

**AN EXPLORATORY STUDY OF THE DEVELOPMENT OF CORPORATE
GOVERNANCE DISCLOSURES IN SWEDEN**

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ABSTRACT

The purpose of this paper is to explore how companies listed on the Stockholm stock exchange disclose corporate governance related information in their annual reports. Against the backdrop of recent corporate incidents involving accounting irregularities and managerial misconduct, this paper examines if and how companies operating in a Swedish business context have modified their disclosure behaviour in reaction to the increased public attention being paid to corporate governance issues. The study surveys voluntary corporate governance disclosures during the period 1999-2002, with a view to identifying and discussing changes in the type and amount of disclosure. The results indicate that there has been a significant increase in the relative volume of corporate governance information in annual reports during the period studied, suggesting that managers may be using disclosures as a tool to demonstrate conformance with social norms regarding corporate responsibility and forestall corporate governance regulation.

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INTRODUCTION

The first years of the new millennium have witnessed a number of spectacular corporate failures and one of the longest periods of stock market turbulence in modern history. These and other events have contributed to a revived interest in accounting and auditing in the business community, but also in society in general and in the media. The Enron debacle and the collapse of Andersen has become common knowledge and the “talk of the town” all over the world, with prominent politicians and accounting experts eager to maintain that such incidents will not occur in Europe. Despite this, accounting troubles have recently cropped up in a number of European companies, for instance in the Dutch retailer Ahold, even though in many cases the uncovered problems have their roots in the companies’ U.S. businesses.

Nonetheless, policy-makers have moved to tighten financial reporting and audit regulations, both in the US and in Europe, and it is clear that market, media, and regulatory interest in the ethics and governance of large corporations have increased substantially over the past couple of years. Although we have yet to see the final outcome of this heightened market, media, and regulatory attention, it is interesting to consider the business community’s reactions to this attention and in particular if and how corporate disclosures of e.g. corporate governance issues have been affected.

BRIEF REVIEW OF PRIOR RESEARCH

There have been numerous studies of corporate disclosure published in academic journals during the past 25 years. Many of these studies are reviews of voluntary (and sometimes also mandatory) corporate disclosures in various countries, including France (Depoers, 2000), Hong Kong (Wallace & Naser, 1995; Ho & Wong, 2001), Japan (Cooke, 1991, 1992; Singleton & Globberman, 2002), Malaysia (Hossain et al, 1994), Mexico (Chow & Wong-Boren, 1987), New Zealand (Hossain et al, 1995), Spain (Wallace et al, 1994; Giner Inchausti, 1997), Sweden (Cooke, 1989), and Switzerland (Raffournier, 1995). Several studies have also examined corporate disclosure practices in a U.K. and U.S. setting (Buzby, 1975; Firth, 1979; Frost & Pownall, 1994; Meek et al, 1995).

Apart from presenting an overview of the current status of corporate disclosure in each country, most of these studies have also sought to explain the development of voluntary disclosures by relating the extent of such disclosures e.g. to corporate characteristics such as size, industry, and profits. The selection and interpretation of these assumed relationships usually relies on one of two main theoretical bases – agency theory or legitimacy theory – partly depending on the particular type of disclosure that is being examined.

A theory of organizational legitimacy is frequently used as a framework to analyze managements' motivations for voluntarily disclosing non-financial information concerning e.g. environmental or social issues (c.f. Adams et al, 1998; Deegan & Rankin, 1996; Gray et al, 1995; Patten, 1992; Roberts, 1992; Tsang, 1998). Legitimacy theory is based on the concept of a social contract existing between a corporation and the societies in which it operates. The exact terms of the social contract are difficult to specify, but it is understood that the contract represents a multitude of explicit and implicit expectations that society has about how a corporation conducts its operations (Shocker & Sethi, 1974). It is assumed that failure to

comply with the terms of the social contract may lead to various sanctions being imposed by society, and subsequently to a loss of legitimacy. In this perspective, corporate disclosure may be seen as a management tool to help maintain or enhance organizational legitimacy (Deegan, 2000; Gray et al, 1996).

