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**Corporate Governance in the Process of Transition:
A Polish and Swedish Experience**

Abstract

Corporate governance systems differ substantially among countries. Differences are rooted in the social, political in the social, political and economic traditions of the specific country, and also are influenced by the stage of economic development, ownership structure, legal framework etc. These differences affect the specific board's orientation.

The purpose of the paper is to describe and compare board orientation in two countries Poland and Sweden. National context is the first dimension of our investigation. The second is to identify changes, which took place in the Polish and Swedish boards during last 5 years. This second approach is especially important taking into account the process of transition which has been taking place in two countries; economic transformation in Poland and development of capital market in Sweden.

1. Introduction

Poland has been witnessing a growing interest in the issues concerning governance over companies for several years now. Such situation is caused mainly by the process of economic transformation, which forces the privatization and restructuring of many companies. Transformation occurring in the sphere of ownership demands an introduction of various new solutions in privatized companies, including a new approach to corporate governance.

The experiences of highly developed market economies in the area of creation and functioning of corporate governance systems may, to a certain degree, be used in Poland as well as in other Central and Eastern European countries. Choosing a corporate governance system that best meets the

conditions of every given country is one of the key issues. On the other hand though, it is necessary to adapt these conditions (such as the legal framework for example) to the governance system that is being implemented.

The corporate governance systems of post-communist countries are different from those used in the Western countries mainly because of differences in the heritage of these countries. By these differences we mean the lack of experience in running the market economy and insufficient knowledge of the rules that apply to it. Furthermore, the habits and criteria that were used and became rooted in the mentality of the people during the times of command economy are also to blame. There is however a particular gain that can be achieved due to this situation – the transforming countries implement many solution from scratch allowing them to create a governance system that would best suit the requirements of a given economy, rather than simply copying the solutions used in other countries. This possibility increases the chance of creating a governance system that will be optimal in a given economical, social, political and cultural environment¹.

Not a lot of research has been done in Poland on this subject. It is therefore difficult to draw any solid and reliable conclusions. The need for carrying out such research becomes particularly important when evaluating the effectiveness of adopted solutions. Most of empirical research is carried out by a few countries – United States, Great Britain, Japan and Germany dominate in this field². Their domination may be explained by the special role these countries play in the world economy, by the significant differences between the corporate governance systems used in the United States and Great Britain on one hand and Japan and Germany on the other, as well as by the relatively easy access to necessary data in these countries³. Another aspect that makes these four countries the leaders of corporate governance systems research is the fact that the vast majority of such research applies to relatively stable, highly industrialized economies. Countries that are developing or are in the midst of transforming their political as well as economic systems are not taken into consideration by researchers.

Comparative studies of the influence that corporate governance has on the activity of companies in countries, which are on different stages of industrial

¹ R. Frydman, A. Rapaczynski, *Privatization in Eastern Europe: Is the state withering away?*, Central European University Press, Budapest 1995.

² J. L. Johnson, C. M. Daily, A. E. Ellstrand, *Boards of Directors: A Review and Research Agenda*, *Journal of Management* 1996, vol. 22, no 3, pages 409-438.

³ B. K. Boyd, W. O. Carroll, M. Howard, *International Governance Research: A Review and an Agenda for Future Research*, *Advances in International Comparative Management*, Vol. 11, pages 191-215.

development, may be particularly interesting. Given such a background Polish and Swedish types of economy are unlike each other. Poland is an example of a planned economy, which is rapidly transforming towards becoming a market economy, while Sweden is an example of a market economy, which is struggling to renew its institutional structures (reducing the role of the welfare state, increasing the importance of the capital market).

The need for carrying out comparative research requires an appropriate research model, which would allow an evaluation of the way that different corporate governance systems (one or two tier) function in economies that are on different stages of development. This article will attempt to compare the corporate governance systems used in Polish and Swedish public companies, despite the fact that Poland uses a two-tier system, while the Swedish corporate governance system has only one tier, as well as the fact that Poland is currently transforming into a market economy, while Sweden is a country that has a longstanding tradition of market economy⁴. On the other hand however, Polish supervisory boards and Swedish boards of directors have similar roles in the system of corporate governance and therefore may be a good starting ground for a comparison.

2. The types of corporate governance – the theoretical concepts

Attempting to define the dependence between various individual characteristics of the board members and the decisions that they make in the fields of the company's long-term strategy as well as its day to day activity⁵ is a very popular approach in research on company boards⁶. In order to achieve this certain research tools, which would allow using the research results based on

⁴ The article will present the results of two stages of empirical research carried out since 1996 by a Polish-Swedish research team. The results of the first stage were presented (amongst others) in: J. Działo, K. Jonnergard, M. Karreman, C. Svensson, P. Urbanek, *Corporate board's line of reasoning - comparison between corporate governance in Poland and Sweden*, in: M. A. Hitt, J. E.R. Costa, R. D. Nixon (eds.), *Managing strategically in an interconnected world*, J. Wiley & Sons, Chichester 1998.

