JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL
Jönköping University

The Swedish Code of Corporate Governance

An Analysis of the Changes of Information Provided in Companies' Annual Reports

Master's thesis within Accounting

Author: Bengtsson, Åsa

Hendeby, Elvira

Tutor: Ljungdahl, Fredrik

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Author:	**Åsa Bengtsson and Elvira Hendeby**
Tutor:	**Fredrik Ljungdahl**
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Abstract

In society today large corporations are striving to regain the trust, which has been lost during the many accounting scandals that occurred lately. As a response to minimize the conflicts countries have introduced codes of corporate governance. It is common knowledge that a company's stakeholders and shareholders have different knowledge and interest in the company and the annual report is the agent's main communication channel towards the principals. The Swedish code of corporate governance was implemented in July 2005 in an attempt to reduce the information gap between the managers of the company and the owners.

The purpose of this thesis is to examine *if* and *how* the Swedish code of corporate governance has affected the content in annual reports in Sweden. We will evaluate and explain *why* listed companies have changed the information provided in their annual reports from the year 2001 prior to the codes existence, during the code's implementation in year 2005, and after the implementation in 2006.

A deductive method created our research model, which was used as a tool to gather the empirical findings. Agency Theory, Institutional Theory and the Swedish code constitute the foundation for our evaluation of 65 companies' annual reports from three individual years. Once our research model was created, an explorative and inductive method was used analyse and interpret the empirical findings.

Our conclusion is that corporate governance information in annual reports has increased, and the implementation of the Swedish code of corporate governance has affected the information provided to the shareholders. Between 2001 and 2005 a rapid growth in information can be view, while only minor improvement can be found between 2005 and 2006. The Swedish code has been successful in its implementation as stakeholders and shareholders have received more information from the annual reports. However, we are questioning the Swedish code for its extensive dimensions. Some areas of the Swedish code are provided with sufficient guidelines, while others would bring with it improved information to the shareholders by more detailed instructions. Many of the investigated companies have had their corporate governance information reviewed by an external auditor in 2005 and it is unexpected to see that this has been excluded in 2006. The examined companies provide information regarding many of the Swedish code's rules, but we found the information related to internal control, managing director and attendance at the general meeting insufficient.

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1 Introduction

The introduction chapter will take its starting point from the international perspective of corporate governance and then move on to the Swedish code of corporate governance and how it has been developed and affected by the surrounding environment. A problem discussion will follow from this presentation discussing the conflict of interest between the shareholders and management but also the importance of providing the stakeholders with information. The subject will be narrowed down further and present the purpose of this thesis together with its limitations and finally the structure of the thesis will be described.

1.1 Background

Few individuals have managed to avoid media's frequent attention to accounting scandals in society (Rockness & Rockness, 2005). The issues in focus, during the last decades, have been related to moral and legal behaviour of large corporations. Among these, Enron, WorldCom and Andersen are just a few examples. In an attempt to regain society's faith in limited liability companies, corporate governance has become an important issue in a number of countries. There is a growing trend around the world, towards national codes, standards and guidelines as an attempt to minimize the conflicts and scandals occurring in the business environment (The Institute of Directors, 2005). This is the result of a changing ownership pattern within the last decade, moving from individual shareowners towards a more institutional shareholding. The individual owners experience a gap between themselves and the agents and the shift has created a demand for more structure and advanced levels of corporate governance. At the same time the individual owners often feel that they have access to less information than the agents (Eun & Resnick, 2004). A problem, which could be decreased with an informative annual report, as Botosan (1997) states that the annual reports function as the information channel between the company and its owners. Most countries have both legal and regulated control systems supporting corporate governance; however, these vary to a great extent among countries (The Institute of Directors, 2005).

1.1.1 International Corporate Governance

Corporate governance is strongly affected by the US and their political actions against economic scandals, and to understand the development of corporate governance in Sweden, the US policies need to be understood (The Institute of Directors, 2005). When reading the news, it is easy to get the impression that economic frauds, both non-financial and financial, are new phenomena. However, this is not the case. As early as 1913, the US implemented Owens-Glass (Federal Reserve) Act of 1913. Its ethical focus was to avoid bank failures due to inadequate reserves. Nonetheless, the economic frauds continued and as a response to real estate scandals, occurring in the country during the 1960's, and international scandals, due to unethical behaviour, the US implemented the 1977 Foreign Corrupt Practices Act (Rockness & Rockness, 2005). This act contains the first guidelines of appropriate governance and was one of, what was then to be, many attempts to legislate companies to behave ethically (Aguilera & Cuervo-Cazurra, 2004). The first modern approach to corporate governance saw its light in US in the mid 1980's as a reaction to undisciplined and arbitrary behaviours of company managers, which attracted the institutional owners' attention (SOU 2004:46). Despite earlier attempts to legislate against unethical behaviour, a considerable number of scandals have still occurred in recent years in the US. As a further response, the American government introduced the Sarbanes-Oxley Act in July 2002. The act aims to affect the behaviour of companies' actions and includes regulations of ethical behaviour for publicly traded companies as well as auditing firms (Rockness & Rockness, 2005). The American law is detailed and imperative and the companies have to follow it (Aguilera & Cuervo-Cazurra, 2004). Laws and regulations do also bring with it external pressure for the companies, as they need to fulfil these regulations in order to be accepted and considered as legitimate in society (Hatch, 1997).

Financial frauds are not a problem exclusively in the US, the breakthrough for codes of corporate governance in Europe appeared in the beginning of the 1990's (SOU 2004:46). The UK released the Cadbury Report in December 1992, as a response to the economical scandals experienced in their country. The Cadbury Report includes a "Code of Best Practice", guidelines for how the companies should practice their governance. The report also includes recommendations for how to behave ethically, which is not included in the Code of Best Practice (Boyd, 1996).

When considering corporate governance systems in the world a difference is made between two major parts; on one hand the Anglo-American countries with the US and UK as the ones up front, and on the other hand the continental European countries with Germany at its front (SOU 2004:46). Of course there are differences between the systems within these groups but also, to some extent, within each country, since the countries include a large number of companies. However, between the two mentioned groups a number of clear differences can be distinguished. In the Anglo-American countries the limited liability companies for a considerable time have had a diverse owner structure. Comparing the companies situated in the continental countries instead, the owner structure is rather the opposite. Commonly there is only one or a few major owners in a company which makes the ownership focused. When it comes to public take-over bids in the stock market the two groups differs as well. In the US and UK bids are frequently occurring and are viewed as an important tool within the corporate governance-system. Once again, turning to the continental European countries take-over bids are definitely not viewed as a tool within corporate governance in fact it is rather rare in its appearance. Even if the mentioned differences are important, there is one that is superior to the others and it is that the two groups have different laws regarding how the companies ought to be organised. A simplified version of this is that Anglo-American countries only have one executive management group, while the continental Europe, especially Germany, have two executive management groups where one is the controlling function and the other is strategizing function (SOU 2004:46).

1.1.2 Swedish Corporate Governance

Positioning Swedish corporate governance in the above discussion of two main groups, the Anglo-American and continental Europe, the Swedish corporate governance would probably end up in between, as it does not fit perfectly into any of the two groups (SOU 2004:46). Most Swedish companies have an owner structure that recalls the continental European structure more than the Anglo-American. This is a truth of modification though, since many Swedish companies have a diverse ownership. Nevertheless, even though the ownership is diverse, most companies have one owner or a group of owners that holds enough shares to have the controlling power in the company. This does not stop the Swedish stock market to make use of the market as a tool for corporate governance control. Take-over bids occur more frequently in the Swedish market than for example in the UK market. Therefore, in that sense the Swedish situation is more in line with the Anglo-American than the continental European one. When considering the Swedish limited liability company institution it appears that it is two folded. On the one hand it has its historical background in the German law, but when it comes to the laws about how the companies should be organised it is more similar to the Anglo-American model, since it does not show any features of a double management groups (SOU 2004:46).

Sweden has not been an exception when it comes to experiencing scandals. For instance, Skandia has made an impression on the ongoing discussion. According to Öhrlings PricewaterhouseCoopers (2005) the Skandia scandal occurred because the management, compared to the board, had too much influence in the company. Since the mid 1980's, FAR (the institution for the accounting profession in Sweden) and Stockholm stock exchange have continuously added new regulations dealing with corporate governance in their respective areas (SOU 1988:38). However, a common regulation of corporate governance for limited liability companies has previously not existed in Sweden (Svernlöv, 2006). Ljungdahl and Thorstensson (2004) claim that the Swedish companies, prior to the implementation of the Swedish code, were not informed of the ethical behaviour and governance codes adopted in other countries. Nevertheless, Sweden has continuously been working on making the law for limited liability companies more up to date (Svernlöv, 2006). The focus on corporate governance has increased both in Sweden and internationally, and a continued development in the area is to be expected (Kollegiet, 2004).

The US and the EU have influenced the Swedish discussion of corporate governance. Their impact together with the latest scandals, Skandia and Trustor, has resulted in the Swedish government's initial step to create a common code of corporate governance (Skog, 2005). Not only do the countries imitate each other (DiMaggio & Powell, 1983), but also companies that strive to appear as legitimate for customers all over the world take after other companies that are believed to be accepted in the society. In the autumn of 2002 a commission was appointed with a mission to suggest actions towards improving the Swedish economy's trust (Kristiansson, Skog & Thorell, 2004). After the commission's first year of investigation, an expert group was appointed with the aim to formulate a Swedish code of corporate governance. The final code was completed and implemented 1 July 2005 for companies listed on the A-list of that time, and on the O-list of that time with a market value of at least three billion Swedish krona (SEK) (Kollegiet, 2007). The Swedish code's objective was, and still is, to constitute a direction towards self-regulation within the business world of Sweden (Kodgruppen, 2004). The Swedish code was constructed by an expert group, and the goal is to move future development, regulation, and responsibility towards the market and its actors. The Swedish code is a complement to the Swedish law, and rules stated in the law for limited liability companies, is not included in the code (Kollegiet, 2007). To some extent this is the case today, since it is the Stockholm stock exchange that is to decide who is to follow the Swedish code (OMX, 2006).

The Swedish code consists of open principles constructed by different interest organizations rather than specified rules and common guidelines (SOU 2004:46). Precht (2006) argues for the openness in Swedish law and that Sweden should not strive towards the same strict regulation as in the US and the Sarbanes-Oxley Act. The corporate code of governance and its formulations has been criticised. The auditors Mr. Enlund and Mr. Mårtensson (cited in Precht, 2006), claim that the Swedish code of corporate governance overall is an appropriate tool for the Swedish companies to implement. However, parts of the Swedish code could be more specific as rules and guidelines are missing. The view among Swedish exposure draft is perceived in another way, it is believed that the Swedish code of corporate governance is too detailed and specific (SOU 2004:130). Stockholm stock exchange for example, has suggested that the Swedish code should be less detailed in the introduction phase and after the implementation have more specified regulations. At the same time, Caroline af Ugglas, manager in SkandiaLiv, claims that the Swedish code of corporate governance seem to be more about politics than what is actually beneficial for the development of the Swedish economy (Johard, 2006). In recent years, there has been a rapid development within the area, new guidelines, codes, and rules have been initiated to control the organizations. The purpose of the Swedish code is to improve the corporate governance and increase the shareholders' information, both when it comes to quality and quantity (Kollegiet, 2004). Another aim is to secure the companies governance and make sure profit is in line with the investors' expectation of return on investment. If the goal of the Swedish code is managed, the company will be contributing to the society's economy effectiveness and growth (Thorell & Molin, 2006).

1.2 Problem Discussion

One issue, often taken into account, when discussing the necessity of a Swedish code of corporate governance is the basic assumption that managers always maximize value and that there is a conflict of interest going on within companies between the owners and the employed managers (Jensen & Meckling, 1976). However, Ljungdahl & Thorstensson (2004) discuss the assumption that managers maximize value as a shortcoming for the theories within the field. Eisenhardt (1989) states that a problem experienced, according to Agency Theory, is that the agent is running the company and that there is a risk that the agent is acting in her or his own interests rather than the shareholders. This is a problem, since the owners lose control of the company. At the same time, there has been a shift in ownership during the last centuries, from an individual to a more collective structure (The Institute of Directors, 2005). The increased number of investment opportunities, such as funds and pensions schemes, provide different levels of risk and do therefore demand less knowledge. Almost all Swedish citizens, directly or indirectly, own shares on the Swedish stock exchange market even though many of these investments are in pension reserves and funds, and small owners do not need to have the holistic view as there is expertise to turn to (7:e AP Fonden, 2006).

It is important for the company to consider the fact that stakeholders have different interests and knowledge about the company (Bergström & Samuelsson, 2005). The agents' main channel to reach out with information to the principals is through the annual reports (Botosan, 1997). It is a common knowledge that the stakeholders quality of information compared to the board and management is different. The different levels of information affect the investors' ability, since the investors lack the ultimate information to build decisions upon (Bergström & Samuelsson, 2005). Companies have to make necessary information accessible to the stakeholders, independently of the stakeholders' previous knowledge and experience, to minimize the asymmetric information (Eun & Resnick 2004). According to Ljungdahl and Thorstensson (2004) the Swedish code of corporate governance strives to increase the investors' and publics' information regarding the company's, management's and board's responsibilities. Do companies tend to keep the information to themselves, rather than being more transparent towards the shareholders? The Swedish code of corporate governance was implemented to increase the available information of companies' governance. Ljungdahl and Thorstensson (2004) claim that the information the Swedish code demands is not harmful for the company and should not be an advantage for competitors. Can a difference be found in the information provided since the Swedish code was implemented? Have companies changed their published information?

Previously, there has been an unclear structure of how corporate governance should be reported and structured. This could be the reason for the number of scandals within the accounting area. During the latest years there have been many studies within the field of corporate governance, investigating the Swedish code of corporate governance. The focus in these investigations has been to investigate the expected outcome of an implementation. A study published in May 2005, before the final code was implemented in Sweden, came to the conclusion that Swedish companies, were prepared to comply with the code (Karsberg & Persson, 2005). This gives an indication that companies were well prepared for the implementation. Nevertheless, to state in beforehand that the company is prepared to implement the code, is an issue which might not reflect how the implementation really went. Another topic that has been of interest is to describe the companies' deviation from the Swedish code and how it has affected the companies' implementation. Fäger, Håkansson & Jetvic (2007) came to the conclusion that during the first year the code was implemented in Sweden, the companies in average had three to four deviations from the code. Nonetheless, many researchers only take one year into consideration when conducting their studies. Maybe the outcome of these reports could have been different if a longer period was investigated. More countries are introducing a code of corporate governance and this could be a signal of its success. Has the available information improved or were some companies already before the implementation superior at providing the stakeholders with the same information? Has the implementation of the Swedish code brought with it improved information regarding corporate governance to the annual reports? Can changes and trends be seen over time?

1.3 Purpose

The purpose is to examine *if* and *how* the Swedish code of corporate governance has affected the content in annual reports in Sweden. We will evaluate and explain *why* listed companies have changed the information provided in their annual reports from the year 2001 prior to the codes existence, during the code's implementation in year 2005, and after the implementation in 2006.

1.4 Delimitations

When considering the changes in information, due to the Swedish code of corporate governance, one can take into account the changes in information given to the shareholders and if the companies actually have improved their behaviour. It might be very easy to describe the company's policy, but just because a policy exists does not necessarily mean that it is followed (Wearing, 2005). However, examining if the companies are behaving accordingly to their statement is outside the purpose of this thesis and is therefore not considered. Our focus is instead to evaluate the information companies provide in their annual reports.

The empirical findings have been collected from annual reports, and we have limited ourselves to consider the information asked for by the Swedish code of corporate governance. Additional information provided in the annual reports is not taken into consideration for this study.

1.5 Structure of the Thesis

The thesis begins by giving the reader a broader view of corporate governance followed by a problem discussion which is resulting in a purpose. From the defined purpose, the thesis moves on to presenting the relevant frame of references that will be used to analyse the empirical findings and to fulfil the purpose. With the starting point in the frame of references, a research model has been created which is presented in the method chapter. The method chapter is providing all necessary information of how the research was conducted. Knowing how the research was carried through, the reader is guided to the empirical findings and analysis chapter. The frame of references and the method chapters are together with the empirical findings creating the analysis. Conclusions will be drawn from the empirical findings and analysis chapter, which will answer the purpose stated in the introduction of the thesis. How the different parts are connected is described in figure 1, and a more detailed explanation of each part can be found below.

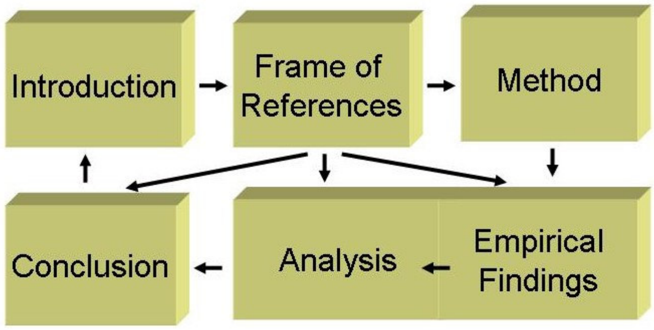

Figure 1, Structure of the Thesis

- The *introduction chapter* has presented the background of this thesis and describes the corporate governance both internationally and in Sweden. The conflict of interest between the shareholders and management will constitute the foundation for our problem discussion and the development of our purpose.
- The *frame of references* chapter will be developed out of the introduction chapter and it begins by describing the concept of corporate governance. From this description the frame of references will be narrowed down further and we will present the Agency Theory as well as the Institutional Theory. The chapter ends by giving the reader an overview of the Swedish code of corporate governance.
- The *method* chapter will describe our research model, which has been created with the frame of references presented in the previous chapter and will give the reader a view of how the purpose will be achieved. The quantitative method will be discussed and why empirical data from 65 companies were gathered. We will continue to present how the data has been collected, coded, and analysed in accordance to our research model. Thereafter a discussion of the validity and reliability of this thesis is carried through.
- The *empirical findings and analysis* will be integrated in our thesis and are presented as one chapter. We will discuss the connection between our variables and the information provided in the annual reports. This discussion will be supported by our empirical data and frame of references. The Swedish code of corporate governance strength and weaknesses will also be discussed.
- The c*onclusion* chapter present our conclusions made and we will explain the connection between the Swedish code of corporate governance and the information provided in annual reports. The answers to our purpose will be presented, followed by our recommendations and suggestions for future studies.

2 Frame of References

The frame of references chapter constitute the foundation for this thesis and will begin with a wide presentation of corporate governance, followed by an description of our main references, Agency Theory, Institutional Theory and the Swedish code of corporate governance. The chapter will end by giving the reader a summary of our frame of references.

2.1 Corporate Governance

Corporate governance is, according to Mallin (2006), a global phenomenon, in which the interests among the world have continued to grow. Gabrielsson (2003) describes corporate governance as a concept related to several research areas, all addressing the relationships and corporate control among the company and its stakeholders. Parum (2005) on the other hand describes corporate governance as a framework for creating a conversation between the company and its shareholders and stakeholders. The framework's intention is to provide an understanding of the company's strategy and goals. There are several definitions of the concept of corporate governance and the common denominator among them is the interaction process (Parum, 2005). According to Gabrielsson (2003), existing theories and research on corporate governance often stress the conflicts in public corporations where management is clearly separated from ownership. This could be confirmed by the Institute of Directors (2005) who claims that organizations have failed because of insufficient governance and due to the information gap between owners and management. Eun and Resnick (2004) recall the problems related to the gap of information between the owners and the management.

Stakeholders receive information on corporate governance from a variety of sources such as annual reports, professional journals, media, news, and web site. Wearing (2005) argues that annual reports, nowadays, contains significantly more information about corporate governance, and that this is related to the implementation of codes of corporate governance. He further states that directors have to pay the same attention to information on corporate governance as they do on financial results. Wearing (2005) believes that in order to be successful with corporate governance, codes and guidelines have to balance between too much and too little regulations, as it can inhibit wealth or create corporate governance abuses. Mallin (2006) argues that the debate in society is highly related to whether boards should be accountable to wider stakeholder groups on issues such as, the remuneration of directors, the role of institutional investors, the relationship between auditors and company. She further argues that companies needs to consider other interests besides the shareholders, in order to maintain the sustainability. It is important to remember that the ownership structure, legal system, political and cultural objectives differs among countries and, that the corporate governance is in different stage of development. Nevertheless, transparency and disclosure in good corporate governance brings the individuals, companies, and countries together.

The idea of possible conflicts within companies and corporate governance was already discovered in 1776 in Adam Smith's *Wealth of Nations* (Smith, 1776). Smith believed that managers would not guard the company's money in the same way as if it was their own. Smith highlighted the fact that mangers were given freedom and power, and in order to make sure that profit was equally and correctly distributed a control system was required. Jensen and Meckling (1976) developed Smith's thoughts one step further and created the theory known as *Agency Theory*.

2.2 Agency Theory

Considering corporate governance in the light of Agency Theory, it can be concluded that it is an important tool, at least from the board of directors point of view (Mallin, 2004). Corporate governance is useful for minimizing the problems that might occur due to conflicts of interest between the owners and the management. Agency Theory was created in the 1970's as a reaction to the attention given to accounting and its political nature (Artsberg, 2003). In their theory, Jensen and Meckling (1976) claim that an organisation, owned by one or a number of people (principals) and that engage another person or persons (agents) to run the company, will experience a conflict of interest between the owners and the employed management. The conflict of interest will occur because humans want to maximize utility and will act in a way that is the most beneficial for the individual, which might not be in the best interest of the company. Eisenhardt (1989) describes the agency relationship, as the principals are responsible for delegating the work to the agents, who in turn carries out the work. Jensen and Meckling (1976) argue that the agency conflict exists because ownership and control is separated. Shleifer and Vishny (1996) describe Jensen and Meckling's statement in another terminology and claim that the agency problem exists because management and finance is separated. In an attempt to decrease the conflict of interests, external auditors are used to ensure the company has been run in an appropriate way (Chow, 1982).

