Gunnar Flume

The End of the 'Swedish Model'?

The Swedish Production Regime in the Globalisation Arena 1980 – 2000

Department of Economic History / University of Bielefeld, Germany

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From the point of view of liberal or neoclassical orthodox economists propagating the Walrasian *économie pure* based on unimpeded market equilibrium mechanisms the Swedish economy seemed to be the contrary of an economy which is able to cope with the challenges of the world economy in the 21st century. However, the critics of the often admired ‘Swedish Model’ seemed to be right at the beginning of the 1990s, when the Swedish economy was hit by a severe slump connected with unknown unemployment rates, severe losses of world market shares and fierce turbulences on financial markets.

The remarkable recovering and increase in prosperity during the 1990s is often associated with a profound transition of innovation structures to a ‘new economy’, i. e. the emergence of a knowledge-based, R&D-intensive business structure whose potential rests on the breakthrough of internet and telecommunication and their generic technologies, open innovation systems based on production networks, and rapid concurrent innovation by many innovators as well as dynamic capital and labour markets (Fransman 2002). However, it is still an open question whether the upswing was connected to changes in institutional arrangements and if Sweden had to be inevitably forced to submit to a ubiquitous convergence trend by adjusting its institutions to real or alleged globalisation imperatives at the end of the 20th century like other European economies. One of the focal points of controversy in the recent literature in political economy is the extent to which Continental European national production regimes had to adopt the institutional settings of ‘Liberal Market Economies’ as Great Britain or USA in general. It is often assumed that main pressures came from internationally active, primarily US and UK-based investors acting as a force sufficiently strong to drive convergence on the Anglo-American model (Dore 2000, Rubach / Sebora 1998). For the Swedish case this was of importance because the amount of foreign ownership increased considerably up to 40 percent of the total shares on average during the 1990s.

Relatively scarce research focuses the influence of institutional change on firm level. Against this background the paper addresses the controversy by outlining institutional change and continuity in corporate financing and corporate governance and exploring the performance of Ericsson, the company that played a decisive and outstanding role in the upswing of the Swedish economy and the emergence of the ICT-sector between 1980 and 2002. It is undisputed that Ericsson contributed noticeably to the recovery of the entire Swedish economy during the 1990s. Several figures illustrate which importance Ericsson had for Sweden during the 1990s: In 1990 Ericsson was responsible for 0.5 percent of GNP rising to 2.6 percent in 2000. In 2001 Ericsson contributed with 43 billion SEK to about 50 percent of all Swedish R&D-investments (Lindmark 2004:147). In 1996 Ericsson contributed with 16 percent to economic growth and 11 percent to Swedish exports. Furthermore, in contrast to many other Swedish companies, Ericsson increased employment and R&D-efforts considerably in its home country between 1980 and 2000. However, Ericsson’s history can be written as the triumphant advance of the new economy in Sweden, but it can also be recorded as institutional change in shape of transformed governance structures. Empirical evidence for this argument is provided through an examination of changes in corporate governance between 1980 and 2002.

In 1980, Ericsson was a Swedish enterprise embedded in ownership spheres following an active ownership agenda; in 2002 these owners had to give up their hegemony so that in 2007 Ericsson is a 'foreign' corporation: With reference to voting rights, foreigners (above all from the USA) are the biggest shareholder group with 29.5 percent of votes (Fristedt / Sundqvist 2007). The examination reveals that Ericsson's success was coupled with classical Swedish governance structures, but that later on these structures were not anymore compatible with an altered institutional context. Furthermore, it proves evidence that institutional change on firm level and especially on the level of corporate governance cannot be seen isolated from factors as capital need or enhancements on product markets and the capability of firms to react to them.

1. Ericsson and 'active ownership'

Addressing the problem of separating ownership and control Manne maintains in his seminal article that in a constellation without transaction costs a deviation or decrease of a company's market value from its possible maximum value causes a replacement of the ineffective owners by share markets. The lower the stock price, relative to what it could be with more efficient management, the more attractive take-overs become to those who believe that they can manage the company more efficiently (Manne 1965). In this perspective, stock exchanges cannot only be seen as markets for shares but in addition as markets for corporate control in shape of control rights attached to a share providing that market mechanisms can function without distortions. On the one hand, the rent-seeking manager effect as sketched by Jensen and Meckling or Berle and Means can be reduced. On the other hand, the controlling group could always be in a position to serve mainly its own interests, which may at times differ from maximizing the firm's value. In this constellation, stock exchanges can serve as a market for corporate control that will ensure that the firms' resources are used in a value enhancing way.

Company ownership in Sweden was at any time very homogenous and less marked by competitive relationships. Dispersed shareholder ownership as in LMEs was never a typical feature of the Swedish economy during the 20th century. Focusing companies with more than 500 employees, only three or even fewer owners constituted the majority at the shareholders' meeting. 53 percent of Swedish companies exhibited concentrated ownership structures (La Porta / Lopez-de-Silanes/ Shleifer 1999). For a long period this powerful position of a major owner was linked to families (the `Fifteen Families` as well-known ondit for an economic aristocracy) and three major ones alone controlled companies that accounted for two-thirds of employment, sales and total assets of the 270 largest corporations in Sweden (Fölster / Peltzman 1997).