⁵ S. L. Brewster, M. S. Mizruchi, *Board composition and corporate financing: The impact of financial institution representation on borrowing*, *Academy of Management Journal*, 1993, no 36, pages 603-618; Goodstein J., Gautam K. & Boeker W., *The effects of board size and diversity on strategic change*, *Strategic Management Journal*, 1994, no 15, pages 241-250; Johnson R. A., R. E. Hoskisson & M. A. Hitt, *Board of directors involvement in restructuring: The effects of board versus managerial controls and characteristics*, *Strategic Management Journal*, 1993, no 14, pages 33-50.

⁶ In case of a one-tier system it is a Board of Directors.

individual behavior of the board members for explaining the behavior of the board as a whole⁷, had to be created.

Theoretically there are two possible approaches allowing characterizing the dependence between the board and the management of a company. The first one is based on an assumption that there is a distinctive conflict of interests between the CEOs and its environment, while the second one assumes that there is a consensus between the managing body and the owners of the company⁸.

The agency theory, which forwards the theme of conflict in the theory of corporate governance, assumes that there is a conflict of interests between the board and the executives of a company and that the board's role is restricted to approving the decisions and monitoring the activities of the management⁹. According to this theory the board's main goal is the protection of the shareholders' interests. The company's activity on the financial markets and striving to achieve short-term financial aims are the top priority of the board, which consider mainly the reaction of the capital market to the decisions made by the company. Therefore the board concentrates mainly on the financial measurements and effects of company's activity in the process of initiating, approving and controlling particular actions (the financial priority)¹⁰.

The consensus theory on the other hand assumes that the interests of the managers and the owners of companies lie in line. The board is not restricted to solely controlling functions, but also supports the executives with its knowledge and experience. The board members see the owners' interests as one of many goals that stand before a company. That is why the board concentrates on issues allowing the company to survive and develop in the long-term while initiating, approving and controlling particular actions. It is assumed that boards, which act in this way are industrially oriented (they have an industrial priority).

Determining the financial or industrial priorities as a pattern of behaviour is one of the criteria, which allow the distinction of different types of boards'

⁷ The detailed description of the methodology used in this research can be found in: K. Jonnergard, M. Karreman, C. Svensson, *Classifying board behavior - an empirical test on large Swedish companies*, The Institute of Economic Research Working Papers, October 1995, Lund University, Sweden.

⁸ S. A. Zahra, J. A. Pearce, *Board of directors and corporate financial performance. A review and integrative model*, *Journal of Management*, 1989, no 15, pages 291-334.

⁹ E. Fama, M. Jensen, *Separation of ownership and control*, *Journal of Law and Economics*, 1983, vol. 26, pages 301-325; B. Baysinger, R. E. Hoskisson, *The Composition of Directors and Strategic Control: Effects on Corporate Strategy*, *Academy of Management Review*, 1990, vol. 15, no 1, pages 72-87.

¹⁰ K. Jonnergard, C. Svensson, *What boards think and how they behave*, The Institute of Economic Research Working Papers, 1994, Lund University, Sweden.

behaviour. This criterion is based on defining the board's function, but it does not determine the board's involvement in particular actions. The low level of involvement means that the board is preoccupied with controlling and approving the proposals forwarded by the CEO, rather than initiating any activities. The high level of involvement means that the board is active in the process of initiating as well as approving proposals, while the process of controlling the company's activity consists of an ex ante control of the planned activities and an ex post control of the results gained.

Four extreme patterns of board behaviour may be defined when two above criteria are combined. The first pattern occurs when a highly committed board is following the financial priority. The second pattern occurs when the board is still oriented financially but has a low level of involvement. The third pattern occurs when a highly committed board is oriented industrially. Lastly, the fourth pattern occurs when an industrially oriented board has a low level of involvement.

Four categories of boards have been defined for use during empirical research (see Figure 1):

Figure 1. A categorization of board behavior based on type of orientation and rate of involvement

| Type of orientation | Financial orientation | | |
|------------------------|-----------------------|--------------------------------|---------------------------------|
| | Rate of involvement | | |
| | High | Low | |
| Industrial orientation | High | The ambitious board (active) | The industrially-oriented board |
| | Low | The financially-oriented board | The idle board (passive) |

Source: K. Jonnergard, M. Karreman, C. Svensson, Classifying board behavior - an empirical test on large Swedish companies, The Institute of Economic Research Working Papers, October 1995, Lund University, Sweden.

