

Foreigners as change agents of organizations and institutions: evidence from Sweden

Kevin Lee

Ph.D. Student in Finance

Department of Finance

Sam M. Walton College of Business

University of Arkansas

October 2009

Comments welcome at kklee@uark.edu

Abstract:

Foreigners can act as agents of change in organizations more effectively than domestic agents. In this study, I look at Sweden as a natural experiment where I can observe different types of investors and how they may affect change within the firm. The observable result is an improvement in firm performance. I term active foreign investors as those that are concerned about control rights over a firm. Passive foreign investors are defined as those who are concerned more about cash-flow rights as opposed to control rights. I differentiate these two aspects of stock ownership. I find that increased active foreign investors' ownership in a firm in conjunction with a decrease in control by the largest domestic shareholder improves firm performance. This is consistent with the notion that active foreign investors (mostly from the United States and U.K.) will be more likely to push the firm towards the goal of shareholder wealth maximization while domestic owners may not.

I. Introduction

In this study I investigate the impact of active foreign investors on firm performance of publicly traded companies in Sweden. I find that an increase in active participation by foreign investors coupled with a decrease in excess voting rights of the largest domestic shareholder significantly increases firm performance. The results indicate that both conditions of increased foreign participation and decreased excess voting rights are necessary but neither is sufficient alone. Performance measured as changes in ROA, ROE, EPS, and Tobin's Q all show a positive relationship with the joint condition of increase in active foreign investors and a decrease in excess power of the largest domestic shareholder. Interestingly, we do not find the same results when there is an increase in active domestic shareholders at the expense of the largest domestic shareholder's excess control rights.

Prior literature has shown a positive correlation between foreign ownership and firm performance. Dahlquist and Robertsson (2004) find that foreigners invest in firms with strong recent performance. They also find a strong relation between increased foreign share ownership and reduced cost of equity. All else equal, this should enhance firm performance because it is less costly for firms to take on more positive net present value (NPV) projects. Both of these findings, however, do not explicitly show that foreigners enhance firm performance directly. In the first case, foreigners are chasing "winners" by investing in firms with an established record of strong performance. In the second case, the reduction in the cost of equity capital is a byproduct of foreigners investing in the domestic market. However, neither case established a causal relation that foreigners take an active role in improving the performance of the firm.

I attempt to sign the causal relation by distinguishing between "active" foreign investors and "passive" foreign investors in Swedish firms. These two types of investors can be classified

based on their motivation for investing in a firm. Manne (1965) and Marris (1964) distinguish the difference between these investors with property rights and voting rights reflected in the ownership of a stock. Passive investors are primarily concerned with property rights than voting rights, while active investors are concerned with voting rights. Property rights entitle the investor to a claim of the residual earnings of a firm. Therefore, passive investors are concerned with the performance of a firm in so far as it affects their return on investment (ROI). If the return does not meet the investor's requirements or expectations, their investment can easily be transferred to another firm. In contrast, an active investor wants to gain, exercise, or exert their voting rights to improve firm performance. For example, Bjuggren and Bohman (2006) state that an investor with the ability to increase the residual income through more efficient use of the resources of a firm can only benefit by acquiring enough control rights to enforce a value increasing change in the use of the resources.

Sweden is an ideal setting to investigate the impact that foreign investors have on domestic firms. I will further discuss the unique history and key features of Sweden in a subsequent section. For now, suffice it to say that with pyramids and dual class shares, Sweden allows for a large degree of separation between voting rights and property rights. In this study I look at the ownership and control patterns of the largest publicly traded Swedish firms from 1992 to 2008. Because of the unique ownership structure of Swedish firms that permit pyramid structures and vote differentiated shares, voting rights are often separated from the property rights associated with share ownership. So it is possible for equity investors to have majority control rights with minimal ownership stake. For example, in 1997, Ericsson had class A shares with a 1000:1 voting differential to class B shares. The largest domestic owner had only a 4.9% ownership stake while having 43.4% of the voting rights. In stark contrast, foreign investors in

Ericsson represented 51.5% of the ownership but only had 1.4% of the voting rights. The true degree of disparity between the ownership stake and control rights of the largest domestic owner may be understated because the impact of the pyramid that Ericsson belongs to is not being considered.

Concentrated control (or ownership) is common in most countries as shown by La Porta, Lopez-De-Silanes and Shleifer (1999). However, Sweden seems to be on the extreme end of the spectrum. Although many other countries, especially in Europe allow for similar ownership structures, few allow for both pyramid structures and vote-differentiated dual class shares. Even among countries that allow dual class shares, the proportion of firms that use dual class shares is higher in Sweden than any other country in Europe. At the same time, as of the beginning of the 1990's, Sweden has had a relatively open economy that does not discourage or restrict foreign ownership. Table I shows that over the 17-year sample period used in this study (1992 – 2008), foreign participation in Swedish markets increased and the use of dual class shares decreased. Ownership concentration as well as excess votes of the largest domestic owner decreased during this same period.

Berle and Means (1932) discuss the problems related to the separation of ownership and control in large American corporations. Basically well diversified owners only hold a small fraction of the shares of a firm. They would not have the ability or the incentive to exercise control over the firm. Therefore the real day to day control would lie in the hands of management. Jensen and Meckling (1976) demonstrate that the separation of ownership and control has a detrimental impact on firm value. Although the situation is different in Sweden, I argue that the use of dual class shares with differentiated voting rights also causes a misalignment between ownership and control. This misalignment in turn would cause a conflict of interest between the

minority share holders with majority voting rights and other share holders with minority voting rights.

Some have argued (Carlsson 2007) that the Swedish system of corporate governance actually minimizes the principal agency problem because it allows a shareholder to have enough votes to effectively control management without the cost of having to own a majority of property rights. However, this may mean that management will now do what a particular minority shareholder (or majority vote holder) wants but not necessarily what the rest of the shareholders want. I argue that this potentially can be worse than the traditional principal-agency problem because in the traditional case there is a contestable market for corporate ownership. With the presence of vote differentiated shares, however, the corporate ownership market becomes less contestable. Therefore I argue that if foreign investors can decrease the excess votes of the largest domestic shareholder, then firm performance should improve. My argument is consistent with the findings of Cronqvist and Nilsson (2003) who document discount on firm value caused by controlling minority shareholding.

The rest of the paper is outline as follows: A brief introduction of Institutions and Organizations is presented in the next section. An outline of the important historical developments of Sweden and how this played a key role in developing salient characteristics of Swedish institutions and organizations is presented in Section 3 as well as economic performance of Sweden during the last four decades. Section 4 offers a description of data and definitions. Section 5 presents the empirical results and interpretations. Concluding remarks are in section 6.

II. Institutions and Organizations

A natural question is why does it have to be an active foreign investor, why not any active investor that lowers the excess votes of the dominant domestic shareholder? The results of this study indicate that it is only active foreign investors that seem to have a positive impact on firm performance. These results may be explained by borrowing from Douglas North's (1989, 1990) studies of formal and informal institutions and organizations. He states, "Institutions are the rules of the game in a society". More specifically, formal institutions are the written rules of the game and informal institutions are the unwritten rules of the game. Each society has its own set of formal and informal institutions. A fundamental function of the institutions lies in not only establishing the rules, but how strictly they enforce the rules and how severely they punish violators.

Institutions then can be viewed as constraints to human behavior. Within these constraints, organizations develop and those that can benefit from the institutions will prosper. Organizations can be viewed as the players. Unlike individuals, organizations are a collection of individuals that work together for some common goal. These include political bodies, economic bodies, social bodies, and educational bodies. How organizations evolve is dependent on the institutions of a society. At the same time, organizations affect how institutions change over time. Therefore, organizations should be viewed as agents of institutional change. However, this change tends to be intergenerational in pace.