Eisenhardt (1989) argues that it is not uncommon for the principal to experience a feeling of being unable to affect how the company is run. On the other hand, Wearing (2005) discusses the problems related to ownership, as the owner's rights are limited and often only concerns dividend and disposing shares. He argues that there is a difference between the owner's influence and control, which is connected to the proportion of shares. Agents and principals tend to have different perceptions towards what kind of risks the company should engage in (Eisenhardt, 1989). Fama and Jensen (1983) add that part of the problem is due to the cost of creating a vital control system. A control system often consists of contracts, which are needed to minimise the conflict of interest between the two parties. The problem is related to that the principals cannot always be present when the agent is working, and do therefore not have all information needed, to know if the agent is trying to shirk (Hatch, 1997).If successful control systems are not established, there will be a greater risk that the agents will take decisions more beneficial for them personally rather than for the company. There are different strategies available for organisations to control the agents (Hatch, 1997). These strategies concern how to construct the work and which award to provide when the task is fulfilled in a sufficient way. There are strategies that do not concern the control functions; instead they focus on finding the ultimate person for the position.

2.2.1 Agency Costs

To minimise control problems, contracts are created between principals and agents (Hatch, 1997). These contracts include incentives for the agents to behave in favour of the company rather than their own interest. Agency costs are related to these contracts and the principal agent relationship. Jensen and Meckling (1976) divided the costs experienced into three categories. *Monitoring expenditures by the principal*, which are the cost the principal experience when trying to monitor the agent. Included in this category are the incentives which the principals need to provide to ensure that the agent will behave in a beneficial way for the company. At the same time Wramsby and Österlund (2004) claim that the more incentives paid to the agents, the less is the owners' return. *Bonding expenditures by the agent* is expenses the agent experience by making decisions that are in the principals' interest, in other words it is the difference between the money the agent could make if only making decisions optimal for him or her and the promised incentive by the principal (Fama & Jensen, 1983). The third and last agency cost is the R*esidual loss* which is the monetary loss the principal experience by suboptimal actions performed by the agent (Jensen and Meckling, 1976). These costs can be viewed as negative for the company, but at the same time it is through these costs, the principals can influence the agents' behaviour.

Even though agents are contracted, the Agency Theory assumes that the agents cannot always be trusted in their behaviour anyway, since the agents may try to avoid part of its duties or responsibilities (Hatch, 1997). As a solution to this, Jensen and Meckling (1976) describe two additional options for how to monitor the agents' behaviour. This could be done through an information system, which constitutes of reporting systems. The other option is to establish a contract with remuneration systems which is tied to the agent's performance and outcome. With other words, which options to choose is dependent on what cost the principal is willing to take. Scott (2001) adds another solution, and instead agreements can be reinforced, among the involved parties, by introducing the agreement to a third one. The third party is to take a neutral standpoint towards the agreement and make sure that it is followed. Hence, institutions often have the role of being the outsider with an objective view.

2.2.2 Asymmetric Information

In Agency Theory, information is the key tool for principals to know whether or not the agent is running away from its duties (Hatch, 1997). At the same time it is a common assumption that managers in companies have more information regarding the company than the outside stakeholders (Eun & Resnick, 2004). As a result, managers are in a better position when negotiating about the company's future. This phenomenon has been realized in academic articles where it has been called asymmetric information and is the main purpose behind the monitoring expenditure by the principal (Eun & Resnick, 2004). Bergström and Samuelsson (2005) explain that asymmetric information, is the result of how the agent have gradually acquire an deeper understanding of the company's operations compared to the principal. At the same time, Eisenhardt (1989) argues that the Agency Theory considers information to be a commodity. Hence, a certain something that has a price and that can be bought. Eisenhardt (1989) claims that information systems can help organizations to control agents' behaviour and overcome parts of the problem that can be experienced when information is viewed as a commodity. Eisenhardt (1989) points out the importance of an information system for the company's boards. Apparently, when the board is well informed, the incentives provided for the agents are less likely to be based on the firms' performance. These decisions are to take a stand point in the agents behaviour, since the board is aware of the actions taken, and will benefit managers taking decisions that are beneficial for the company rather than for the agent her- or himself. At the same time, the agent is more likely to actively take decisions in favour of the principals when the board provides them with rich information of what is expected from the shareholders point of view (Eisenhardt, 1989). Important to consider is the fact that the survival of the company is dependent on how much the information system costs and what it in turn provides to the company (Fama & Jensen, 1983). As mentioned before, Agency Theory considers information as a commodity and it can be used as a tool to monitor the agent.

Codes of corporate governance force the companies to increase the information made available to the principals (Mallin, 2005). This information can help the owners to gain knowledge, and reduce the asymmetric information, regarding whether the managers has fulfilled its responsibilities or not. At the same time, corporate governance increases the owners' power against the agents (SOU 2004:46) and enforces the governance of the company to be constructed and carried through in a way that ensure that the owners demand of return of investment is fulfilled. Institutions have also made an impact on corporate governance, as it put pressures on the organization, owners and management (SOU 2004:46). Furthermore, the surrounding society with its norms and rules of what is accepted will function as a control function for the company's and thereby the manager's behaviour.

2.3 Institutional Theory

Prior in history, organizations adopted to the norm of bureaucracy in order to become efficient (DiMaggio & Powell, 1983). Years later, the bureaucracy is still a well used concept in organizations. DiMaggio and Powell (1983) explain that at the same time organizations tend to remind more and more of each other. However, back in the 1950's, efficiency was about being more sufficient than competitors, whereas it later on has been more about the companies' effort to resemble each other rather than being efficient. Hatch (1997) believes that this is related to the increased pressure from the external environment. Organizations can experience demands from the environment in two different ways, either by technical and economical issues where it is the production and exchange of goods and services that is the main task of the organization or can be pushed by social and cultural demands which prescribe organizations to take on specific roles in society and employ and keep up a specific appearance (Hatch, 1997). Environments focusing on social and cultural demands, reward organizations that are meeting the values, norms, rules and beliefs that are commonly accepted by society (Hatch, 1997). These thoughts constitute the foundation of the Institutional Theory. One shortcoming of Institutional Theory is that it has been criticized for its perception that organizations are passive in their behaviour (Oliver, 1991).

According to Hatch (1997), Philip Selznick was the one to shed light on Institutional Theory in the 1950's. He noticed that organizations take after and change behaviours from internal groups and external pressure, where the values of the external environment are important. The main point of Institutional Theory is that organizations imitate behaviour, both regarding how organizations are organized and how management behaves. This is considered as legitimate by others in the field and this adaptation is to occur, no matter if the behaviour is useful or not (Deephouse, 1996; Carpenter & Feroz, 2001). If not, the organization will not manage to survive (Selznick, cited in Jacobsen & Thorsvik, 2002). The reason for why these actions occur repeatedly is, according to DiMaggio and Powell (1983), because the organization is experiencing external pressure.

DiMaggio and Powell (1983) have made a distinction between the different pressures, *Coercive*, *Normative* and *Mimetic,* that an organization can face. These three categories are called, with a common denominator, isomorphism. Isomorphism is a term to describe organizations tendency towards homogenisation, which means being comparable to others.

2.3.1 Coercive Institutional Pressure

Coercive institutional pressure is occurring when the organization experiences pressure from laws and regulations stated by the government, who are responsible for confirming the norms and standards (Hatch, 1997). Regulations can take on two different formats, either formal or informal (Scott, 2001). The formal rules are often written down, whereas the informal rules are codes of conduct. The aim with creating laws and regulations is to exercise control over the market by rewarding and punishing the actors. It is claimed by Scott (2001) that the market's behaviour can be controlled by force, fear and expedience. Nevertheless, other means such as persuasion and invitations could be used.

DiMaggio and Powell (1991) explain that people have to follow the rules stated by the government, and it is easier to understand the formal coercive pressure. However, even though it might not be stated in any laws, organisations might need to organise themselves in specific ways in order to gain acceptance from the surrounding and to negotiate with other organisations. Hence, organising the company is therefore one form of coercive pressure.

2.3.2 Normative Institutional Pressure

Pressure can arise from expectations due to culture. Hatch (1997) describes this as normative institutional pressure. DiMaggio & Powell (1983) explain that this pressure can be experienced through professionalism, which can appear in two different ways. The first way is due to the formal education and the legitimized behaviour taught by universities, whereas the second way is due to networks created among those within a specific profession, for example the Swedish FAR. As a contrast to the coercive institutional pressure, the normative institutional pressure is created by the society rather than the government (Scott, 2001). In addition, the normative institutional pressure is more difficult to identify as the pressure often is informal and cannot be found in written format. Instead it is commonly accepted rules in the society. The function of these informal rules is to create and stabilize a common norm for how to perform certain actions.

2.3.3 Mimetic Institutional Pressure

The mimetic institutional pressure occurs when an organization has a desire to appear similar to other organizations (Hatch, 1997). The eager to identify itself as similar is explained by DiMaggio and Powell (1983), as the reaction to deal with uncertainty by imitating other organizations' structures, practices or outputs. The organization will gain legitimacy, by influencing the individuals' view of the world and match it with the external world's perceptions. Dealing with uncertainty in this way, allows the company to find an easy and cheap solution to their problems, instead of making up the solution themselves.

Not surprisingly, organizations have a tendency to imitate other organizations within the same industry when forming the organization (DiMaggio & Powell, 1983). The choice on who to imitate is usually made depending on what organizations the imitating company believes is more successful or accepted. The mimetic behaviour is more about appearance rather than imitating a model that brings efficiency.

2.4 Swedish Code of Corporate Governance

Codes of corporate governance contribute to the well-being of society and the economic growth of the country (SOU 2004:46). Prior to 1 July 2005 social disclosures of corporate governance were voluntary in Sweden. However, some information was still included in order to provide the stakeholders with appropriate information, according to Milne and Chan (1999). Most of the social disclosure information is related to information of employees, environment and the community and the authors stress that social information do affect the investments made in the company, and that shareholders find it useful. At the same time it is important for the companies to consider what type of information could be of interest for the stakeholders and how they expected to receive the information since that affect their behaviour when interacting with the company. However, 1 July 2005 information regarding corporate governance was not voluntarily in the same way anymore.

The Swedish code of corporate governance is constructed from current laws and regulations and its purpose is to provide a framework for generally accepted accounting principles of corporate governance in Sweden (Kodgruppen, 2004). A sub-purpose is to increase the ambition level of Swedish accounting practise. The Swedish code was implemented to improve the governance in Swedish companies, and increase the reliance in society and on the capital market (Svernlöv, 2006). That the reliance increases with the code, primarily from international owners, is supported by Bylund and Haggren (2005). The Swedish code of corporate governance is primary significant for organizations with a spread ownership and is directed foremost to Swedish companies listed on Stockholm stock exchange. The final code was completed and implemented 1 July 2005 for companies listed on the A-list of that time, and on the O-list of that time, with a market value of at least three billion SEK (Kollegiet, 2007). As of today, all companies listed on the Stockholm stock exchange are to follow the Swedish code. Even Swedish limited liability companies not registered on the stock exchange but have a market value above three billion SEK should by now have implement the Swedish code (OMX, 2006). However, there are companies that are an excepted from the code (OMX, 2006). Companies that fulfil the requirements and have their residence in Sweden are to follow the Swedish code, while the companies whose residence are in another country is to follow that country's code if it has one. If this country does not have a code, the company is to follow the Swedish one. The target group of the Swedish code of corporate governance comprises many companies, and this has been criticized during the development of the code as the implementation will be both time and cost consuming (Svernlöv, 2006). However, Svernlöv (2006) stresses how it will be more accepted for smaller companies to diverge from the Swedish code and its principles. At the same time, it has been concluded that the implementation of the code is dependent upon the size of the company (Kenani & Persson, 2006). Larger companies tend to be better at implementing the code compared to smaller ones.

The Swedish code of corporate governance follows the principle "comply or explain", which is the most dominant and used among international codes (Kodgruppen, 2004). This principle implies that companies can deviate from specific rules, if they explain the reasons behind it (SOU, 2004:130). The principle increases the ambition level of the accounting practise and according to Svernlöv (2006) results in corporate governance of best practise. The board of directors is responsible for the implementation of the code, and the decision of which rules to comply or explain. There is no specific authority controlling the deviations. However, if companies report insufficient explanations they will risk losing reliance in the capital market. In their study, Boström and Linderot (2006) found that one out of four companies applying the Swedish code of corporate governance failed to declare their explanations in a clear way, resulting in that the reader has to carefully consider the whole report in order to find out which parts of the code is complied and explained. Artsberg (2005) stresses the importance of understanding corporate governance, and carefully consider the relationship between managers and owners. The owners indirectly and directly control the business, and the Swedish code of corporate governance aims to consider the relationship and conflicts of interest between owners and management (SOU, 2004:130).

The Swedish code of corporate governance is divided into five main headings; *The Shareholders' General Meeting, Appointment of the Board and Auditors, the Board of Directors, Company Management,* and *Information on Corporate Governance* (Kodgruppen, 2004). Each heading consist of several subheadings, containing a more detailed description of the code. The Swedish code of corporate governance can be found in its completeness on Kollegiet's homepage; www.bolagsstyrning.se . The following section will provide an overview of the Swedish code of corporate governance presented by Kodgruppen (2004, 2005).

2.4.1 Shareholders' General Meeting

The shareholders' general meeting provides the shareholders with the opportunity to affect how the company appears today and should be run in the future (Kodgruppen, 2005). The Swedish code provides guidelines for how to regulate the shareholders meeting, invite and notice shareholders of the meeting, structure the meeting, participation and issues related to board's, management's, and auditor's attendance. The purpose of the general meeting is to increase the owners control and influence, and at the same time increase the communication of information and the content of the meeting. A meeting constructed in that way will give the shareholders greater power, since it will increase the shareholders ability to affect the company when it comes to how it should be run (Svernlöv, 2006). Wearing (2005) confirms the statement that shareholders are allowed to vote on the general shareholdings meeting regarding different types of elections. However, he claims that large companies often have hundreds of millions of ordinary shares and the chance for a single shareholder to settle is minimal. The owner must have a considerable share of the ownership in order to be able to influence decisions.

The company should inform the shareholders of place, time, and date of the general meeting in advance, in order for the shareholders to participate and prepare themselves (Kodgruppen, 2005). Information regarding how shareholders get their proposals considered as well as registration and attendance should be made available, and if participation from a distance, with the help of modern communication technology, is accepted. The chairman of the board and the entire board (if possible), at least one auditor, and the managing director should be present at the general meeting. If one of the mentioned persons are not able to participate during the meeting, the code demands an explanation of why. Suggestions and proposal discussed during board or committee meetings, need to be presented by the involved manager on the shareholders meeting (Kodgruppen, 2005).

2.4.2 Appointment of the Board and Auditors

The appointment of the board of directors and auditors should be made on the shareholders general meeting (Kodgruppen, 2005). The process should be both structured and transparent and governed by the owners. The nomination committee, representing the shareholders, is in charge of the preparation of the election (Svernlöv, 2006). The nomination committee organizes and is responsible for the information and proposals during the shareholders' meeting (Kodgruppen, 2005). It is important that the representatives of the nomination committee are a reflection of the shareholders and are representing their view. The Swedish code regulates the appointment of the nomination committee, and state that at least three members are required. However, the majority cannot consist of board of directors and managers within the company. If the nomination committee would consist of a majority of board members or managers, these would get a strong influence on the board to be (Svernlöv, 2006). The information, regarding candidates, should contain information about replacement, shareholders' recommendation and if a specific member is representing a particular owner (Kodgruppen, 2005).

The board members and their compensation are recommended by the nomination committee (Kodgruppen, 2004). According to Skog (2005), exaggerated incentives to board members have been one of the reasons argued to create the crisis of confidence for listed companies. By allowing the attending owners at the general meeting to take part in the decision making, it is hoped the companies will regain the markets confidence. The proposals should be based on the evaluation of the current board and how they have achieved requirements, results, and future goals (Kodgruppen, 2004). All necessary information containing age, education, work-experience, earlier commissions, ownership and relatives' ownership, independency, and necessary information for shareholders judgement should be made available. The recommended board members should be present at the shareholders meeting to answer questions and introduce themselves (Kodgruppen, 2005). The compensation for board work should be determined on the shareholder's meeting. The incentives for the management and employees should not include board members, except for the managing director.

The nomination committee or a specific committee for appointing auditors should give recommendations of auditors and audit fees (Kodgruppen, 2005). Svernlöv (2006) argues that it is logical that the nomination committee is to give a recommendation for audit fees, since they are the ones to negotiate about the fees. The fees should be presented in the shareholders invitation to the annual meeting and published on the company's website (Kodgruppen, 2005). Information about the auditors' competence, independence and the committees work process should be posted on the web site. Besides this, other information that could be of importance for the shareholders should be presented. The proposed auditors are to be present at the shareholders meeting, and the nomination committee should explain their recommendations of auditors and submit a report on the selection process.

2.4.3 Board of Directors

The board of directors' main task is to administer and operate the company on the behalf of the owners, and achieve long-term return on their capital (Kodgruppen, 2005). The board of directors should decide on future goals and which strategy to implement in order to achieve them. The board should further make sure that the company is run in an effective way, with proper control and follow-ups. The selection of board members is done every year and qualifications, background and experience should be considered in order to develop the company in the right direction. Only one person from the senior management is allowed to be a member of the board, and the majority of the directors (elected by the shareholders) should be independent from the company. In the Swedish society, to be dependent in a company has been considered as something bad (Öhrlings PricewaterhouseCoopers Kodprojekt, 2005). However, being dependent to a sufficient limit could also be something positive for the company since that means competent and interested board members. In addition, at least two board members have to be independent towards the majority owners, this to ensure that minor shareholders will not be run over by the majority shareholders' agenda. The Swedish code suggests an equal gender distribution of the board members. The importance of this, the companies were reminded of by Gudrun Schyman and Mia Odabas who bought one share each in ten companies[1] to attend their general meetings to discuss the topic, which they also did (Schyman & Odabas, 2007). The size and composition of the board should be in line with the independence criteria for how to manage the company effectively (Kodgruppen, 2005). It is important that the director is inde-

[1] Ericsson, Investor, SEB, JM, Kinnevik, Telia-Sonera, Skanska, Volvo, H & M och SAS

pendent in each decision, and has to be familiar with the company's operations, organization, and market.

The external communication with the public and stakeholders should be open and appropriate (Kodgruppen, 2005). The board should draw guidelines for how to behave ethically, and make sure that the company follows laws and regulations. Svensson, Wood and Callaghan (2006) state that Swedish companies are good at presenting guidelines for their companies how to behave ethically, however, they are not as good at sharing the values and rules with the whole organisation. Nevertheless, evaluation of the boards' working process should be made annually. The board and the managing director should have clearly stated instructions for their work. Specific committees could be established to facilitate the process; however, the board is still expected to have the overall view and control of the company's activities.

The company's financial reports should be made in accordance with current law, accounting standards and other requirements for listed liability companies, and the board is responsible for the preparation and quality of the information (Kodgruppen, 2005). When signing the report, both the board and managing director is confirming that the annual accounts have been made according to good accounting practices. The report is then to be reviewed by the auditors. The board is responsible for the internal control of the company, and should ensure a system for internal control. In some companies, it is most effective if these kinds of issues are dealt with by the audit committee, nevertheless it is still important that all members of the board is involved in decisions regarding the internal control systems and how effective it is (Molin & Billfalk, 2005). An annual report for how the internal control has been carried out should be presented and reviewed by the auditors. However, today auditors emphasise that the internal control itself is not their responsibility, it is the boards', but their responsibility is to control how it is followed (PricewaterhouseCoopers Kodprojekt, 2005). The board should establish an audit committee, which is in charge of the preparation of financial reports (Kodgruppen, 2005). This committee is responsible of the report before the board confirms it. The audit committee should meet the auditors on a regularly bases, evaluate and assist the nomination committee for auditors and fees.

2.4.4 Company Management

The managing director should report the company's progress, provide necessary information, and submit reports and recommendations to the board (Kodgruppen, 2004). No matter if the managing director is a board member or not, she or he still has the important role to inform the board. Kaye (1995) states that good information is vital both within companies and to other stakeholders outside the company since it result in better decisions making and at the same time gives the company an advantage compared to its competitors. The board makes decisions of the managements' compensation and other terms of employment, and it should establish a committee for remuneration where no manager in charge of business operations is allowed as a member. This committee should make proposals for the policy of remuneration of managing director and senior management. The proposal should include bonus and incentive schemes, pensions, and non-monetary benefits. The proposal should present who is covered by the terms, and specify both fixed and variable components. The final decision regarding remuneration is made by the shareholders at the general meeting. An example of when shareholders at a general meeting blocked a proposed remuneration was at Ericsson's general meeting in 2007 (Lans, 2007).

2.4.5 Information on Corporate Governance

The annual report should include information of the company's corporate governance and a statement if auditors have reviewed it or not (Kodgruppen, 2005). According to the Swedish code, the external auditor should review the report on internal control (Svernlöv, 2006). However, that decision has caused a debate, claiming it would cost more than it would be beneficial. Nevertheless, this decision is still there. Kodgruppen (2005) claims the importance of the internal control, and the value put to the review of it by international investors. They argue that the report lose credibility if it is not reviewed since the report on internal control is not included in the material which needs to be audit according to the law. At the same time Öhrlings PricewaterhouseCoopers Kodprojekt (2006) state that an effective review of internal control is time consuming. However, Danska and Samppala (2006) underline that an effective review of the internal control system can be carried out in a cost effective way. That the board of directors is responsible for that the company has a well functioning internal control system is nothing new (Molin & Billfalk, 2005). What is new with the Swedish code of corporate governance is the demand for an external report of how well the company's internal control systems function.

