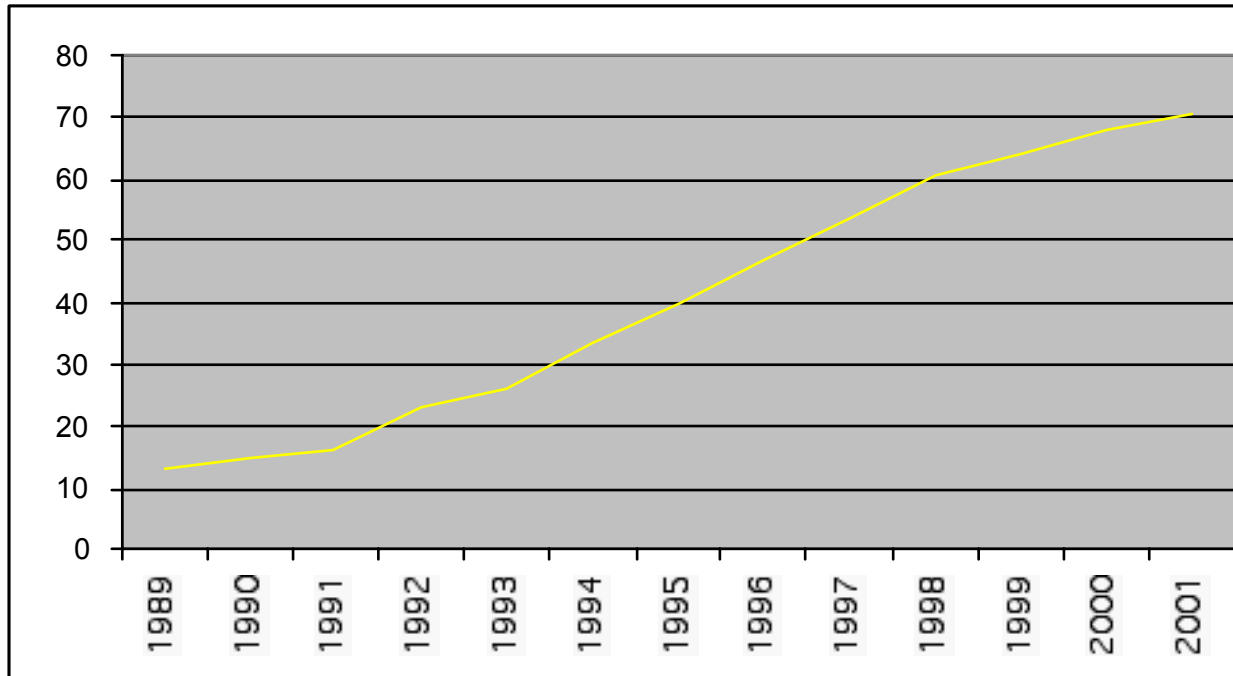
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<sup>8</sup> Even though it is very difficult to get precise data on the evolution of share ownership structure during the last ten years, one indicator of the increasing role of institutional investors is the evolution of the proportion of shares (instead of other financial assets, such as loans or bonds) held by these new financial actors. The proportion of shares held by institutional investors increased steadily during the 1990s (see OECD 2001).

<sup>9</sup> In 1988, Nestlé was the first Swiss company to lift the prohibition against foreign buyers of its registered stock. One of the reasons put forward by the board to the press and the stockholders was the company's international image: Nestlé's takeover practices abroad during the 1980s had been somewhat controversial. Nestlé was expanding abroad through the acquisition of foreign companies, whilst shielding itself from unwanted suitors. In 1988, for fear of reprisals in other countries, Nestlé took the decision to open itself to foreign investors (Loderer and Jacobs 1995: 320-322). However, more important than the public image, the extension of the foreign activities of multinational companies in the 1980s also meant that Nestlé should increase its equity in order to finance its development, which implies raising more equity abroad and thus opening its capital structure.

introduce a percentage limit for each individual shareholding (Anderson and Hertig 1994: 526; Meier-Schatz 1993: 315).