Although Swedish regulation protects the interests of minority shareholders thoroughly, the preponderance of these families was afforded by the unhampered usage of two market-averse control instruments. Except for Belgium, in no other economy the usage of ownership interlockings and especially differentiated shares (voting rights separated from the amount of capital invested) is as widespread as in Sweden. The frequency of listed firms making use of dual-class shares increased from 18 percent in 1950 to 54 percent in 1981 and it peaked at around 80 percent in 1992 (Högfeldt 2004). Trusting on this instrument Investor (the investment fund controlled by the Wallenberg-family) controlled 14 large firms with a market value making up 42 percent of the total market capitalization at the Stockholm stock exchange in 1998 (Agnblad et. al., 2001).[1] This asymmetry between small capital base and shareholders' voting rights enabled the 'pyramidization' of company control possible via so called 'Russian-Doll' or box-in-box-nestings in form of widely ramified cross-shareholdings mostly with a bank and a related closed end investment fund (CEIF) as nucleus on the peak, shaping 'ownership spheres' with CEOs installed as 'multiple' directors in several enterprises as network agents and large owners represented on the board (Jonnergård 2004). Against the background of impressive economic power concentration it is not only surprising that hostile take-overs were scarce but also that the many branches in Sweden have been dominated by only one enterprise and often observers got the impression that markets were stipulated under Swedish niche manufacturers which never shrinked away from forming up cartels, alliances and agreements. Sweden had - measured as share of the gross domestic product - more large-scale enterprises than any other economy facilitated by a lax Swedish legislation permitting even several private companies to act as quasi-monopolists (Fölster / Peltzman 1997; Jagrén 1993).

Due to the usage of dual-class shares this disciplinary mechanism of stock markets was more or less annulled in Ericsson. Moreover, control was shared between the two leading ownership spheres, the Svenska Handelsbanken- and the Wallenberg-Sphere, a constellation which was almost unique in Swedish economic history. Second, their hegemony was secured by an extraordinary large separation of capital and voting rights, a differential of 1:1000 between A- and B-shares which allowed the owners to make decisions without larger financial interventions.[2] This noteworthiness can be traced back to 1932, when Marcus Wallenberg and the Svenska Handelsbanken (SHB) rescued Ericsson in a concerted action out of a severe crisis resulting from risky licence affairs and speculative manoeuvres. In 1948 Investor and Industrivärden, the CEIFs of the Wallenberg- and SHB-sphere, bought so many A-shares, that they could block each other. Furthermore, an agreement stipulated that 43.4 percent should be owned by the Svenska Handelsbanken-sphere and 43.8 percent by the Wallenberg-sphere.[3] To come to an understand-

[1] Possessing an ownership share of 19.4 percent (41.3 percent of the votes) the Wallenberg foundations had total control of Investor. Investor's share of the total market capitalization was in turn 4.6 percent. Hence the Wallenberg foundation's ownership of approximately one percent of the total market value of the Stockholm stock exchange was sufficient to control 42 percent of the total market value.

[2] Even in 1983 there were only six Swedish companies with such an asymmetry

[3] The holding of A-shares changed slightly so that in 1990 SHB owned 42,8 percent and Wallenberg-sphere 41,8 percent.

ing after a buy-out of the US-American ITT in November 1963 both investors agreed not to acquire further shares and to reach a consensus before important decisions. Finally, since the 1950s, several official contracts with mandatory bid rules including a duration of ten years were arranged, but last they were replaced by a 'gentlemen's agreement' not to change ownership conditions against arrangements. With accumulated 84.9 percent of voting rights but not more than ten percent of cash flow rights both of the spheres could rule the firm's trajectory.

This configuration with checks and balances gave the Ericsson-management, which was during the whole time recruited out of the corporation, a broad scope. Setting a great store on good relations to trade unions, three trade union representatives were included in board representation.[4] The board was a meeting point for quite a lot of persons belonging to the top circle of Swedish business, mostly 'big linkers' embedded in business networks with an impressive number of further board memberships. Decisions were made in consensus, especially because a presiding committee including the representatives of SHB and Wallenberg-sphere should facilitate compromises in advance when important decisions had to be made (Interview Olving). Conversely, it cannot be said that contradictory interests never appeared especially when ownership interests were concerned.[5] Therefore, relationships between the two spheres can rather be outlined as on arm's length distance, not as an intimate ownership coalition. Therefore, it was suspected that the CEO as formal independent member of board sometimes had the purpose to balance the interests of the two spheres (Interview Grabe).