A presentation of how the Swedish code of corporate governance has been applied and explanations for deviation from rules should be made in the annual report (Kodgruppen, 2005). Information of how the board of directors ensures the quality of the financial report and how it is communicated to the auditors should be presented. If not provided in the annual report the corporate governance report must include information on the appointment of board of directors and auditors. Further, information on nominated candidates to different committees and if a member represent a majority owner should be presented as well as how the work among directors was conducted, number of board meetings, attendance at the meetings, tasks and decision making. The information of age, education work experience, other commissions, ownership, and other partnership of the managing director should be reported.

The policy for remunerations, incentive schemes of board and management is to be included in the corporate governance report (Kodgruppen, 2005). The annual report should include the board's report on internal control and the auditors' review of it. In addition to the company's report on corporate governance, the company is obligated to present a specific section on corporate governance posted on their web site, including the corporate governance report and information related to the Swedish code.

One important part of corporate governance is if the information is reviewed by an external auditor or not, something which has caused debate. International owners are used to receiving reports that have been reviewed since that is a custom in many countries (Precht, 2006). At the same time the Swedish companies are afraid of the extra expenses which an increase of audit will bring with it. Andersson (2005) claim that auditor's review of the annual report is necessary as it is a major part of the companies internal control system. Besides this, the auditor's are securing that the external and internal information is both informative and reliable. The European corporate governance forum has also made a statement in the area (FAR Info, 2006). Their point of view is that auditors in EU countries should not be expected to review the judgements of board of directors. Nevertheless, the auditors could be engaged to review specific information provided by the board of directors. Regardless of the European corporate governance forum's suggestion, Peter Öhman (2007) claims that auditing is a requirement for a capital market to function at the same time as Percy (1997) claims that the public expect the auditors to review the reports to ensure they are correct and that the company's survival is "safe" until the next auditing.

2.5 Summary of Frame of References

Corporate governance concerns the interaction between the company, its shareholders and stakeholders (Parum, 2005). Within these interactions conflicts can occur. According to Gabrielsson (2003), this conflict mainly occurs because the management is separated from the ownership. Smith (1776) discusses the need for a control system, in order for the owners to make sure that the manager is steering the company in the right direction. The Agency Theory, created by Jensen and Meckling (1976) touch upon the conflict of interest that can occur within a company when the principals engage an agent to manage the company. The conflicts arise because the manager might act in a way that is more beneficial for her or him personally and not in the best interest for the company. Eisenhardt (1989) claims that it is common for the principals to feel that they are unable to affect the agents' behaviours and how the company is run. This is related to the different perception of the level of risk that the management and owners are willing to take. The principal could control the relationship with the agents through different contracts, which in turn is associated with different agency costs (Jensen & Meckling, 1976). Eun and Resnick (2004) describe how the manager has more information than the shareholders, and therefore the agent is in a better position when negotiating compared to the principal.

Mallin (2005) explains that codes of corporate governance force the agent to increase the principals information and knowledge regarding the company. Furthermore, institutions within the society put pressures on the organizations. Institutional Theory discusses how companies imitate the behaviours of others which are considered to be legitimate, both regarding organizational structure and management behaviour to be accepted in society. The imitated behaviour must not always be more efficient than the company's previous behaviour; instead the imitation is related to legitimacy. DiMaggio and Powell (1983) describe coercive, normative and mimetic pressures that the organizations can face and respond to.

The Swedish code of corporate governance was implemented in July 2005 with the main aim to create a framework for general accepted accounting principles of corporate governance in Sweden. At the same time, it was hoped that the Swedish code will improve the information presented to the stakeholders. The target group for the code is extensive, and at its introduction included companies listed on the A-list of that time, and on the O-list of that time with a market value of at least 3 billion SEK (Kollegiet, 2007). Today all companies listed on the Stockholm stock exchange are to follow the Swedish code. Even Swedish limited liability companies not registered on the stock exchange but have a market value above three billion SEK should by now have implement the Swedish code. The Swedish code is built upon the principal "comply or explain" which means the company needs to comply with the code or explain why it deviates. The Swedish code is built upon five main heading; *the shareholders' general meeting, appointment of the board and auditors, the board of directors, company management,* and *information on corporate governance* (Kodgruppen, 2005).

3 Method

Our research model will be presented in the introduction of the method chapter, describing its five areas of investigation and how these have been analysed with five different variables. The inductive and deductive phase of our thesis will be described, and why a quantitative approach was chosen. We have collected empirical data from 65 companies listed on Stockholm's large cap list, and they will be evaluated in accordance to our research model. The chapter ends by discussing the validity and reliability of both our research model and the thesis.

3.1 Research Model

A research model has been used as a tool to collect the empirical data in this thesis. We have chosen to present the method chapter after the frame of references chapter as our research model is a reflection of the Agency Theory, Institutional Theory, and the Swedish code of corporate governance, which are presented there. We believe that the reader will get a deeper understanding of the subject, and thereby our research model, if the frame of references is presented first. In addition, we claim that the structure of the thesis becomes of a more natural transition. The research model is build up on three different layers, which is illustrated in figure 2.

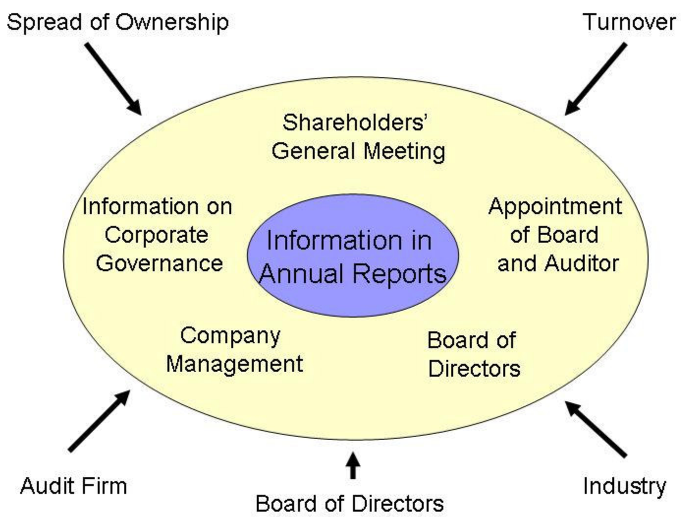

Figure 2, Model for Analysing the Empirical Findings

The core of the model for analysing the empirical findings (figure 2), is the corporate governance information gathered from the annual reports. This information is related to the five main areas of the Swedish code of corporate governance, which is found in the middle layer of the model for analysing the empirical findings. These areas have created the foundation for the empirical findings and will be analysed both in terms of variables and a deeper discussion. Five different variables; Turnover, Board of Directors, Spread of Ownership, Audit Firm and Industry, have been used to categorise and analyse the empirical findings and these variables are strongly connected to Agency Theory and Institutional Theory. The variables in figure 2 are pointing towards the centre, since they are affecting how the information is both gathered and analysed.

Our research model was used as a tool to evaluate the information in 65 companies' annual reports. We have examined three individual years, using a three-graded scale. The annual reports could receive 46 points in total, if all aspects were taken into account and if the research model were fulfilled. The assigned grade is a reflection of the company's published information, regarding corporate governance, and is dependent on how well the companies matched our stated criteria. Our research model can be found in its completeness in appendix A where all areas, subheadings, and specific criteria are stated. The following sections will present an overview of our research model and its five variables and the five headings derived from the Swedish code of corporate governance.

3.1.1 Variables

Five different variables, *Turnover, Board of Directors, Spread of Ownership, Industry,* and *Audit Firm,* have been used to explain and discuss the empirical findings in this thesis. These variables are deeply rooted in the frame of references; Agency Theory and Institutional Theory, and will be used to evaluate possible connections to the changes in information provided in annual reports. Each variable consist of different sub-categories that have been compared and evaluated. The empirical data and the variable will be presented in terms of the total score in our research model and the percentage of increased or decreased information in the annual reports and over the years. The following sections will present each variable and its connection to the frame of references, why it was chosen, and how it has been measured.

Turnover

Agency Theory emphasises the conflict of interest between agents and principals in a company (Jensen & Meckling, 1976). We assume that the larger turnover a company have, the more money there is for the agents to manage, which in turn would result in conflicts of interest between the agent and the principal. Similarly more money in circulation, means more people involved, which would increase the possibility for increased conflicts of interest. At the same time Clarke and Gibson-Sweet (1999) claim that companies are likely to use their annual reports to spread information about the company. With that in mind, we find the turnover to be an interesting variable. The turnover variable discusses the difference in company size in relation to the published information regarding the Swedish code of corporate governance. We have used the turnover in Swedish krona (SEK) as the measurement of the size, and believe that it is sufficient to use as we are interested in exploring the connection between the information provided between companies with different turnover. The variable has been divided into three categories, one for companies having a turnover of less than 50 billion SEK, one for companies having a turnover between 50 billion SEK and 100 billion SEK, and finally one category for companies whose turnover exceeds 100 billion SEK.

Board of Directors

When considering Agency Theory and the asymmetric information problem, it can be concluded that board of directors can be viewed as both principals and agents. The board of directors represents the owners and from that perspective the board of directors would be principals. At the same time, the board of directors is working on the behalf of the company and could also be seen as agents. Similarly, the small owners, the principals, have little possibility to affect what is going on in the company and we will therefore view the board of directors as agents. Another explanation for this is that even thought the board of directors is not part of the daily activities in the company; they are still holding the overall responsibility towards the owners. The Swedish code demands that part of the board is independent of both company and major owners (Kodgruppen, 2005). We assume that companies having a board with a larger number of directors would be better at taking different stakeholders interest into account, and would therefore be superior at providing information in their annual reports. We find it interesting to investigate if the number of board members is affecting the information provided to the shareholders. The board of directors variable will analyse the relationship between the size of the board, including employee's representative, and the published information in the annual reports. This variable is divided into two categories; a board with one to nine board members compared to a board with 10 or more board members.

Spread of Ownership

Agency Theory addresses the relationship between principals and agents and we assume that a company with a spread ownership would be more dependent on providing shareholders with information through the annual report. Botosan (1997) claims that the annual reports are the companies' most important information channel when reaching out to its shareholders. Besides this, a spread ownership would require more of shareholders to be unified in order to make decisions. At the same time Precht (2006) claims that a spread ownership will increase the risk that the company is not operating in the best interest of the owners, as managers and owners can have different interests. The spread of ownership variable measures the five largest shareowners' percentages of votes in the company, and we believe this variable to be a sufficient measurement for how narrowed or wide the ownership is. Furthermore, many decisions on the shareholder's general meeting require more than 50 percent of the votes in order to be executed. We have divided this variable into two parts depending on the percentage of the votes, were more than 50 percentage is categorised as concentrated ownership and 50 percentage or less is categorised as spread ownership.

Audit Firm

Institutional Theory discusses the external pressure companies experience from the environment and that companies have a tendency to imitate other companies in order to gain legitimacy (DiMaggio & Powell, 1983). We believe that the audit firm engaged in a company affects the company's reporting. We will discuss and compare if the information provided regarding corporate governance differ depending on which audit firm has signed the auditor's report. The competition among the Swedish audit firms is common and we find it interesting to compare possible resemblance. The audit firm variable is related to which audit firm the company uses, and we will discuss if there is any connection between how much information the company presents compared to which audit firm they have appointed. This variable is divided into six different components, Öhrlings PricewaterhouseCoopers (PWC), Ernst & Young, KPMG, Deloitte, More than one audit firm, and Other audit firms. Many of the investigated companies make use of several audit firms, however, we have decided to categorise them after the audit firm which has signed the auditor's report. The components More than one audit firm and Other Audit firms, have each been lumped together as they only consist of a few companies, and our main focus will be on Sweden's "big four" audit firms since these are more or less the only ones used by larger companies today.

Industry

As mentioned above, Institutional Theory discusses the tendency by companies to imitate each other in order to gain legitimacy within society and among other companies (DiMaggio & Powell, 1983). Specifically mentioned is the tendency to take after similar companies. We will compare the industries with each other but also the companies within each industry will be compared. At the same time, Clarke and Gibson-Sweet (1999) state that companies active in an industry, where public presence is high, tend to be better at sharing the information of the company with its stakeholders through their annual reports. Our assumption is that companies, facing external pressure, will provide similar information to the public and their shareholders and that their annual report will be resembled to each other. The Industry variable is divided into nine categories; Energy, Financial, Consumer Discretionary, Consumer Stables, Health Care, Materials, Telecommunication Service, Information Technology, and Industrial. The division was made based on Stockholm stock exchange large caps' grouping as this categorisation is already accepted in the market and among shareholders.

3.1.2 Swedish Code of Corporate Governance

The middle part in our model for analysing empirical findings, presented in figure 2 above, focus on the Swedish code of corporate governance and its five headings; *Shareholders' General Meeting, Appointment of Board and Auditors; Company Management, Board of Directors and Information on Corporate Governance.* The following part will describe each heading and the information we have been searching for, when evaluating the annual reports. To view the specific criteria used when evaluating the annual reports and which companies that have been investigated, we refer to appendix A and B.

Shareholders' General Meeting
The shareholders' general meeting concerns issues related to the formal information of the general meeting, such as date, time and place for the meeting (Kodgruppen, 2005). It is important for the shareholders to get information regarding the general meeting and the possibility for them to attend and participate, in order for them to influence the business operations. Another important aspect to consider is the board, management, and auditors' attendance at the general meeting, as it affects the possibility for the shareholders to get possible questions answered. These aspects will be considered when evaluating the information provided in the annual reports and will be discussed both in terms of the variables and information. Hence, the Swedish code of corporate governance requires companies to provide this information to the shareholders.

Appointment of Board and Auditors
The appointment of the board and auditor is an important decision in organizations as the board is responsible for the management of the company, while the auditors are in charge of the company audit (Kodgruppen, 2005). The board members possess great power and it is important to have an independent nomination committee that is responsible for the selection of board of directors. The auditors are elected on the general meeting, and are often recommended by an audit committee, board of directors, or the nomination committee. This research area is not only concerned with the appointment of the board and auditors, it is including the remuneration of both of them. An explanation of the remuneration each involved part will receive for their commission is demanded. This information will be evaluated, graded and discussed in terms of the variables and the Swedish code of corporate governance.

Company Management
The company management concerns the management of the company and discuses issues related to the daily activities (Kodgruppen, 2005). Remuneration has been a greatly discussed issue in today's society and we have decided to investigate the information related to this topic. Who is responsible for the remuneration decision, do the companies have a remuneration committee, and in that case what are its assignments? Another aspect to consider when discussing the management of the company is the role of the managing direc-

tor. We have evaluated the annual reports based on the information related to the duties and work task of the managing director. We believe that this information is valuable to the shareholders as it concerns the relationship between the principal and agent. Nonetheless, we believe that this information is an area where conflicts easily can occur.

Board of Directors
The board of directors is in charge of the management of the company, and we have investigated their independence regarding both the company and major owner (Kodgruppen, 2005). The managers' competence will be evaluated as they play a vital part in the governance of the company. This research area focuses on the companies' explanations of their financial and accounting principles and they are being evaluated based on information provided. We have investigate how detailed the auditors are in the description on their review of the report. This area includes information related to the company's vision and strategy, and it has been evaluated based on how concrete the goals are and the explanation of how they will be achieved. The Swedish code of corporate governance was implemented as a response to the experienced accounting scandals and we have evaluated the information provided by the companies that are related to guidelines for ethical behaviour.

Information on Corporate Governance
The research area information on corporate governance is specially related to the Swedish code of corporate governance and how the code has been implemented (Kodgruppen, 2005). The companies have been graded based on their corporate governance and if the information has been reviewed by an auditor. If the deviations from the codes' rules have been clearly explained and if they present information related to the internal control of the company. This area investigated the board members and if the annual reports present information regarding their competence, education and work experiences. Other information such as, the board members name, age, and if they have been re-elected have been investigated. We have evaluated the information related to board meetings, how many, and if the board of directors have been attending the meetings. The information on corporate governance further examines the auditors, which year they were elected and what services they provided. The managing director will also be investigated and will be evaluated based on the information explaining her or his share holding and commitment outside the company. The heading information related to corporate governance is particularly interesting in our study as it constitute a section of its own in the company's annual report. Hence, it should contain the information related to the Swedish code.

3.2 Research Method

There are different ways to collect the necessary information, processing the material, and the selection will affect the outcome of the study (Patel & Davidson, 2003). Hence, it is important to understand the choices made and why they were made. Høivik (cited in Holme & Solvang, 1997, p. 347) states that *there is no external approved norm for what appropriate research is.*[2] It is rather the overall view and opportunity to take different paths and use methods that constitute the freedom of doing research (Holme & Solvang, 1997). All methods used to investigate and explore society have their strengths and weaknesses, and it is important for us to find the most suitable method in order to fulfil the purpose of this thesis.

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[2]Høivik (cited in Holme & Solvang, 1997, p. 347) "det finns inte någon fast yttre norm för vad bra forskning är."

3.2.1 Inductive vs. Deductive

When approaching a study, a researcher can use one of two approaches; an inductive approach or a deductive approach (Lundahl & Skärvad, 1999). The inductive approach starts out by gathering empirical findings and then makes use of them to create theories. A deductive approach on the other hand starts out with the already existing theories as a foundation and makes use of them to create predictions, which are then verified or falsified by empirical findings. Our study can be described as both inductive and deductive and it goes through two different phases. How these phases have been carried through is illustrated in figure 3 below.

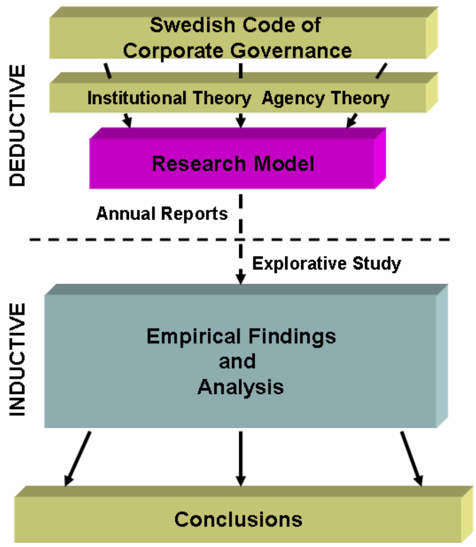


Figure 3, The deductive and inductive phase

We have evaluated if the Swedish code of corporate governance has improved the information provided to the shareholders, and a research model was created as a tool to collect the necessary empirical data. This tool was created with the help of a deductive method which can be seen in figure 3. In order to evaluate the Swedish code we had to take our starting point in the information requested by the Swedish code. This information has then been filtered by our frame of references, Institutional Theory and Agency Theory, resulting in our research model. The creation of our research model has been carefully considered as we wanted to make sure that we are covering all areas of the code, and we were deductive in that sense that we were formulating our research model from an already existing code. However, we have not been interested in testing if these theories are true instead we have explored the effectiveness of the Swedish code. The research model has then been implemented on the investigated companies and their annual reports. As shown in figure 3, our deductive approach ended here and we are instead becoming more explorative as we are not relying on any earlier research or theory.

The Swedish code of corporate governance has only been implemented since the middle of year 2005, and there is a lack of research studying if the Swedish code is fulfilling its purpose and if the shareholders are provided with better information regarding the corporate governance or not. Because of its recent introduction there has been no investigations related to evaluation of the information over time. This is the gap our thesis aim to explore, and it is where the inductive phase of our study began. Our thesis has been explorative as we have investigated the Swedish code from a different perspective. A majority of the earlier studies have only been testing hypothesis, at the same time as they have only taken one year into account. We have therefore aimed at filling this gap, by conducting a non-hypothesis study that takes three years into consideration and that discusses the Swedish code in its completeness. The aim with an explorative study is to gain as much knowledge as possible about the area of interest, and it is important to take many aspects of the area in to account (Patel & Davidson, 2003). To carry out an explorative study, we made use of an inductive method when relating our empirical findings to the frame of references. Previous studies in the field have not had the foundation in an inductive method, and we have therefore been aiming at being more open-minded to the area of interest. The reason behind this is to ensure that we were not restricted by earlier thoughts. Hence, we did not want to test previous theory instead we wanted to explore new ones. Therefore an inductive method is the only one to use once we had our research model.

3.2.2 Quantitative vs. Qualitative

There are generally two approaches discussed when it comes to how the data for a study is generated, processed, and finally analysed (Patel & Davidson, 2003). These two are qualitative or quantitative, and depending on what research to conduct these could be used separately or together (Darlington & Scott, 2002). Nevertheless, the common intention of the two methods is the aim to investigate the society and its institutions, groups, and individuals and how they affect each other (Holme & Solvang, 1997). A qualitative method is recognized by the fact that the people carrying out research attempt to understand how humans experience themselves, their existence, surroundings and the situation they are part of (Patel & Davidson, 2003). The qualitative method is interested in how the world appears to be, rather than how it actually is. Ryen (2004) on the other hand, claim that a quantitative approach is easier to interpret as the result is measured in figures, while the qualitative approach is more difficult to analyze as the result is conducted by analysing the meanings of the words stated. We were primarily interested in how the world actually is and the trends and differences in companies' annual report. The qualitative method was therefore rejected. Our ambition has been to evaluate and measure the information regarding corporate governance available in the annual reports and we argue that the quantitative approach was the most appropriate. The explanation behind this was that we were interested in the information which was actually written in the annual reports and not what one can interpret by reading it. In addition, we believed that a quantitative method was more suitable as our intention was to evaluate how the Swedish code of corporate governance has impacted the information in annual reports. A quantitative method, from our point of view, facilitated the comparison of the results and can support our conclusions.