Graph 1. Proportion of Swiss quoted companies with a “single share” in their capital structure, 1989-2001 (in %)

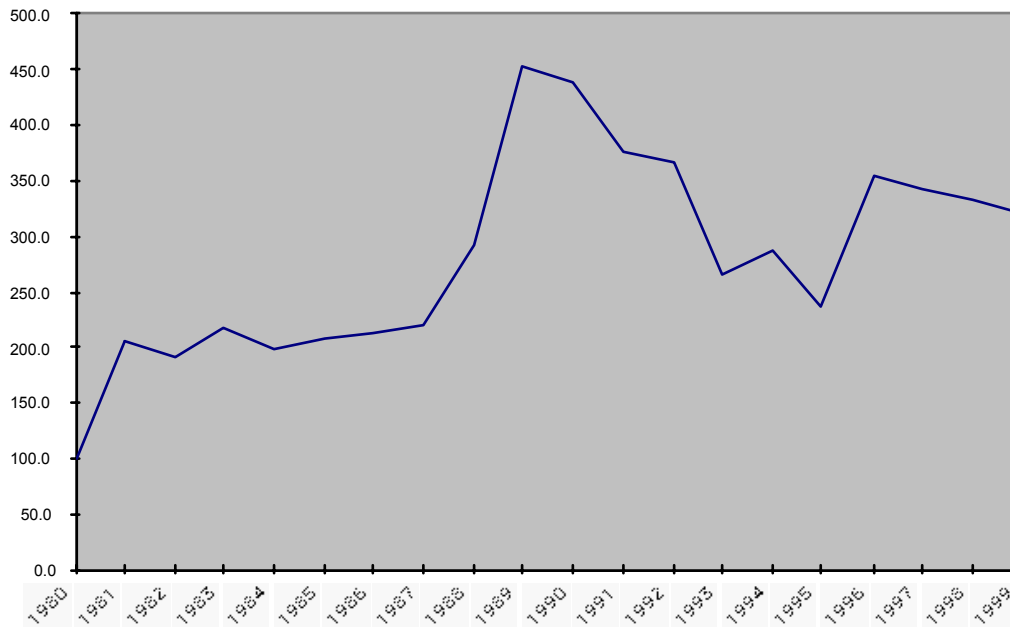


Source: Kunz 1998 and 2002.

Secondly, until the 1980s, Swiss firms were dominated by a policy of secrecy and confidentiality. The obscure presentation of accountings and the accumulation of hidden reserves were a manifestation of this attitude. The need to attract (foreign) investors and thus to give them precise financial information provoked a change in this position. Under the pressure of institutional investors large companies are increasingly adapting their statutes by adopting more transparent accounting standards.

The deregulation of financial markets, the increasing weight of institutional investors, the relaxing of the Vinkulierung process and the priority given to equity market largely explain a third feature of the last twenty years: the increasing number of mergers and acquisitions (see Graph 2). Three elements should be underlined. Firstly, not surprisingly, the proportion of foreign firms acquiring Swiss firms almost doubled between 1983 and 1999. Some symbols of Swiss industry changed owners: the shoe firm Bally was bought by the investment fund Texas Pacific Group in 1999, the same year the watch companies Tag Heuer, Ebel and Zenith became part of the French concern LVMH (Louis Vuitton-Moët-Hennessy) (Handelszeitung 2000: 5 ff.). Secondly, the sharp increase in mergers and acquisitions also resulted in huge mergers between some of the largest Swiss multinationals, threatened by potential foreign acquisitions: Ciba and Sandoz into Novartis, UBS and SBS, Crédit Suisse and Winthertur insurance. The third element that is worth mentioning is the foreign expansion of Swiss multinational companies through mergers and acquisitions. In 1983, the proportion of these activities in the total number of mergers in Switzerland was only 13%; it rose to 36% in 1999. Graph 2, which takes into account the number and not the value of mergers and acquisitions, undervalues the importance of this phenomenon (see Handelszeitung 2000).