Formal institutions can change rapidly at times. Laws, regulations, accounting standards and such can be modified, abolished or adopted from abroad. However, the political will to change formal institutions does not materialize in a constant, consistent rate. Therefore, formal

institutions tend to have periods of stagnancy and periods of change. Often the agents of this type of change are from entrepreneurial spirits within the society who act as standard bearers of change or from influences from other societies. Informal institutions however evolve even more slowly. It is embedded deeply into the culture and history of the society. Informal institutions include customs, traditions, and codes of conduct. Although domestic organizations are change agents of institutions, it is far easier to change a law than a custom. This is akin to the idea that explicit knowledge is easy to transfer, digest and update than tacit knowledge. Organizations and individuals brought up influenced by their society's institutions have perspectives and world views that are influenced by these informal institutions. Therefore domestic organizations may have little incentive to want to change or update these unwritten rules of the game. This is particularly true if the organization in question is able to benefit and flourish within the confines of the institutions.

Foreigners, those that are influenced by a different society's institutions, may not view the formal and informal institutions of the host country with the same fondness, reverence or even awareness. Formal institutions are easy to observe and abide by, but informal rules are a different story. For an individual or organization, the choice to break a rule is dependent on the tradeoff between the payoff of breaking the rule and the likelihood and severity of the punishment for violating the rule. For formal rule, laws and regulations, it is a simple matter to figure out what is the likely punishment for breaking these rules. Informal rules, on the other hand, do not have a user manual prescribing appropriate punishments for breaking the rules. Also, there may be some benefits to follow the informal rules, but these benefits are often embedded within the context of the society and therefore foreigners who abide by the informal rules may not receive the same type of benefit as do domestic people. For example, a domestic agent may be able to build up

their status in their society by adhering to the rules of the game and succeeding. This agent thus is able to reap the private benefits of his status in the society. A foreign agent may also follow the rules to succeed. However, if the private benefits are culture specific, (the benefits are more meaningful within the context of the particular culture) then the utility gained from the private benefit may be less for the foreign agent.

The severity of the punishment for violating an informal rule can also be perceived differently by the foreigner than the local agent. For example, in China the concept of saving or losing “face” is an integral part of the national psyche. To lose face can be roughly translated into being humiliated. However, this translation does not do the concept of losing face full justice. The Chinese are highly sensitive to maintaining face. To lose face for violating an unwritten rule would be considered a very severe penalty that the Chinese people would readily want to avoid. However, for a foreigner, without an appreciation of face might feel the punishment for violating the rule is tantamount to being embarrassed. From the foreigner’s perspective, whatever benefit he/she acquires from breaking the rule may outweigh the perceived severity of the punishment. Therefore, foreigners may be more likely to ignore, violate or under appreciate the informal rules of the game.

Foreigners that join domestic organizations by their actions then influence the organizations to behave differently (more in line with the formal and informal rules that the foreigners are accustomed to). In turn, these organizations influence the evolutionary path of both formal and informal institutions of the host society. Therefore, foreigners may be a stronger agent of institutional change than domestic agents. In this study, active investors are the foreigners that are agents of change. In contrast, passive investors only invest their money but do not directly challenge or interact with the institutions or organizations of the host country. From

this perspective, active foreign investors are agents of organizational change but passive foreign investors are not. Further, the incumbent power brokers of the organization can be viewed as the obstructor of change. This is because the incumbent is already in a privileged position within the confines of the rules of the game. Therefore there may be a natural resistance to change by the incumbent.

Depending on the rules of the formal and informal institutions of the society and how the organization evolved, the incumbent may be heavily fortified and insulated from outside pressures. It is possible, no matter how “active” a foreigner is, he/she may not be able to effectively affect change within the organization. However, if the foreigner is able to gain some influence (control) at the expense of the incumbent power, he/she may be more successful in initiating change. In contrast, a domestic agent who is able to gain some influence at the expense of the incumbent power may not desire to affect any change. In this case, the overriding concern may be to position one self to gain access to the same private benefits and privileges as the incumbent. As for the actual behavior of the organization, there would be little to no change since it is already aligned within the acceptable behavior patterns and values of the domestic agent.

III. Sweden

The first democratically elected socialist government took power in Sweden in 1920. Since then it has been seen as the paradigm of the social welfare state. As Peter Hogfeldt (2005) states, Sweden is a corporatist society where heavily entrenched private ownership of the largest listed firms coexists and cooperates with labor unions and the Social Democratic Party (SAP). In addition, unlike most other countries in Europe, institutions in Sweden have been very stable

since the country benefited politically and economically by staying out of the two world wars. With this long term stability in a socialist institution, it is easy to see that the type of governance structure that would develop in Sweden.

Without straying into a detailed discussion of Swedish history, the Swedish corporate governance model (Swedish model) is essentially a result of trade-offs between labor, capital and political powers. Traditionally the model has been built around political consensus between the labor movement and the major capital owners. As stated by Agnblad, Berglof, Hogfeldt and Svancar (2001), proponents of the Swedish model often describe this system as promoting strong private owners with a long-term investment horizon and a far-reaching social responsibility towards employees and society in general. Corporate law in particular are quite explicitly favoring firms with strong majority controllers and provide a set of rules that enable private owners to establish and maintain control of listed firms. As stated earlier these rules include the allowance of dual-class shares and pyramidal structures.

According to La Porta et al. measures (1997, 1999) Sweden is a country with lower levels of shareholder protection than the Anglo-Saxon countries. However, Agnblad et al. (2001) argue that there is no evidence of minority shareholder exploitation in Sweden. In fact Sweden's institutions protect minority shareholders well. Although there may be some weakness in the formal laws on minority shareholder protection, which is what La Porta et al. emphasizes, this is more than offset by strong enforcement and transparency. According to the rule-of-law measures, Sweden ranks at the very top, and standards of legal enforcement and accounting are very high. In addition, an important element of the Swedish model is the reliance on informal enforcement mechanisms with considerable formal discretion for controlling shareholders. In particular, concerns over reputation and social status limit minority abuse. Social prestige is a dominant part

of the private benefits associated with control of large corporations in Sweden. Most of the large Swedish firms are owned by families. These families try to build a legacy around themselves as good citizens and project themselves onto the public area as important contributors to socially worthy causes.

Sweden has developed a corporate control structure based on a strong domestic owner who is held responsible for upholding the informal rules in Sweden. This being the overall cooperative nature of the society between owners, labor and socialists who control the political arena, to promote long term stable social welfare. An influx of new investors starting in the early 1990's when Sweden was pressured to join the European Union viewed the Swedish system with less reverence. These new investors, especially from the United States and the United Kingdom who represent 50% and 20% of all foreign investors in Sweden respectively, are putting pressure on existing control structures. These foreign investors do not enjoy the same type of private benefits, at least not in the Swedish context. They demand rules and guidelines resembling those that they know from their home countries. They are also more willing to break informal rules to achieve their goals.

Although Sweden has a Civil Law system, the Scandinavian subgroup shows strong enforcement and shareholder protection. Therefore, as foreign investors from the United States and the United Kingdom demand changes in the institutions of Sweden, there is little room for improvement from a formal stand point. It is not like investors from the United States can demand better minority shareholder protection in Sweden by changing the formal laws because they are already protected for quite well. Therefore, any changes in firm performance will be based on the fact that active foreign investors will demand that the firms concentrate on maximizing shareholder wealth rather than concentrating on other goals like overall social

welfare, which is to say foreign investors demand that the organization change towards an Anglo-Saxon model of corporate goals.