Lundahl and Skärvad (1999) explain that a qualitative method is more interested in understanding the specific subjects that are investigated. In order to draw general conclusions, according to Patel and Davidson (2003), the data should be universal. Eliasson (2006) explains that a quantitative method is more suitable when covering several different areas in a research. The Swedish code is comprehensive, and our ambition was to investigate all of the five headings, Shareholders' General Meeting, Appointment of the Board and Auditors, The Board of Directors, Company Management, and Information on Corporate Governance. Ghauri and Grønhaug (2005) describe how the quantitative approach is more objective as it views the context from an outside perspective. The authors further describe the method as a logical and critical approach. We believe that our approach has been objective, as we have no close relationships or influence with the investigated companies and their annual reports. In addition, the data was collected with our research model using the guidance from the Swedish code of corporate governance, which could be described as Ghauri and Grønhaug's (2005) outside view. The structure of the quantitative research, according to Holme and Solvang (1997), is complete already during the process of establishing the frame of references and problem discussion and this facilitates the treatment of the empirical information. Our research model is a reflection of the frame of references chapter, and especially the Swedish code. Institutional Theory and Agency Theory constituted the foundation for our analysis and they will be discussed from the variables, Spread of Ownership, Audit Firm, Industry, Turnover, and Board of Directors. The purpose of this thesis is to examine if and how the Swedish code of corporate governance has affected the information provided in annual reports over the years, and the Swedish code are an essential part in both the frame of references chapter and the collection of the empirical data. Holme and Solvang (1997) argue that the quantitative approach is more formalized and structured, which is necessary when examining the results. In our study the data collected is strictly related to our research model, and we have only investigated the information in accordance to it. The research model was carefully constructed and formulated after the Swedish code and we claim that it is a relevant model for evaluating the Swedish code's affect on the information in companies' annual reports.

3.3 Data Collection

There are different ways to collect the data required, in order to fulfil the purpose of the research (Patel & Davidson, 2003). Depending on what is to be investigated and the available information, different techniques are more or less appropriate. Our purpose is to examine if and how the Swedish code of corporate governance has affected the information in company's annual reports, and our empirical data has therefore been collected from annual reports. Our research model has been used as a tool to collect the empirical data, and we have gathered information from 65 companies listed on the Stockholm large cap list, from the individual years 2001, 2005, and 2006.

When carrying through a study, already existing documents can be used and/or new information can be gathered (Patel & Davidson, 2003). There are two types of data, primary and secondary. Ghauri and Grønhaug (2005) describe primary data as the data collected for a specific research where secondary data is not available or unable to answer the purpose of the research. The secondary data, on the other hand, is existing data collected by others and for a purpose that is different from the original one. Lundahl and Skärvad (1999) describe secondary data as information already documented, but not gathered or put together for a particular study. They further argue that books, journals, annual reports, contracts and notes can be characterized as secondary data. Artsberg (2005), on the other hand, argue that annual reports, legislations, and norms are primary sources, and that the data should be categorized after how the data is used. Patel and Davidson (2003) explain that a source can be both primary and secondary, depending on what is investigated. In this thesis both secondary and primary data has been gathered. The annual reports investigated have been categorizes in line with Artsberg's (2005) description and has been used as our primary data, whereas academic articles, Government's public investigation (SOU) and literature describing the subject has been related to as secondary data. To find the vital secondary sources a number of search engines have been used, for example Google Scholar, ABI/Inform and Blackwell Synergy. We have then used key words related to corporate governance, Agency Theory, Institutional Theory and the Swedish code of corporate governance. It is important to select the appropriate theories for the frame of references chapter, according to Eliasson (2006), as they play a vital part in the analysis and conclusion of the research. Nonetheless, having the appropriate frame of references will result in the most relevant solutions to the problem discussion. The frame of references should then be processed into measurable concepts. From the frame of references chapter a research model, described earlier in the chapter, was created which was used to collect the empirical data and to later on draw general conclusions from. Furthermore, specific criteria for each investigated area and its subheadings were determined. We believed the reliability and the validity would increase if we clearly stated in beforehand which criteria to evaluate according to.

The annual reports from the years 2001, 2005 and 2006 were collected from all companies investigated. The reason behind this selection was because we wanted to investigate if and how the Swedish code has changed the information provided in the annual report. The year 2001 was chosen since we wanted to take a year into consideration where the Swedish companies were not familiar with codes of corporate governance. This can be supported by Ljungdahl and Thorstensson (2004) who state that companies were not familiar to codes of corporate governance prior to the implementation of the Swedish code. Another explanation was the foremost accounting scandal, Skandia, had not yet occurred in Sweden and it is known that scandals have had an impact on laws and regulations (The Institute of Directors, 2005). The second year, 2005, was chosen because this was the first year that the Swedish code was implemented and we wanted to cover how well the companies followed it. The last year, 2006, was selected because we wanted to see if the information had improved further and mainly because it was the latest year available. Furthermore, it was the first full year the Swedish code has been implemented. Quantitative studies can be time and cost consuming and we had to limit our investigations to three years instead of investigating the period between 2001 and 2006 (Ghauri & Grønhaug, 2005). However, we do not believe that this has impacted the final result and that three individual years is enough in order to draw conclusions of the changes over time. As stated, our aim is to evaluate the changes and not only a before and after situation of one point, we therefore found three years appropriate.

The empirical data, meaning the annual reports, have been collected in both hard copy and electronic version. We believed that investigating two different sources that contain the same information would increase the trustworthiness of our study. The electronic version allowed us to use the search function and facilitated the finding of the information, while paper version provided an overall impression. In some cases one version was not available, since it was not printed yet, out of stock, or there was no electronic version to access. However, we believe that this has not affected the study. The annual reports only available in one version were examined with extra patience and carefulness to make sure they were not disadvantaged due to the lack of one version. We claim that each company has been evaluated after the same conditions and that this has not affected the final result.

3.4 Sample Selection

Ghauri and Grønhaug (2005) explain that the sample selection in a quantitative research is extremely important, and describe two possibilities for how to collect information. The researcher could either select all members of a population or chose a sample of it. Norusis (2002) defines a population as the group of people or objects that the researcher wants to draw conclusions from. In our case, we found the limited liability companies in Sweden to be of interest since we are interested in the changes that have occurred in Sweden. As it was not possible within the time limit to investigate all companies listed on Stockholm stock exchange we had to limit the sample. The largest companies were to implement the

Swedish code first, and therefore the sample was narrowed to Stockholm stock exchange large cap list. We have investigated 65 companies out of the 70 companies that were listed the 2 January 2007, the remaining five companies were excluded from the study as we could not get access to annual reports from all three years. All companies can be found in appendix B. The companies were asked to send us their annual reports in paper version, if no reports or answers had been received, within a month, we sent out a new request. For those reports that we could not access through a paper copy, we went searching for an electronic version on the internet. If not all three reports from one company were found, the company had to be excluded from our research, as we are evaluating a change over time. However, we believe that our final result could be applied to the excluded companies as well. As Eliasson (2006) explains, if the researcher is not able to investigate the whole population a sample can be chosen, and from that sample general conclusions regarding the whole population can be drawn.

The investigated companies were chosen because they are noted on the Stockholm stock exchange large cap list and have many different shareholders, but also because we were interested in exploring the relationship and information exchange between managers and owners. The Stockholm large cap list was chosen because they were already following the Swedish code in 2005, and since our purpose is to investigate if there is a change in information over time.

3.5 Coding of Data

According to Lundahl and Skärvad (1999) quantitative studies are about measuring matters. To enable quantitative analyzes of the data retrieved, the measured data needs to be given a numerical value. Our information collected from the annual reports therefore needed to be transformed into a scale that could be altered into numbers (Patel & Davidson, 2003). This is called coding the data (Eliasson, 2006). A weakness related to the quantitative method is, according to Holme and Solvang (1997), the faith human beings have to issues described by numbers. This faith often results in misinterpretation of the information. It is important for the reader to understand that numbers are not making the truth more correct, it is rather how the research has been conducted and the effort spent that does. The empirical findings in this thesis have been measured and evaluated after a specific and predetermined scale, in order to make sure that each object is measured in the same way. We believe that this has resulted in high validity of or results.

Norusis (2002) classifies the scales which data can be measured by into four categories; nominal, ordinal, interval and ratios. These variables differ among them, but also how precisely the result will turn out to be (Eliasson, 2006). The nominal scale can only be used for separating different alternatives, while the ordinal scale can be placed in order of preferences. The interval scale measures numbers and the difference between them, whereas the ratios scale only tells us about the proportion. We have used an ordinal scale as we evaluated the information in the annual reports, and assigned a number depending on the information provided. Hence, on an ordinal scale, the number will only indicate ranking (Norousis, 2002). We will measure the information provided in annual reports using our research model. The data has been coded after a predetermined three graded scale, zero, one and two. The information in the annual reports have been coded in such a way were *zero* means no information is included, *one* means information is provided, but not fully covering the matter, and *two* which means sufficient information has been included a more detailed description. The research model with its specific criteria for each investigated headings can be found in its completeness in appendix A. We believe that a three-graded scale has been sufficient for us, since it would have been difficult classifying the information in the annual reports into more categories. We claim that a more extensive scale could not have been motivated, as we had scarce time resources. Eliasson (2006) discusses the limitation with making use of an ordinary scale, as it does not measure the distance between each variable. This means that assigning two points does not indicate twice as much information as only assigning one point. The maximum total point any annual report could be appointed, is 46 points. If a company would receive 46 points, it would mean they are superior at providing their shareholders with information regarding corporate governance.

Our focus, when collecting the empirical data, has been to start out from the corporate governance section and then follow the references into other pages in the annual report. Furthermore, the auditor's report and the board of director's report have been used. Most of the annual reports from 2001 did not include a corporate governance section, and we have therefore investigated all of the information in the annual reports from 2001. Evaluating the whole report could have affected the study as it contains a large amount of material, and it was much more time consuming than expected. Nonetheless, being aware of this risk we evaluated the reports with careful consideration. In addition, we evaluated almost 200 annual reports and as time past by we learned were to find the information. Furthermore, if the information was not found we made a more extensive search in order to make sure that we had not missed any information.

3.6 Analyzing the Data

To analyse the empirical findings made, statistics can be used to measure information collected from a quantitative approach (Patel & Davidson, 2003). It is a tool to structure, describe, treat and analyze the data. There are two different types of statistics, either testing of hypothesis or descriptive. When making use of hypothesis testing statistics, hypotheses are used to gain knowledge. The descriptive statistics on the other hand is used to describe the collected material in numbers and by doing the bring light to the area of research. Eliasson (2006) discusses how the data collected, using an ordinal scale, should be presented and suggests diagrams as a suitable method. We have presented the empirical data and the analysis in one chapter. As Eliasson (2006) suggested, we have included different diagrams in order to facilitate the interpretation of our results for the reader. We aim to bring light to an area of research that has not generated many previous studies and no specific theories in the area. We believe that hypothesis would have restricted our ability to explore new findings within the area, and we have therefore chosen not to conduct any hypothesis. Our focus is instead to be explorative and open-minded, in order to give our reflection and evaluation of the Swedish code. Ghauri and Grønhaug (2005) characterize the descriptive statistic as structure, with precise rules and procedures. Hence, the descriptive method measures all objectives in the same way and according to the same criteria.

Holme and Solvang (1997) argue that quantitative research has a well-defined structure and the information is organized before being interpreted. We have analyzed our empirical data using the same structure as the frame of references chapter and our research model. This means that each variable is discussed under the theory which it derives from. Hence, the variables are the direct link to the Agency Theory and the Institutional Theory. The Swedish code of corporate governance and its five headings will be analysed separately, although, they are included in the analysis of the variables as well. According to Patel & Davidson (2003) it is beneficial to create diagrams to visualise the findings made by descriptive statistics. We have created diagrams out of empirical findings, in order to simplify for the reader. At the same time, the diagrams enabled us to see trends over the three specific years investigated according to the different variables used. Once all annual reports were graded an extensive progress started to cultivate the data into empirical findings. To analyse the empirical findings, the data were categorised according to the different variables presented earlier in this chapter. Having categorist the data, a mean value for each category within the variables was calculated. The trustworthiness of these mean values is high, as there are no extreme values that could have increased or decreased the average value. The mean values are presented in different diagrams and constitute the foundation of the analysis where the empirical findings are discussed in relation to the variables and the theories. In addition, a deeper discussion will follow regarding the Swedish code of corporate governance and how the information has been affected during the years investigated. It will focus on the contents in the annual reports and which of the information that were inadequately or sufficiently provided. The discussion allowed us to be even more explorative in comparison to the first part of the analysis.

3.7 Validity and Reliability

When conducting a study it is important to carefully consider validity and reliability and take any possible actions needed to increase these two, and thereby secure the quality of the study (Lundahl & Skärvad, 1999). Validity when it comes to measure could be defined as absence of systematically incorrect measurements. Reliability on the other hand, means that the study should not include any random incorrect measurements. This means that a study that holds high reliability should not be dependent on who is carrying out the study or under what circumstances the study is accomplished. Hence, two different researchers should be able to come to the same conclusion.

To manage a high validity of this thesis, time and effort has been put into the research model created for this study. Thurén (1991) argues that to keep the validity high, it is important to include appropriate variables in the model, so that it measures what is intended, and that no important parameters are left out. To ensure that our research model measured the appropriate areas, we made sure to have extensive knowledge within the area to be sure on what we wanted to fulfil with our research. A vivid discussion took place during the creation of the research model, to make sure no aspects were left out. At the same time, the Swedish code of corporate governance functioned as a guidance when creating our research model. We believe that a similar model could be created by another researcher with the same purpose as our. In addition, we argue that the same conclusions could be made and that our model is relevant for evaluating the Swedish code.

The main issue when accomplishing this study is reliability. Evaluating annual reports is to some extent personal. For example, determining how much a company writes about specific issues is difficult considering the companies are using different sizes and fonts in the reports. However, our main focus is not to evaluate how much each company has written, instead it is the content and information that has been evaluated. To make the reliability as high as possible, a long process was carried through to create a research model to make use of when evaluating the reports. Each aspect included in the model has a specific instruction that determines what is to be expected of it in the annual reports in order to receive a specific grade. By having a strict research model, the two of us were sure to evaluate the same aspects and that similar reports received the same grade (appendix A). To reduce the risk of errors and due to the fact that the two of us were not able to go through all reports together, we began the process by analyzing half of reports together. This ensured us that we made use of the research model in the same way. In addition, random tests were done on each others evaluations in order to confirm that the validity was kept high. At the same time, if any unclear matters arose during the individual evaluation, a discussion between the two of us was made to determine that the evaluation was made in similar manners. To ensure that no information was missed, we used both paper and electronically versions of the annual reports. Important to conclude is that we stress our research model as a reliable tool for collecting relevant information on corporate governance.

4 Empirical Findings and Analysis

The presentation and analysis of the empirical findings will be integrated in this chapter and will follow the frame of references structure. We will discuss the Swedish code of corporate governance in the light of Agency Theory and Institutional Theory and analyse how the Swedish code has affected the information provided in annual reports from the years 2001, 2005, and 2006. We will continue to describe connections between information provided and our investigated variables, Turnover, Board of directors, Spread of Ownership, Industry, and Audit firm. The information will be analysed from the shareholders' perspective and we will discuss if companies have changed their information. A question that arouse in the problem discussion was to investigate if companies already before the implementation of the Swedish code were superior at providing the shareholders with the same information and if trends can be seen in improvement of the information.

4.1 Corporate Governance

Corporate governance is described as a framework for creating conversation between the company and its shareholders (Parum, 2005). Mallin (2006) discusses corporate governance as a global phenomenon, in which the interest among the world has increased over the years. We have collected information related to the percentage of pages on corporate governance information in the annual reports as additional information to our research model. We can support Mallin (2006) and her statement that the interest has increased over the years, as the corporate governance information takes up a greater proportion of the annual reports in 2006 compared to 2001 (figure 4). The font of the text, layout and total pages varies among the investigated annual reports and we have focused on comparing the percentage of information on corporate governance in relation to the total pages in the annual report. As illustrated in figure 4, there has been an increase in corporate governance information. The low result in 2001 can be explained by the fact that the Swedish code of corporate governance was not yet introduced and many of the investigated companies did therefore not have a specific section related to corporate governance. Only five out of 65 companies had a section of corporate governance in 2001, and four of them are not following the Swedish code. These four might have been required, already in 2001, to have a corporate governance report according to the code they are following. Wearing (2005) argues that annual reports, nowadays, contains much more corporate governance information and that this is related to the implementations of codes of corporate governance. Our findings can therefore support Wearing's (2005) statement, and conclude that corporate governance have received an increased focus in the Swedish annual reports and that it is related to the Swedish code as figure 4 illustrates. Nevertheless, even if the corporate governance section has increased, it is important to know that this section only constitute a small part out of the entire report.

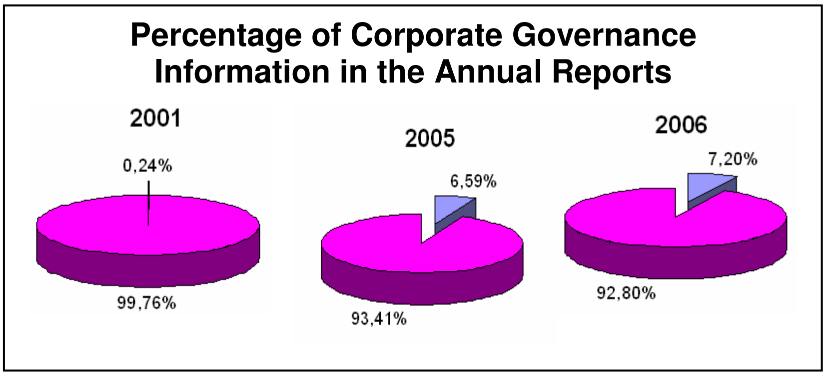


Figure 4, Percentage of Corporate Governance Information in the Annual Reports

To penetrate the subject further, we have investigated if the information required by the Swedish code was still included in the annual reports from 2001 which will be discussed below. Corporate governance is related to the separation of ownership and management and Gabrielsson (2003) stresses that corporations often have problems with the conflicts that arouses because of this separation. Smith (1776) discovered the possible conflicts between shareholders and owners and corporate governance already in 1776. As a solution to this Mallin (2004) considers the corporate governance as a useful tool to minimize the problems that may arise between the owners and managers. The increase in importance of corporate governance (figure 4) might be the answer to the ongoing conflicts of interest between principals and agents. In addition, as a result of the general public's attention to economic scandals more information regarding corporate governance might have been requested.

The board has the overall responsibility for the company and the implementation of the Swedish code of corporate governance (Svernlöv, 2006). The board members are elected on the Shareholders general meeting and the Swedish code suggests an equal gender composition (Kodgruppen, 2005). Because of this suggestion we were curious to investigate the gender composition of the boards. However, we have only investigated it in turns of additional information. The total number of board members and composition has varied among companies and years, and as figure 5 shows the female participation in the boards is weak. Although, we conclude that the females have increased their participation and 19 percentages of the board members are females in 2006. Nonetheless, we do not relate this increase to the implementation of the Swedish code; instead we believe it is related to the ongoing gender discussion in society. Schyman and Odabas (2007), for instance, put effort into this question by obtaining shares in different companies, in order to attend their general meeting and discuss this gender issue. Another support for our argument that the Swedish code is not the main reason for the increase is that after the first and second year of the Swedish code's implementation, the gender difference is still significant. The board members are elected every year and we argue that this could have been adjusted if companies were obligated to follow the suggestion made by the Swedish code. At the same time, there has been an ongoing discussion in society for a number of years that concerns the issue of the rare female board members.

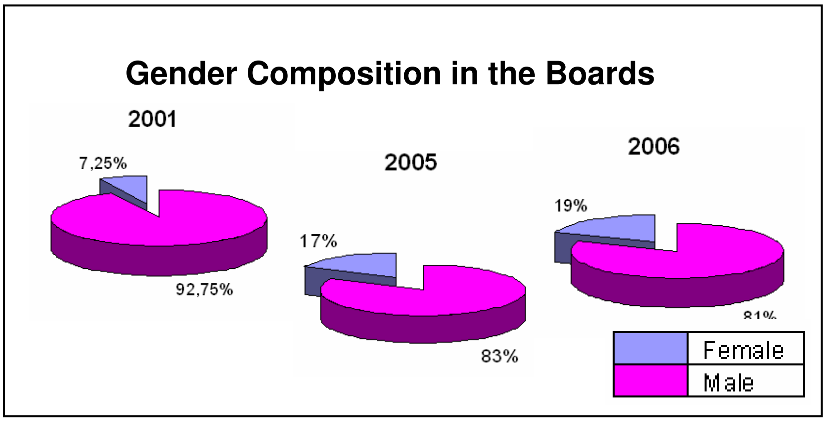


Figure 5, Gender Composition in the Boards

As illustrated by figure 5 there is a difference in the gender composition in the investigated companies over the three years, and we are questioning the Swedish code for giving a suggestion of an equal gender composition. We argue that the Swedish code should not have suggestions. Instead it should focus on specific rules that companies could either follow or deviate from. In this sense we believe that the Swedish code becomes meaningless, because suggestions are not followed to the same extent. Furthermore, companies do not have to explain if and why they are not following a suggestion and the shareholders can thereby not receive the information related to the underlying causes of the board composition. In spite of all, Mallin (2006) argues that an efficient corporate governance section brings individuals, companies and countries together.