Agency theory has also been used to explain environmental and social disclosures (c.f. Ness & Mirza, 1991), and is one of the main foundations for most mainstream studies of voluntary corporate disclosures, including several of the above-mentioned country studies. Based on an economic theory of the firm as a nexus of contracts (Jensen & Meckling, 1976), and focusing in particular on the relationship between owners and managers of firms, agency theory suggests that managers will tend to make accounting choices (including corporate disclosures) that are in their own self-interest, and thus attempt to maximize the value of their compensation packages (Watts & Zimmerman, 1990; Fields et al, 2001). Costs are incurred in monitoring the agency contract with management, and these costs will reduce management compensation. Given that there is information asymmetry between owners (investors) and managers, and that the activity of managers may be monitored through corporate disclosures, managers are assumed to have an incentive to disclose privately held information voluntarily (Core, 2001; Healy & Palepu, 2001).

It seems that both legitimacy theory and agency theory may be used to argue the case that managers have motives to voluntarily provide information to investors and other external parties. However, as indicated above, the theories tend to be used to explain different types of disclosures. Studies based on agency theory usually focus mainly on the disclosure of earnings forecasts and other financial disclosures, whereas legitimacy theory is more often employed to account for voluntary disclosures of environmental and other types of primarily non-financial information. Agency theory is sometimes also used in studies of non-financial disclosure, and it is interesting to note that both theories rely on similar explanatory variables (e.g. company size) when analyzing the relationship between voluntary disclosures and corporate characteristics. This means that the same empirical results may in fact be interpreted as support for both legitimacy theory and agency theory, which is not always very helpful. The lowest common denominator seems to be simply that voluntary corporate disclosures are mainly driven by rational managers' self-interest and their attempts to protect and enhance their reputation and remuneration.

In a response to Verrechia's (2001) review of (mainly agency theory-based) literature on disclosure, Dye (2001: 184) proposes a theory of voluntary disclosure with the rather simple central premise that; "any entity contemplating making a disclosure will disclose information that is favourable to the entity, and will not disclose information unfavourable to the entity.". Dye (2001) goes on to provide examples of how this theory may be used to interpret corporate non-disclosure or less than full disclosure, where unexpected silence on an issue may be construed as bad news. However, Dye (2001: 185) also indicates that the incentives of the entity (managers) making, or not making, appropriate disclosures must also be anticipated, and it is not always the case that, "managers will disclose information that increases a firm's stock price and withhold information that reduces a firm's stock price.". Rather, it will depend on the type of information to be disclosed, the expected reactions of investors, and how changes in the stock price are related to managers' compensation packages (including e.g. the impact on the exercise price of stock options held by managers).

Assuming that managers make disclosure decisions based on economic rationality, the potential benefits of corporate disclosure must also be weighed against the risk of e.g.

litigation costs (Skinner, 1994) and proprietary costs (Verrechia, 1983), which will ultimately reduce management compensation. Given that managers generally speaking have incentives to disclose voluntary information in order to enhance legitimacy, reduce agency costs, or otherwise signal the value of the companies that they manage, there are clearly also costs associated with increasing disclosure. This means that contrary to the central premise in Dye's (2001) theory of voluntary disclosure, managers' decision not to disclose information may not necessarily imply that the withheld information is unfavourable, but rather that non-disclosure is the result of a rational cost-benefit analysis of the consequences of disclosing a particular piece of information.

One of the limitations of economic theories of accounting is the assumption that managers behave in a rational manner with a view to maximizing or optimizing their expected utility function. However, advances in organizational analysis and behavioural accounting research teaches us that decision-making is not always rational, and may actually be based on motives other than economic utility maximization. For example, the fact that a company's competitors choose to disclose certain types of information could induce managers to also initiate such disclosure, regardless of any direct utility to the company's managers or investors. By conforming to societal expectations of corporate behaviour and disclosure, organizational legitimacy can be maintained (Meyer & Rowan, 1977). This form of "copy-cat" or isomorphic (DiMaggio & Powell, 1983) behaviour may eventually result in the establishment of disclosure norms, and these norms will in turn be influential antecedents of companies' (managers) disclosure positions and disclosure output (Gibbins et al, 1990).

INTERPRETATION AND EXPECTED FINDINGS

From the literature review above, it is clear that there have been numerous empirical studies of corporate disclosure in a variety of different countries. Most of these studies tend to review all kinds of voluntary disclosures in annual reports, and do not focus specifically on selected types of disclosure, and none of these studies has addressed corporate governance disclosures in particular. Furthermore, many of the studies only consider disclosures made in a single year in the past, and do not take into account the development of corporate disclosure practices over a period of time.