If foreigners are successful in affecting change, then there should be observable improvements in firm performance (in accounting measures) as firms concentrate on maximizing shareholder wealth. This would mean cutting back on overinvestment and over employment just to satisfy some social goal or the labor unions. However, demands for change do not always lead to change. This is especially true if the controlling owner is well insulated from outside pressures for change. This is true in the case of Sweden because of dual class shares and pyramidal structures as stated above. Therefore, I should expect to see that foreigners will not be successful in affecting change unless the controlling owner is willing or forced to relinquish some of his control.

From a macro prospective, if foreigners are able to enhance firm performance, then there may be a positive effect on the overall economy. This improvement may be viewed when looking at Sweden's economic performance over a long time horizon. Sweden's economic performance was stellar until the early 1970's, enjoying one of the highest living standards (5th among OECD countries). However, for almost two decades, until 1992, Sweden's relative economic performance declined. As reported in "Sweden's Economic Performance" by McKinsey Global Institute, 1995, standard of living as measured by GDP per capita, by 1990 Sweden had already been surpassed by Germany, France and Japan. The economy further deteriorated during Sweden's recession from 1990 – 1993 when it was surpassed by Italy and the UK.

This decline was primarily due to slow growth in GDP per employed person. In other words, low productivity growth hampered Sweden's economic performance. Hansson and

Lundberg (1991) find that Sweden's total factor productivity growth was the lowest among OECD countries from 1970 – 1985. Some argue that Sweden's economic decline is caused by a lack of economic evolution. Low levels of innovation as defined as new or substantially improved products, services or production processes and productivity growth are important factors in economic evolution. For economic evolution to progress, the environment must encourage job creation and destruction. Inflexibility in labor markets hampers this need. These symptoms were caused by a lack of competition amongst firms and the presence of a strong labor union in Sweden.

As illustrated in table 1, starting from the early 1990's through 2008, there has been a dramatic increase in foreign ownership in Sweden. One major cause is the induction of Sweden into the European Union. During this same period, Sweden has enjoyed a reversal in the decline in GDP per capita. Sweden's GDP per capita growth between 1998 and 2004 was the strongest amongst OECD nations. Strong productivity growth is cited as the primary explanation for this positive development by McKinsey Global Institute's report "Sweden's Economic Performance: Recent Development, Current Priorities" (2006). During this period, productivity growth in Sweden's private sector was the fourth strongest in the OECD at 1.5 times higher rate than the average OECD country. The inclusion into the EU increased competition by lowering trade barriers and at the same time foreign owners were more willing to go against the labor union. The result is an increase in output without an increase in labor input. These macro trends are consistent with the firm level evidence I find in this study which shows that along with better firm performance, active foreign investors also seem to be associated with improved labor and capital productivity (table 10).

IV. Data and Methodology

Information on ownership, voting rights is obtained from annual publications of SIS AGARSSERVIRE AB's Owners and Power in Sweden's Listed Companies from 1992 to 2008. These publications assemble and track company identities and company name changes as well as ownership percentages of the largest domestic shareholders, foreign equity investors, and overall ownership percentages of the 25 largest shareholders. The share of voting power exercised by the largest domestic shareholder, foreign investors and the sum total of the 25 largest domestic shareholders are also calculated. Excess voting power of the largest domestic shareholder is simply the difference between vote and ownership percentage.

Firm characteristics as well as accounting data are obtained from Compustat Global from 1991 to 2008. New stock issue data for Swedish firms are obtained from SDC platinum from 1989 to 2008. The biggest challenge is merging these three databases since the only identifier that can be used is the company name, which is not always consistently recorded in the same manner in different databases and can change through time but not be reflected in each database. The fact that many of the names are in Swedish and are often abbreviated further complicates matters.

Foreign equity investments are classified as active or passive based on the type and amount of investment as well as the impact the resulting change in foreign ownership has on the excess voting power of the largest domestic shareholder, calculated as the difference between their ownership and voting percentages. Specifically, foreign equity investments are classified as active if the foreigner acquires A shares or at least 5% total ownership via B shares and in addition the excess voting power of the largest domestic shareholder declines. Foreign investments are defined as passive if there is no acquisition of A shares or an acquisition of less

than 5% of ownership via B shares. A domestic equity investment is also classified as active (D-active) following a similar criterion as the foreign active investor. If another domestic owner increases his ownership stake via A shares and there is a corresponding decrease in the excess vote of the largest domestic shareholder caused by a loss in A shares, then this is classified as domestic active (D-active).

From a mathematical stand point it is possible for the largest domestic share holder to decrease his excess votes by purchasing more B shares instead of selling A shares. This would increase the control exerted by the largest shareholder while at the same time the excess votes would decrease. To avoid this possible situation from contaminating the analysis, I only classify an observation as a decrease in excess votes of the largest domestic shareholder when the shareholder decreases his total voting power as well as there being a decrease in the simple difference between ownership percentage and voting percentage. This means the largest domestic shareholder would have to give up some of his A shares and thereby decrease his excess voting power.

One can argue any foreign investor who chooses to purchase A shares instead of B shares can be viewed as an active agent. This should be clear when one considers the fact that the A shares are much less liquid than B shares, represent the same ownership stake and residual rights as well as the same dividend policies as the B shares but will cost more because of the control premium attached to them. At the same time, if a foreigner wants to gain some control of a firm and A shares are not available, then B shares can act as a substitute. The foreigner would have to acquire a larger amount of B shares at a ratio equal to the difference between the vote of A shares and B shares to achieve the same voting rights of the A shares. Therefore using the criterion of purchasing at least a 5% ownership stake via B shares may be viewed as a legitimate

alternative. However, in this study, I require a further condition that in conjunction with this active foreign acquisition of stocks, there must be a true decrease in excess votes of the largest domestic holder for the observation to be classified as active.

This may seem misleading because what is being distinguished is the difference between an active foreign investor who is ineffective as an agent of change due to the obstruction of the domestic shareholder and an active foreign investor who is effective as an agent of change. This line of reasoning is consistent with dynamics of organizational change introduced in section II. Without the relinquishment of some control by the incumbent power of the organization, an active foreign agent may be ineffective as an agent of change. For an active foreign investor, the willingness to invest in a firm depends on the willingness of the domestic shareholder to give up excess control rights. I decided to concentrate only on the largest domestic shareholder as opposed to the largest 2, 3, 5 or any other arbitrary number of owners. This is because during this sample period, the largest owner on average controlled over 50% of the vote in 1992 and almost 29% by the end of the sample period. According to La Porta et al. (1999) 20 percent is enough for one owner to effectively control the company.

To recap, pertinent definitions are summarized below:

Active – an increase in foreign ownership via A shares or at least via 5% increase in B shares, and in addition a decrease in excess votes of the largest domestic shareholder caused by a relinquishment of voting power via lose of A shares.

Passive – an increase in foreign ownership that does not meet the criterion of the above Active definition.

D-active – an increase in domestic ownership via A shares and in addition a decrease in excess votes of the largest domestic shareholder caused by a relinquishment of voting power via lose of A shares.

Excess Vote – the difference between the percentage vote and the percentage ownership of the largest domestic owner. A decrease in excess vote can only be caused by a loss of A shares.

A two-way fixed effects regression model that controls both for firm specific characteristics and time is used to assess whether investments by active foreign investors increase firm performance in the subsequent period.