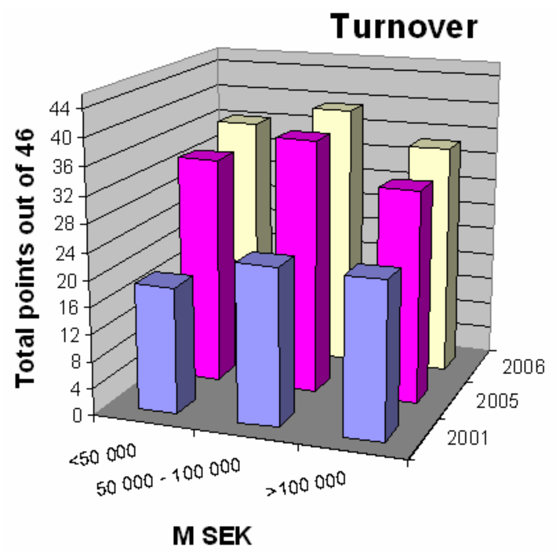
We will now present and discuss the empirical findings, gathered with our research model. Our empirical findings will be presented in terms of different figures in relation to our different variables and categories. The information will be illustrated by the mean value of the total points received in our model, and the percentage of increased or decreased changes in information over time. The possible points for companies to receive in our research model are 46.

4.2 Agency Theory

Jensen and Meckling (1976) discuss the problems and conflicts of interest that can arise when the principals hires agents to run their company. This has been taken into consideration when structuring our empirical data, as we will emphasise the relationship between the owners and management. The conflicts occur because ownership and control is separated and we have chosen to analyse if the Swedish code of corporate governance has affected the information provided in the annual reports. Eisenhardt (1989) discusses the importance of providing the shareholders with information regarding the management of the company in order to reduce the conflict of interest between principal and agent. Furthermore, Eisenhardt (1989) claims that it is the principals' responsibility to delegate the work to the managers. However, Wearing (2005) claims that the principals' power today is more connected to the flow of money rather than delegating of work tasks. We have investigated large companies listed on Stockholm stock exchange and they all have thousands of shareholders with different views and opinions, and can support Wearing (2005) in his discussion that it is more about the financial flow nowadays. The Institute of Directors (2005) also confirms his argument as they discuss how the ownership structure have changed and that individuals are investing in funds and pension schemas and therefore become more of indirect owners with limited ability to influence. The conflict between agents and principals is based on the asymmetric information that originate, and Eisenhardt (1989 argues that the agents are more likely to take decisions in favour of the principals when they are provided with rich information of what is expected from the shareholders point of view.

4.2.1 Turnover

The turnover variable measures the size of the companies and we have divided it into three categories; smaller than 50 billion SEK, 50-100 billion SEK and greater than 100 billion SEK. Our assumption, presented in the method chapter, is that a company with a large turnover would experience more conflicts of interest between managers and owners. This is partly due to more money in circulation but also because more managers are involved in the business operations. Analysing this further, it would result in that information communication becomes more important in order to reduce conflicts. As Botosan (1997) stresses, annual reports are the communication channels between the company and its shareholders, and to reduce conflicts and asymmetric information the company has to have a comprehensive annual report including corporate governance information. The empirical findings categorised in relation to the turnover is described in figure 6, where the bars show the average point received within each category and investigated year.



	2001	2005	2006
<50 000	18.76	33.64	36.14
50 000 – 100 000	23.20	37.63	39.18
>100 000	23.00	31.56	34.50

Figure 6, Turnover

The information measured with our research model has increased over the years, as shown in figure 6. However, the difference between each category of turnover is not as large as we could expect. Kenani and Persson (2006) came to the conclusion that larger companies are better at implementing the Swedish code of corporate governance compared to smaller companies. The difference between our studies and their, is that they categorised companies listed on the Stockholm stock exchange A and O list as large companies, whereas we have only investigated large companies listed on Stockholm large cap. In addition, we have divided our companies into three different categories were a difference among them can be found. To expand on Kenani and Persson's (2006) statement that large companies are superior in their implementation of the Swedish code, we wanted to investigate if this was true even when narrowing down the size even further. All companies are listed on Stockholm large cap, however, the turnover and thereby the size of the company still differs to a great extent. As shown in figure 6 companies with a turnover between 50 billion SEK and 100 billion SEK have received most points in our research model 2006, and are therefore superior in providing corporate governance information in their annual reports. Our assumption was that companies with a higher turnover would provide more information in their annual report's as they have more money in circulation, engage more employees and the distance to the shareholders become evident. However, our results in figure 6 show the opposite. All companies are viewed as large and the distance between agents and principals might be similar in all of them, especially when comparing the number of shareholders and managers involved. We are surprised with our findings, and are questioning if our measurement of size is appropriate. Categorising the companies in accordance to number of shareholders or employees might have given another result. A higher turnover might not necessarily mean more people involved and thereby a large distance between owners and manager.

Another aspect to consider is that companies experience external pressure from media and the society. Companies should be nurturing them with information in order to make them satisfied. This is supported by Institutional Theory, where this type of pressure is called normative pressure (Hatch, 1997). At the same time, it is important to consider that many of the companies classifying into the group of the largest turnover, are companies that have their residence in other countries and are therefore following the code of that country instead of the Swedish (OMX, 2006). Nevertheless these are still companies being listed on the Stockholm stock exchange and the large cap list, and through these rules that determine that companies with a residence in another country are allowed to follow that country's code, less information is provided to the Swedish shareholders. This means that the Swedish code is not helping to reduce the information gap between the agents and the principals if the company has its residence outside Sweden (Eun & Resnick, 2004). At the same time, our findings are related to the Swedish code of corporate governance and we have only taken the Swedish code's requested information into consideration. Nonetheless, the annual report contains a lot of information, and as shown above, the corporate governance section only constitutes a minor part (figure 4). It is important to consider that shareholders might request other information that is not demanded by the Swedish code and that is provided in the annual reports. Many companies provided social disclosure to their shareholders already before the implementation of the Swedish code, and companies seem to be aware of both stakeholders and shareholders' request for information. Annual reports are also reflecting the ongoing debate in the society, and Milne and Chan (1999) discuss how information on environment, employees and community has increased.

All our investigated companies can be categorised as large companies as they are listed on Stockholm large cap list. However, figure 6 describe differences among them and within the results given by our research model each year. Svernlöv (2006) discusses that it is more accepted for smaller companies to diverge from the Swedish code and its principals, and it is therefore unexpected that the companies with a lower turnover are superior at providing the information compared to larger companies with a higher turnover. The difference between each category and the individual years can be explained further in figure 7, were the percentage improvement between the investigated years and categories can be found. The total bar in the chart represents the increase in information between the individual years 2001 and 2006.

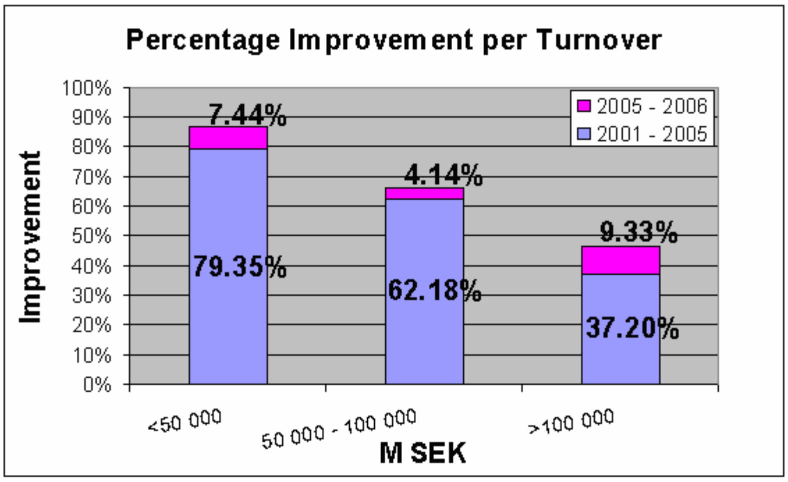
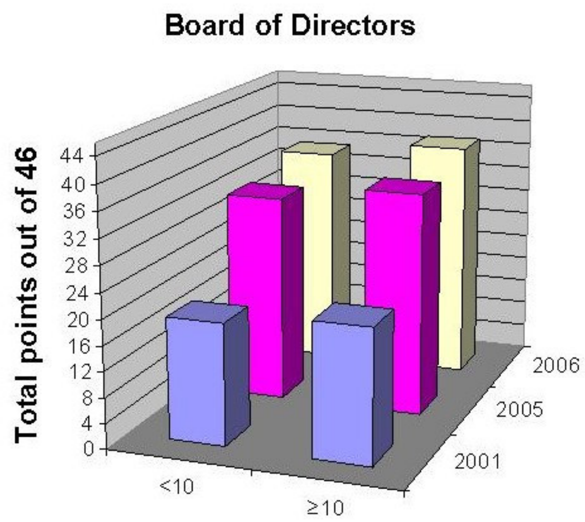


Figure 7, Percentage Improvement per Turnover

The category including companies with a turnover of less than 50 billion SEK have increased with 86.79 percent, whereas the companies with a turnover exceeding 100 billion SEK only have increased their information with 46.53 percent (figure 7). Nevertheless, it is important to compare figure 6 and figure 7 together as they are describing different aspects. Figure 7 shows that companies with a lower turnover have improved their information in the annual reports the most, and this could be explained by figure 6 where the bar from 2001 indicates that these companies where not as superior in providing the same information. The percentage improvement between the three categories is showing a greater difference among them compared to the chart describing the corporate governance information. The reason behind the tremendous increase in information provided among companies with a lower turnover from 2001 to 2005 is that they were poor at providing the information in 2001. If the companies are following the Swedish code or still include its requested q information, there are easy points to receive in our model. We can conclude that the implementation of the Swedish code in 2005 has therefore made an impact on the information provided in the annual reports as all bar charts are showing an increase (figure 6 and figure 7).

4.2.2 Board of Directors

The board of directors is another variable chosen to investigate in order to find if any connections between the total number of board members and the corporate governance information provided in the annual reports exists. The board of directors is in charge of the company's operations and has specific responsibility towards the owners (Kodgruppen, 2005). Eun and Resnick (2004) explain that it is common for the agents to have more information regarding the company than the principals. However, it is important not to forget that it is possible for the owners to be part of the board as well. As explained in the method chapter we will view the board members as agents in this thesis. Our empirical data has been categorised into two groups, the companies with a board with less than 10 directors and a board with 10 directors or more (figure 8). Our assumption is that a larger board is more diversified as it will represent more owners. At the same time, the board is elected by the shareholder and should take their interest into consideration no matter how many directors there are in the board. Svernlöv (2006) explains that the board of directors is responsible for the implementation of the Swedish code, and is therefore responsible for the information provided to the shareholders. Figure 8 demonstrates a slight difference between the two categories, and the information provided in the annual reports over the years. Our mentioned assumption can thereby be questioned, as there is no major difference between the two categories.



	2001	2005	2006
<10	19.09	32.52	35.07
≥10	21.00	35.09	37.59

Figure 8, Board of Directors

The information for both categories has increased over the years and the bars in figure 8 show an almost equal result between the two categories. Nevertheless, the companies with 10 or more board members receive around 2 more points each year compared to the companies which have less than 10 board members. We can conclude that there is a small connection between information provided and the total number of board of directors. We believe that a board consisting of more members need to take more opinions and interests in to account and are therefore providing more information to ensure that all board members are satisfied. On the other hand, more people responsible do not necessarily mean more information is shared with their shareholders. The Swedish code states that board of directors is responsible for the quality of information, and that they should run the company in an efficient way (Kodgruppen, 2005). However, this could be difficult for the shareholders to determine as all information is not distributed. Out of the total points of 46 the two categories only receive an average value of 37.59 and 35.07 in year 2006, which we interpret as the companies are not providing information that is sufficient enough, at least not in relation to the Swedish code. The percentage improvement per board of directors and the investigated years can be found in figure 9. This figure also supports our earlier discussion regarding the similarities between the two categories and that there is a small connection to the information provided.

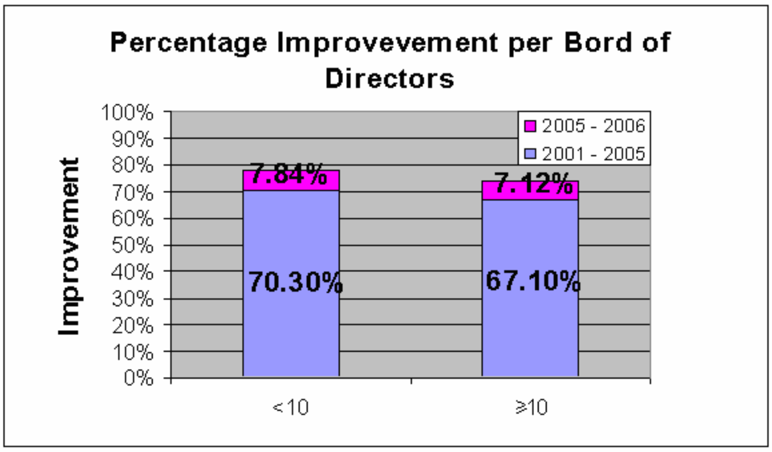


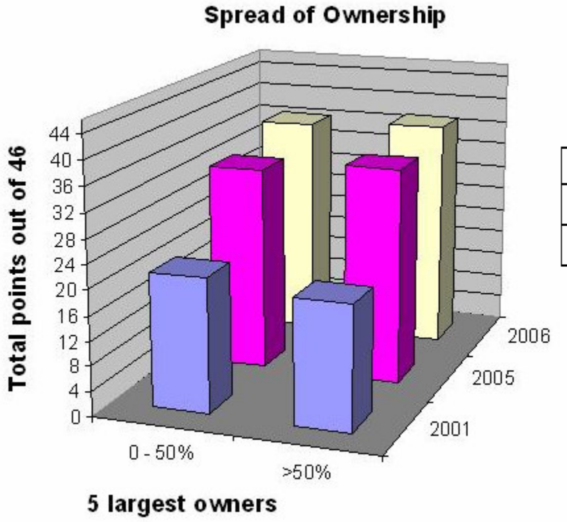
Figure 9, Percentage Improvement per Board of Directors

Both figure 8 and 9 illustrate that the information has increased over the years and we argue that the Swedish code of corporate governance has been successful in its implementation. The owners are indirectly and directly controlling the business and the Swedish code of corporate governance is described as a tool, with the aim to consider the possible conflicts of interest between the owners and management (SOU, 2004:130). Providing the shareholders with the information that the Swedish code demands would according to us be satisfying. However, considering that much information requested by the Swedish code is excluded or insufficient in many of the annual reports, the tool still needs to be improved to reach its full potential. We are questioning the Swedish code for its design, as we view the code as too detailed in some areas while it is unstructured in others. This could have affected the companies' implementation of the code. After evaluating the annual reports in accordance with our research model the result is not as astonishing as one could expect. In fact, as shown in both figure 8 and figure 6 the total point of 46 is not achieved in any of the diagrams. This could be a confirmation that agents and principals do not have the same information, and as Eun and Resnick (2004) discuss there are possibilities of conflicts of interest.

4.2.3 Spread of Ownership

Bylund and Haggren (2005) argue that the Swedish code of corporate governance is primary significant for organisations that have a spread ownership. Relating this statement to Meckling and Jensen's (1976) Agency Theory it would be assumed that companies with a wider spread of ownership should be better at providing shareholders with information. However, this is not the case. Figure 10 illustrates a small difference in information provided between companies with a concentrated ownership and companies with spread ownership over the years. The average point received in our research model for companies with a concentrated ownership was 37.35 out of the total point 46, while the category of companies with spread ownership received a mean value of 36.29. This rejects our assumption that companies with a wide spread of ownership are superior at providing corporate governance information. Figure 10 illustrate the opposite and the only support we can find for our assumption is in year 2001. The reason behind this might be that all of the companies investigated are large companies. It does not matter if they have a diversified ownership or not, they are all required to provide similar information to the shareholders and society. Lately because of the Swedish code of corporate governance, and previously because of the pressure experienced by the society, a thought which is supported by Institutional Theory.

We claim that companies are affected by other companies, and that they will imitate each others to receive similar status and are therefore imitating the in the information provided in the annual reports. This study includes investigations of almost 200 annual reports, and we stress that they are similar to each other both in terms of layout and content.



	2001	2005	2006
0 – 50%	21.67	33.23	36.29
>50%	20.15	35.13	37.33

Figure 10, Spread of Ownership

The information provided by the companies categorised according to their spread of ownership has increased over the years for both categories, and both figure 10 and 11 show that the largest increase has occurred between year 2001 and 2005. As said before, this can be related to the implementation of the Swedish code of corporate governance and that our research model is evaluating its content. Figure 10 and 11 confirm that companies with a concentrated ownership have increased their corporate governance information in the annual reports the most. Although, in year 2001 and 2006 both categories provide similar information which is the complete opposite what would be expected according to Agency Theory (Jensen & Meckling, 1976). Worth mentioning, is that the companies with a spread ownership was superior in providing corporate governance information in their annul reports before the implementation of the Swedish code. However, it is unexpected that after the implementation of the Swedish code companies with a spread ownership and diverse voting power have not made a larger effort into providing shareholders with information, which can be described in figure 10 and 11. In spite of all, the Swedish code was implemented to decrease the information gap between owners and managers.

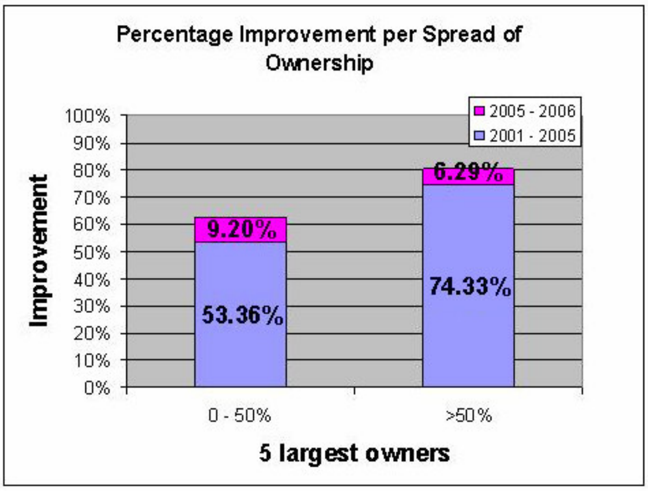


Figure 11, Percentage Improvement per Spread of Ownership

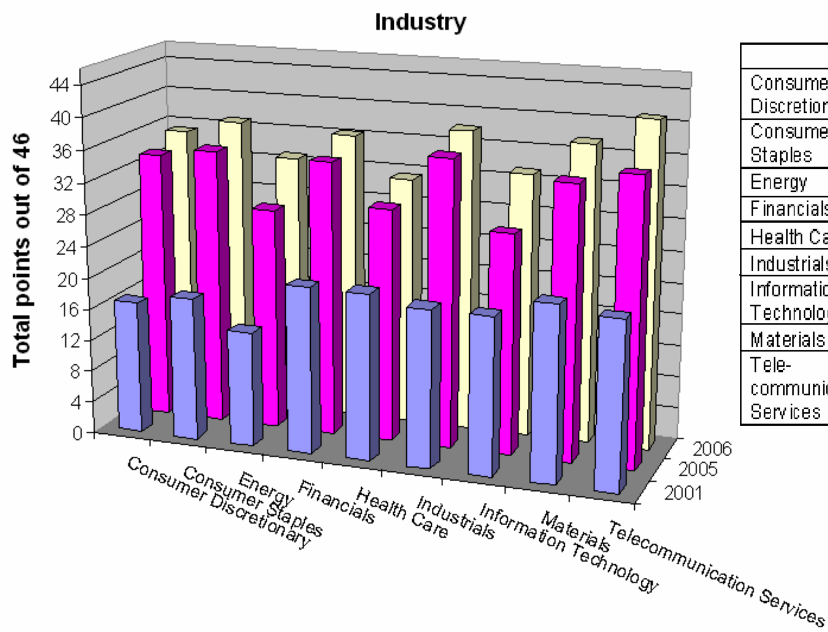
Considering the difference between 2005 and 2006, which is displayed in figure 11, we state that the information has improved even further. The companies with the wide spread of ownership have a higher percentage of increase, although companies with a concentrated ownership has increased the most in total. This is unexpected since we were expecting the companies with a wide spread of ownership to improve the most. However, the difference in the improvement of the information provided is rather small. A reason behind the small difference could be that companies with a concentrated ownership have more active owners and that they are already aware of the requested information and the annual report does not have to be as detailed. This means that it is more difficult for the companies to hide information and the agents' decisions are more involved with the principals. On the other hand, companies with a wider spread of ownership have more owners to consider and have to be more sufficient in their sharing of information. Eisenhardt (1989) discusses how it is common for the owners to feel that they are not able to influence the operation of the company. We believe that this is more relevant for companies with wide spread of ownership compared to companies with a concentrated ownership. Our conclusion is that it is easer for owners within a more concentrated ownership to influence decisions. Wearing (2005) on the other hand discusses that the owners' right are rather limited and only concerns dividend and disposing share. The investigated companies are all listed on the Stockholm large cap list and all have thousands of owners, and we believe that it is difficult for one owner with a single vote to have a major saying in the decision making. Nevertheless, one should not underestimate the power of a minority as they can go against a decision.

4.3 Institutional Theory

Institutional Theory considers the pressure companies experience from its surrounding environment (DiMaggio & Powell, 1983). To manage this pressure and to ensure the company's survival, companies have a tendency to imitate the behaviour of other companies, independently on if the imitated behaviour is more effective than the previous one or not. We interpret the Swedish code of corporate governance as coercive pressure for companies, since it is a regulation created by the governance and it cause pressure for the company (Hatch, 1997). At the same time the pressure received from society can be described as normative institutional pressure. We have examined almost 200 annual reports, and we stress that the reports have improved the information included. The explanations behind this could be many. One reason is the coercive institutional pressure the companies experienced due to the implementation of the Swedish code. Another explanation is the increased awareness in society. Partly, because of the implementation of the Swedish code but also because of expectations from society. External pressures on the companies force them to improve their provided information. Accounting scandals experienced in the world today has affected the information provided and the discussion regarding companies' behaviour. It would be strange if companies were not to react on the criticism these discussions include. At the same time, if some companies start to improve their information, other companies will experience mimetic pressure. Mimetic pressure occurs when companies imitate other companies in order to be considered legitimate by the surrounding. We stress that the investigated annual reports are similar to each other and we can se that they are affected by society and other companies as well. This can be supported by appendix C, which illustrate all investigated companies and industries listed on Stockholm large cap and their points received in our research model.