1. An active board, which concentrates on both financial and industrial aspects of company's activity. It can be claimed that combined with a high level of commitment of supervisors, such a board takes over some of the executive functions, especially so in the case of strategic company activity aspects.
2. An industrially oriented board, which concentrates on the industrial aspects of company's activity. These boards are active in determining the strategic goals of the company, formulating the strategic plans of action as well as the evaluation of the results of the implemented strategy.
3. A financially oriented board, which concentrates on the financial aspects of company's activity. These aspects are subject to a careful control and governance, both ex ante as well as ex post. In regards to long-term decisions (like investment decisions), the board carries out only the ex post control.
4. A passive board (dominated by the executives board), which does not put emphasis on any of the aspects of company's activity. The board leaves all issues in the hands of the executives. The board's role is restricted to approving the decisions, which are prepared (and usually already implemented) by the executive board, and to carrying out an ex post control of the executive board's activity.

The latter part of this article will consist of an empirical verification of a thesis that the boards may be divided into several categories on the basis of their financial or industrial orientation as well as an evaluation of the changes in boards orientation, which occur during the period covered by the research.

3. Research methodology

In order to define the type of board - their orientation - an instrument developed by researchers from Lund University was implemented¹¹. The directors and CEOs of each company studied were asked to assess a number of different types of decisions likely to appear on the agenda of boards. Four types of decisions were included: investments in fixed assets, mergers and acquisitions, decision about product development and strategic planning.

¹¹ For detailed description of the methodology see: K. Jonnergard, M. Karreman, C. Svensson, *Classifying board behavior - an empirical test on large Swedish companies*, The Institute of Economic Research Working Papers, October 1995, Lund University, Sweden.

For each type of decision, eight aspects were defined: four industrially related aspects (i.e. industrial foresight, industrial synergy, market opportunities, and technological innovativeness) and four financially related aspects (i.e. stock-market reaction, fast payback, effects on the firm's capital structure, and growth of dividends). A Likert scale ranging from one (a value of non-influence) to seven (a value of decisive importance) was used in order to assess the perceived importance of the aspects. An example of a question used in the survey is given below.

Example of question:

Question 5b: When dealing with product development, to what degree does the board emphasize the following?

| | |
|--|--|
| A. Market opportunities | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| B. Fast payback | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| C. Industrial foresight | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| D. Stock-market reaction | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| E. Growth of dividends | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| F. Technological innovativeness | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| G. Industrial synergy effects | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |
| H. Effects on the firm's capital structure | No significance = <u>1 2 3 4 5 6 7</u> = Decisive significance |

4. Sample descriptions and procedures

4.1. The Swedish sample

Data about boards of directors of companies listed on the Swedish Stock Exchange in 1994 and in 1999 were collected. At the time of the investigation, 694 different persons held positions in boards in 1995, and 679 persons in 1999. Each board member regardless the number of directorate positions he hold received only one questionnaire. Since the directors of the boards of banks and pure investment companies usually occupy positions in one or more companies' boards, banks and pure investment companies were excluded from our population.

Table 1. The population and response rate of the Swedish sample

| Specification | Board members | CEO | All categories |
|-----------------------------|---------------|--------|----------------|
| 1995 | | | |
| Number of individuals | 597 | 97 | 694 |
| Responded | 397 | 64 | 461 |
| Response rate | 66,5% | 65,98% | 66,43% |
| 1999 | | | |
| Number of individuals | 587 | 92 | 679 |
| Responded | 291 | 41 | 332 |
| Response rate ¹² | 49,6% | 44,6% | 48,9% |

4.2. The Polish sample

At the time when the Polish investigation was conducted the number of listed companies increased significantly. In 1996 there were 70 companies traded on the Warsaw Stock Exchange, in June 2000 this number rose to 209¹³. Questionnaires, which were translations into Polish of the questionnaires directed to the Swedish population, were sent to members of the supervisory boards and presidents of management boards. Positions in the supervisory boards at that time were occupied by 530 members in 1996 and 1100 members in 2000.

Table 2. The population and response rate of the Polish sample

| Specification | Board members | CEO | All categories |
|-----------------------|---------------|-------|----------------|
| 1996 | | | |
| Number of individuals | 530 | 78 | 608 |
| Responded | 199 | 47 | 246 |
| Response rate | 37,4% | 60,3% | 40,5% |
| 2000 | | | |
| Number of individuals | 1100 | 205 | 1305 |
| Responded | 194 | 89 | 283 |
| Response rate | 17,6% | 43,4% | 21,7% |

¹² The response rate refers to the ratio between the number of individuals that responded to the questionnaire and the number of individuals investigated.