Equation 1:

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

where (i) ROA, ROE, EPS, and Tobin's Q are used to proxy for *Performance*; (ii) *Investor Type* is **Active**, **Passive** or **D-active** depending on the above definitions; (iii) total assets, property plant and equipment, total revenue, number of employees, or market capitalization are used to capture *Size*; (iv) *Ownership* is an array of firm specific ownership structure variables including the initial level of foreign capital, percentage vote of the largest domestic shareholder as well as the level of excess votes. This model is used on a sample of observations based only on firms that issues dual class shares.

V. Results and Interpretation

Table 2a reports bivariate correlations between the ownership and alternative measures of firm performance. The negative correlation values between the performance measure (roa, roe, and eps) and the change in performance (chroa, chroe, and cheps) indicate mean-reversion in firm performance. Tobin's Q and change in Tobin's Q is not consistent with the other

performance measures. ROA, ROE and EPS are all positively correlated with each other. Tobin's Q on the other hand is negatively correlated with two of the three other performance measures and insignificantly positively correlated with the third. The results also suggest that the largest domestic holder is likely to increase ownership when performance has increased, however, performance levels do not continue to increase in the subsequent period. Active foreigners tend to avoid firms dominated by a domestic shareholder shown by a highly significant negative correlation. This does not hold for passive foreigners who show a marginally significant positive correlation with large domestic owners.

I begin by defining two types of "active foreign investors". First, a foreign investor is active if he purchases A shares. I label this as Active1st. Second, a foreign investor is active if he increases his ownership stake in the firm by 5% via B shares. I label this as Active2nd. There are legitimate reasons to treat both of these cases as active foreign investors. Purchasing A shares indicates that the investor is interested in the voting rights of the A shares. Otherwise it would be easier and cheaper to acquire B shares. In addition, an increase of 5% ownership stake represents a large increase in ownership. Both of these cases represent an active foreign capital increase. However in these cases, I do not take into consideration if the largest domestic shareholder has relinquished any of his control. Using these two alternative definitions of active foreign investors, I run 2-way fixed effects panel regression to see if there is any impact on firm performance. The results are shown in table III and table IV.

In table III, I find that Active1st has a negative impact on firm performance. This negative sign is consistent whether I measure change in performance as change in ROA, change in ROE, change in EPS, or change in Tobin's Q. Active1st is significantly negative at the 5% level when regressed on change in EPS with a coefficient of -1.8818 but not significant in the

other three models. In model 3 the percentage of foreign capital (ownership) is significantly negatively associated with change in EPS. Firm size coefficient is insignificant except in model 4 where not surprisingly, larger firms tend to have lower Tobin's Q. The main result of table III is that foreign investors that buy A shares in itself does not enhance firm performance.

One caveat that needs to be considered is that the negative results and especially the significantly negative results for model 3 could be caused by other factors. A possible consideration is if the firm were to issue new shares then the capital raised by the issuance would not immediately be productive. This capital would represent an increase in assets, shareholders equity and number of shares outstanding with no increase in earnings initially. If foreigners buy these new issues then the mechanics of how I determine firm performance can show a false negative impact. To address this, I reran my analysis for tables III – tables IX while censoring against new issues and 2 subsequent years after the new issue. The results are in tables XI – tables XVII in the Appendix. They show very similar results as the uncensored analyses.

In table IV, I find very similar results as in table III. Once again, Active2nd has a constantly negative impact on firm performance and it is significant in two of the four models. The coefficient for Active2nd is -0.1029 and significant at the 10% level for change in ROE and it is -3.5816 and significant at the 5% level for change in EPS. Size coefficient is once again negative and significant (5%) in model 4 when looking at change in Tobin's Q. Overall these results are very similar to those of table III. Foreign investors who increase their ownership stake by at least 5% do not improve firm performance. Taken together, neither definition of active foreign investor is sufficient to improve firm performance alone.

In table V, I investigate whether a decrease in excess votes by the largest domestic shareholder is sufficient in improving firm performance. As indicated above, a reduction in the

misalignment between property rights and control rights should be beneficial to the firm. However, the results in this table show that change in excess votes is highly insignificant and seemingly unrelated to changes in performance. The change in excess vote of the largest domestic shareholder is captured only when there is a decrease in the gap between ownership and vote percentage and there is a reduction in overall vote percentage of the domestic shareholder. However, in this table I do not consider who acquires the A shares. The main result of table V is that a reduction in misaligned control by the largest shareholder is insufficient in improving firm performance alone.

In table VI, I redefine Active as being either Active1st or Active2nd and there being a reduction in excess votes of the largest domestic shareholder via loss of A shares. The results indicate that this new definition of Active significantly improves firm performance. In model 1 and model 4 Active is significant at the 10% level and in models 2 and 3 it is significant at the 5% level. The variable Active in these regressions can be misleading because it is not capturing just active foreign investors but also in conjunction a relinquishment of some misaligned control by the largest domestic shareholder. The results suggest that although neither active foreign investors nor a reduction in excess votes are sufficient in themselves to improve firm performance, they are both necessary and are sufficient together. This result ties in nicely with the idea that as an agent of change, foreign investors will have difficulty affecting change if the largest domestic shareholder (the incumbent) opposes change.

Up to this point, I have only looked at active foreign investors. In table VII, I analyze the performance impact passive foreign investors may have on a firm. Here passive foreign investors are those who do not purchase A shares or do not increase their shares by a significant margin. As an alternative I classified all foreign investments as passive if it did not meet the Active

criteria in table VI, but the results are very similar and is not reported here. The current results are very similar to that of tables III and IV. The coefficients for the Passive variable is consistently negative in 3of the models and significantly so in two of the models. Only the change in Tobin's Q is positive but with a p-value of 0.67, it is insignificant. These results are consistent with the idea that passive foreigners may be chasing good performers only to find that the firms do not maintain that high level of performance in the subsequent year.

In table VIII, I look at the impact that an active domestic shareholder (D-Active) may have on firm performance. The results indicate there is basically no change in performance that can be attributed to domestic shareholders. In fact, these results are almost identical to those of table V which looks at the decrease in excess votes of the largest domestic shareholder. Together these to tables show that an increase in control by a domestic shareholder at the expense of the largest domestic shareholder does not have any affect on performance. This is consistent with the view that active foreigners are agents of change but active domestic owners are not. This may be because the active domestic shareholder is more concerned about acquiring the private benefits and privileged position of the largest domestic shareholder and not concerned about trying to change the organization itself. There may be little incentive to try to change the organization because it is already performing and acting in accordance with the constraints of the formal and informal institutions of the domestic society.

In table IX, for a more direct comparison of active foreign, passive foreign and domestic active, I rerun the fixed effects but this time by including all three investor types in the same model. The results are actually even stronger in favor of the notion that only active foreign investors in combination with the reduction of misaligned excess votes of the largest domestic shareholder together improve firm performance while passive foreign investors now show a

consistent negative impact on performance with model 1 and 3 being significant at the 1% level. The coefficients for D-Active are once again insignificant.

All the results from table III to table IX are consistent. Active foreign investors with the willingness of the incumbent largest domestic shareholder to relinquish some control rights are effective agents of change. In this particular paper, the change is observed by seeing improvements in the performance of Swedish firms. However this is not to say that all change affected by foreigners are good. Although the results so far indicate there is improvement in firm performance, I cannot directly observe what type of change foreigners are making within the organization to enhance performance. In the case of Sweden, the largest block of foreign investors are from the United States followed by the United Kingdom. Investors in both of these countries may adhere more to the rule that purpose of a firm is to maximize shareholder wealth. The purpose of a firm from the Swedish standpoint is more general in that it is to maximize the utility of all constituents (labor, society, government and shareholders).