4.3.1 Industry

Stockholm large cap list divides the listed companies into nine different industries, and we wanted to evaluate if there is a difference among these categories and the information companies provide in their annual reports. DiMaggio and Powell (1983) argue that organisations put effort into being resemble to each other. This is, according to Hatch (1997), related to the increased external pressure organisations faces from the environment. The industry group and the total score they received, when applying our research model, can be found in figure 12. Figure 12 shows that there is a difference between the different industries and the accomplished improvement of information provided between the different years investigate. Appendix C presents each industry, including all investigated companies, and how their information has changed over the individual years. These figures show that within each industry companies are resembled. However, there are a few deviations within each industry and believe that companies try to appear as similar. By imitating each other, the companies make sure not to differentiate and thereby be viewed as a negative example within the industry. Imitation when it comes to structure and design of the corporate governance report means decreased costs for producing the report, since the lay-out is already determined. This is supported by Institutional Theory, which states that companies are likely to take after similar companies' behaviour (DiMaggio & Powell, 1983), and the companies within the same industry are viewed as similar in some aspects.

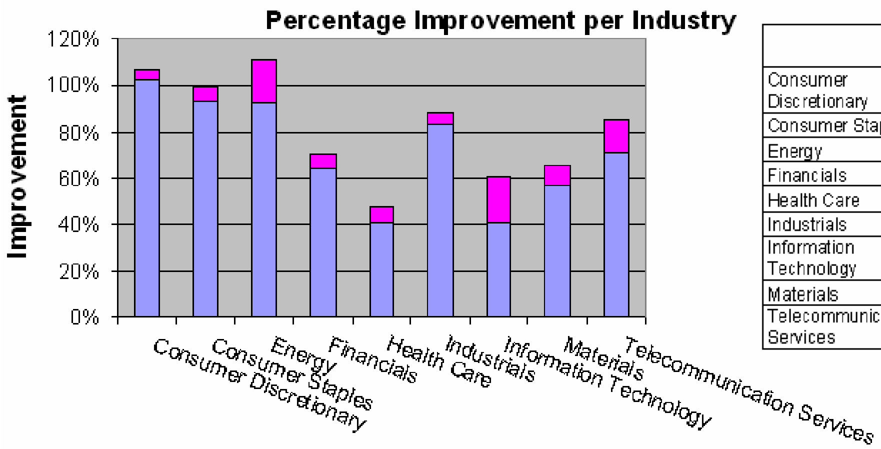


	2001	2005	2006
Consumer Discretionary	16.70	33.80	35.30
Consumer Staples	18.00	34.80	37.00
Energy	14.50	28.00	33.00
Financials	21.00	34.60	36.40
Health Care	20.90	29.40	31.40
Industrials	19.80	36.30	38.10
Information Technology	19.70	27.70	33.30
Materials	22.00	34.40	37.60
Tele-communication Services	21.00	36.00	41.00

Figure 12, Industry

Analysing figure 12 further, we can see that the total points received has increased over the years, which means that the companies have increased their corporate governance information in their annual reports. The lowest score in 2001 was 14.5 points out of 46 and this can be compared to 2006 where the lowest score was 31.4. Imitating each others behaviour is considered as legitimate and is occurring no matter if the behaviour is useful or not (Deephouse, 1996; Carpenter & Feroz, 2001). As shown in figure 12 the industries receive scores that are resemble to each other, or at least two trends viewed. Some industries are superiors, while others have received a lower score but still among the other industries. We believe that this is connected to that they are all listed on Stockholm large cap list and that they are obligated to follow the Swedish code of corporate governance. However, this explanation can only be held true for the last two years. In 2001 no Swedish code was implemented and the similarities found this year need another explanation. Our believes are, that even though there were no stated Swedish code at that time, the companies still had a glance at each other's annual reports to make sure they included similar information as their competitors, as they wanted to be considered as legitimate (Deephouse, 1996; Carpenter & Feroz, 2001). This can be related to both normative and mimetic institutional pressure described by Hatch (1997). Appendix C illustrates the similarities among the companies in each industry, and can support our discussion. The companies in the same industries have received similar points in our research model, and the larges difference found is between the different industries. Institutional Theory discusses how companies imitate each other and this can be confirmed by appendix C as well.

To move on, it is interesting to consider the percentage improvement regarding the provided information made within each industry. Figure 13 displays this information and shows the information from another perspective.



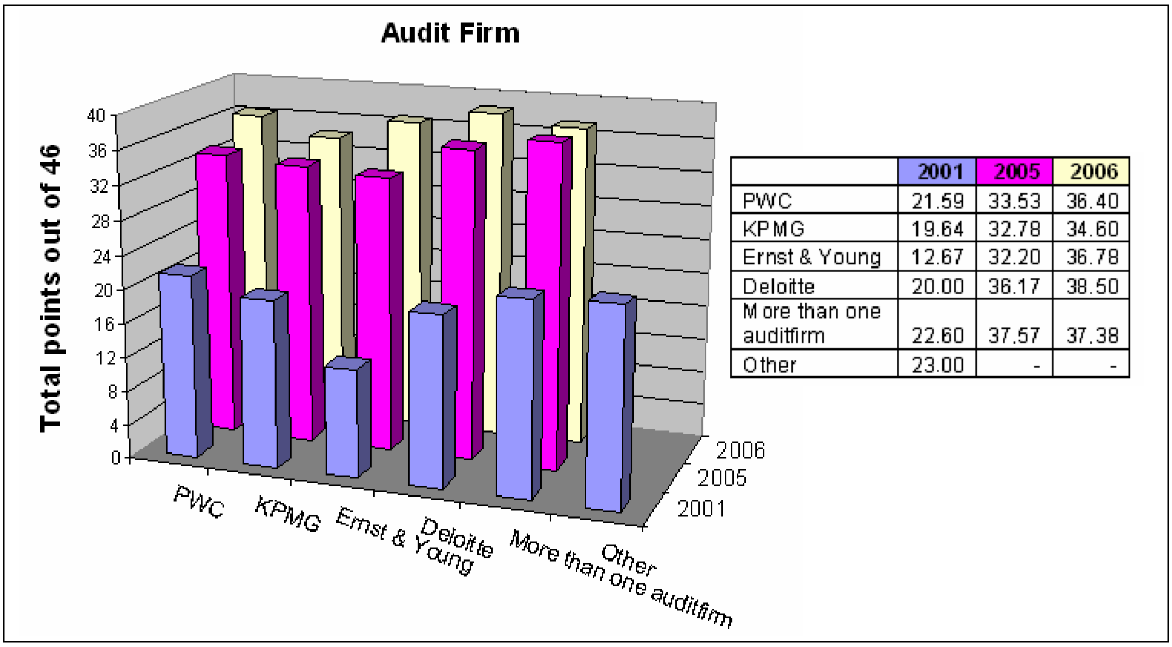
	2001-2005	2005-2006
Consumer Discretionary	102.40%	4.44%
Consumer Staples	93.33%	6.32%
Energy	93.10%	17.86%
Financials	64.76%	5.20%
Health Care	40.67%	6.80%
Industrials	83,33%	4.96%
Information Technology	40.61%	20.22%
Materials	56.36%	9.30%
Telecommunication Services	71.43%	13,89%

Figure 13, Percentage Improvement per Industry

The percentage improvement per industry is described in figure 13 and as mentioned before, when describing the other variables the greatest difference is found between 2001 and 2005. Nevertheless, when analyzing the percentage improvement per industry the resemblance between the industries is not as clear anymore. For instance, the health care industry has the lowest percentage improvement in the chart and is not good at providing corporate governance information as viewed in figure 12. Analysing this from the perspective of Institutional Theory, we would have imagined that an industry only showing a slight percentage increase in the information provided, already would be superior in the information they provide. We believe that organisations that are imitating each other, when writing the annual reports, would score almost the same. We also assumed that a higher percentage increase would be the result of imitating in order to become more resemble. However, as can be seen in both figures 12 and 13 that is not the case. Nonetheless, the materials industry were superior in providing information in 2001 and they might have been satisfied with the information they provided, and as a result they missed out on the progress many other industries had, and are not superior at providing information in 2006. The increase in information between year 2005 and 2006 shows a similar trend among the industries, and when analysing figure 12 and figure 13 together we can conclude that they are becoming more alike. We believe that the institutional pressure received, both in terms of regulations and society, have had an affect on companies and their annual reports.

4.3.2 Audit Firm

As part of our investigation we wanted to discuss if there is a connection between the corporate governance information provided in companies' annual reports and their assigned audit firm. Our empirical findings have been sorted based on the audit firm that has signed the auditor's report, and our result is shown in figure 14. There is no specific pattern that can be viewed and there is a different audit firm that has the leading position each year. We focus on the "big four" audit firms in Sweden and have lumped the other ones into the categories of others. Hence, these companies did only use them in year 2001. We found it surprising that companies which used another audit firm scored higher in our research model compared to those companies that used any of the four known audit firms. We expected resemblance between the information provided and Sweden's largest audit firms, and that companies with an unknown, at least for us, audit firm would score higher was unexpected. The Swedish code of corporate governance was introduced in 2005 and the companies that use more than one audit firm are better at providing its required information in 2005. The coming year, 2006 companies using Deloitte as their signing audit firm received the highest score but companies with two assigning audit firms are only a point away. The implementation of the Swedish code has made the information in relation to the audit firm variable has made the resemblance more common.



	2001	2005	2006
PWC	21.59	33.53	36.40
KPMG	19.64	32.78	34.60
Ernst & Young	12.67	32.20	36.78
Deloitte	20.00	36.17	38.50
More than one auditfirm	22.60	37.57	37.38
Other	23.00	-	-

Figure 14, Audit Firm

Figure 14 shows the variation among the audit firms and the points received in our model. Hatch (1997) describes the social and cultural demand that the external environment causes, and that organizations are rewarded when following values, norms and regulations. The Swedish code of corporate governance was introduced to increase the reliance in society. We believe that the Swedish code together with an audit firm increase the trustworthiness in the information provided by the companies. This can be supported by Percy (1997) who claims that the reliance and trustworthiness in information provided increases when it has been reviewed by an auditor. The information provided in year 2005 and 2006 are similar among the companies, when analysing it from the audit firm variable. Nevertheless, in year 2001 a difference can be found. From the Institutional Theory's perspective we believe that the implementation of the Swedish code of corporate governance have made the annual reports and its content more similar.

The percentage improvement per audit firm can be found in figure 15, were companies using Ernst and Young have improved their information the most. The other companies using any of the other audit firms have increased in a more similar manner. Those companies that make use of more than one audit firm have surprised us, by instead of improving their information presenting a decrease between 2005 and 2006.

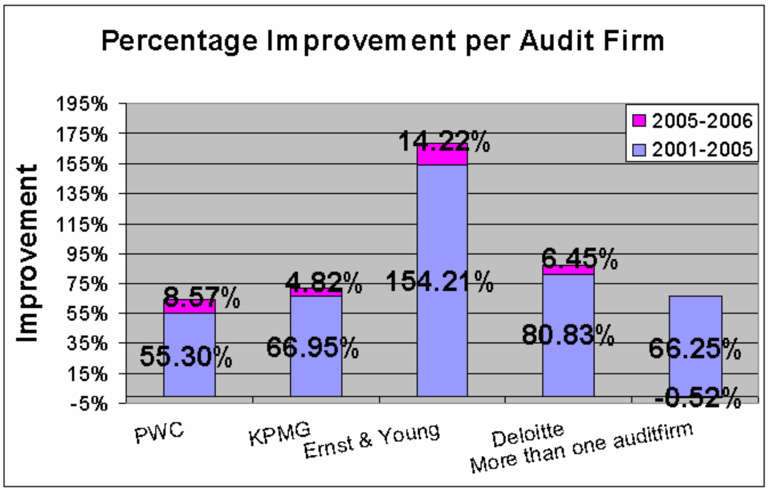
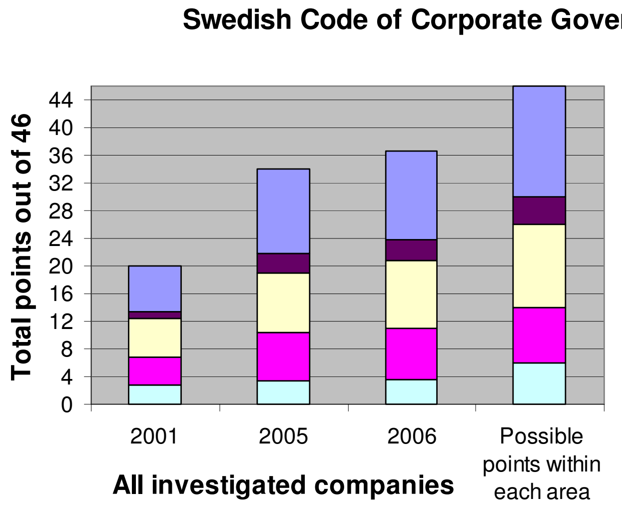


Figure 15, Percentage Improvement per Audit Firm

The companies using Ernst and Young have improved the most, and when analysing figure 14 and figure 15 together we can see that in year 2006 these have improved their corporate governance information and are not the worst anymore. The reason for this is probably that these companies were poor at providing the information prior to 2005, and had to make major improvements when implementing the Swedish code. We believe that it does not matter which audit firm the companies' use, as there is no clear pattern between the total score and audit firm between the years. Institutional Theory discusses the resemblance between different groups (DiMaggio & Powell, 1983) and we argue that these audit firms all remind of each other and are to review the reports with the same rules in mind. This could be the explanation behind why companies show almost the same height in the charts. Our research model takes into consideration if the annual reports and specifically the corporate governance section has been audited, and as it turns out most of them have not been audited. This supports our conclusion that there are no specific connections between information provided in the annual report and which audit firm companies use. The explanation to this might be that the audit firms are not involved in the corporate governance report since they are not reviewing it. Further, they might not even give advices on how the companies should present the information and fulfil the regulations stated in the Swedish code of corporate governance.

4.4 Swedish Code of Corporate Governance

Wearing (2005) stresses that annual reports, nowadays, contains more information regarding corporate governance. This can be supported by our thesis as our figures displayed above shows an increase in information over the years. Wearing (2005) further states that board of directors has to pay more attention to the corporate governance information. We agree with Wearing's (2005) statement as none of the 65 investigated companies have received a total score of 46 points in our research model, which means that they have not provided us with satisfying information. Today, all companies listed on the Stockholm stock exchange have to follow the Swedish code of corporate governance (OMX, 2006) and we have chosen to investigate companies listed on the Stockholm stock exchange large cap list. The Swedish code follows the principle "comply or explain" and we are not interested in investigating the reasons behind why companies follows or deviate from its rules, instead our research model focus on the information companies provide in their annual reports. Figure 16 presents the mean value in each heading of the Swedish code and it is clear that the information has increased. As shown, some of the headings are almost fulfilled, while others are still lacking information.



	2001	2005	2006
Info on Corporate Governance (16)	6.88	12.49	12.95
Company Management (4)	0.96	2.89	3.11
Board of Directors (12)	5.46	8.79	9.95
Appointment of Board and Audito (8)	4.28	5.56	7.54
Shareholders General Meeting (6)	2.84	3.54	3.75

Figure 16, Swedish Code of Corporate Governance

The following section will discuss, from the perspective of our research model, the Swedish code of corporate governance five different headings and try to give explanations to why none of the investigated companies have received 46 points. We will also give the reader a more open discussion regarding the Swedish code and the areas it regulates. The table in figure 16 shows the points received in each of the five areas of the Swedish code, and the number in the parenthesis shows the total possible points a company can receive within this area.

4.4.1 Shareholders' General Meeting

The Swedish code of corporate governance demands formal information such as date, time and place for the next coming shareholders' general meeting (Kodgruppen, 2005). This type of information may not be crucial in the annual reports. However, it is crucial for the shareholders as the general meeting is their possibility to affect how the company is run. We argue that it is not difficult to include this kind of information in the annual report and this is formal information known by the companies. The Swedish code demands an explanation if any of the rules is deviated from and we claim that it would be at least as time consuming to either explain or deviate from that regulation. Our research model has therefore evaluated the annual reports based on date, time and place and the information related to participation on the general meeting. This information has been included in almost all of the investigated companies and years and companies are providing sufficient information.

The Swedish code also demands information on the board, managers and auditors presence at the general meeting (Kodgruppen 2005). This is related to that principals should have the possibility to ask their agents questions regarding the operation of the organization. We conclude that when evaluating the annual reports most of the companies have not written any information regarding who has been present at the general meeting. This information might not be of interest for current shareholders as they already know who was present at the latest meeting, but when attracting new shareholders this information becomes important. We argue that board, managers and auditors attendance increase the confidence in both the agents and company and should be included. One explanation behind why the companies have not received a higher score in our research model is because of the lack of information regarding their presence in the annual reports. Another explanation is that companies are following the rule and all of the requested persons are attending the meeting, and is therefore not required to give an explanation of why they are not attending. However, as a reader of annual reports, it is easy to start questioning if they are attending the meeting or if the company is trying to hide something. We claim that this type of information should be included in the annual report as it is not that time or space demanding. Furthermore, it is easy points to score in our model and as a reader of the annual report it is difficult to understand why such information has been excluded. Some companies have been good at informing the readers that all persons have been present, and by including that sentence, the reader do not need to be in doubt anymore. Our conclusion, that most companies are poor at providing information about who is attending the general meeting and this is why they did not receive a higher score. Figure 16 shows that the information regarding the shareholders meeting is almost equal between the years. The total score companies could receive on this research area was six and as could be seen in figure 16 the average score did not reach as high in any of the years.

Discussing the information related to the shareholders' general meeting, from the perspective of the Agency Theory we believe that the absence of board, managers, and auditors at the shareholders' general meeting will increase the gap between principals and agents. Meckling and Jensen (1976) claim that when owners engage other persons to run their company, conflicts of interest will occur. We believe it is important for the company to provide the information regarding who is present and not. This also brings focus on another aspect, as the Swedish code puts greater pressure on their board of directors, managers and auditors to attend the general meeting in order for the company to not state in their annual report that these persons where absent. Bergström and Samuelsson (2005) believe that asymmetric information is the result of agents having a deeper understanding of the company compared to the principals. The shareholders' general meeting is the meeting place for the managers and owners and if they are not present at this meeting a common understanding will be difficult to reach. Hence, we believe that the owners have trust and faith in the board and managers will be affected of their absence which in turn will increase the conflict of interest. The auditors' attendances are important as they are responsible for the review of the annual report and we believe that their presence at the general meeting will increase the faith in both company and management. Accepted rules and norms are control functions for both the company and the managers' behaviour (SOU 2004:46), and we believe that auditors serve such a function.

We have only investigated the annual reports and it is important to keep in mind that even though the information regarding board, managers, and auditors attendance at the general meeting is not described, it does not necessarily mean that this information is not made available elsewhere. However, as Botosan (1997) states, the annual report is the agents' communication channel towards the principals and we believe that this information should be included in the annual reports. Reporting on date, place, time and participation possibilities does not make up a major part of the annual report. Besides this, describing the participation of board, managers, and auditors will only increase the trustworthiness of information provided in the annual report. At the same time, shareholders collecting the annual report from a company for the purpose of evaluating how it is behaving might believe all necessary information is provided in the annual report and will not continue to search for it.

4.4.2 Appointment of the Board and Auditors

The appointment of the board and auditors is an important decision for both company and shareholders (Kodgruppen, 2005). The Swedish code of corporate governance demands that a nomination committee is elected and that information regarding members and if they are representing a specific owners is published. We believe that it is important for the shareholders to receive information related to the election of board members, as the shareholders could then make up their own decision on whether to vote for or against a board member. We claim that information related to the nomination committee is of importance as they are the ones suggesting future candidates and the shareholders should be sure that their opinions are represented. The Swedish code requires information related to the election of auditors and how they have been recommended (Kodgruppen, 2005). Again we would argue that this information is important for the shareholders as they will be affected by the outcome if anything goes wrong. Here we can see a difference between year 2001 and the two years 2005 and 2006. Back in 2001, information related to nomination committees and audit recommendations was not as common in the annual reports. For instance in 2001, many companies mention that they had an election committee, but they did not mention additional information such as members and if they were representing any owners. This information is already known by the company and should therefore not provide any extra costs or effort for the company to include. Figure 16 illustrate that the information related to this heading has increased, and it is clear that the Swedish code has had an affect on it.

The Swedish code of corporate governance requires information about remuneration to both the auditors and managers and this information has been provided in most of the investigated annual reports and in all years. This is an area where the companies were good at providing information even before the requirement was presented in the Swedish code. Our explanation is that there has been a vivid discussion for many years in society regarding the remuneration given to board of directors. The remuneration paid to the managers and boards can be categorised into Jensen and Meckling's (1976) explanation of monitoring expenditure. At the same time this is still an area that creates conflicts between principals and agents, and it is important that the principals realise the purpose with the remunerations. Nevertheless, the remuneration is considered and Skog (2005) claim that it is one of the main reasons behind why the society has lost trust in the Swedish companies. Mallin (2006) explains that there is a debate in the society on whether boards should be accountable towards the shareholders on issues related to remuneration. There are examples where the shareholders vote against the proposed remuneration plans, among which Ericsson can be mentioned (Lans, 2007). That shows that this is an important issue for the shareholders. Similarly it proves that the shareholders can affect how the company should be managed. The principals are giving remuneration to the agents and in return receive control over her or his behaviour. Referring to figure 16 we can see that there is a change in information provided, regarding the area appointment of the board and auditors. However, the difference is not as large and the information that is missing in 2001 years' annual reports is related to both remuneration and the nomination committee. We claim that there is no specific information that is missing in 2001; it is rather dependent on the company and what information they have decided to publish. Our conclusion is that this information was in some cases already published before the introduction of the Swedish code of corporate governance. However, the Swedish code has affected this information and it is, nowadays, more specific and detailed especially when it comes to different committees.