However, the dominance of the two spheres, the long-lasting stability in corporate control and especially their active ownership-agenda suited to the specific market conditions the telecommunication company had to cope with. As well as other Swedish owners, both spheres favorised a stakeholder value strategy increasing the company net asset value in alignment with all enlisted actors. This attitude is reflected in the notion of Swedish 'active ownership' including the participation in decision-making by board representation, the maintenance of responsibility also in crises including a readiness to intervene with their own financial resources and to take over the responsibility for necessary restructuring prioritising the reconstruction instead of a disposal and finally the ability to build up trust-based networks and relationships to other stakeholders (Carlsson 2001; Sjögren 2005).

Strong owners with a long-term perspective and the readiness to tolerate shorter phases of underperformance seemed to fit Ericsson's special market situation. Ericsson's main product, telephony switching systems, was marked by monopsony constellations with public telecommunication agencies as inquirers. Because of the complexity and sustainability of telecommunication systems orders were long-term and

[4] Even their proxies took part in the boards' meetings. Furthermore, since 1975 top management and trade unionists delegates congregates regularly in a group council, in which information and negotiations on fundamental decisions took place.

[5] 1987 Skandia sold a 3.1 percent-share to the Svenska Handelsbanken-sphere, which could increase the voting right on 39 percent, accused Peter Wallenberg the SHB-CEO to violate the stipulations concerning the splitting of A-shares. Peter Wallenberg got also in a fierce conflict with Hans Werthén when the latter negotiated about a potential purchase by of Spanish or Italian investors. Slut på ägarfriden i Ericsson, in: Dagens Nyheter 4 December 1987

agencies and suppliers acted in a kind of symbiosis, where the agencies took care of infrastructure investments meanwhile suppliers were responsible for service, training and upgrading of technical equipment. This configuration involved three implications. First, apart from an intensive market observance Ericsson was forced to satisfy considerable adjustment demands and a broad product assortment, resulting in a focus on technical matters. Technological excellence was a necessity to get long-standing commitments to customers, follow-up orders and the inevitable adjustment of initial and secondary equipment to local needs (Ericsson 1984:6). However, the tight cooperation with public agencies and the focus on technological matters brought about an image as bureaucratic colossus with a slight responsiveness to new market trends and wishes of private customers. Although always in front with technical competency the management did not notice the decline of electro-mechanic circuit switches during the 1970s and it is still questionable whether the management was aware of the importance of mobiles and of the internet at the beginning of the 1990s.

Second, even for Swedish circumstances, Ericsson had a high internationalisation level with production and a comprehensive sales volume in OECD-countries but also in a wide range of developing countries in Asia and Latin America. The dilemma for Ericsson - as well as for other Swedish branches - was the lack of a sufficient domestic market as ‘protected workshop’. National champions in other countries often received the majority of procurements on domestic markets. In contrast, Ericsson’s competitiveness based considerably on international expansion with technologies developed in Sweden. Although the cooperation with the Swedish telecommunication agency Televerket and particularly the common R&D-company Ellemtel as a link of vertical integration was one of the reasons for Ericsson’s success in mobile technology, Televerket did not hesitate to contact Ericsson’s competitors (Berggren / Laestadius 2001:97).[6]

Third, Ericsson seemed to demonstrate a perennial pattern of 3 - 4 years, including far-reaching capital expenditure plans and low profitability followed by a ‘harvest time’ with high profits. Global competitors as Siemens, AT&T, Alcatel and Northern Telecom were considerably larger companies and in contrast to these manufacturers Ericsson could not operate as conglomerate corporation including manufacturing of electronics, semiconductors or power equipment etc. compensating for losses in its core business. Because of the large, voluminous but comparatively rare orders of public telecommunication agencies with a long contract duration (the telephony systems were in use over decennials) Ericsson occasionally had a low cash flow and liquidity problems. Especially these problems could be bound off with the help of a stable ownership structure involving a long-term commitment and readiness to tolerate longer phases of underperformance.

[6] So it is reasonable, why Ericsson lacking a public agency as source of revenues was highly dependent of foreign markets and as one of Swedish first movers Ericsson dislocated a considerable part of production in important markets as Australia, Brazil or Great Britain. Already 1965 the enterprise had affiliates in 26 countries, increasing to 60 countries in 1999. 83 percent - 97 percent of turnover went into export. Ericsson, Specifikation över innehav av aktier och andelar, Stockholm 1999; Ericsson Annual Report, Various Issues

2. The competitive advantage of perseverance: Ericsson during the 1980s

Ericsson's advancement to a global player in the arena of telecommunication in the last twenty years of the 20^{th} century can be written as success story but paradoxically enough this history reveals several failures. Indeed, the impressive success story of Ericsson began with a failure. In the second half of the 1970s Ericsson was confronted again with severe profitability problems but with the circuit switching system AXE a fundamental crisis could be averted. This technological system should become the fundament of Ericsson's worldwide success in telephony systems, but in 1980 this evolution was not yet foreseeable.