If active foreign shareholders increase their influence in a firm, then they would push for maximizing shareholder wealth. To do this, one must improve firm performance. But how do foreigners actually achieve these improvements? I cannot directly observe what type of positive NPV projects the firm undertakes. However, I can look at how productive the labor force is and also how productive the capital is in the firm. In table X, I examine the relationship between the different types of investors and the change in productivity of the firm. The labor productivity is simple the net income divided by number of employees and the capital productivity is the net income divided by the book value of Property, Plants and Equipments in columns 1 and 2. I accounted for inflation by deflating revenue, income and PPE values with Sweden's GDP deflator indexed on year 2000 (World Development Indicators database) in columns 3 and 4. The

results indicate that Active foreign investors increase the productivity of labor and capital while passive foreign investors and active domestic investors do not. Although not shown, when sales are used in the regression in place of net income, the coefficient for active foreign investor is insignificantly negative while the rest of the results do not change much. This indicates that these firms are more profitable not because sales increase but because costs are lowered.

A possible explanation of these results are that when active foreign investors gain influence within the firm, they remove less productive employees (layoffs and firings) and close and sell off less productive plants and equipment which would lower overall costs but not necessarily increase total output. This is consistent with the findings of Bjuggren et al. (2006) and Holmen and Hogfeldt (2009) who report overinvestment and hence loss of firm value by excess votes and pyramids respectively. In Sweden, foreigners would be in a better position to do this because they may chose to ignore the informal rule of a Socialist state that emphasizes employment rather than profits. Domestic shareholders on the other hand would be much more constrained by the informal institutions of Sweden and may have no incentive to want to move the organization towards an impersonal, cold blooded capitalist style organization that puts shareholder wealth maximization above all else.

One remaining question is why the controlling shareholder would relinquish control to allow the active foreign owner to exact change in the organization. There is no way to know what the reasons are for certainty. However, one possible explanation is that Sweden has been changing and the pressure for change of formal and informal institutions from within has also been gaining momentum as evidenced by the Social Democrats being challenged by moderates in the 2006 legislative election where they received only 37.2% of the vote. If the movement of the people in Sweden is towards a more Anglo-Saxon model, then it stands to reason that

because of reputational concerns, the controlling shareholders may not want to be viewed as obstructionists. Another, simpler explanation could be that the large domestic shareholders welcome improvements in firm performance but would rather use the foreigners as the scapegoats to make the harsh changes in order to improve the firm.

VI. Conclusion

Consistent with the theory of institutions and organizations, active foreigners are agents of change. These foreigners affect change within the organizations they invest in by challenging informal rules of the game such as those favoring over-investment and over-employment. In turn, these organizations, according to theory may pressure the formal and informal institutions of Sweden for change. The results also show that active domestic shareholders are much less likely to affect any real change within the organization. Because of how companies evolved in Sweden, large domestic shareholders are highly entrenched. Therefore they can act as strong obstructionists to change. In Sweden, without the willingness of the largest domestic shareholder to relinquish some control, active foreigners cannot effectively affect change.

When active foreign investors do increase their control in a firm and at the same time the largest domestic shareholder acquiesce, I observe improvements in firm performance measures as the change in ROA, ROE, EPS or Tobin's Q. Further evidence indicates that one way these performance improvements are being accomplished is by slashing unproductive labor and capital. This action can be taken more easily by foreigner than by domestic agents who have an unwritten agreement with the political organizations and labor unions to abide by a corporatist social axiom.

References:

- Agnblad, J., Berglof, E., Hogfeldt, P., and Svancar, H., 2001 "Ownership and control in Sweden: Strong owners, weak minorities, and social control", In *The control of corporate Europe*, Fabrizio Barca and Marco Becht, editor, 228-258, Oxford: Oxford University Press.
- Berle, A., and Means, G., 1932, *The Modern Corporation and Private Property*, New York, NY: MacMillan.
- Bjuggren, Per-Olof and Helena Bohman, 2006, "Ownership, Control and Performance in the Most Actively Traded Companies on Stockholm Stock Exchange. A Comparison between 1999 and 2001," *Corporate Ownership and Control* 4, 146-155.
- Carlsson, Rolf H., 2007 "Swedish Corporate Governance and Value Creation: owners still in the driver's seat", *Corporate Governance* 15, 1038-1055.
- Cronqvist, H., and Nilsson, M., 2003, "Agency Cost of Minority Shareholders", *Journal of Financial and Quantitative Analysis* 38.
- Dahlquist, Magnus and Goran Robertsson, 2004, "A note on Foreigners' trading and price effects across firms," *Journal of Banking and Finance* 28, 615-632.
- Hansson, P. & Lundberg L., 1991, "Internationalisering och produktivitet. (Internationalization and productivity)", Expertrapport nr 8 till Produktivitetsdelegationen. Stockholm: Allmänna Förlaget.
- Hogfeldt, Peter, 2005, "The History and Politics of Corporate Ownership in Sweden", In *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, Randall K. Morck, editor, 517-580, Oxford: Oxford University Press.
- Holmen, M., and Hogfeldt P., 2009, "Pyramidal Discounts: Tunneling or Overinvestment?", forthcoming in *International Review of Finance*.
- Jensen, M., C., and Meckling, W., H., 1976, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure", *Journal of Financial Economics* 3, 305-360.
- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 1999, "Corporate ownership around the world", *Journal of Finance* 54, 471-517.
- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2009, "The economic consequences of legal origins", forthcoming in *Journal of Economic Literature*.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny, 1997, "Trust in Large Organizations", *The American Economic Review* 87.

- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, 1998, "Law and finance", *Journal of Political Economy* 106, 1113-1155.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, 2000, "Investor protection and corporate governance", *Journal of Financial Economics* 58, 13-27.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, 2002, "Investor protection and corporate valuation", *Journal of Finance* 57, 1147-1170.
- Manne, H., 1965, "Mergers and the Market for Corporate Control," *Journal of Political Economy* 75, 110-26.
- Marris, R., 1964, *The Economic Theory of Managerial Capitalism*, New York: Free Press.
- McKinsey Global Institute, 1995, "Sweden's Economic Performance," Stockholm: McKinsey & Company.
- McKinsey Global Institute, 2006, "Sweden's Economic Performance: Recent Development, Current Priorities," Sydney: McKinsey & Company.
- North, Douglass C., 1989, "Institutions and economic growth: An historical introduction," *World Development* 17, 1319-1332.
- North, Douglass C., 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.

Table I – Trend of Ownership Control in Sweden

	1992	1996	2000	2004	2008
Avg capital of D1 (%)	35.05	26.79	23.05	22.73	21.32
Avg vote of D1 (%)	50.21	39.41	32.92	30.79	28.72
Avg capital of Foreign (%)	4.07	17.08	19.47	19.98	25.53
Avg vote of Foreign (%)	3.55	14.11	18.03	18.52	23.43
Dual class shares (%)	86.63	69.95	59.69	54.15	45.95
Avg excess vote of D1 (%)	15.15	12.62	9.87	8.06	7.40
Market Capitalization (billions SEK)	552	1210	3800	2115	3691
GDP (billions SEK)	1448	1690	2013	1926	3182
Market Capitalization to GDP (%)	38.12	71.60	188.77	109.81	116.00
New Issues (billions SEK)	1.79	2.74	2.73	4.10	6.50

D1: Largest domestic owner.