Apart from the empirical country studies, there have also been several papers reviewing extant literature on accounting choice and the motives for voluntary corporate disclosures. The literature tends to rely either on legitimacy theory or agency theory to explain the reasons for voluntary disclosures, partly depending on the type of disclosure that is being analyzed. Ultimately, however, such disclosures are the outcome of more or less rational decisions by self-interested managers, weighing potential costs and benefits to the company and themselves. In some cases, e.g. certain environmental and social disclosures, the decision to disclose may be less than rational, or perhaps driven by factors beyond the control of managers, effectively making voluntary disclosures compulsory.

Returning to the topic addressed in this paper – the development of voluntary corporate governance disclosures in the annual reports of companies listed in Sweden – and using a legitimacy-based framework, it may be argued that the recent corporate scandals in the U.S. are of such a nature that the terms of the social contract have been violated. This is certainly the case for those companies directly involved in these scandals, but perhaps also for the business community in general, which is in effect suffering from a loss of legitimacy due to stakeholder distrust. Legitimacy theory suggests that companies facing an actual or potential

legitimacy crisis will use disclosure to maintain legitimacy and try to change stakeholders' perceptions of the company or the events causing the crisis. Given that there is a general decline in stakeholder trust of "big business", it seems plausible that managers have an incentive to increase and improve corporate disclosure to regain trust and maintain legitimacy, in particular perhaps in those companies that already have good governance systems and have not been directly impacted by the corporate scandals.

With an agency perspective we would also expect to see an increase in corporate governance related disclosures, as such disclosures may help to avoid or reduce agency costs. There has obviously been an increased investor interest in the internal control and corporate governance of companies following the corporate failures in the U.S., and consequently an increasing demand for improved monitoring of managers. Voluntary disclosures may therefore be used to avoid or reduce costs by signalling that there is no real need for increased monitoring. There is also a significant threat of tightened corporate governance regulation, both in the U.S. and in Europe, and this suggests further incentives to increase disclosure in order to reduce the risk of political intervention and possibly forestall regulation.

It follows from the previous discussion that increased disclosure of corporate governance information could be explained using either a legitimacy theory or agency theory approach. However, the potential costs or disadvantages of such disclosures should also be considered. It may be that such disclosures are effectively hindered by e.g. the threat of litigation or the risk of disclosing sensitive information to competitors. Corporate governance information will mostly be of a non-financial nature, and will primarily include descriptions of management and board responsibilities (see below for further details), and as such it is of limited use to competitors. As this study is set in a Swedish business and legal environment as opposed to a U.S. environment, the threat of litigation based on corporate disclosure is also minimal.

Finally, it is a fundamental question for this study if, and to what extent, the effects of the events in the U.S. have "spilled over" into the European, and particularly the Swedish, business environment. Based on our discussion above and prior disclosure research, we contend that there is such a spill over effect, particularly for large companies that are listed on multiple stock exchanges. For the purposes of this study, we also assume that the potential benefits of disclosure outweigh the costs, and we therefore expect to see increasing corporate governance disclosures in the annual reports of companies listed on the Stockholm stock exchange.

METHOD

Prior empirical studies of voluntary corporate disclosure have mostly employed so-called disclosure indices listing a number of items that the researchers have expected to find in annual reports (c.f. Botosan, 1997 for a frequently used disclosure index). These disclosure indices are usually constructed either by conducting a pilot study and reviewing what is actually disclosed in a sample of annual reports or by consulting stakeholders and asking them to list topics that they would like to see disclosed in annual reports. The disclosure index is then used to classify and analyze the information disclosed, resulting in a disclosure score (a quality measure) for each company and year, as well as an estimate of the quantity of disclosure measured in number of pages, sentences or words.

In this study we have also employed a form of disclosure index, but with a primary focus on corporate governance issues (see below). This index was developed inductively in the course of conducting the study. However, our aim was not to arrive at a disclosure score that could be used in a regression model, but rather to identify, analyze, and discuss the information disclosed by the companies. We have chosen to measure the amount of corporate governance information disclosed (in terms of number of pages in relation to the total number of pages in the annual reports), as a proxy for the relative importance attributed to these issues in the companies' annual reports.

Our sample consists of the 1999, 2000, 2001, and 2002 annual reports of the top 27 companies listed on the Stockholm stock exchange (per January 1st, 2003), i.e. the 27 companies with the highest market capitalization whose stocks are most frequently traded. These companies are registered on a separate list and are easily identifiable. We have excluded 5 companies in the financial services industry (banks and insurance companies), since there are specific reporting requirements for this industry making inter-industry comparisons more difficult. However, two diversified 'financial' holding companies were included, and Table 1 shows the full list of surveyed companies and the market sectors to which they belong.