In 1980 the management started the so-called 'Ericsson Information Systems'-project, a comprehensive extension of office products. The reasons for the setting up of EIS and the widening of the product portfolio were manifold. Facing the looming deregulation of the public telecommunication agencies and because of the extreme orientation on telephony circuit switching products, already during the 1970's board and management had agreed to diversify in new areas and to present Ericsson as system manufacturer, who could offer customers a whole range of compatible products from PCs, data terminal systems, office communication systems to telephony circuit switchings based on Ericsson's advantages in modularised system solutions (Ericsson AB 1981:4). In the case of success, it was supposed to catch up with competitors as Philips, Siemens or ITT, whose product portfolio showed a larger variety.

Probably because of the lacking experience with new customer and product areas, unknown time horizons and the failure to integrate acquired companies in EIS it turned out quickly, that the ambitious plans seemed to transform into a hazardous adventure threatening the prosperity of the entire corporation (Dahlgren / Witt 1988). Facing the extensive failures with some products (especially computers) the management had to grant in the same year that Ericsson had to concentrate its future plans on the traditional areas and its core competencies (Ericsson 1985). After wide-ranging rationalizations and dismissals of 9000 employees, an equity-to assets ratio of 25 percent and a profit ratio of 5 percent the retreat out of the 'paperless office'- project ended with the disposal of EIS to Nokia in 1988.

The turbulences mid of the 1980s and the tense financial situation were not caused solely by the failed attempt to open up new areas but also by deteriorated results of the division for public telecommunication owing to a decline in sales for analogue transmission systems, a higher cost level and increased price pressure. Harsh liquidity problems arose because a capital grant of 1.8 billion SEK gathered on US-stock markets was used up. Securing the ample investments on the US-market and especially the indispensable credit guarantees for operators Ericsson was even forced to borrow 500 million SEK from the SEB, the SHB and Sveriges Investeringsbank and was not able to pay the employees' wages (Interview Ros). Ericsson B-shares underwent a slump in prices so that the management by means of discussions with investors in London and a tour in USA tried to restore confidence successfully. It was a veritable alleviation both for investors as well as the management, that an important AXE-order for British Telecom could be acquired and already in 1986 Ericsson could report an auspicious profit deployment and for the first time since 1983 a positive cash flow (Ericsson 1986).

Ericsson had to increase its expenses to adjust AXE to demands from USA and Great Britain and it turned out that the enduring investments on these important markets during the EIS-era was one key factor why Ericsson could acquire several important and highly profitable contracts for its AXE-system, the technology Ericsson should built on its ascent to a global player on global telecommunication markets. AXE's technical superiority rested on its modular architecture enabling the adjustment to different regional and technical standards as NMT, GSM, AMPS or PDC but also as product it could successfully cope with the transition from analogue to digital standards (Ericsson 1984:7). By several factors Ericsson got an almost unchallenged competitive position in a market segment comprising merely 15 manufacturers as AT&T, Northern Telecom, Alcatel-ITT, Siemens and NEC. The global expansion of mobile telephony coincided with the expansion of mobile telephony systems, resulting in a global demand, so that Ericsson could establish its AXE in one country after the other. In 1988 1.6 million of altogether 3.9 million mobiles worldwide were linked to AXE-based telephony systems and in 1989 the corporation had a world market share of 40 percent in mobile telephony systems (Ericsson 1989). Opening up new markets Ericsson-products were present on two-thirds of national markets in 1988, in contrast to one third in 1981, a covering no other telecom corporation could reveal (Affärsvärlden 1988:65).

At the beginning of the 1990s the management continued with investments for modernizing AXE even when the stock order for mobile telephones decreased in 1991, a considerable number of dismissals had to be made and the results went down from 5 billion SEK in 1990 to 1.5 billion SEK in 1991 (Ericsson 1991, 1992). The CEO Björn Svedberg and his successor Lars Ramqvist could rely on the necessary support for their growth strategy. In connection with the investments at the beginning of the 1990s Ramqvist met some principal investors and analysts in New York to inform them bluntly that they could not expect profits during the next years. In 1991 quotations nearly divided in half, but the majority of investors accepted the preferred strategy (Veckans Affärer 1993:43). Again two large orders signalled that the times of modesty were coming to their end. In 1993 the return before taxes raised with 150 percent, and the return per share with 268 percent (Ericsson 1993). Profitability was based decisively on development expenditures comprising 10 billion SEK at the beginning of the 1990s.

This course - first an ambitious technical project, then a failure including comprehensive sunk costs, then an outstanding return situation - was a pattern with quite a few déja vus in Ericsson's history. The episode of EIS and AXE clarifies the constitutive dilemma of Ericsson and why it was necessary to trust on Swedish owners. The shareholders could not trust on a steady return flow but were instead confronted with turbulences and an uncertainty whether technological projects would generate an adequate return on invested capital. But after a series of large orders due to technical advantages shareholders could expect an outstanding profitability; the reason why analysts labelled Ericsson's trend of earnings as 'ketchup bottle-effect'. Net margins were about 8 percent on average between 1980 and 2000, but the trend was hallmarked by striking fluctuations, oscillating around 2.3 percent between 1984 and 1988 and about 10 percent between 1996 and 1998. So, all shareholders benefited from prioritising investment and sales growth over profitability in the short run.