There has been a steady increase in foreign ownership of Swedish firms going from 4.07% in 1992 to 25.53% in 2008. At the same time foreign investors voting rights has also increase in a very similar manner. The prevalence of dual class shares has steadily decreased from 86.63% of all firms in the sample in 1992 to less than half the firms in 2008. The dominate hold of the largest domestic share holder has also decreased in terms of ownership, voting, and excess votes. During this same period the Swedish stock market has increase in size and importance. Market capitalization increased from 552 billion SEK in 1992 to 3.691 trillion SEK in 2008. For ease of viewing, this table shows data for only every four years of the sample period. The prevalent trends do not change when observing data from every year.

Table II – Correlation Matrix

	roa	roe	eps	tq	chroa	chroe	cheps	chtq	Active	Passive
roe	0.1180 ***									
eps	0.3952 ***	0.2840 ***								
tq	-0.1818 ***	0.0111	-0.1044 ***							
chroa	-0.4825 ***	0.1574 ***	-0.0629 **	0.0173						
chroe	0.0652 **	-0.7172 ***	-0.1200 ***	-0.0523 *	-0.2178 ***					
cheps	-0.2158 ***	-0.1957 ***	-0.6654 ***	-0.0033	0.1761 ***	0.1670 ***				
chtq	0.0272	0.1470 ***	0.0701 ***	-0.0248	0.0670 **	-0.0998 ***	-0.0182			
Active	-0.0347	-0.0080	-0.0299	-0.0617 **	0.0732 ***	0.0015	0.0735 ***	0.0283		
Passive	0.0276	-0.0023	-0.0645 ***	0.0144	-0.0671 ***	-0.0220	0.0075	0.0237	0.3797 ***	
d1cap	0.1431 ***	0.0609 ***	0.0619 ***	-0.0941 ***	-0.0178	-0.0040	-0.0108	0.0096	-0.0989 ***	0.0421 *

roa: Return on Assets = Earning / Average Total Assets

roe: Return on Equity = Earning / Average Total Equity

eps: Earnings per share = Earning / Number of shares outstanding

tq: Tobin's Q = (Market value of equity + Book value of liabilities) / Book value of total assets

chroa: Change in ROA from time t to t+1

chroe: Change in ROE from time t to t+1

cheps: Change in EPS from time t to t+1

chtq: Change in Tobin's Q from time t to t+1

Active: Active foreign investor

Passive: Passive foreign investor

d1cap: Largest domestic owner's percentage of ownership

Table III – Panel Regression: Increase in foreign A shares only

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active1st	-0.0351 (0.15)	-0.0441 (0.17)	-1.8818 ** (0.05)	-0.0643 (0.24)
Size	0.0000 (0.93)	-0.0003 (0.73)	-0.0178 (0.42)	-0.0026 (0.04) **
ROA	-0.7260 *** (0.00)			
ROE		-0.7477 *** (0.00)		
EPS			-0.5977 *** (0.00)	
Tobin's Q				0.3320 *** (0.00)
Forcap	-0.0013 (0.11)	0.0002 (0.83)	-0.0375 *** (0.24)	0.0011 (0.56)
D1 Vote	-0.0013 (0.14)	-0.0006 (0.60)	-0.0136 (0.71)	0.0004 (0.87)
Excess	0.0003 (0.82)	-0.0007 (0.72)	0.0282 (0.61)	-0.0014 (0.66)
Constant	0.0687 * (0.07)	0.0607 (0.23)	4.7540 *** (0.00)	-0.5298 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3598	0.4500	0.3092	0.2339
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a regression of an increase in foreign capital via A shares (Active1st) on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table IV – Panel Regression: Increase in foreign B shares of 5% or greater only

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active2nd	-0.0343 (0.45)	-0.1029 * (0.08)	-3.5816 ** (0.05)	-0.0265 (0.79)
Size	-0.0001 (0.92)	-0.0002 (0.74)	-0.0178 (0.42)	-0.0026 ** (0.04)
ROA	-0.7268 *** (0.00)			
ROE		-0.7479 *** (0.00)		
EPS			-0.5976 *** (0.00)	
Tobin's Q				0.3325 *** (0.00)
Forcap	-0.0013 * (0.10)	0.0003 (0.78)	-0.0362 (0.26)	0.0010 (0.61)
D1 Vote	-0.0013 (0.16)	-0.0005 (0.66)	-0.0097 (0.79)	0.0004 (0.85)
Excess	0.0004 (0.78)	-0.0005 (0.76)	0.0329 (0.55)	-0.0013 (0.68)
Constant	0.0630 * (0.10)	0.0518 (0.30)	4.3997 *** (0.00)	-0.5372 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3590	0.4505	0.3093	0.2329
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a regression of an increase in foreign capital of at least 5% via B shares (Active2nd) on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table V – Panel Regression - Change in excess vote