Graph 2. Mergers and Acquisitions in Switzerland 1977-1999 (1977-1980=100)



Source: Schweizerische Handelszeitung 2000

Fourthly, in addition to the increase in mergers and acquisitions, a lot of restructuring also took place in the large industrial companies and was generally motivated by the intention to concentrate these companies' activities on their core business and to abandon less profitable segments. This was the case of ABB, Sulzer and Algroup, some of the largest Swiss industrial firms. In the chemical and pharmaceutical sector too the largest companies (Novartis and Roche) "outsourced" their chemical specialities with the creation of Cibas CS and Clariant. This restructuring was completely in line with the view of those advocating shareholder value. Fifthly, one of the leitmotifs of the proponents of the shareholder value ideology is the professionalisation and down-sizing of boards. There has also been a tendency towards making the boards of large Swiss companies smaller and recruiting new board members through a more formal selection process than along the lines of group representation and personal relations, as was the case before. Nonetheless, this should not lead to an extensive loosening of the network of cross holding: "(...) the leading banks will probably retain and, in the event of a continuing concentration in the financial sector, even extend their central position. (...) The average number of seats held by linkers will probably decline, but at the same time, the big linkers will increasingly get rid of the seats of medium-sized corporations and just keep a few lucrative mandates with large corporations." (Nollert 1998: 55).

Lastly, several regulatory reforms concerning financial markets and corporate governance mechanisms were introduced during the last decade. These reforms cannot be assimilated to a process of "deregulation", but of "reregulation": new rules have been established in order to formalise and codify the new functioning of corporate governance. Two of these regulatory reforms were particularly important: 1) the reform of the Company Law (1992); 2) the adoption of a new law on Stock Exchange and Securities Trading (1995)<sup>10</sup>. All these reforms were aimed at more transparency in disclosure rules and presentation of accounts, but they did

<sup>10</sup> In 2002, the Swiss stock exchange and the Federation of Industry and Commerce adopted a code of best practice, which, although not compulsory, should improve the functioning of the companies.

not represent a brutal change in the national regulatory framework and were the result of compromises between the decisive actors.

In short, some general and summary conclusions can be outlined from these recent changes. Firstly, the increasing power of national and foreign institutional investors and the reorientation of the large universal banks towards more lucrative activities, such as investment banking and private banking instead of traditional lending practices, mean that Swiss companies are much more exposed to the pressure of stock market evaluation and to the critical appreciation of institutional investors, focusing on the promotion of shareholder value. Secondly, the progressive changes in ownership concentration and in the behaviour of central financial actors call into question the traditional extent of cross shareholdings and interlocking directorates in the Swiss corporate governance system. The regulatory reforms, even if not of major importance, also favoured this tendency and reinforced the role of institutional investors and opened the way for changing the practices of Swiss companies. Lastly, whereas regulatory changes do not seem to be extensive and do not confirm the hypothesis of a strong convergence towards Anglo-Saxon rules, the changing preferences, strategy and power relations between central economic actors (shareholders, managers and labour) indicate an evolution towards a more market-driven corporate governance system.

### **III.3. The “Swedish model” under pressure**

Like Switzerland, Sweden, despite the high degree of internationalisation of its economy, also resorted to some “selective-protectionist” measures concerning corporate governance mechanisms during the period of economic growth after the Second World War. Concentration of ownership was combined with foreign exchange controls, voting-rights distortion and pyramiding. These characteristics have come under increasing pressure during the last twenty years.

In contrast to Switzerland, which never relied on foreign exchange controls and always had a liberal policy concerning financial markets, the liberalisation of financial markets and the abolition of foreign exchange controls were a much more sensitive issue in Sweden during the second half of the 1980s. The liberalisation of financial markets represented an important break with traditional Swedish macroeconomic policy, characterised by an active coordination of fiscal, monetary and wage policies. After various attempts to restore economic growth and fight unemployment through coordinated macroeconomic management, and after several devaluations of the Krona and wage moderation, the Swedish government finally decided to liberalise its capital markets and abandon foreign exchange controls during the second half of the 1980s. The main reasons for this choice were firstly a strategy to attract new foreign credits and the increasing difficulty in the context of technological innovation to maintain foreign exchange controls (see Jörnmark and Strandberg 2001).