However, the ownership spheres could not solve the crucial dilemma of Ericsson, the steadily growing capital need facing the permanent rising R&D-expenses. Already in 1982 Ericsson was on the top in Sweden referring to R&D-costs with 1.6 billion SEK or 8 percent of the turnover (Veckans Affärer 1982:3). In 1990 the national Swedish authorities recorded 100 patent applications of Ericsson, in 2000 over 1200. Correspondingly, during the 1990s R&D-expenses measured in turnover increased from 7.5 percent in 1990 to 20 percent in 2000. Securing financial sources for company growth and research expenses, Ericsson was forced to broaden its capital base. Financial margins of Industrivärden and Investor as well as for each other Swedish CEIF were limited because capital acquisition was narrowed by a steady discount of 23 - 25 percent (Agnblad 2001). So Ericsson had to trust on other sources of financing to satisfy its permanently growing capital need.

Up to the 1980s Swedish companies had prioritised self-financing via retained earnings and loans. Enterprises were closely tied to the commercial banks by long-term credit lines, frequently also involving indirect ownership arrangements and board representation as well as other formal and informal ties. Commercial banks were expected to take responsibility for their regular clients and, when necessary, also to play an active role in the restructuring of industrial operations (Lindgren 1990). Swedish companies could trust on 'patient capital' - capital needs had not to be reconciled with short-term profitability aims of capital markets and capital was even accessible in economic downturns. Equity markets were instead utilized to preserve ownership and control and mostly played a modest role or served to mark shares with a 'price tag', thereby facilitating ownership changes or acquisitions, but not as decision-making factor (Lindgren 1995, Högholm / Rydqvist 1993). Congruously, Swedish controlling ownership was based on a smaller capital base than in other continental European countries and seasonal equity offerings and initial public offerings were rare on the Swedish share markets as well as a diversified venture capital market did almost not exist. (David / Mach 2002, Södersten 1994).[7]

In contrast to other companies and their reserved attitude towards stock markets Ericsson was in a certain manner Swedish vanguard. In 1980 Ericsson was quoted at 9 European stock markets so that no other Swedish share was more international. Consequently, in 1983 about 40 percent of shares were owned by foreigners, 33 percent by US-investors (Ericsson 1983). Already in 1985 half the share stock

[7] Further hallmarks of the Swedish financial system were a long lasting partitioning of customer relations between the banking groups (mainly the Svenska Handelsbanken and SEB) as well as a strict and extensive public regulation of their activities and walling-off against foreign competitors in the shape of strict foreign exchange controls and an extensive regulation by public authorities and the central bank (Larsson 1998; Jonung 1993).

was located in the USA and the volume of stocks traded at the NYSE was twice as large as in Stockholm. Until 2000, the share of foreign shareholders should rise to 55 percent.[8] However, the internationalisation or rather ‘americanisation’ of Ericsson’s capital base with about 43 percent of shares owned by global operating investors during the 1990s was not reflected in enlarged voting rights, which added up to modest 0.2 - 2 percent during the 1990s. Even more impressing than the high degree of internationalisation was the volume of new emissions. First in 1981, then in 1983 Ericsson emitted 4 billion B-shares in the USA, the largest SEO ever made in Sweden’s history. 1993 followed a new emission with 2 billion, another one in 1995 including 7.5 billion SEK and in 2002 a third one with even 30 billion SEK. This widening of the capital base from 38 million in 1985 up to 7.9 billion B-shares in 2000 had two consequences. First, Ericsson’s reputation as high-tech corporation with auspicious prospects, high cash flow and net margins as well as the IT-boom attracted many investors and led to a high stock turnover. Already in 1989, Ericsson had a Tobin’s Q of 14.1 - 15.6 compared to 11.7 for the other Swedish industrial companies and this figure raised until 30 in 1997. Between 1980 and 1998, the shares should increase in value of 1000 percent (Veckans Affärer 1998, Svenska Dagbladet 1989). In the IT-boom at the end of the 1990s, Ericsson - with a stock value of 500 billion SEK - should contribute to 50 percent of turnover at the Stockholm Stock Exchange, one third of the accumulated stock value for all quoted companies (Dagens Nyheter 1999).