4.4.3 Board of Directors

The board of directors is responsible for operating the company on behalf of the owners (Kodgruppen, 2005). This responsibility can be connected to the Agency Theory and the principals' willingness to control the agents through contracts (Jensen and Meckling, 1976). The relationship between owners and managers are vital for the company's future and we have examined the information of the board of directors further. It is important to remember that a board of director can be both principal and agent. Principal in that sense that she or he owns shares in the company, and agents because she or he is hired by the company and is responsible for business operations. Nevertheless, the Swedish code demands that the board members are independent towards the company and major owner. It is specifically stated that shareholder are to receive information on independence and the relationship to major owners. We have found that information related to independence was rare in the annual reports from 2001, and still in reports from 2005 and 2006 this information was not satisfying. In some of the annual reports, independence of company and owners was described together and we were not able to separate them. However, in some annual reports it was clearly stated. The reason why some companies has not bothered to clearly state who is dependent of who, might be that they do not believe that it does not matter to the ones reading the annual reports. However, for someone that holds an interest in a company and is trying to predict the future for the company, this is important information. Depending on who the board members have a dependency relation towards might affect the track the company is to follow in the future.

The managers competences is to be described, according to the Swedish code of corporate governance, and this information was often found to be unsatisfying in the earlier reports. The information related to the managing director and her or his commitment was very detailed, but the information related to other managers was not comprehensive at all. We have evaluated the information regarding all managers and the total score is determined based on the overall description. The information has varied among the annual reports and years, and sufficient information was not included in 2001 while the information in 2005 and 2006 was more extensive. At the same time, this part of the Swedish code demands the board of directors to ensure the company is run in an effective way. Hence, we have viewed some shortcomings of the code. How are the shareholders to know that the board of directors is running the company in an efficient way? Worth taking into consideration as well is that being dependent in a company most often is viewed as something negative in Sweden (Öhrlings PricewaterhouseCoopers kodprojekt, 2005). If the board of directors are to make sure the company is run in an efficient way, extensive knowledge is needed about the company and its industry. This information will make the board of director dependent in a way, however, not in a harmful way.

The annual reports have been judged based on the information related to financial principles. The principles were all presented carefully and most of the reports have received the highest score in all years. Although, we found difference in total number of pages of the financial principles between 2001 and the years 2005 and 2006. Our explanation to this is the introduction of International Financial Reporting Standards (IFRS). All listed companies in Sweden was to follow these standards from 2005 (FAR, 2006), which has resulted in that the companies presented a more comprehensive description of how the new accounting rules had been implemented and affecting the companies financial reports.

The board of director area includes the auditors' review of the annual reports and one major difference can be found over the years. The auditor's report has been more specific constructed in the years 2005 and 2006 as more auditors have written out the specific pages that have been reviewed, which is not included in 2001. Our research model has evaluated the information related to the company's vision, strategy, and guidelines for ethical behaviour. The information related to this has varied among the annual reports and years. The strategy and vision was overall described well in each year, while the ethical information was not mention to a wider extent. We can se that the ethical information has increased even further between 2005 and 2006. We believe that this can be related to the external environmental pressure in today's society and we are not doubtful, that type of information will increase in the future as well. Svensson et al., (2006) argue that Swedish companies are good at providing guidelines for ethical behaviour, although, implementing the rules is another issue where companies are not doing as well. The Swedish code demands an open communication with the external environment, and is only requiring companies to state their guidelines (Kodgruppen, 2006). We stress that the Swedish code forces companies to consider their ethical position and this can be seen in the annul reports. Nonetheless, we are questioning the Swedish code for its vague instructions and that we are interested in receiving information on the ethical result as well. Hatch (1997) argues that companies are experiencing more normative pressure in today's world. Figure 16 illustrates that the information related to the heading board of directors has increased over the three years, and we believe that it will increase in the future as well. An explanation is that companies have not fully applied to the Swedish code, and there is more information to add in the annual reports. Another explanation is that international investors tend to take a more active role in the Swedish companies, and they are used to information regarding corporate governance (Kodgruppen, 2005).

4.4.4 Company Management

The company management area discusses the information related to the managing director and her or his assignments. In order for the annual report to receive total score in this section we have demanded a more detailed description that goes beyond the explanation that the managing director is in charge of the current administration of the company. We claim that a shareholder needs to know more about the managing director and her or his work task, in order for them to judge and evaluate the performance. This information has been lacking in almost all annual reports and during all three years. Our opinion is that there needs to be a separation between the information related to managing director and the board's assignments. We believe this lack of information is related to that the managing director holds a variety of assignments, and it is difficult to state exactly which responsibilities that are included. Nevertheless, this information is demanded by the Swedish code of corporate governance and should therefore not be impossible to provide. Eun & Resnick (2004) discuss how managers and owners have different amount of information and that it creates asymmetric information between them. This in turn can increase the conflict of interest between the principals and owners that the Agency Theory discusses (Jensen and Meckling, 1976). Nonetheless, we are not claiming that a description of the managing directors have to include everything done during the year. However, we are of the opinion that it can be expanded and include the overall outline and thereby decrease the asymmetric information.

We have evaluated the annual reports regarding the information related to a remuneration committee and its assignments. As mentioned before, information related to remuneration has been provided in all years and there is no major exception when it comes to the remuneration committee during 2005 and 2006. Figure 16 shows that there is no major difference in information between 2005 and 2006. We argue that the small difference found is mainly related to the improvement in information regarding the managing director's assignments. The difference between 2001 and 2005 is, however, evident. The majority of annual reports from 2001 lack information both related to remuneration committees and the assignment of the managing director. Our conclusions are that the Swedish code has made an impact on the information related to this area even though it still needs to be improved to reach a sufficient level. When interpreting our empirical findings from the shareholders perspective, we can conclude that we would like to have more information related to this area. Increased corporate governance information will make the Swedish code more effective and will decrease the asymmetric information experienced in companies today.

4.4.5 Information on Corporate Governance

The Swedish code of corporate governance has a specific heading called information on corporate governance and this information should be made available to the shareholders in form of a corporate governance report in the annual report (Kodgruppen, 2005). This report has been our focus in this study and most of the empirical information has been gathered from it. We have evaluated if this information has been reviewed by auditors, and the report has received a higher score if it has. This can be supported by Andersson (2005) who claims that auditors are securing that the information is both informative and reliable. We have evaluated the information related to the company's implementation of the Swedish code and how well they have stated explanations on why they deviate from its rules. The Swedish code was implemented in 2005, and many of the annual reports from 2001 have not received any scores on this information. Nevertheless, a few companies[3] actually had a corporate governance section in 2001 and have been rewarded for it. This should be considering when analysing the diagram displaying the points received for 2001 concerning information on corporate governance.

One unexpected finding was that some of the companies have had an auditor reviewing the corporate governance report in 2005 but not for the coming year 2006. We are questioning why companies already after one year, put less effort into corporate governance section instead of improving it. Overall we were missing the auditor's review of the report and we are surprised over the final result. Precht (2006) argues that international owners are used to receive annual reports that are audited, and as many of the investigated companies are large international organisations we are questioning the future of the Swedish code. The Swedish code was implemented to increase the information between the company and its stakeholders and if the information cannot be trusted, what function does it serve? We argue that having the report on corporate governance reviewed by an external auditor would improve its reliance and trustworthiness in the society and companies, something witch is also supported by Percy (1997). The Swedish code's aim was to increase the reliance in companies and society (Svernlöv, 2005), and we are questioning if it really has obtained its goal. The Swedish code follows the principle "comply or explain", which means that companies can deviate from the codes rules and still claim they have implemented the Swedish code (Kodgruppen, 2005). Svernlöv (2006) explains that there is no specific authority controlling if companies comply or deviates from the rules and even though it is allowed to deviate from the code, too many or too extensive deviations might not be accepted by society. Again we are questioning the future of the Swedish code as companies do not face any consequences for abusing the rule. That this is true can also be supported by Boström and Linderot (2006) who found that one out of four companies have failed to declare suffi-

[3] Nokia, Old Mutual, Stora Enso, Swedish Match and Tieto Enator

cient information. At the same time some deviations can be more accepted in society than others, which could explain why the investigated companies tend to be bad at presenting similar information. This reasoning is supported by Institutional Theory, which claims companies tend to imitate other companies behaviour in order to appear as legitimate (DiMaggio & Powell, 1983). This imitating behaviour is an example of coercive institutional pressure.

Prior to the implementation of the Swedish code, voluntary social disclosures were main areas for discussion. Milne and Chan (1999) stress that information related to employees, environment and community have had an increased importance. Trends come and go, and with decreased corporate governance reports' being reviewed by external auditors we are questioning if the ambitions of corporate governance will fade away in the future.

The Swedish code demands information related to the internal control and this was found as a problematic area. Many of the investigated companies only mention that they have internal control of the company, but they have not given any information related to how it has been exercised nor how it has been working. We stress that this is the type of information a shareholder would like to receive in order to build trust with both company and managers. Furthermore, this information is highly related to the areas which have not functioned when accounting scandals have occurred. The company should be more willing to provide the shareholders with this information. At the same time, it is important not to forget that this information can be harmful if too much information is spread outside the company. Explaining how the company's internal control system works might give people, with the intention to hurt the company, information about the weakest areas of the company. We are not requiring detailed information regarding the internal control and its design, instead we are requesting information on how well it has functioned and followed. This information is not harmful and could be explained in the annual reports further. The company should try to balance the different stakeholders' interests including shareholders needs. We have evaluated if the internal control has been reviewed by an auditor and in many of the cases it had not. Danska and Samppala (2006) stress that an effective review of the internal control can be done in an effective way, and we argue that it increase the reliance in the company if the internal control is reviewed and should therefore be made. Discussing the changes in information we can conclude that internal control has become more important over the years and we have seen a trend in the annual reports as well. However, we are by far not satisfied with the internal control information. It is emphasised by Öhrlings PricewaterhouseCoopers (2005) that the internal control is not the auditors' responsibility, instead it is the board that should design and be responsible for it.

The information related to board members has been evaluated as well. The Swedish code demands their personal information such as, age name, and if they have been re-elected. In addition, board members competences, education and work experience should be explained. We have not found any major difference between the years and the formal information such as the board members name, age and when they were elected. This information is provided in most of the annual reports. However, when it comes to the more detailed information regarding board members competences and education the year 2005 and 2006 is much more detailed. We have required information of both education and prior work experience in order for the annual report to get a full score. We believe that this information is of importance as it will give the shareholder a view of the agent who is responsible for the business operation. This information is relevant for the principals when analyzing the boards' independence towards the company and major owners. At the same time, this information is providing the principals with an accurate picture of the agents. A surprising finding was the separation between board members and the board members that are representatives of the employees. In many of the reports the employee representatives were treated differently and the information were not as detailed as for the remaining board members. We argue that the information of education and prior experience should be included in the presentation of all board members, as they are part of the board and have responsibilities as well. At the same time we get a feeling that these board members are not viewed as important as the other ones, which we find to be a problem. Johard (2006) interviewed Caroline af Ugglas and she argues that the Swedish code is more about politics rather than the development of society. This could be an explanation behind why board members are treated differently, as employee's representatives are required by the Swedish law and not by the company. We can conclude that the Swedish code of corporate governance have made an improvement when it comes to the personal information related to board members, and that it has increased in line with its implementation.

We have found that the managing director and elected auditors have been more in focus, which is in line with the Swedish code. It demands information related to the managing directors' commitment outside the company and shareholding and auditors services provided and which years they were elected. This is manly related to the independence of both managing director and auditors and we argue that it is relevant information for the shareholders. This information has been provided in all years and most of the investigated annual reports. However, we find the information, related to auditors, deficient. For instance, many companies only state when the auditors were elected and not if they were re-elected. This information is very sufficient as it is questioning the auditors' disqualification. Figure 16 illustrate that the information related to the area, information on corporate governance, has increased between the years. Nonetheless, we are questioning the information as it has not been reviewed by an auditor and we claim that it increased trustworthiness which was one of the main aims when the Swedish code was implemented.

4.5 Swedish Code vs. International Codes

During the investigation and collection of empirical findings we discovered that some of the companies were not following the Swedish code of corporate governance and were instead following another country's code. All Swedish companies with a market value above 3 billion SEK should follow the Swedish code, but there are companies that are exempted from this rule (OMX, 2006). If the company has their residence in another country they are obligated to follow that country's code if they have one, otherwise they are obligated to follow the Swedish code. There are nine companies in our study that follows another country's code[4], and we have included them in our study as they are listed on Stockholm large cap list. However, out of curiosity we wanted to separate them and study if there is any difference between companies that follows the Swedish code in comparison to those that follows an International code (figure 17).

[4] Companies following another code of corporate governance are: ABB (Switzerland), Astra Zenica (United Kingdom), Kaupthing Bank (Iceland), Nobel Bio Care (Switzerland), Nokia (Finland), Old Mutual (United Kingdom), Oriflame (Luxemburg), Stora Enso (Finland) and Tieto Enator (Finland).

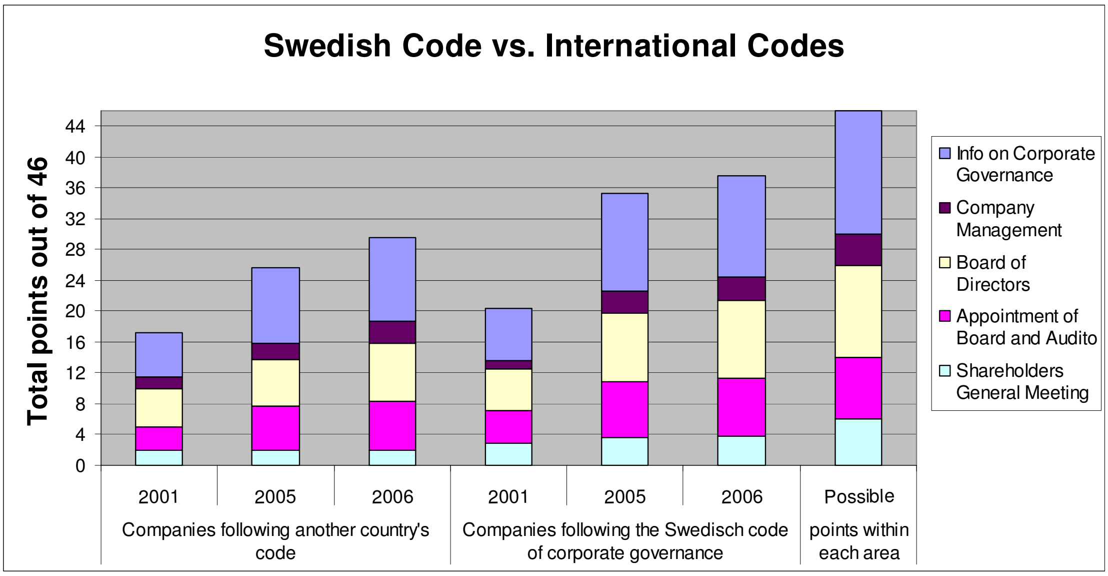


Figure 17, Swedish Code vs. International Codes

Demonstrated in figure 17 is the separation between the companies following another countries code and the companies following the Swedish code, and the figure illustrates the different points received in each area of investigation as well as the possible points that the companies could receive in each category. As shown, a difference can be found between them and among the areas. The companies implementing an international code has overall a lower average, and it is only in year 2001 that they were better at providing information related to the company management. One explanation is that these companies have their residence in a country that had a code for corporate governance already in 2001. The Institute of Directors (2005) claim that codes and regulations related to corporate governance varies to a great extent among countries, and figure 17 can support this. There is no major difference in the annual reports from 2001, but the implementation of the Swedish code clearly shows its affect. The annual reports, following the Swedish code, have received a higher score in our research model and we claim that they are superior in providing information to their shareholders. There is a distinguish difference between the companies following an international code compared to those following the Swedish code. We believe that a hypothesis test would confirm our conclusions as well. Nonetheless, it is beyond the purpose of this study as our aim is to be explorative.

As presented in the introduction chapter it has become more common with codes and guidelines regulating the companies. As known Sweden have been inspired by both the Anglo-American and the continental Europe (SOU 2004:46). We are therefore questioning our result in figure 17, and arguing that some of the results could have been more similar, as the Swedish code is inspired by codes from both Anglo-American and European countries. Furthermore, many of the international codes were implemented before the Swedish code and we are wondering why there development, in terms of information, has not improved more? There is almost the same percentage increase between the years, but the companies following the Swedish code still receives a higher score. Considering that we have been evaluating the Swedish code, this cannot be regarded as surprising. We believe that a research model created with one of the other country's code would have given another result as well, and that the overall difference would have been the same.

Worth discussing as well, when considering the improvement of information provided in the annual reports, are the scandals that have been occurring. With those in mind, it is not difficult to understand that these companies aim at improving their information in order to regain their customers' trust. At the same time, when shareholders became aware of the scandals, their knowledge about the lacking information was also improved. As a result, it can be expected that shareholders will request more information from the companies in the future. This in order to ensure they have enough information to take a stand point if they believe the company will have a beneficial future or not. By providing more information, they are reinforcing the trust among both investors and customers. Information and trust is vital for the survival of the company, and a company which is not considered as legitimate not will survive in the long run (Selznick, cited in Jacobsen & Thorsvik, 2002). At the same time, it is important to remember that it is not easy to regain trust once it is lost.

5 Conclusions

The final chapter will close the circle of the thesis and we will present our final conclusions on the Swedish code of governance. In addition, we will provide the reader with an open discussion regarding the Swedish code's strengths and weaknesses and how it has affects the information provided in annual reports. The purpose of this thesis will be answered along with suggestions for future studies.

Our conclusions drawn is that the Swedish code of corporate governance has made a positive impact on the information provided in the annual reports. We have used five different variables to analyse our empirical findings and they are all showing that the information, in relation to our research model, has increased. Three individual years were investigated and we can conclude that information provided in the annual reports have increased tremendously between 2001, prior to the implementation of the Swedish code and after the implementation, 2005. The information provided has continued to develop and we can see an increase between 2005 and 2006 as well, even though that increase is more moderate than the one between 2001 and 2005. The rapid increase of information provided between 2001 and 2005, could be a proof of that companies found it easy to include this information in the reports and that it was known in the companies prior to the implementation of the Swedish code. We can therefore state that the companies have tended to become more transparent towards their shareholders.

Several companies were already before the implementation of the Swedish code of corporate governance superior at providing information related to some headings of what was then to be the Swedish code. Nonetheless, most of the companies that were advanced at providing its shareholders with this information in 2001 had their residence in another country than Sweden and were following that country's code instead. We conclude that the majority of the companies mention some of the information, requested by the Swedish code, in their annual reports already in 2001. However, this information has been greatly improved once the Swedish code was implemented. At the same time a trend can be viewed and we claim that companies are not only improving their information they are also imitating each other's annual report. The annual reports from 2006 are much more similar to each other compared to those published in 2001.

The Swedish code of corporate governance was introduces as a tool to regulate the information provided to shareholders and we can agree that this purpose has been fulfilled. The Swedish code follows the principle comply or explain and after evaluating 65 companies during three individual years, we argue that the code has not had the enormous breakthrough as one could imagine. The Swedish code is very detailed in some areas, while it is rather open in others, and we argue that the companies are better at providing the principals with information related to the formal rules and information. Nevertheless, the information of interest for the shareholders has not been satisfying in the investigated annual reports and we conclude that the implementation of the Swedish code has not been a major success in all of its areas. To support our arguments further, many companies that implemented the Swedish code in 2005 had their information reviewed by an auditor but the next year 2006 many of the companies had excluded the audit review. We find it questionable that companies, only one year after the implementation, had excluded the auditor's review and are wondering what the outcome of this study would be if the year 2007 was included.

At the same time it can be concluded that the information provided has become more comprehensive regarding corporate governance. This can be related to the fact that companies have made an effort into adopting the regulations stated by the Swedish code. Nevertheless, worth considering is that it is not always all the headings of the Swedish code that is of most interest for the shareholders. In some areas, shareholders could request more detailed information as we found to Swedish code's instructions insufficient. Areas where more detailed information could be appropriate are the internal control system, independency towards company and owners, and the managing director's work tasks and responsibilities.

To sum up, we conclude that the information in the annual reports regarding corporate governance have changed over time to become more comprehensive in most areas. However, there is still great asymmetric information between agents and shareholders and we are requesting more information. None of the investigate companies have received the total score of 46 in our research model, and we argue that for the Swedish code of corporate governance to be a complete success companies need to continue to improve the information in their annual reports.

5.1 Discussion

The aim with the Swedish code of corporate governance is to improve the information made available to the shareholders and to improve the shareholders reliance for the Swedish companies. Not only has the Swedish code brought with more information, but it also seems to have created a similar structure of the reports where the information is presented. The similarities among annual reports make it easier for a shareholder to find the information. Parts of the information requested by the Swedish code was included already in 2001, however, it was more difficult to find it since it was spread out in the whole annual report whereas now it is concentrated in the part called information on corporate governance.

The discussion today, is that codes of corporate governance decrease the asymmetric information between agents and principals, and to some extent we agree with this statement. At the same time, we are questioning the asymmetric information it decreases as the code sometimes only gives suggestions, is to detailed or narrowed in its rules. The Swedish code should be constructed in a manner that facilitates the implementation for the companies. We found that companies are superior in providing the formal information such as time and place for the annual meeting, and the board members name and age. This information is necessary for a shareholder with an intention to attend the shareholders' general meeting and be a part of the election of board members. At the same time the companies are showing distinctive limitations when it comes to information regarding areas of responsibilities and internal control. Our study have shown that the annual reports have become more comprehensive over the years, at the same time we question if more information necessarily means improved information to the shareholders. Worth taking in to consideration as well is the fact that the corporate governance information rarely is reviewed by auditors. How are the shareholders then to be able to know that the stated information is true?