¹³ Financial companies, banks, insurance and leasing companies were excluded from the investigation.

The investigation was supported by the Chairman of the Securities Commission who provided a recommendation letter that was enclosed with the questionnaire. Finally 199 questionnaires from board members and 47 questionnaires from Presidents were collected for 1996 and respectively 194 and 89 for 2000.

Firms with one questionnaire were excluded from further analysis, as we assumed that at least two questionnaires collected for one firm represent opinion of board members. Finally statistical analysis were conducted for a sample consisting of 59 and 91 Polish and Swedish firms for 1996 and 81 and 88 Polish and Swedish firms for 2000.

5. Statistical analysis

To be able to describe and compare boards of directors in Sweden and Poland, an adequate measure has to be developed and a statistical method of comparison chosen.

In each of the four types of decisions, eight different aspects were examined, yielding a total of 32 items that describe perceptions of the board's orientation. In order to explore the consistency and underlying structure in the respondents' answers, factor analysis was applied to the 32 items¹⁴.

To compute factor scores, a weighted average of responses for the variables highly correlated with the factors was calculated with the corresponding factor loading as weights. The factor scores for the individual directors were aggregated into an index for each board. The index was built upon the mean of the different observations. In table 3 results of factor analysis are presented.

With the resulting factor scores as inputs, cluster analysis was used to identify key groups of boards with similar types of governance. A non-hierarchical clustering approach (centroid method) was chosen. To eliminate effects due to extreme cases, possible outliers were identified. One company in 1996 and two in 2000 were found to have extreme scores in many of the researched variables. These were excluded and the number of companies in the cluster analysis consequently became 150 and 169. Prior to clustering the boards, it was decided that the number of clusters should be 4, considering that the resulting factors strictly define only two dimensions: financial and industrial.

¹⁴ The method of extraction used was principal components, considering the ordinal nature of the Likert scale. To achieve a more distinct factor definition, Varimax rotation was used. The data were thus reduced from 32 variables to 8 factors on the basis of an Eigenvalue above a cut-off of 1.

Table 3. Variables covered by the different factors, eigenvalues and weights

| Factor variables | Eigenvalue | % of var. | Cum. % | Weight |
|---------------------------------|------------|-----------|--------|--------|
| 1995/1996 | | | | |
| 1. technological innovativeness | 8,60 | 26,9 | 26,9 | 37,0 |
| 2. growth of dividends | 3,93 | 12,3 | 39,2 | 16,9 |
| 3. synergy | 2,73 | 8,5 | 47,7 | 11,7 |
| 4. capital structure | 2,20 | 6,9 | 54,6 | 9,5 |
| 5. payback | 1,90 | 5,9 | 60,5 | 8,2 |
| 6. market opportunities | 1,48 | 4,6 | 65,1 | 6,4 |
| 7. stock-market reactions | 1,32 | 4,1 | 69,3 | 5,7 |
| 8. industrial foresight | 1,08 | 3,4 | 72,6 | 4,6 |
| 1999/2000 | | | | |
| 1. growth of dividends | 7,74 | 24,18 | 24,18 | 33,4 |
| 2. technological innovativeness | 4,46 | 13,95 | 38,13 | 19,5 |
| 3. stock-market reactions | 2,60 | 8,11 | 46,25 | 11,3 |
| 4. capital structure | 2,20 | 6,88 | 53,13 | 9,6 |
| 5. payback | 1,80 | 5,62 | 58,75 | 7,9 |
| 6. synergy | 1,56 | 4,87 | 63,62 | 6,8 |
| 7. industrial foresight | 1,31 | 4,10 | 67,72 | 5,7 |
| 8. market opportunities | 1,23 | 3,84 | 71,56 | 5,4 |

Clustering results were evaluated according to how the clusters differentiated on the factor distribution. In interpreting the differences, the factors were given weights for appropriate influence according to their Eigenvalues (see Table 4).