The decision to liberalise financial markets had a very important impact on the major characteristics of Swedish corporate governance, especially by increasing foreign ownership, and questioning specific regulations of ownership restrictions (see Reiter 2003 and Henrekson and Jakobson 2003a and 2003b on which the following pages are largely based).

Firstly, these decisions clearly accelerated the transnationalisation of the Swedish economy through a sharp increase of inward and outward FDI. Outward FDI, already representing 10.7% of GDP in 1985, reached more than 50% in 2000. This data illustrates the increasing internationalisation of Swedish multinational companies through their expansion abroad. On the other hand, the liberalisation of financial markets also favoured a sharp increase of inward FDI, from 5.4% of GDP in 1990 to 36.1% in 2000 (see Table 5 above).

Secondly, the deregulation of financial markets at the end of the 1980s considerably increased the attractiveness of portfolio investments and the stock market (Table 6 above). The abolition of restrictions on foreign acquisitions of Swedish shares contributed to this evolution by allowing foreign ownership in Swedish companies. Since the beginning of the 1990s, foreign ownership in listed Swedish companies increased considerably, more than doubling between 1990 and 2000. Up to the mid-1980s, acquisition of Swedish shares by foreigners was limited by exchange controls and by legislation. With the suppression of exchange controls and legal restrictions on foreign purchasers, foreign ownership of shares increased steadily during the 1990s (for more details: Isaksson and Skog 1993; Adolfsson et al. 1999).

Table 8. Distribution of Stock-market Value according to Ownership Categories (%)

Year	Households	Foreign owners	Swedish institutions	Total
1993	26.0	19.0	55.0	100
1994	25.0	24.0	51.0	100
1995	17.0	32.0	51.0	100
1996	18.3	34.9	46.8	100
1997	17.8	36.4	45.8	100
1998	30.6†	34.9	34.5	100
1999	29.9†	38.2	31.9	100
2000	30.8†	42.7	26.5	100
2001	29.2†	42.8	28.0	100

Notes: Refers to the situation at the beginning of each year.

†As of 1998, mutual funds are included in household ownership; the share of mutual funds is estimated at approximately 10 percent.

Source: Henrekson and Jakobson 2003a, from Sundin and Sundqvist (1993–2001), SIS Ägarservice, Stockholm.

The rapid growth of foreign ownership was also accompanied by the emergence of new domestic financial actors, such as insurance companies and portfolio managers, who have gained a much more important role in the market in comparison to other traditional ownership categories. These actors tend to replace more traditional investment companies as the major domestic investors and owners on the Swedish stock market (Henrekson and Jakobson 2003b). The liberalisation of financial markets and the emergence of new domestic institutional investors contribute to the redistribution of ownership and, in a second step, to the questioning of ownership restrictions. Reiter (2003: 119) stresses that “global investors have affected the traditional ownership groups, not only through exerting direct pressure, but also because their preferences have been adopted and driven by national shareholders, such as insurance companies and fund/portfolio managers.”

We have seen that Swedish companies resorted to one-share-one-vote distortion and to pyramiding as protective devices. Concerning the first instrument, proposals have been made for a long time to change the law that allows the differentiation of voting rights between shares. Foreign investors have repeatedly criticised this protective regulation of the Swedish system and asked for the introduction of “one share-one vote” principles. Even though the Swedish government has not followed these regulatory proposals, several companies voluntarily decided to suppress some discriminating measures against new owners, in particular since the second half of the 1990s (Table 9). Thus, some large companies, such as Electrolux and SKF, recently abolished their dual-share structure (Reiter 2003). These changes clearly resembled those introduced in Switzerland by some large companies. However, even if ownership restrictions and voting-rights distortions are declining, the largest Swedish companies still continue to use differential voting shares.