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
ChExcess	0.0001 (0.92)	0.0006 (0.78)	-0.0135 (0.84)	0.0003 (0.92)
Size	-0.0001 (0.89)	-0.0002 (0.78)	-0.0188 (0.42)	-0.0026 ** (0.04)
ROA	-0.7321 *** (0.00)			
ROE		-0.6677 *** (0.00)		
EPS			-0.6416 *** (0.00)	
Tobin's Q				0.3327 *** (0.00)
Forcap	-0.0002 (0.77)	0.0013 (0.26)	-0.0505 (0.18)	0.0009 (0.62)
D1 Vote	-0.0005 (0.63)	0.0004 (0.78)	-0.037636 (0.37)	0.0004 (0.86)
Excess	0.0000 (0.99)	-0.0007 (0.75)	0.0872 (0.19)	-0.0012 (0.72)
Constant	0.0256 (0.54)	-0.0027 (0.96)	5.1590 ** (0.01)	-0.5385 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.4135	0.3256	0.3165	0.2329
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{it+1} - Performance_{it} = \beta_0 + \beta_1(Excess_{i,t+1} - Excess_{it}) + \beta_2Size_{it} + \beta_3Performance_{it} + \beta_4Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a regression of a change in excess vote of the largest domestic shareholder on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table VI – Panel Regression-Active Foreign Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active	0.0271 * (0.07)	0.0396 ** (0.04)	1.1940 ** (0.05)	0.0586 * (0.10)
Size	-0.0001 (0.87)	-0.0003 (0.66)	-0.0199 (0.37)	-0.0027 ** (0.03)
ROA	-0.7248 *** (0.00)			
ROE		-0.7454 *** (0.00)		
EPS			-0.5962 *** (0.00)	
Tobin's Q				0.3342 *** (0.00)
Forcap	-0.0014 * (0.07)	0.0000 (0.97)	-0.0444 (0.16)	0.0007 (0.71)
D1 Vote	-0.0012 (0.18)	-0.0005 (0.71)	-0.0071 (0.85)	0.0005 (0.84)
Excess	0.0006 (0.69)	-0.0003 (0.87)	0.0392 (0.48)	-0.0010 (0.77)
Constant	0.5134 (0.18)	0.0369 (0.47)	3.9454 *** (0.01)	-0.5572 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3605	0.4510	0.3093	0.2348
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in foreign ownership via A shares or atleast a 5% increase via B shares and a contemporaneous decrease in excess vote of the largest domestic shareholder caused by a lose of A shares, the observation is classified as Active. Columns 1 though 4 show the results for a fixed effects regression of an active foreign investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table VII – Panel Regression-Passive Foreign Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Passive	-0.0298 ** (0.02)	-0.0005 (0.98)	-1.1560 ** (0.03)	0.0142 (0.67)
Size	-0.0001 (0.92)	-0.0003 (0.71)	-0.0172 (0.44)	-0.0027 ** (0.03)
ROA	-0.7252 *** (0.00)			
ROE		-0.7487 *** (0.00)		
EPS			-0.6007 *** (0.00)	
Tobin's Q				0.3329 *** (0.00)
Forcap	-0.0014 * (0.07)	0.0001 (0.92)	-0.0437 (0.17)	0.0009 (0.63)
D1 Vote	-0.0011 (0.21)	-0.0005 (0.65)	-0.0043 (0.91)	0.0004 (0.86)
Excess	0.0001 (0.93)	-0.0006 (0.75)	0.0223 (0.69)	-0.0013 (0.69)
Constant	0.0733 ** (0.05)	0.0550 (0.28)	4.8196 *** (0.00)	-0.5402 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3615	0.4491	0.3098	0.2330
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in foreign ownership and it does not meet the criterion of Active, then it is classified as passive. Columns 1 through 4 show the results for a fixed effects regression of a passive foreign investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table VIII – Panel Regression-Active Domestic Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
D-Active	0.0085 (0.54)	0.0069 (0.71)	-0.3196 (0.57)	-0.0064 (0.85)
Size	-0.0001 (0.90)	-0.0003 (0.70)	-0.0182 (0.41)	-0.0026 ** (0.04)
ROA	-0.7259 *** (0.00)			
ROE		-0.7486 *** (0.00)		
EPS			-0.5984 *** (0.00)	
Tobin's Q				0.3328 *** (0.00)
Forcap	-0.0013 (0.11)	0.0002 (0.87)	-0.0459 (0.16)	0.0009 (0.66)
D1 Vote	-0.0013 (0.16)	-0.0005 (0.65)	-0.0106 (0.77)	0.0004 (0.85)
Excess	0.0004 (0.78)	-0.0006 (0.76)	0.0316 (0.57)	-0.0014 (0.67)
Constant	0.0595 (0.12)	0.0512 (0.32)	4.6677 *** (0.00)	-0.5334 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3589	0.4492	0.3072	0.2329
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in domestic ownership via A shares and there is no increase in foreign ownership and a contemporaneous decrease in excess vote of the largest domestic shareholder caused by a lose of A shares, the observation is classified as D-Active. Columns 1 through 4 show the results for a fixed effects regression of an active domestic investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table IX – Panel Regression-Active, Passive Foreign Investor and Active Domestic Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active	0.0526 *** (0.00)	0.0546 ** (0.02)	1.9736 *** (0.00)	0.0746 * (0.09)
Passive	-0.0469 *** (0.00)	-0.0120 (0.55)	-2.1227 *** (0.00)	-0.017 (0.68)
D-Active	0.0062 (0.70)	0.0216 (0.31)	-0.5737 (0.38)	0.0142 (0.71)
Size	-0.0001 (0.89)	-0.0003 (0.64)	-0.0178 (0.42)	-0.0027 ** (0.03)
ROA	-0.7200 *** (0.00)			
ROE		-0.7436 *** (0.00)		
EPS			-0.5985 *** (0.00)	
Tobin's Q				0.3342 *** (0.00)
Forcap	-0.0014 * (0.07)	0.0002 (0.84)	-0.0536 * (0.10)	0.0008 (0.67)
D1 Vote	-0.0009 (0.31)	-0.0004 (0.77)	0.0054 (0.88)	0.0005 (0.84)
Excess	0.0003 (0.82)	-0.0003 (0.88)	0.0258 (0.64)	-0.0009 (0.79)
Constant	0.0510 (0.21)	0.0227 (0.67)	4.4971 *** (0.01)	-0.5657 *** (0.00)
Sample Size	1353	1353	1353	1353
R-Square	0.3668	0.4520	0.3165	0.2351
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a fixed effects regression of different types of investors on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table X – Panel Regression-Labor and Capital Productivity

	ChLabor (1)	ChCapital (2)	ChLabor (3)	ChCapital (4)
Active	72.8441 * (0.06)	0.3981 ** (0.05)	75.3808 * (0.07)	0.4002 ** (0.05)
Passive	43.7859 (0.21)	0.1533 (0.41)	47.2488 (0.20)	0.1624 (0.38)
D-Active	23.6718 (0.60)	-0.1889 (0.43)	31.2114 (0.51)	-0.1480 (0.54)
Size	0.2701 (0.83)	-0.0013 (0.84)	0.3321 (0.80)	-0.0010 (0.87)
Labor	0.8657 *** (0.00)		0.8904 *** (0.00)	
Capital		0.4992 *** (0.00)		0.4858 *** (0.00)
Forcap	-2.8430 (0.12)	-0.0061 (0.53)	-2.4704 (0.20)	-0.0054 (0.58)
D1 Vote	-0.5287 (0.81)	-0.0090 (0.43)	0.1025 (0.96)	-0.0072 (0.53)
Excess	-4.0226 (0.21)	0.0128 (0.45)	-4.1166 (0.22)	0.0115 (0.49)
Constant	148.6575 (0.12)	0.4035 (0.42)	110.1270 (0.27)	0.3064 (0.54)
Sample Size	1353	1353	1353	1353
R-Square	0.3186	0.1499	0.2979	0.1283
Groups	172	172	172	172

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$productivity_{i,t+1} - productivity_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 productivity_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 thru 4 show the results for a fixed effects regression of different types of investors on change in productivity, ChLabor and ChCapital. In all four regressions, size (number of employees) and recent level of productivity are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder. Labor is defined as the net income divided by the number of employees. Capital is defined as the net income divided by the book value of Property, Plant and Equipment (PPE). Columns 3 and 4 reflect adjustments to income based on GDP deflator for Sweden.

Appendix

Table XI – Panel Regression: Increase in foreign A shares only

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active1st	-0.0055 (0.81)	-0.0158 (0.66)	-2.3702 ** (0.02)	-0.0373 (0.52)
Size	0.0000 (0.93)	-0.0002 (0.86)	-0.0074 (0.79)	-0.0025 (0.08) *
ROA	-0.8547 *** (0.00)			
ROE		-0.7035 *** (0.00)		
EPS			-0.6213 *** (0.00)	
Tobin's Q				0.3495 *** (0.00)
Forcap	0.0007 (0.41)	0.0015 (0.26)	0.0020 (0.96)	-0.0008 (0.73)
D1 Vote	-0.0016 * (0.07)	-0.0004 (0.80)	-0.0565 (0.16)	-0.0007 (0.78)
Excess	0.0006 (0.64)	-0.0004 (0.85)	0.1014 * (0.10)	0.0042 (0.24)
Constant	0.0504 (0.18)	0.0319 (0.59)	4.7207 *** (0.01)	-0.5810 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4115	0.3427	0.3366	0.2506
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 though 4 show the results for a regression of an increase in foreign capital via A shares (Active1st) on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XII – Panel Regression: Increase in foreign B shares of 5% or greater only

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active2nd	-0.0405 (0.33)	-0.1046 (0.11)	-4.0113 ** (0.03)	-0.0075 (0.94)
Size	-0.0001 (0.89)	-0.0001 (0.89)	-0.0068 (0.81)	-0.0026 * (0.08)
ROA	-0.8557 *** (0.00)			
ROE		-0.7028 *** (0.00)		
EPS			-0.6208 *** (0.00)	
Tobin's Q				0.3500 *** (0.00)
Forcap	0.0008 (0.35)	0.0017 (0.20)	0.0027 (0.94)	-0.0009 (0.70)
D1 Vote	-0.0016 * (0.08)	-0.0003 (0.84)	-0.0542 (0.18)	-0.0007 (0.78)
Excess	0.0006 (0.64)	-0.0004 (0.85)	0.1075 * (0.08)	0.0042 (0.24)
Constant	0.0481 (0.20)	0.0258 (0.66)	4.3760 *** (0.01)	-0.5835 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4121	0.3444	0.3361	0.2503
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a regression of an increase in foreign capital of at least 5% via B shares (Active2nd) on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XIII – Panel Regression - Change in excess vote