Table 4. Cluster means in relation to grand mean

| Factors | Grand mean | Cluster 1 mean | Cluster 2 mean | Cluster 3 mean | Cluster 4 mean |
|--------------------------------|------------|----------------|----------------|----------------|----------------|
| 1995/1996 | | | | | |
| 1 Technological innovativeness | 4,47 | 5,27 | 4,47 | 3,27 | 4,69 |
| 2 Growth of dividends | 3,98 | 4,94 | 3,45 | 4,13 | 3,91 |
| 3 Synergy effects | 4,94 | 5,13 | 3,97 | 4,47 | 5,40 |
| 4 Capital structure | 4,86 | 5,21 | 4,47 | 5,42 | 4,96 |
| 5 Pay back | 4,56 | 5,22 | 4,60 | 4,41 | 4,37 |
| 6 Market opportunity | 6,23 | 6,45 | 6,01 | 6,09 | 6,31 |
| 7 Stock market reaction | 3,63 | 4,65 | 3,21 | 3,84 | 3,42 |
| 8 Industrial foresight | 5,69 | 5,88 | 5,38 | 5,31 | 5,86 |

Table 4. [Cont.]

| 1999/2000 | | | | | |
|---------------------------------|------|------|------|------|------|
| 1. growth of dividends | 4,24 | 3,98 | 5,21 | 3,43 | 3,91 |
| 2. technological innovativeness | 4,48 | 4,95 | 4,71 | 4,39 | 3,37 |
| 3. stock-market reactions | 4,21 | 3,84 | 5,15 | 3,34 | 4,08 |
| 4. capital structure | 4,71 | 4,52 | 5,38 | 3,89 | 4,85 |
| 5. payback | 4,79 | 4,52 | 5,06 | 4,86 | 4,33 |
| 6. synergy | 5,04 | 5,46 | 5,54 | 4,1 | 4,76 |
| 7. industrial foresight | 5,62 | 5,92 | 5,8 | 5,47 | 4,78 |
| 8. market opportunities | 6,22 | 6,37 | 6,35 | 6,08 | 5,75 |

Table 5. Cluster profiles in relations to factors

| 1995/1996 | | | | | | | |
|--|-------|--|--------|--|-------|--|-------|
| Cluster 1 | | Cluster 2 | | Cluster 3 | | Cluster 4 | |
| Technological innovativeness | 29,60 | Payback | 0,33 | Capital-structure effects | 5,32 | Technological innovativeness | 8,14 |
| Growth of dividends | 16,22 | Technological innovativeness | 0,00 | Growth of dividends | 2,54 | Synergy effects | 5,38 |
| Stock-market reactions | 5,81 | Market opportunities | -1,41 | Stock-market reactions | 1,20 | Capital-structure effects | 0,95 |
| Payback | 5,41 | Industrial foresight | -1,43 | Market opportunities | -0,90 | Industrial foresight | 0,78 |
| Capital structure effects | 3,33 | Stock-market reactions | -2,39 | Payback | -1,23 | Market opportunities | 0,51 |
| Synergy effects | 2,22 | Capital-structure effects | -3,71 | Industrial foresight | -1,75 | Growth of dividends | -1,18 |
| Market opportunities | 1,41 | Growth of dividends | -8,96 | Synergy effects | -5,50 | Stock-market reactions | -1,20 |
| Industrial foresight | 0,87 | Synergy effects | -11,35 | Technological innovativeness | -44,4 | Payback | -1,56 |
| 28 boards (19% of the total sample) | | 31 boards (21% of the total sample) | | 28 boards (19% of the total sample) | | 63 boards (42% of the total sample) | |
| 15 Polish boards (25% of the Polish sample) | | 25 Polish boards (42% of the Polish sample) | | 4 Polish boards (7% of the Polish sample) | | 15 Polish boards (25% of the Polish sample) | |
| 13 Swedish boards (14% of the Swedish sample) | | 6 Swedish boards (7% of the Swedish sample) | | 24 Swedish boards (26% of the Swedish sample) | | 48 Swedish boards (53% of the Swedish sample) | |

Table 5. [Cont.]

| 1999/2000 | | | | | | | |
|--|-------|--|-------|--|--------|--|--------|
| Cluster 1 | | Cluster 2 | | Cluster 3 | | Cluster 4 | |
| Technological innovativeness | 9,16 | Growth of dividends | 32,78 | Payback | 0,55 | Capital structure effects | 1,35 |
| Synergy effects | 2,86 | Stock-market reactions | 10,65 | Market opportunities | -0,75 | Stock-market reactions | -1,47 |
| Industrial foresight | 1,72 | Capital structure effects | 6,44 | Industrial foresight | -0,86 | Synergy effects | -1,91 |
| Market opportunities | 0,81 | Technological innovativeness | 4,48 | Technological innovativeness | -1,75 | Market opportunities | -2,52 |
| Capital structure effects | -1,83 | Synergy effects | 3,40 | Synergy effects | -6,40 | Payback | -3,61 |
| Payback | -2,12 | Payback | 2,12 | Capital structure effects | -7,88 | Industrial foresight | -4,81 |
| Stock-market reactions | -4,19 | Industrial foresight | 1,03 | Stock-market reactions | -9,86 | Growth of dividends | -11,15 |
| Growth of dividends | -8,79 | Market opportunities | 0,70 | Growth of dividends | -27,37 | Technological innovativeness | -21,64 |
| 49 boards (29% of the total sample) | | 53 boards (31% of the total sample) | | 38 boards (23% of the total sample) | | 29 boards (17% of the total sample) | |
| 24 Polish boards (30% of the Polish sample) | | 12 Polish boards (15% of the Polish sample) | | 36 Polish boards (44% of the Polish sample) | | 9 Polish boards (11% of the Polish sample) | |
| 25 Swedish boards (28% of the Swedish sample) | | 41 Swedish boards (47% of the Swedish sample) | | 2 Swedish boards (2% of the Swedish sample) | | 20 Swedish boards (23% of the Swedish sample) | |