[Insert Table 1 here]

We requested the annual reports directly from each company or downloaded them from the company websites, and so all 66 annual reports (three annual reports from 22 companies) were included in the study. Each annual report was read from cover to cover by one of the authors, and the items in the disclosure index were identified along with an assessment of the approximate number of pages of corporate governance information disclosed.

CORPORATE GOVERNANCE DISCLOSURES

Our focus in this paper is on corporate governance disclosures in the annual reports of large companies listed on the Stockholm stock exchange. The area of corporate governance is potentially huge, dealing with the delegation of authority and responsibility in an organization, and the general problem of how owners' control of a company and its managers can be maintained. In a broader perspective, corporate governance may also include the issue of taking into account the concerns of stakeholders other than investors (owners), and can then be placed in a corporate social responsibility context. With this in mind, it is clearly necessary to more precisely define what constitutes corporate governance, and what kind of disclosures we are researching within the scope of this study.

In Sweden there is only limited regulation regarding disclosure of corporate governance information in annual reports. Apart from the Accounting Act's requirements to provide information on the board of directors' and CEO's compensation packages, there is no Swedish legislation on corporate governance related disclosure. However, for companies listed on the Stockholm stock exchange, the registration contract requires information on the board's activities during the year (including a summary of the board's working procedures and the main issues addressed) and certain details on each board member (including the length of time that each member has been on the board, their main occupation, and any other significant board positions that they currently hold) to be disclosed in the annual report. The information on board activities should be disclosed in the Board of Directors' Report, whereas the presentation of board members may be disclosed elsewhere in the annual report.

Except for the disclosures required by the stock exchange registration contract and the Accounting Act, all other corporate governance disclosures may be regarded as voluntary. However, in a Swedish context, accounting and reporting practice plays an important part in determining Swedish GAAP, and it is therefore sometimes difficult to accurately identify voluntary disclosures. Even if there is no formal requirement to disclose a certain piece of information, the fact that a large number of companies do so may make this disclosure a part of “good accounting practice”, and thus essentially mandatory. Nonetheless, in this study we do not differentiate between mandatory and voluntary disclosures, instead taking all reported corporate governance information into account. As the formal disclosure requirements have not changed during the time period studied (1999-2002), all changes in corporate governance disclosures can be considered more or less voluntary.

Based on the discussion above and for the purposes of this paper, we chose to limit our survey of corporate governance disclosures to the following information items:

1. Presentation of the members of the board of directors and senior management, including photographs and biographical information.
2. Description of how the board works, including e.g. presentation of policy and procedures, number and types of meetings, number and types of committees, delegation of operational responsibility to management etc.

This selection of disclosure items is a combination of mandatory disclosures required by the registration contract of the stock exchange and information voluntarily disclosed by certain companies (as determined by a pilot study of some annual reports). We also considered surveying disclosures related to how corporate management works as well as descriptions of internal (and external) control procedures and management systems, but the pilot study showed that such disclosures were exceptionally rare.

We do not consider disclosure of directors’ and CEO compensation in accordance with the Accounting Act to be corporate governance information, unless this also includes a discussion of e.g. the process of deciding on appropriate remuneration levels or board and CEO responsibilities. We have chosen not to adopt the broader social responsibility perspective of corporate governance in this paper, and thus do not include disclosures relating to stakeholders other than owners/investors.

RESULTS

The average proportion of the analyzed annual reports devoted to board-related corporate governance information (excluding board and management biographies) is presented in Table 2, along with the standard deviation and range of minimum-maximum values. This information corresponds to the second item in the disclosure index presented earlier, i.e. mainly disclosure on how the board of directors operates.

[Insert Table 2 here]

As can be seen, only a very small portion of the annual report deals with board-related governance issues. However, there is a notable increase in the relative amount of space dedicated to such corporate governance disclosure over the time period studied, from 0.46% to 0.80% of the total number of pages of the annual report. Interestingly, a few companies

chose not to disclose any board-related corporate governance information at all in the annual report during the period 1999-2001 (3 companies in 1999 and 2000, 1 in 2001), despite the requirements of the stock exchange registration contract. In 2002, all companies reported some board-related corporate governance information.