Table 9. The percentage of Listed Companies on the Stockholm Stock Exchange with Dual Class Shares, Selected Years, 1968-1998

Year	Share	No. of firms	Year	Share	No. of firms
1968	32	146	1986	74	217
1972	36	134	1992	87	202
1977	44	130	1998	63	304
1981	54	128			

Source: Henrekson and Jakobson 2003b, Table 9.

Concerning the second protectionist instrument, i.e. pyramiding, some important changes have also taken place. Firstly, traditional owners, such as Investor and Industrivärden, have been forced to concentrate their investments in a fewer number of companies (Reiter 2003: 113). Secondly, the Wallenberg group, symbol of the pyramidal structure in Sweden, has also seen its strong ownership influence weakening. The dissatisfaction of shareholders with the low performance of Investor, the Wallenberg investment company, is one sign of its loss of influence (*The Economist*, 9.6.2001: 75). The abolition of the dual-share structure in Electrolux and SKF, which also diminishes Investor's voting rights (from 45 to 21% in the first case and from 33 to 29% in the second case), is another (Agnblad et al. 2001: 256; Henrekson and Jakobson 2003b: 36). This phenomenon should not however be exaggerated: "(...) the Wallenbergs still have a major influence over Swedish industry." (Adolfsson et al. 1999: 8).

The evolution concerning ownership structures and corporate governance mechanisms during the last decade in Sweden represented a substantial shift in power relations among the business community. The dominance of traditional Swedish owners has been increasingly called into question. The decline of traditional owners has been linked to the rising importance of foreign ownership and of new domestic institutional investors. Related to this shift in power relations, there has been a trend toward more Anglo-Saxon corporate governance practices, stressing the rights of minority shareholders and favouring continual public evaluation of companies on the stock market.

These rapid changes during the last decade have had some major impact on the Swedish economy. Isaksson and Skog (1993: 297), for example, underline that the number of mergers and acquisitions has increased constantly during the last decade. More generally, the transnationalisation of Swedish ownership and the progressive abolition of the protectionist elements of Swedish corporate governance might call into question some characteristics of the "Swedish model". Even though it was largely neglected in the literature on the Swedish model, the concentration of ownership among traditional domestic owners and the system of differentiated voting-rights were particularly important in maintaining the cohesion of the Swedish economy (Reiter 2003). With the rise of new financial actors, foreign and national, less focused on the long term growth of their companies, some central institutions of the Swedish model such as collective wage bargaining might be called into question by the change in the composition of ownership structures and corporate governance mechanisms (Henrekson and Jakobsson 2003a).

#### **IV. Conclusion: Dynamics of change and institutional inertia in corporate governance practices**

The evolution of Swedish and Swiss corporate governance during the 1990s should be seen in a broader context: Is there, in Continental Europe, a process of convergence towards the Anglo-Saxon model or are these nations able to keep their main corporate governance features?

In general there are two different answers. Firstly, due to the liberalisation of financial markets and their growing importance, some authors put forward the hypothesis that a converging trend is under way, in which the Continental European model is undergoing far-reaching transformations and is beginning to look like the Anglo-Saxon model (Hansmann and Kraakman 2001). The other line of argument rejects the idea of a smooth and rapid convergence towards an optimal and unified Anglo-Saxon system of corporate governance and insists on the persistence of national governance systems. Bebchuk and Roe (1999) thus argue that path dependencies and the self-interest of those who benefit from existing structures slow down or prevent convergence (see Coffee 1999; Cioffi and Cohen 2000; O'Sullivan 2000).