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
ChExcess	0.0025 (0.12)	0.0040 (0.12)	0.0721 (0.31)	0.0034 (0.38)
Size	-0.0002 (0.72)	-0.0003 (0.77)	-0.0150 (0.59)	-0.0027 * (0.07)
ROA	-0.8786 *** (0.00)			
ROE		-0.6946 *** (0.00)		
EPS			-0.6969 *** (0.00)	
Tobin's Q				0.3497 *** (0.00)
Forcap	0.0014 (0.16)	0.0024 (0.14)	0.0112 (0.80)	-0.0009 (0.71)
D1 Vote	-0.0017 (0.11)	-0.0003 (0.85)	-0.08162 * (0.07)	-0.0008 (0.73)
Excess	0.0015 (0.36)	0.0010 (0.70)	0.2071 *** (0.01)	0.0055 (0.16)
Constant	0.0274 (0.53)	-0.0144 (0.84)	4.0705 ** (0.04)	-0.5995 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4405	0.3271	0.3588	0.2509
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{it+1} - Performance_{it} = \beta_0 + \beta_1(Excess_{i,t+1} - Excess_{it}) + \beta_2Size_{it} + \beta_3Performance_{it} + \beta_4Ownership_{it} + \varepsilon_{it}$$

Columns 1 through 4 show the results for a regression of a change in excess vote of the largest domestic shareholder on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XIV – Panel Regression-Active Foreign Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active	0.0329 ** (0.02)	0.0376 * (0.09)	0.8053 (0.20)	0.0951 *** (0.01)
Size	-0.0001 (0.84)	-0.0002 (0.83)	-0.0093 (0.74)	-0.0026 * (0.07)
ROA	-0.8516 *** (0.00)			
ROE		-0.7006 *** (0.00)		
EPS			-0.6178 *** (0.00)	
Tobin's Q				0.3518 *** (0.00)
Forcap	0.0005 (0.51)	0.0013 (0.33)	-0.0106 (0.78)	-0.0015 (0.52)
D1 Vote	-0.0016 * (0.09)	-0.0003 (0.83)	-0.0553 (0.17)	-0.0008 (0.74)
Excess	0.0010 (0.48)	0.0000 (1.00)	0.1154 * (0.06)	0.0052 (0.14)
Constant	0.0348 (0.36)	0.0141 (0.81)	4.2035 *** (0.01)	-0.6122 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4151	0.3447	0.3338	0.2557
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in foreign ownership via A shares or atleast a 5% increase via B shares and a contemporaneous decrease in excess vote of the largest domestic shareholder caused by a lose of A shares, the observation is classified as Active. Columns 1 though 4 show the results for a fixed effects regression of an active foreign investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XV – Panel Regression-Passive Foreign Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Passive	-0.0023 (0.86)	0.0181 (0.36)	-0.7364 (0.19)	0.0378 (0.28)
Size	-0.0001 (0.86)	-0.0002 (0.84)	-0.0084 (0.76)	-0.0026 * (0.08)
ROA	-0.8546 *** (0.00)			
ROE		-0.7050 *** (0.00)		
EPS			-0.6231 *** (0.00)	
Tobin's Q				0.3498 *** (0.00)
Forcap	0.0007 (0.42)	0.0015 (0.27)	-0.0071 (0.85)	-0.0010 (0.65)
D1 Vote	-0.0016 * (0.07)	-0.0004 (0.77)	-0.0533 (0.19)	-0.0008 (0.75)
Excess	0.0006 (0.65)	-0.0002 (0.93)	0.1011 * (0.10)	0.0045 (0.21)
Constant	0.0508 (0.18)	0.0238 (0.69)	4.8065 *** (0.01)	-0.5910 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4115	0.3432	0.3339	0.2513
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in foreign ownership and it does not meet the criterion of Active, then it is classified as passive. Columns 1 through 4 show the results for a fixed effects regression of a passive foreign investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XVI – Panel Regression-Active Domestic Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
D-Active	-0.0040 (0.76)	0.0115 (0.58)	-0.5733 (0.33)	-0.0100 (0.78)
Size	-0.0001 (0.87)	-0.0002 (0.83)	-0.0080 (0.77)	-0.0025 * (0.08)
ROA	-0.8552 *** (0.00)			
ROE		-0.7036 *** (0.00)		
EPS			-0.6208 *** (0.00)	
Tobin's Q				0.3500 *** (0.00)
Forcap	0.0006 (0.45)	0.0016 (0.25)	-0.0131 (0.74)	-0.0011 (0.65)
D1 Vote	-0.0016 * (0.07)	-0.0004 (0.80)	-0.0567 (0.16)	-0.0007 (0.78)
Excess	0.0006 (0.63)	-0.0004 (0.87)	0.1080 * (0.08)	0.0042 (0.24)
Constant	0.0520 (0.17)	0.0253 (0.67)	4.8436 *** (0.01)	-0.5774 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4115	0.3428	0.3333	0.2503
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

If there is an increase in domestic ownership via A shares and there is no increase in foreign ownership and a contemporaneous decrease in excess vote of the largest domestic shareholder caused by a lose of A shares, the observation is classified as D-Active. Columns 1 through 4 show the results for a fixed effects regression of an active domestic investor on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.

Table XVII – Panel Regression-Active, Passive Foreign Investor and Active Domestic Investor

	ChROA (1)	ChROE (2)	ChEPS (3)	ChTq (4)
Active	0.0440 *** (0.01)	0.0460 * (0.08)	1.2168 * (0.10)	0.1109 ** (0.02)
Passive	-0.0180 (0.22)	0.0149 (0.52)	-1.5688 ** (0.02)	-0.004 (0.93)
D-Active	0.0047 (0.76)	0.0362 (0.13)	-0.8398 (0.22)	0.0306 (0.45)
Size	-0.0001 (0.84)	-0.0003 (0.78)	-0.0069 (0.80)	-0.0027 * (0.07)
ROA	-0.8477 *** (0.00)			
ROE		-0.6999 *** (0.00)		
EPS			-0.6185 *** (0.00)	
Tobin's Q				0.3524 *** (0.00)
Forcap	0.0005 (0.52)	0.0016 (0.23)	-0.0218 (0.57)	-0.0011 (0.63)
D1 Vote	-0.0015 (0.11)	-0.0003 (0.82)	-0.0485 (0.23)	-0.0009 (0.73)
Excess	0.0009 (0.52)	0.0003 (0.91)	0.1026 * (0.10)	0.0054 (0.13)
Constant	0.0340 (0.39)	-0.0130 (0.84)	4.9885 *** (0.01)	-0.6337 *** (0.00)
Sample Size	1061	1061	1061	1061
R-Square	0.4164	0.3464	0.3382	0.2563
Groups	163	163	163	163

P-values in parentheses

***Significant at the 0.01 level

** Significant at the 0.05 level

* Significant at the 0.10 level

$$Performance_{i,t+1} - Performance_{it} = \beta_0 + \beta_1 InvestorType_{it} + \beta_2 Size_{it} + \beta_3 Performance_{it} + \beta_4 Ownership_{it} + \varepsilon_{it}$$

Columns 1 though 4 show the results for a fixed effects regression of different types of investors on change in performance measures ChROA, ChROE, ChEPS, and ChTq respectively. In all four regressions, size (number of employees) and recent level of performance are controlled as well as the recent levels of foreign capital, and the percentage vote and excess vote of the largest domestic shareholder.