6. The results of the cluster analysis – interpretation

The evaluation of the results given by the cluster analysis was based on the way in which the clusters were differentiated according to the distribution of factors. Taking into consideration the order of factors, which make up particular clusters, certain regularities may be seen, which, in some cases, allow for an explicit interpretation of the cluster's character.

For 1996 the order of factors in the third cluster reflects the financial orientation (four factors denoted as financial were placed on the first, second,

third and fifth places), while the order of factors in the fourth cluster shows an industrial orientation (four factors denoted as industrial were placed on the first, second, fourth and fifth places). The third cluster consists of boards, which concentrate mainly on the factors having to do with the capital structure of the company and with the capital market (these factors are: the capital structure, the growth of dividends as well as the stock market reaction – they occupy the top three places only in the third cluster). In general, all industrial factors have negative means, while the financial factors' means are positive.

An analysis of the order of factors as the pattern reflecting various characteristics of a given type of governance points to a conclusion that the board members of companies belonging to this cluster base their decisions mainly on the financial aspects such as the relation between the company and the capital market. Therefore the boards belonging to this cluster are described as financially oriented.

The boards from the fourth cluster highly focus on technological innovations, synergy effects as well as market opportunities and industrial foresight. Such an order of factors points to the industrial orientation of these boards. This may mean that the boards belonging to the fourth cluster concentrate their activities around the company's position in the sector and the conditions in the sector. As a result these boards are described as industrially oriented.

In general, the boards which make up the second cluster are notable for the relatively low means (when compared with other clusters) for all factors. When dealing with the aforementioned decision areas these boards pay little attention to them. As a consequence these boards are described as passive.

The boards belonging to the first cluster are the opposite of the passive boards. This cluster has no specific pattern or order of financial and industrial factors. An important observation however, shows that every factor has a positive mean. What is more, almost every factor reaches its highest mean in the first cluster and not in any of the others. This reveals that this cluster groups boards, which concentrate on both industrial and financial aspects of company's activity, showing a high level of involvement at the same time. Therefore the boards belonging to this cluster are referred to as the active boards.

A similar typology of governance may be observed in 2000. The first cluster has a distinct industrial orientation. The industrial factors occupy the top four places. Furthermore all factors had positive means. The top priority of the boards of companies belonging to this cluster were the technological innovations. Further down the priority list were: synergy effects in the sector, industrial foresight and market opportunities. All financial factors had negative means.

The second cluster represents the companies that have an equally distinctive financial orientation. The financial factors occupy the top three places as well as the fifth spot. It is worth mentioning that the means for these factors are the highest for all clusters. The growth of dividends is the top priority. The others are; the stock market reaction and the capital structure. A relatively high level of involvement of boards is a distinctive feature of this cluster when compared with the others.

The remaining two clusters may not be interpreted in such a straightforward way. The top five places (except for the first) in the third cluster are occupied by the industrial factors. But at the same time the means of these factors are negative. Therefore this cluster may be defined as a cluster of weak industrial orientation where the boards are not heavily involved.

Taking into consideration the order of the factors in the last of the clusters it may not be explicitly classified in regards to the two basic criteria of the analysis: financial and industrial orientation. However, very low scores of all factors resemble to a certain degree the second cluster from 1996, which was then described as passive.

An analysis of the distribution of companies belonging to particular clusters may lead to interesting conclusions.

The cluster corresponding to the passive style of governance consisted in 1996 of mainly Polish boards; 80% of boards in this cluster are boards of Polish companies, that is 42% of all Polish boards covered by the research. On the other hand the cluster of financially oriented boards consists mainly of Swedish boards (86% of boards in this cluster are Swedish, that is 26% of all Swedish boards). However, most Swedish boards (53%) were assigned to the industrially oriented cluster, where they accounted for 70% of all boards in the cluster. By comparison, only 25% of Polish boards were assigned to this cluster. In the cluster of active boards there are slightly more Polish than Swedish boards (54% of boards in this cluster are Polish). However, comparing the share of all Polish and Swedish boards belonging to this cluster shows that it is relatively dominated by Polish boards (25% of all Polish boards belong to this cluster as opposed to 14% of all Swedish boards).