As underlined in our two case studies, the changes in the international environment have triggered profound transformations in the preferences of national actors, who have become increasingly transnational, and in the power relationships at the national level. Thus, the functioning of corporate governance is changing progressively, much less through the formal reform of the "rules of the game" than through the modification of the preferences and strategies of economic actors. Even if regulatory reforms remained path-dependent and their scope was limited, it would be a mistake to underestimate the modification in the behaviour of central economic actors and the changing logic of corporate governance functioning. Thus it seems particularly appropriate, as suggested by Gilson (2000), to distinguish between different forms of convergence in order to underline the interaction between "path dependency" and adaptation of national systems of corporate governance. Gilson distinguishes three kinds of convergence: functional, formal and contractual convergence. The first one characterises a situation, in which "existing governance institutions are flexible enough to respond to the demands of changed circumstances without altering the institutions' formal characteristics". The second one appears when "an effective response requires legislative action to alter the basic structure of existing governance institutions". Lastly, contractual convergence constitutes the response which takes the form of a contract "(...) because governance institutions lack the flexibility to respond without formal change, and political barriers restrict the capacity for formal institutional change." (Gilson 2000: 33-34; see also Coffee 1999 and 2000). In a similar argument, Streeck (2001) underlines that the combination of international economic pressure and the persistence of national institutional characteristics leads to the "hybridisation" of national systems of corporate governance.

*Functional convergence* towards Anglo-Saxon practices, which does not imply (formal) changes in corporate or security law, is the result of the changing strategies and relationships between the different actors involved in the company. The rising role of institutional investors and the changing attitude of traditional actors, such as banks and large blockholders, who give priority to the profitability of their assets rather than to long-term relationships, contribute to the weakening of the traditional characteristics of corporate governance system in small European countries. The description of the Swiss case highlighted the simplification of the capital structure of the largest firms, the increase in mergers and acquisitions during the 1980s and 1990s, in particular acquisitions by foreign companies, and the adoption of the US system of accounting standard by multinationals. A similar evolution is under way in Sweden.

This functional convergence, however, does not for the time being threaten the core characteristics of the corporate governance systems of the two countries. Ownership concentration and selective protectionism in particular are not collapsing, the former still remains largely in place and the latter is adapted by the national actors. Moreover, formal convergence (for example differential voting rights codified in corporate law) is not taking place. Regulatory changes are therefore much more limited: we cannot speak of a *formal convergence*. In Switzerland and Sweden, where voting rights distortions predominate, changes seem less extensive than in other small European countries, such as Belgium or

Austria, where foreign investors have gained considerable influence (for more details, see David and Mach 2001). One of the main reasons is that, in Sweden and Switzerland, these defensive mechanisms are formalised in corporate law and national legislation reforms are largely determined by interest group politics. In Switzerland, thirty years of discussions, experts' reports and consultation procedures were necessary to replace the old company law and the new one remains very tolerant towards Vinkulierung, the main selective protectionist mechanism. In Sweden, the recurrent proposals to change the law concerning differential shares have not been successful yet. These reforms aiming at diminishing the protection and giving more influence to (minority) shareholders were to a large degree opposed by the dominant interest groups, notably the controlling shareholders.

Finally, a third form of potential change is what Gilson called *convergence by contract*. To illustrate this form of convergence, Gilson (2000: 25) gives an interesting example: the convergence through security designs. A company with differentiated voting rights raises equity capital from American institutional investors. The family who controls the company does not want to cede its control to the public by unifying its shares. Therefore, investors will be reluctant to invest in a company where it is very difficult to monitor externally the performance of the management chosen by the controlling shareholder. A limited partnership will take place between the two parties: the institutional investor could be sold low voting stock which, at the end of specified period, would become super voting if the company's performance did not meet a specified standard. This example shows that, in a case of one-share-one-vote distortion, pressure related to globalisation (here the necessity for the firm to raise capital from international investors) does not lead to a convergence towards Anglo-Saxon corporate governance mechanisms, but to an intermediate solution, a contractual approach which preserves the interests of both parties. Reiter (2003) gives some examples of Swedish companies that modified their capital structure progressively in response to new demands of foreign institutional investors. These examples illustrate the flexibility and the adjustment capacity of the corporate governance system of small countries

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