A strength with implementation of the Swedish code is that it have structured the information provide in the annual reports, and as a reader it is much easier to understand the information as it is gathered in one section. The annual report as a tool to provide shareholders with information has increased its effectiveness, and we can se that its total numbers of pages, and thereby the information, has increased over the years. However, after conducting this research and investigating almost 200 annual reports we claim that the Swedish code of corporate governance is rather vague in its construction and the information varies among the companies. Partially, we have focused on Institutional Theory in this thesis and inspiring by its conclusion, that companies imitate each others, we suggest a common framework for how the reporting should be made. In other words, we suggest a common structure for the providing of information to the shareholders, which would facilitate the reading even further and secure that the appropriate information is provided. We have discussed how the Swedish code is viewed as detailed and complex but also too wide and unstructured and we recommend an evaluation of its regulations. Some of the parts could be simplified, while others might have to be developed in order for the companies to get guidance. The US Sarbanes-Oxley act is criticised for its detailed regulations, and we are not necessarily stating that the Swedish code should aim that way. Nevertheless, we are arguing that if the Swedish code should manage to fulfil its purpose and companies should improve their information it needs to be structured in some manner. Another suggestion is to create a common code of corporate governance as it is possible to own shares over the boarders. Having one international code of corporate governance would facilitate the comparison between companies and countries, and at the same time, structures the information in the annual reports. However, there are differences in countries regulations and a common code could create conflicts as well. We believe that this become relevant from a shareholders perspective as they would know what information to expect from all companies over the world.

We found that the information provided in the annual reports are different depending on which code of corporate governance the company is following and this impedes the comparison between companies and countries. Investors today are not limited to specific countries when making investments. If the aim with a code of corporate governance is to improve the information provided to share holders we claim that it is also important to help the share holders interpret the information. We conclude that there are differences between the codes in different countries and it is questionable if they provide more information to the shareholders. It is also important to consider what type of information is vital when it comes to corporate governance. The codes in different countries seem to take different aspects into account and our study shows a difference in information. Shareholders might be provided with more information in other countries, but it is not the amount of information that is important it is rather the content. Nevertheless, we are not opponents to a common code of corporate governance as boundaries between countries are fainting away and a company's shareholders can be found in many countries and we believe that would improve the quality of the information provided.

In some parts of the Swedish code, it is stated that the company should provide additional information that could be of interest for the shareholders. We believe that a statement like this is not followed to a greater extent by companies. The Swedish code does not give a very detailed instruction on which information this relates to, in fact, it becomes meaningless to us. Regulations like this do not fulfil the purpose of the Swedish code and the information provided to shareholders. In addition, this reminds us of the annual reports from 2001 were companies could publish the information they thought were relevant. We question if the Swedish code has any impact on that additional information and believe that shareholders will be the ones suffering, as they might not know which additional information to require

5.2 Future Studies

During the process of completing this thesis, thoughts of suggestions for future studies have emerged. We have discussed the information provided in the annual reports from a shareholder's perspective and in relation to the Swedish code of corporate governance. We therefore found it interesting to interview the major owners in these companies to evaluate their interpretation of the annual report as a source of information. What information are they requesting and is it in line with the information the Swedish code demands? It would be interesting to examine how the shareholders, with a long-term investment have perceived the annual reports and if they have seen changes over the years. Furthermore, we would like to conduct a complemented study, using our research model, in five years from now to see if the information has developed further. Our research has been conducted when the Swedish code of corporate governance is still fairly new. Overall we have seen that information has improved, at the same time, the companies has already the second year started to step away from some of the requests made by the Swedish code. It would therefore be interesting to conduct this study again in order to view trends and changes.

We are predicting a common code of corporate governance in the future and it would be interesting to compare different countries codes of corporate governance and discuss the similarities and differences among them. All Swedish limited liability companies, with a market value over 3 billion SEK, is obligated to follow the Swedish code of corporate governance and our study is only investing the companies listed on Stockholm large cap. We therefore suggest a study that includes companies in different sizes that are listed and not listed on Stockholm stock exchange. We have conducted an explorative study of the Swedish code and its effectiveness on information provided in annual reports, and differences between information and countries can be identified. One suggestion is then to conduct a statistical research and expand on our empirical finding and conclusions.

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Appendix A, Research Model

Our research model can be found below were each area and sub-category is stated. We will also provide a description for the criteria used for each area of investigations. The stated criteria need to be fulfilled in order to receive any points. In addition, to receive two points the criteria for one point needs to be fulfilled as well.

Variables
Spread of ownership calculated by the percentage of votes hold by the five largest share owners
Auditing firm signing the auditors' report
Industry according to Stockholm stock exchange large cap list
Size of the company group measured in turnover MSEK
Number of board of directors in the board

	Points received		
	0	**1**	**2**
Shareholders' General Meeting, total score available: 6			
Date, place and time	No information	Mention two of the following; date, place and time	Mention date, place and time
How to participate	No information	Mention how to be able to participate in the meeting	Mention if it is possible to participate from distance, to announce a proxy, and in that case how
Board, management, chairman and auditors attendance at the general meeting	No information	Mention attendance of one or two	Mention attendance or absence of all

Appointment of The Board and the Auditors, total score available: 8			
Nomination committee; members, names & represent specific owners.	No information	Names of the members	Mention what owner each member represents
Remuneration for board work	No information	Gives a total amount paid by the company	Specifies who received remuneration and how much
Recommendations of auditors	No information	Mention that they have an audit committee.	Information related to work task of the audit committee.
Remuneration to Auditors	No information	Present a total sum	Present each audit firm separately and how much they have received

Board of Directors, total score available: 12			
Board members independence of both company and major owners	No information	Partial information presented, which force the reader to make own interpretations	Clear information
Directors competences	No information	Mention two of the following: names of directors, education and experience.	Information about names, education and prior work experience of all directors
Financial and accounting principles used	No information	One to two pages	More than two pages
Auditors review of the annual report	No information	Reviewed by an auditor	States which specific parts of the report that have been audited

Strategy and vision	No information	Mention the company's strategy and vision	Clearly states how the strategy and vision are to be fulfilled
Guidelines for how to behave ethically	No information	Explain the companies goals regarding ethically behaviour	Clearly states how the goals are to be fulfilled

Company Management, total score available: 4			
Remuneration committee	No information	Mention a committee	Present the committees work tasks
Managing director's task	No information	Limited information, for example "takes care of the current running of the company"	Clear explanations what work tasks the managing director is responsible for

Information on Corporate Governance, total score available: 16			
Corporate governance report	No specific report	Specific report	The corporate governance report is reviewed by an auditor
Implementation of the code	No information	Unclear information about the implementation of the code and what deviations they have made	Specific information about the code and clear information about what deviations have been made and why
Board members competence; education and work experience	No information	Mention one of the education and work experience on all board members, or complete information on part of the board	Mention education and prior work experience for all board members
Board members name, age and re-elected	No information	Provide information about two of the following; name, age and re-elected	Provide information about name, age and re-elected

Board meetings and attendance	No information	Mention one of the number of meetings held and the attendance	Mention both number of board meetings held and who has been attending
Auditors; services provided and year elected	No information	Mention either the services provided or the year elected	Mention both services provided and year elected
Managing director; commitment outside the company and share holding	No information	Mention either commitment outside the company or the share holding in the company	Mention both commitment outside the company and share holding in the company
Information on internal control	No information	Have a report	The report has been reviewed by an auditor

Additional information
The percentage of pages of the report on corporate governance out of the total pages in the annual report
Total number of pages in the annual report
Composition of board-gender based, number of female board members divided by the total number of board members

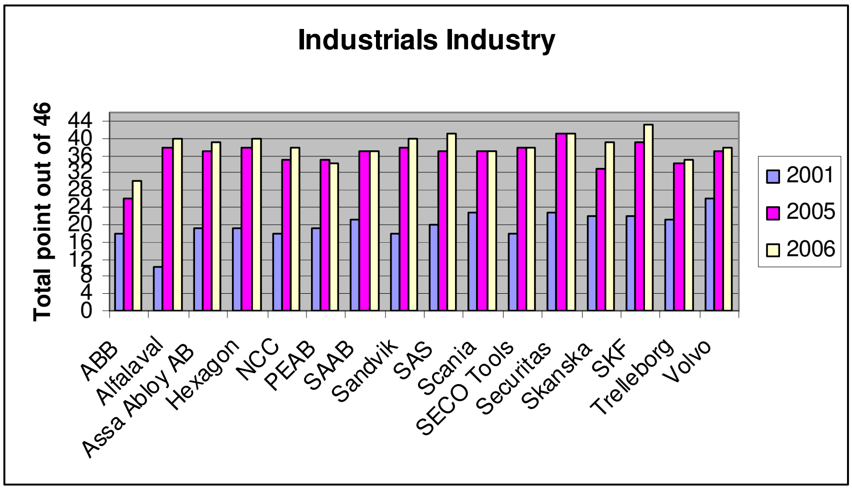
Appendix B, Companies Included in the Study

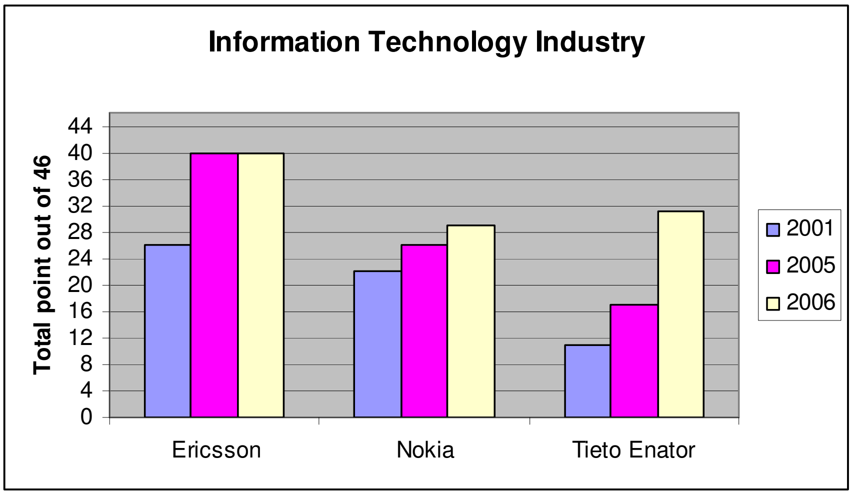
ABB Ltd	Investor AB	Sandvik AB
Alfa Laval AB	JM AB	SAS AB
ASSA ABLOY AB	Kaupthing Bank	SCANIA AB
AstraZeneca PLC	Kinnevik, Investment AB	Seco Tools AB
Atlas Copco AB	Kungsleden AB	Securitas AB
Autoliv Inc. SDB	Latour, Investment AB	Skandinaviska Enskilda Banken
Axfood AB	Lundbergföretagen AB, L E	Skanska AB
Boliden AB	Lundin Petroleum AB	SKF, AB
Castellum AB	Meda AB	SSAB Svenskt Stål AB
D. Carnegie & Co AB	Modern Times Group MTG AB	Stora Enso Oyj
Electrolux, AB	NCC AB	Swedbank AB
Elekta AB	Nobel Biocare Holding AG	Swedish Match AB
Eniro AB	Nobia AB	Svenska Cellulosa AB SCA
Ericsson Telefon AB, L M	Nokia Abp SDB	Svenska Handelsbanken
Fabege AB	Nordea Bank AB	Tele2 AB
Getinge AB	Old Mutual Plc	TeliaSonera AB
Hakon Invest AB	OMX AB	TietoEnator Oyj
Hennes & Mauritz AB, H & M	Oriflame Cosmetics S.A, SDB	Trelleborg AB
Hexagon AB	Peab AB	Volvo, AB
Holmen AB	Q-Med AB	Vostok Nafta, Inv Ltd SDB
Hufvudstaden AB	Ratos AB	Öresund, Investment AB
Industrivärden, AB	SAAB AB	

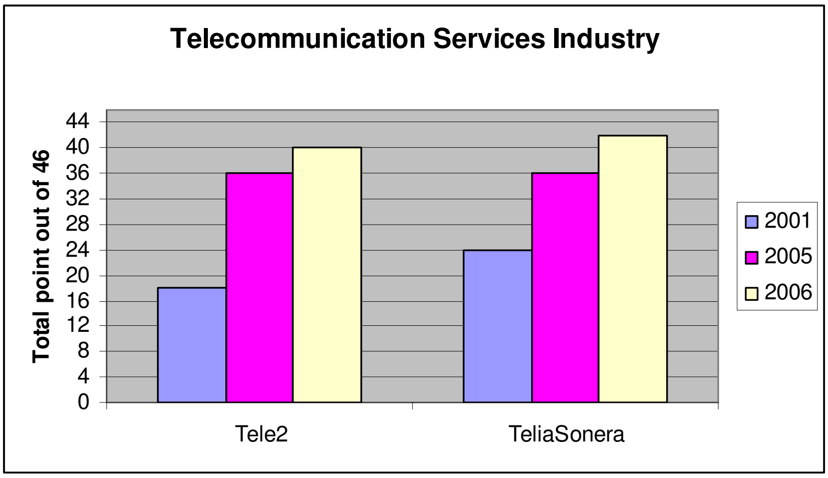
Companies excluded from the study

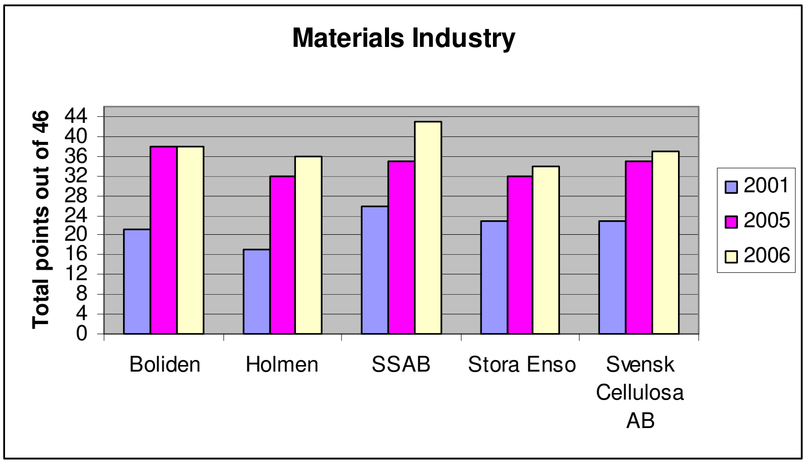
Husqvarna AB	Husqvarna was part of Electrolux in 2001 and 2005.
Lundin Mining Corporation SDB	Could not get access to 2006.
Melker Schörling AB	Could not get access to 2006.
Lawson Software Inc	Could not get access to 2006.
Millicom International Cellular S.A. SDB	Could not get access to 2006.

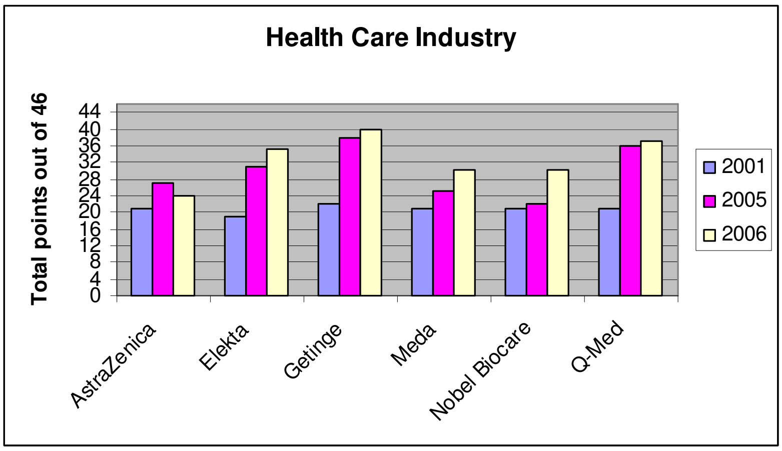
Appendix C, Companies within each Industry

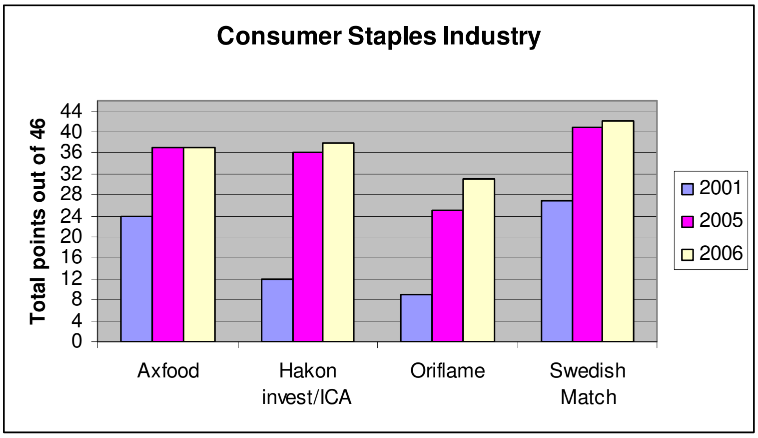


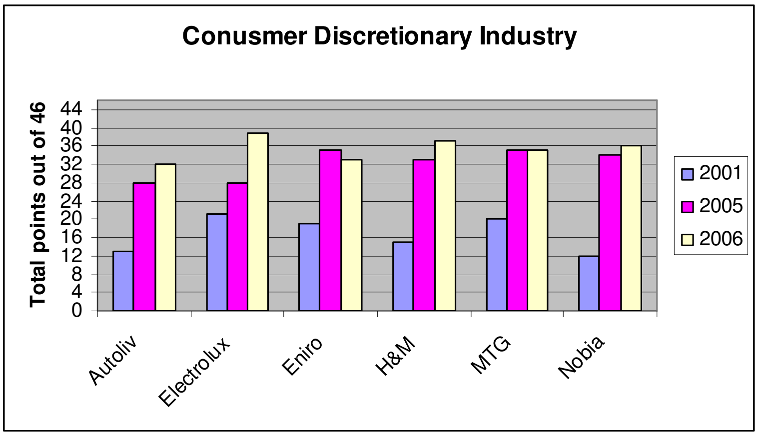


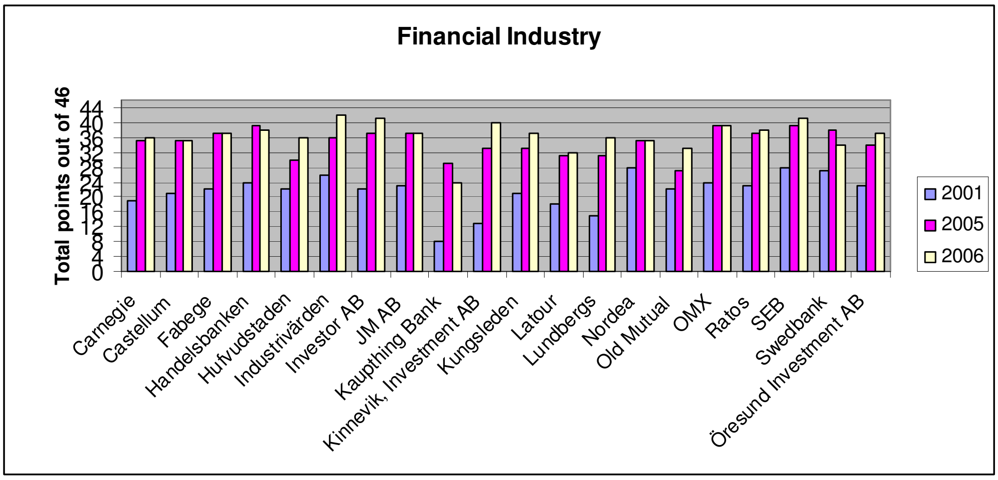


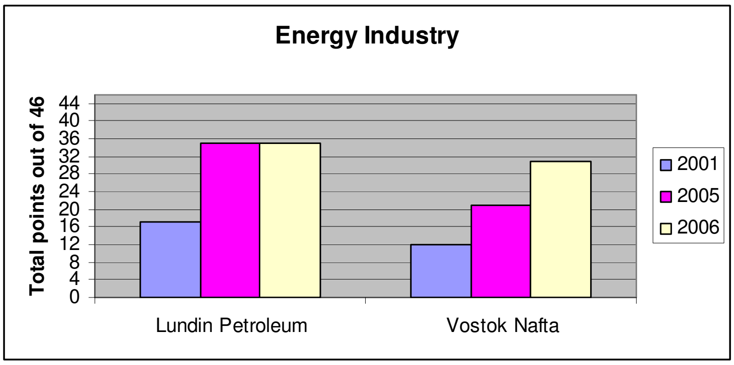

Materials Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
Boliden
Holmen
SSAB
Stora Enso
Svensk Cellulosa AB
2001
2005
2006


Health Care Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
AstraZenica
Elekta
Getinge
Meda
Nobel Biocare
Q-Med
2001
2005
2006


Consumer Staples Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
Axfood
Hakon invest/ICA
Oriflame
Swedish Match
2001
2005
2006


Conusmer Discretionary Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
Autoliv
Electrolux
Eniro
H&M
MTG
Nobia
2001
2005
2006


Financial Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
Carnegie
Castellum
Fabege
Handelsbanken
Hufvudstaden
Industrivärden
Investor AB
JM AB
Kaupthing Bank
Kinnevik, Investment AB
Kungsleden
Latour
Lundbergs
Nordea
Old Mutual
OMX
Ratos
SEB
Swedbank
Öresund Investment AB
2001
2005
2006


Energy Industry
Total points out of 46
0
4
8
12
16
20
24
28
32
36
40
44
Lundin Petroleum
Vostok Nafta
2001
2005
2006