Apart from the number of pages of corporate governance disclosure, we have also identified the section of the annual report in which this information is reported. According to e.g. the stock exchange registration contract, information on the board's activities during the year should be disclosed in the Board of Directors' Report. However, only 11 of the 22 companies disclosing board-related corporate governance information in their 2002 annual reports chose to include this in the Board of Directors' Report (11 of 19 in both 1999 and 2000, and 12 of 21 in 2001).

Over the past decade or so, a number of large Swedish companies (e.g. Asea, Astra, Stora, Telia) have merged with companies from other countries. Many of these companies have chosen to move their headquarters, and consequently their accounting departments, out of Sweden, and this has to a large extent also affected their choice of GAAP. In all, 6 of the 22 companies surveyed in this study employ some form of foreign GAAP, mainly IAS (2 companies) and U.S. GAAP (2) or some combination of these (2). Being primarily a British company, AstraZeneca uses U.K. GAAP. The results of our study of board-related disclosures for companies using Swedish GAAP and foreign GAAP are summarized separately in the lower part of Table 2.

It is interesting to note that in 1999 and 2000, the Swedish companies devoted a comparatively larger portion of their annual reports to corporate governance information than did the foreign companies. In 2001, the companies using foreign GAAP showed a substantial increase in corporate governance disclosures, and on average their 2001 (and 2002) annual reports contained relatively more such disclosures than did the Swedish GAAP companies. In 2002, all companies disclosed at least some board-related corporate governance information, including the foreign GAAP company (Autoliv) that had previously ignored this information in the public annual report. Throughout the period studied, the foreign GAAP companies had a much larger standard deviation of disclosure levels, and (except for 2002) this group contained companies with the least as well as the most extensive corporate governance information.

A common feature in almost all annual reports surveyed is a presentation of the board of directors and corporate management. This presentation usually includes photographs of the individual board members and senior managers, as well as information about their positions on the board/in the company, length of time in the present position, stock ownership, and other significant positions outside the company. This information is in line with the requirements of the stock exchange registration contract, although a presentation of company management is not necessary. As can be seen in

Table 3, the average length of the board and management presentations is between 3.61% and 4.24% of the annual report of the companies surveyed, with a slight increase between 1999 and 2001 and a decrease again in 2002.

[Insert

Table 3 here]

Once again there are apparent differences in the disclosure practices of Swedish GAAP and foreign GAAP companies. The Swedish companies devote a comparatively larger part of their annual reports to board and management presentations than do the foreign GAAP companies. Part of the reason for this difference is that most Swedish GAAP companies tend to include photographs of both board members and senior management in their annual reports, whereas the board and management presentations of foreign GAAP companies are more narrative and do not always include photographs.

Test statistics (single-tailed, matched pair t-tests) for the board-related corporate governance disclosures (for all companies) are reported in Table 4. The results of these tests show that there is a statistically significant (at the 1% level) increase in disclosure of corporate governance information between 2001 and 2002, and also for the entire period 1999-2002. The changes between 1999-2000 and 2000-2001 are not significant, but the tests show increasing significance over the period studied, and the results in Table 2 show that this increase is primarily due to greater disclosure from companies using foreign (as opposed to Swedish) GAAP.

[Insert Table 4 here]

The presentations of individual board and management members are relatively stable over the time period studied, although as can be seen in Table 5, the decrease in the relative amount of space devoted to such presentations between the 2001 annual report and the 2002 annual report is statistically significant (at the 5% level). Seen over the entire study period 1999-2002, there is no significant change in the relative volume of board and management presentations.

[Insert Table 5 here]

DISCUSSION AND ANALYSIS

A more thorough analysis of the actual information disclosed by the surveyed companies may help to shed some more light on the type and format of the corporate governance disclosures, and ultimately the reasons for these disclosures and other potential research issues. In this section we present some interesting observations made in the course of analyzing the corporate governance disclosures in the companies' annual reports.

General observations regarding disclosure practices

The overall impression of corporate governance disclosures is that such information is not given very high priority by the surveyed companies. With regard to the number of pages in the annual reports, corporate governance information is only allotted relatively minor space (rarely more than an average of 5% of the total number of pages, including presentations of the board and management members).

The corporate governance information tends to be spread throughout the annual report, although some companies do have a specific section entitled "corporate governance" or something similar. This approach does not seem to have gained any widespread acceptance, although we have seen an apparent increase in the practice of using a separate section for corporate governance information in the period studied. A good example of this is the Swedish-Swiss engineering group ABB, which has increased its board-related corporate governance disclosures from zero to more than two pages (1.63%) of the annual report in 2002. This information has been placed in a new section of its 'Operational Review' (the second part of the annual report), together with a variety of other types of corporate governance information (e.g. description of group structure, compensation to former members of the management team, work performed by auditors etc.) in accordance with a directive from the SWX Swiss Exchange.