Nonetheless, board and management had to be aware of the paradox that equity markets appeared to be fond of Ericsson’s engagement in high technology areas but not of the combined development expenses and cyclical downturns. Already between 1981 and 1983 stock market quotation skyrocketed and quadrupled within two years after the ambitious plans with EIS became known. But volatility affections were noticeable. Facing the EIS-disaster the share price was almost halved (Affärsvärlden 1985). In 1991 it decreased again with 40 percent, as the cyclical sensitivity of the telecommunication operators became evident as well as the simultaneous R&D-efforts of Ericsson (Affärsvärlden 1993; Veckans Affärer 1993:43). Conversely, the two spheres were not inclined to bear the consequence that Ericsson was in fact a company with two co-existing governance structures: the powerless owners of B-shares with ambitious return expectations and the traditional active owners securing their hegemony with the help of A-shares guaranteeing that Ericsson’s management could pay lesser attention to actors with short-term return expectations (Interview Siberg). However, Ericsson pursued - despite futile protests of the trade union representative in board meetings - a constant policy of maintaining or even increasing dividends despite decreasing returns per share in some years (Interview Hedlund).

[8] US-investors constitued roughly 29 percent. Utländskt ägande ökar stort, in: Dagens Nyheter, 17 February 2000

3. The reluctant adaptation of shareholder value orientation: Ericsson during the 1990s

An option to share the increasing costs for R&D was cooperation with a foreign partner. Indeed, at the end of the 1980s an alliance or even a merger with NT was discussed and CEO Jan Stenberg put out the feelers several times to Siemens (Veckans Affärer 1995:17). Even the crisis-ridden Nokia was offered and analysts recommended the acquisition of the US-company Cisco, but Stenberg's successor Ramqvist insisted on a stand-alone strategy. Consequently, facing the comprehensive development expenses for its core technology Ericsson had not only to account on its own for the expenses but had to bear the consequences alone in the case of a failure.

Despite its failed experiment with office equipment and computers the management was thoroughly aware, that the integration of data and telecommunication as well as the related upgrading of its products for the third generation of mobile telephony would be the future challenge during the 1990s. In 1993 CEO Ramqvist announced that the transmission standard SDH and the telecommunication protocol ATM were Ericsson's future technologies to get the link between datacom and telecom. In autumn 1995 Ericsson floated the biggest emission in Swedish history at that time with 7.8 billion SEK to adopt broadband technology trusting on its own strength and without collaboration projects or purchases. The project turned out to be a veritable fiasco and occurred in certain respects to be a repetition of the EIS-experiment nearly ten years earlier. In October 1995 the management resigned from the SDH-project and Ramqvist had to take over responsibility for the break-off of a 4 billion SEK project. In the same manner AXE-N as successor of AXE, developed between 1987 and 1995 and integrating SDH and ATM with expenses of roughly 10 billion SEK, was in vain and the whole project was laid down, although the base technology led to the invention of ENGINE, Ericsson's later success technology for linking circuit switching and internet.[9] Failing with its own efforts the corporation had to modify its growth strategy gradually by acquiring the competences for IP-technology on the US-market. In addition to comprehensive greenfield investments in Silicon Valley and collaboration projects with SMEs for internet software, Ramqvist and the responsible Vice-CEO Anders Igel trusted on their 'string of pearls'-strategy, i. e. buying start-ups to add competency for routers, server technology etc. since 1997.

From the perspective of analysts that was not enough. With the rise of IP-technology AXE, Ericsson's core technology, was threatened, because the transmission could be handled faster and cheaper. Permanently Ericsson was compared to Cisco, a booming US-enterprise mainly based on IP-routers, with a comparatively higher quotation, a consequent outsourcing but above all an aggressive acquisition strategy with 70 corporations within only 8 years, following the device that new techniques had to be incorporated at all costs to satisfy the requirements of its own customers (Veckans Affärer 1999:25). Members of Ericsson's investor relations department reported that every day four or five discussions with

[9] In February 2001 an order for a communication- and datanet based on ENGINE should increase turnover with 37 percent saving Ericsson from its crisis after the burst of the telecom bubble.

investors and analysts took place because of the question, whether Ericsson should buy a big US-computer enterprise (Nilsson 2002). Ericsson's cautious proceeding aroused suspicion that owners were not willing to emit new A-shares curtailing their own power position. Financing acquisitions with shares was a current mode in ICT-business but the vote-differentiated shares made such transactions unattractive. The realized acquisitions were criticized by analysts as too small for managing the required integration of data and telecommunication. The difficulties prompted the management to pay more attention to institutional investors' notions.

Apart from the acquisition strategy analysts were particularly unhappy with some other aspects. The first was the focus on sales growth rather than on profitability. Second, because little company financial information was provided on division or product segment basis, it was very difficult to ascertain which activities were profit centres and which were loss areas. Idealiter, shareholder value advocates demanded that firms should establish detailed segmental reporting and mechanisms for determining cost-of-capital as well as minimum profitability and benchmarking targets for individual business units. Under-performing units should be sold off or closed down.