The distribution is completely different in 2000. First of all the financially oriented cluster became the most numerous one – 53 boards were assigned to it (that is 31% of the entire analyzed population). In 1996 this cluster was clearly dominated by Swedish companies (28 Swedish and only 4 Polish). Four years on, in 2000, the Swedish boards are still predominant (41 boards, that is 47% of all analyzed Swedish boards), but the representation of Polish boards increased substantially (12 boards, that is 15% of all analyzed Polish boards).

The proportions and composition of the industrially oriented cluster have also changed. The Swedish companies were predominant in this cluster in 1996. The largest number of boards in total as well as of Swedish boards belonged to this cluster. Four years later the distribution of companies in this cluster is fairly even. However, when the share of all Polish and all Swedish boards belonging to this cluster is analyzed it turns out that there is a slight majority of Polish boards (30% of all Polish boards were assigned to this cluster as opposed to 28% of the Swedish ones).

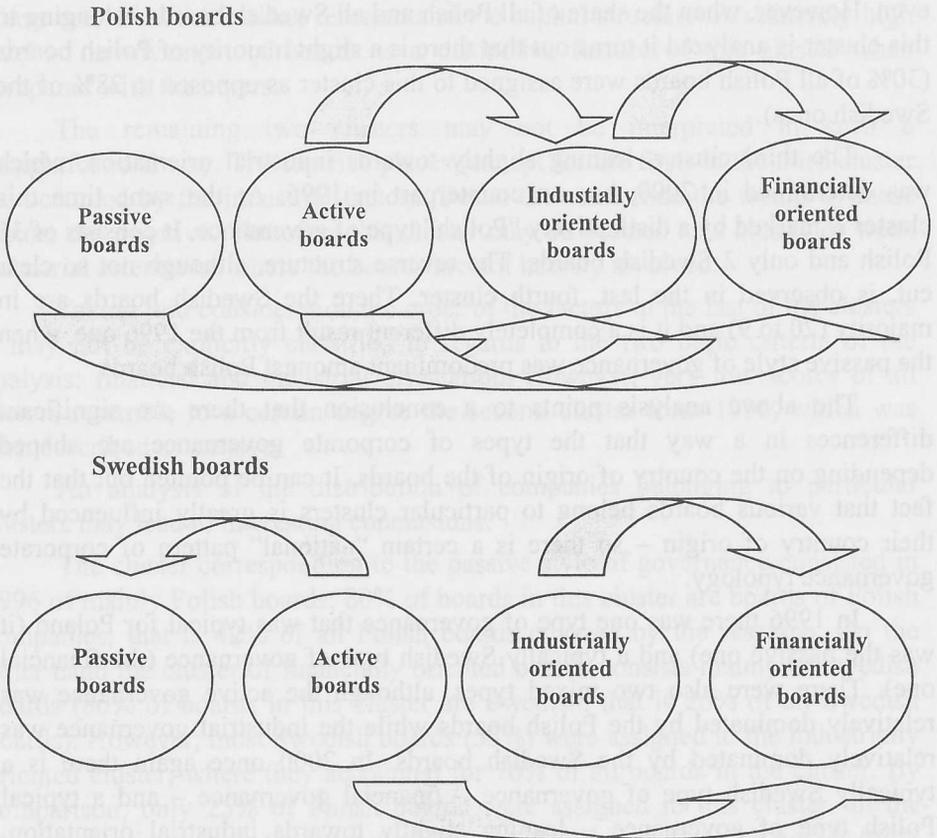
The third cluster, leaning slightly towards industrial orientation, which was determined in 2000, has no counterpart in 1996. At the same time this cluster is marked by a distinctively "Polish" type of governance. It consists of 36 Polish and only 2 Swedish boards. The reverse structure, although not so clear cut, is observed in the last, fourth cluster. There the Swedish boards are in majority (20 to 9) and it is a completely different result from the 1996 one, when the passive style of governance was predominant amongst Polish boards.

The above analysis points to a conclusion that there are significant differences in a way that the types of corporate governance are shaped depending on the country of origin of the boards. It can be pointed out that the fact that various boards belong to particular clusters is greatly influenced by their country of origin – so there is a certain "national" pattern of corporate governance typology.

In 1996 there was one type of governance that was typical for Poland (it was the passive one) and a typically Swedish type of governance (the financial one). There were also two mixed types, although the active governance was relatively dominated by the Polish boards while the industrial governance was relatively dominated by the Swedish boards. In 2000 once again there is a typically Swedish type of governance – financial governance – and a typical Polish type of governance – leaning slightly towards industrial orientation. Strongly industrial type is mixed with Polish and Swedish boards represented equally.