It is interesting to note that there is no real "common disclosure practice" regarding corporate governance information among the companies studied, although information regarding the board tends to be presented in the Board of Directors Report (in accordance with the Stockholm stock exchange registration contract), which means that it is also subject to the auditors' review. On the whole we can conclude that in the period studied, we have not seen any indication of further standardization or harmonization of the presentation of corporate governance information, and the overall impression is that the companies have developed their own way of disclosing, and do not deviate from this model in the short term.

Increasing board-related disclosures

Looking closer at the board-related disclosures, it becomes evident that the information disclosed is mostly of a very basic nature, and there is a common set of items that most companies disclose. For instance, companies usually disclose how many meetings of the board that have been scheduled in accordance with the written procedural statute for the board that is required under Swedish company law. They also tend to give a brief statement of the number of actual meetings of the board during the year in question. In almost every case the companies also disclose the existence of different subcommittees within the board. It is interesting to note that several companies use an identical text every year, and in some cases only the number of actual meetings held by the board is changed.

Regarding the disclosure of subcommittees, it is intriguing to note that there has been a substantial increase in the number of companies mentioning the existence of such committees

in general, and audit committees in particular, in 2002 compared with previous years (see Table 6). Traditionally, audit committees have been comparatively rare in Swedish companies, with contacts between the board and the auditors being fairly infrequent and informal. It is therefore tempting to attribute the sudden formation of audit committees in Swedish companies to the recent media, market and regulatory interest in board responsibilities and related corporate governance issues.

[Insert Table 6 here]

Our study of board-related disclosures includes both voluntary and mandatory items, such as those required by the Stockholm stock exchange registration contract. Despite this, one of the companies (Autoliv) surveyed does not provide any board-related information, with the exception of a brief note in the 2002 annual report. This is all the more interesting since this company is also listed on the New York Stock Exchange, and is therefore subject to the comparatively stricter U.S. regulations on this matter. The information must accordingly be available since it should be disclosed under U.S. GAAP, but despite this it is not presented in the public annual report available e.g. to Swedish shareholders. As noted above, there is a brief note in the 2002 annual report of Autoliv, including a reference to the company web site where “Corporate Governance Guidelines” and other information is available.

Two other companies (ABB and TeliaSonera) did not disclose board-related information in the annual reports for 1999 and 2000, but chose to disclose the information in 2001 and 2002. In fact, in its 2002 annual report, ABB presented the most extensive corporate governance information of any company in the study throughout the entire period studied (2.25 pages of board-related information, representing 1.63% of the annual report). This sudden interest in corporate governance issues at ABB is perhaps not so surprising considering the massive media attention surrounding the recent “Barnevik affair” (in which new ABB management revealed that the former chairman and CEO of ABB, Percy Barnevik, had received a CHF 148 million severance package without full board approval after retiring as CEO in 1996). As for TeliaSonera, it is interesting to note that this company has the Swedish government as its largest shareholder, but did not disclose any corporate governance information until 2001.

Interpreting the results

The aim of our study was to explore the development of corporate governance disclosures of companies listed on the Stockholm stock exchange. Our quantitative study clearly indicates that there has been a significant increase in board-related corporate governance disclosures during the period 1999-2002. Practically all of the studied companies have increased the relative amount of space devoted to such disclosures in the annual report. To some extent, this increase is due to the fact that the annual reports became gradually less voluminous in 2000 and 2001. However in 2002, the total number of pages in the annual reports once again increased, as did both the absolute and relative quantity of corporate governance disclosures.

A further possible caveat in interpreting the results of the quantitative study is the impact of the “late adopters” of corporate governance disclosure. As mentioned above, two companies that had previously not disclosed board-related information started making such disclosures in 2001. While these “late adopters” have had some impact on the average level of disclosure, there is a significant increase in corporate governance disclosures even when they are excluded from the study. The fact that these two companies started disclosing corporate governance information in 2001, and the last non-discloser in the study commenced reporting

selected board-related issues in 2002, rather indicates that corporate governance disclosures in the annual reports of companies listed on the Stockholm stock exchange have in fact tended to increase during the period 1999-2002.