It was the new CEO Sven-Christer Nilsson, appointed as Ramqvist's successor in 1997, analysts pinned their hopes on for asserting a more shareholder-oriented perspective. One of his first initiatives was to rebuild the organizational structure and to disclose the performance of single units. Shareholder value advocates demanded that corporations should enhance a focus on core markets where they had their strong competencies. A prerequisite was the identification of cash cows and loss units inside the companies, a request which did not fit Ericsson's organizational traditions. In the past the corporation never illustrated profits and losses but favoured cryptic formulations such as 'dissatisfying results' or 'positive trend'. Ericsson's analysts were not even informed about the results for mobile systems as one of the core activities.[10] Additionally, the structure for Ericsson's telecommunication activities upset in 1996 was built on three oversized units involving a range of complicated internal affairs between the line, so that a part of the development costs was located in the fixed line network unit, although they arose in the entire corporation (Affärsvärlden 1999).

On 30 September 1998 CEO Nilsson informed, that Ericsson would adopt a transparent matrix organisation, structured by customer types. Simultaneously, the enterprise started to document the results of the single units for the first time in history. Additionally, ambitious targets - turnover increase with more than 20 percent for the biggest unit net operators - were proclaimed as well as earning outlooks in quarterly reports (Ericsson 1998).

Problems began when mobile telephones, until then a reliable cash cow for Ericsson, suddenly showed massive losses of sales. Next to Nokia (24 percent), and Motorola (20 percent) Ericsson was on the top

[10] As a counterexample take Nokia with its misinvestments in TV, but with a compartmentalized report system enabled analysts and shareholders to assess Nokias entire performance. Ericsson - en riktigt usel informatör, in: Veckans Affärer, 33 (1998), p. 21

of world markets in 1996 with a global share of 25 percent mainly because of its GSM-mobiles (Bekkers 2001). Passing the upswing of cheap entry level phones, the former cash cow turned out to be a losing deal. Mobiles amounted to one quarter of Ericsson's sales, but the top management had never decided to pay special attention to consumer trends and was even surprised by the success of its own product (Interview Siberg). Due to the missed trend to cheaper entry level phones, technical problems, the crisis in Asia and a negative cash flow because of expansion activities in Brazil, Nilsson had to announce a profit warning of 15 - 20 percent and a loss of 10 000 jobs. The reaction on stock markets was so harsh that the entire decline in stock prices in 1998 was equivalent to the cumulated value of Volvo and ABB. [11] The return after taxes was halved in 1999 and several bigger foreign owners were discontented and sold their shares completely (Affärsvärlden 1999).

It seemed to be a paradox that the effort to pay more attention to the shareholders' interests evoked such turbulences on stock markets. The spectacular and sudden dismissal of Nilsson in July 1999 and the return of Lars Ramqvist had several reasons and cannot be explained solely with Nilsson's efforts to shed light upon the company's situation. Coinciding with difficulties on product markets the dismissal of an actor who tried to satisfy shareholders' expectations on a large scale was obviously grasped as an intended effort by the board to restore previous behaviour patterns. So the already proceeding discussions on Ericsson's governance structures and the unimpaired overweight of the two ownership spheres were given a fresh impetus. Facing the volatile reactions on stock markets, it was questionable whether the future financing of operations could be secured with new emissions. For that reason, Wallenberg- and SHB-sphere as well as the management had to become aware of the fact that concessions to B-shareholders were inevitable.

In their behaviour with reference to success and failure different reaction patterns can be distinguished between foreign and Swedish institutional investors. Applying Hirschman's seminal model of 'voice' and 'exit' as two fundamental options, foreign investors continuously followed an exit-strategy although the 'boardroom revolution' in the USA during the 1990s revealed that shareholders were thoroughly anxious to change the boards' composition in the case of a perceived underperformance. It were the Swedish owners who used their 'voice' to reform the governance structures in Ericsson.

Since the 1990s, not only in the telecommunication company but also in other companies short term returns goals were on the agenda of investment companies and insurances as Robur, Skandia, SPP and Trygg-Hansa as well as other institutional investors, whose importance grew because a progressively larger share of savings was channelled to them. No longer associated with the ownership spheres they were running an active portfolio strategy (Pålsson 2001). The emergence of these actors coincided with the decreasing inclination to use dual class-shares: from 80 percent in 1992 to 63 percent in 1998 and

[11] The inept announcement on a meeting of Swedish analysts evoked a decline in prices of 16 percent or 75 billion SEK within 15 minutes.

even below 60 percent in 2000. Irrespective the increased presence of new actors observers could notice a more or less profound shift in ownership structures in Sweden. At first, the dominance of the Swedish 'Fifteen Families' seemed to be history, already in 1990 only five remained (Glete, 1994:179). The Wallenbergs as the most prominent protagonists of Swedish family capitalism experienced a distinct loss of influence in key companies.

Initially cooperating with the Wallenberg-sphere, these institutional investors adopted codes of conduct implying their own representation in the boards. Based on an augmented cooperation they were ready to challenge the ownership spheres. However, as a first reaction to the harsh critique after Nilsson's dismissal, the presiding committee was replaced by specified finance-, reward- and revision committees and on the annual general meeting in 1999 with Bo Bergren, Göran Lindahl and Sven Ågrup three representatives of the institutional investors were elected in the board.[12] On the annual general meeting on 31 March 2000 Eckhart Pfeiffer and Niall FitzGerald even two foreign experts were appointed to strengthen competency for consumer products.