Determining the direction in which the types of governance in analyzed countries evolve may be extremely interesting (see figure 2). It turns out that there are some distinct tendencies. In Sweden the industrially oriented governance boards are being replaced by financially oriented ones. In Poland the changes are more complex. First of all the passive boards are losing their significance. Secondly, the industrial governance is becoming the dominant type of governance. Thirdly, the financially oriented governance, which appeared only sporadically until 1996, is growing in importance. A thesis can be put forward, based on these results, that the typology of Polish companies in 2000 is becoming very close to what the Swedish model looked like 5 years before.

Figure 2. Evolution of corporate governance types



7. Conclusions

The results of empirical research show that the existing types of corporate governance reflect the theoretical model presented before. The analysis leads to a conclusion that there are differences in the frequency of appearance of various types of corporate governance in Polish and Swedish public companies. During the four years, which separate the two parts of research, the Polish model of governance evolved towards the Swedish one, which in turn is becoming to show the traits of financially oriented governance.

The direction in which the Swedish model is evolving may be explained by several phenomena, which have occurred in Swedish economy during that time¹⁵.

The 90s brought many liberal changes to the regulations of financial markets. This resulted in an increased interest in the Swedish capital market¹⁶. The stock exchange began attracting new investors, changing the so far stable structure of stock exchange investors (mainly the strong financial groups such as the Wallenberg family or the Handelsbank group). The new types of investors included the institutional investors, both domestic and foreign (the share of foreign investors increased from 19% to 34,7% between 1994 and 1999). At the same time Swedish companies are entering foreign stock exchanges as well.

The changes in the ownership structure and concentration were another phenomenon. Mutual funds, pension funds, insurance companies and other domestic institutional investors combined to 72% of the capitalization of the Stockholm Stock Exchange. Individual investors held only 16% of shares (in terms of value). However, differences in regulations regarding the number of votes per share, meant that the control over companies was largely concentrated. As a result 50 largest investors held 50% of joint-stock capital. This figure dropped to 43,8% after 5 years.

It is also necessary to mention the change of the Company Law, which took place in 1999. The change aimed at putting the Swedish law in line with the EU directives. In practice it meant that the boards were obliged to prepare and to follow a board manual that specified the issue at the agenda and the ordering between the issues¹⁷.

As a consequence Swedish public companies adapted to the environment, in which the capital market plays a major role in accumulating the financial means. The increased interest that the Swedes as well as foreign investors have in the Swedish capital market means that the company's reputation depends largely on the successes it has on the capital market.

¹⁵ See also K. Jonnergard, *As Times Goes By – Influences of Contextual Changes on Patterns of Board Activities*, a lecture given at a conference: In: *Search of Effective Corporate Governance System*, Wyższa Szkoła Przedsiębiorczości i Zarządzania im. Leona Koźmińskiego, Warsaw 2000.

¹⁶ See also K. Jonnergard, M. Karreman, C. Svensson, *Opening up the black box - Lines of reasoning in the work of corporate boards*, Institute of Economic Research Working Papers no 1/97, Department of Business Administration, School of Economic and Management, Lund University, page 15.

¹⁷ See K. Jonnergard, *As Times Goes By...*

The evolution of the Polish governance model is determined by different factors. The growing number of companies belonging to the industrially oriented cluster may be a result of the process of adapting and integrating the Polish economy with the European Union. Limiting or lifting the tariff barriers, growing competition on the domestic market and weakening position of monopolies makes survival the top priority of many companies. That is why they put a lot of effort into the industrial aspects of their activity, such as introducing new technologies, carrying out research and development programs etc.

The changes in the Polish accounting law may allow companies to consider longer periods when making decisions. Although the new Accounting Act will be in force from 2002, the public companies have been using the International Accounting Standards and the American GAAP since 1999. Evaluation of the company based on the short-term criterion of profit is being replaced by a long-term criterion of company's value.

An increased number of Polish companies belonging to the financially oriented cluster may be a result of another stage of development of the Polish capital market. It has been functioning for a short time in Polish economy and includes only a small portion of all joint-stock companies. Its strength depends very much on the economic situation of not only Poland, but also of other countries that are referred to as the emerging markets. Despite that, the Polish capital market is the most important one in this part of Europe – a fact that may affect the behavior of companies. Furthermore, companies need new sources of financing in order to adapt to the changing environment (resulting from the progressing integration with the EU) and the stock exchange is the natural place for gaining capital and legitimizing the company success.

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