The interesting question that remains is how this increase can be explained? While it is not the purpose of this paper to empirically test possible explanations of corporate disclosure practices, the results are in line with our expectations prior to conducting the study. These expectations were based on the presumption that the increased market, media, and regulatory attention given to corporate governance since the recent corporate failures in the U.S. and other countries, would be reflected in the disclosure practices of major public companies such as those listed on the Stockholm stock exchange. This heightened public attention to corporate governance can lead to increasing monitoring costs and potential threats to corporate legitimacy, as shareholders and other stakeholders take action to institute a greater measure of control of management activities. In such a situation, management may choose to increase disclosures to signal that action is already being taken, and thus avert the risk of further regulation.

In order to properly interpret the results of our study, and assess the relevance of the theoretical explanations, it is also necessary to consider the context in which the disclosures have occurred. In a Swedish context, the public corporate governance debate has mainly focused on the apparently fraudulent behaviour and petty greed of senior corporate managers. A prominent example of this is the above-mentioned "Barnevik affair". The most recent example of questionable ethical conduct is the ongoing investigation into the events at the insurance company Skandia, which include dubious transactions with Skandia Liv, the life insurance company owned by Skandia, and luxurious redecoration of senior managers' apartments at Skandia's expense. The end result of these and similar events is a transfer of wealth from Skandia's stakeholders to its management.

Historically, the debate in Sweden has tended to revolve around managerial compensation packages, which have frequently been thought to be too generous. Recently, a number of incidents such as those mentioned above, have been uncovered that have clearly shown the public that these managers have not always acted in the best interest of the shareholders or other corporate stakeholders. This has, of course, accentuated the issue of appropriate remuneration levels, but also opened up for a potentially more serious discussion of managerial competence and responsibility, and ultimately corporate legitimacy.

In 2002, the Swedish government appointed a special "Public Trust Commission" with the aim of investigating and restoring the public's trust in Swedish private enterprise. This commission was created against the backdrop of the recent corporate scandals in Sweden and abroad, once similar initiatives had already been taken by a number of other governments around the world. In contrast to e.g. the U.S. and the U.K., where the Sarbanes-Oxley Act and the 'Higgs Report' have directly addressed the issues of board competence and independence, Sweden lacks any form of regulation regarding board composition. Furthermore, Swedish companies are generally speaking unfamiliar with the 'code of conduct' approach, setting down the ground rules for ethical corporate and managerial behaviour, already adopted in many other countries.

The lasting impression is that in many respects, Sweden has had a comparatively laid-back attitude to corporate governance issues, and most Swedish companies have had a rather naïve view of how to secure good corporate governance. Consequently, the boards of directors and

management groups of many companies have been forced to rapidly address these issues, as they are now being openly discussed in the public arena. One way of managing, or at least coping with, the interest in corporate governance issues is to improve annual report disclosures, signalling to the shareholders and other annual report readers that the issues are being addressed. Our study of corporate governance disclosures confirms that companies listed on the Stockholm stock exchange are increasingly using the annual report to provide an account of e.g. the activities of the board, including the formation of audit committees and other changes in the governance structure.

CONCLUSIONS AND FURTHER RESEARCH

The results of our survey of 22 companies' annual reports for the years 1999-2002 show that there has been a statistically significant increase in the volume of board-related corporate governance disclosures, with a noticeable escalation towards the end of the period. These findings are in line with our expectations prior to conducting the study, which were based on a synthesis of agency theory and legitimacy theory. Both of these theories predict that the increasing monitoring costs and threats to corporate legitimacy that are a probable outcome of heightened market, media, and regulatory attention to corporate governance issues, will induce managers to increase disclosure in order to avert regulation and conform with social expectations of corporate responsibility. While we have not conducted a formal test of either theory, our empirical results do not contradict these general predictions.

Despite the apparently significant increase in the relative amount of corporate governance disclosure, it is more difficult to discern any clear pattern emerging from the empirical material when analyzing it from a more qualitative point of view. Apart from a certain set of common information items, e.g. disclosure of the number of board meetings, there is very little evidence of any form of harmonization of corporate governance disclosures. This information is spread throughout the annual report, and each company seems to have its own 'disclosure model', which it does not deviate from during the period studied. In fact, several companies appear to use an almost identical text each year, and only change selected words or the number of meetings held by the board.

In concluding, our exploratory study shows that the largest and most frequently traded companies listed on the Stockholm stock exchange have increased their board-related corporate governance disclosures during the period 1999-2002. However, our study also reveals that there is a slight discrepancy between the increase in total quantity of disclosure and the qualitative contents of the disclosures made by the individual companies. Having said that, a number of companies have also extended their corporate governance disclosures in the final year of the study, and have chosen to report some new items of corporate governance information.

In the course of conducting this study of corporate governance disclosures in a Swedish context, we have identified a number of interesting issues that we believe merit further research. In particular, a more thorough study of the driving forces affecting managements' decisions to disclose corporate governance information would be a useful contribution. This could entail a quantitative study of the linkage between disclosure practices and various corporate characteristics, as well as a qualitative study of company managers' disclosure motives. A different study could involve an in-depth review of the format and contents of actual corporate governance disclosures could assist in the construction of a better 'corporate governance disclosure model'. Finally, a central question that remains to be answered is if the corporate governance disclosures made by companies are at all useful to external audiences.

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TABLES

Table 1 – List of surveyed companies

Company	Market Sector	Company	Market Sector
ABB	Industrial	Nokia	Telecom
Assa-Abloy	Industrial	Sandvik	Industrial
AstraZeneca	Healthcare	SCA	Resources
Atlas Copco	Industrial	Securitas	Services
Autoliv	Consumer	Skanska	Industrial
Electrolux	Consumer	SKF	Industrial
Ericsson	Telecom	SSAB	Resources
Gambro	Healthcare	Stora Enso	Resources
Holmen	Resources	Swedish Match	Consumer
Industrivärden	Financial	TeliaSonera	Telecom
Investor	Financial	Volvo	Industrial

Table 2 – Descriptive statistics for board-related disclosures (percent of total pages).

All companies	1999	2000	2001	2002
<i>Mean</i>	0.46	0.51	0.58	0.80
<i>Standard deviation</i>	0.32	0.34	0.36	0.47
<i>Min – Max</i>	0 – 1.07	0 – 1.14	0 – 1.34	0.13 – 1.63
Swedish GAAP (n=16)	1999	2000	2001	2002
<i>Mean</i>	0.47	0.53	0.55	0.74
<i>Standard deviation</i>	0.23	0.27	0.29	0.41
<i>Min – Max</i>	0.12 – 0.87	0.12 – 0.90	0.12 – 1.09	0.13 – 1.47
Foreign GAAP (n=6)	1999	2000	2001	2002
<i>Mean</i>	0.43	0.44	0.66	0.98
<i>Standard deviation</i>	0.51	0.51	0.53	0.62
<i>Min – Max</i>	0 – 1.07	0 – 1.14	0 – 1.34	0.21 – 1.63

Table 3 – Descriptive statistics for board and management presentations (percent of total pages).

All companies	1999	2000	2001	2002
<i>Mean</i>	3.81	4.19	4.24	3.61
<i>Standard deviation</i>	1.33	1.28	1.36	1.62
<i>Min – Max</i>	0.71 – 6.25	2.17 – 6.67	1.89 – 6.25	0.72 – 6.15
Swedish GAAP (n=16)	1999	2000	2001	2002
<i>Mean</i>	4.07	4.31	4.42	4.01
<i>Standard deviation</i>	1.20	1.35	1.36	1.28
<i>Min – Max</i>	2.17 – 6.25	2.17 – 6.67	2.17 – 6.25	2.47 – 6.15
Foreign GAAP (n=6)	1999	2000	2001	2002
<i>Mean</i>	3.11	3.85	3.77	2.56
<i>Standard deviation</i>	1.52	1.08	1.37	2.09
<i>Min – Max</i>	0.71 – 4.65	2.27 – 5.41	1.89 – 5.36	0.72 – 6.06

Table 4 – Results of t-tests of means of board-related corporate governance disclosures (all companies).

Test pairs:	1999 – 2000	2000 – 2001	2001 – 2002	1999 – 2002
<i>P value (single-tailed)</i>	0.082	0.055	0.004	0.001

Table 5 – Results of t-tests of means of board and management presentations (all companies).

Test pairs:	1999 – 2000	2000 – 2001	2001 – 2002	1999 – 2002
<i>P value (single-tailed)</i>	0.069	0.396	0.015	0.278

Table 6 – Number of companies disclosing existence of audit committees.

No. of audit committees	1999	2000	2001	2002
<i>Foreign GAAP (n=6)</i>	2	3	4	6
<i>Swedish GAAP (n=16)</i>	2	3	3	11
<i>Total</i>	4	6	7	17