As a second effect of the turbulences, institutional investors were now encouraged to claim a reduction of the voting-capital-differentials. Skandia with 5 percent of voting rights was first on the scene claiming a reduction to 1:1, followed by SPP with 3.7 percent of shares and Föreningssparbankens aktiefonder (Dagens Nyheter 2000). Yet proponents differ on the extend of reforms, but a consensus existed, that with the two ownership spheres improvements were nearly impossible. Inside the firm, the readiness to give up the useful barrier against shareholders with a different institutional background was not widespread. CEO Kurt Hellström compared a possible revaluation with communist confiscation measures (Affärsvärlden 2000). However, an agreement on the voting rights was not in the offing, even though Marcus Wallenberg as Investor-OD advocated a reform with the ulterior motive to increase Ericsson's stock market quotation. He and the Investor-CEOs endeavoured to improve the relations to Swedish institutional investors facing the current restructuring of their ownership sphere. In principle, the Svenska Handelsbanken was not an impediment concerning the elimination of voting gaps. However, the bank had lost control over a whole number of former core firms, and was set under pressure by several new speculators, who attacked Industrivärden via the investment company Custos. Ericsson's position in the portfolio was too important because it amounted up to 46 percent of Industrivärden's portfolio. Consequently, Bo Rydin as SHB-representative refused a consent, claiming a higher premium for A-shares (Dagens Nyheter 2000).

The final chapter of the sphere's dominance commenced in 2000 when it turned out that Ericsson's market share for mobiles was reduced from 17 to 10 percent between 1997 and 2000 and that the losses

[12] Before, institutional investors were not present with the exception of Skandia's chairman Larc-Eric Petersson and Peter Sutherland, appointed in the board in 1996. Still, Sutherland was imputed to vote for the Wallenberg-sphere, not for the investment funds. Ågrup, former associated with the SHB-sphere, was now assigned as a neutral person. Storägares makt minskar: Ericsson siktar på att få in fler utländska ledamöter på styrelseposter, in: Dagens Nyheter 20 February 2000

for mobiles again amounted to 16 billion SEK. Despite the fact that the management reacted with encompassing measures after a return warning stock quotation decreased again with 75 percent and Ericsson had to announce a negative net margin with minus 10 (Ericsson 2001).

Although the incidents have to be seen as part of the ubiquitous burst of the IT-bubble in public Lars Ramqvist and especially Industrivärden and Investor were held responsible for the problems. Obviously, the pressure was so immense that fundamental changes seemed to be inevitable. The end of the ownership spheres' hegemony became apparent in June 2002 when Ericsson emitted new shares in a volume of 30 billion SEK, again a new record in Swedish business history. In view of this broadening of capital base investors did not slip the opportunity to claim a reform of the voting rights. After protracted negotiations finally all owners agreed on drafting a committee that should arrange the conversion of 1:1000 to 1:10 in 2003. Investor and Industrivärden and other influential Swedish institutional investors compromised that a 1:10 and not a 1:1-capital-voting-differential could secure Ericsson more efficiently against an immediate take-over, which was probable facing Ericsson's low stock quotation at this time (Dagens Industri 2002; Dagens Nyheter 2002). The transition was complemented with the appointment of Michael Treschow, a manager who had never worked for Ericsson, as new CEO.

4. Conclusions

With the examination of Ericsson this paper tries to fill the gap of investigations which analyse company trajectories and their connections to transitions on a national level. It seemed to be a paradox that Ericsson as precursor of ICT-technology showed such an affinity to retain old institutional frameworks in its governance structure. The model of an exclusive alliance between management and 'active owners' played a twofold role in the transformation of Ericsson first as a guarantor for its success but later on as an impediment for the adjustment to modified institutional arrangements. Institutional change on firm-level cannot be seen isolated from the firm's trajectory. The firm's competitiveness especially in the mature phase during the 1980s rested on the traditional Swedish active ownership agenda. It is debatable whether the outstanding success of the entire Swedish ICT-sector - maybe even the growth trajectory of the entire economy during the 1990s - would have been different if Ericsson had been sold to Siemens or to ASEA after the EIS-debacle. During the 1990s, the necessity to raise capital on stock markets for profitable but risky projects could no longer be harmonized with a governance structure which paid no attention to short-term return expectations in case of underperformance. Proving evidence for Manne's argumentation, the crucial dilemma was that Ericsson's owners had to accept the double role of equity markets as markets for capital procurement but also as markets for corporate control.

The globalisation challenge for Ericsson was to a lesser extent the presence and inclusion of Anglo-Saxon investors with a different institutional background, but rather to cope with domestic investment funds, which had adopted an Anglo-Saxon perspective. In view of Ericsson's alleged incapacity to master basal technical challenges resulting in volatile reactions on stock markets, these actors seized the opportunity to get their favoured mode of corporate control accepted. Lacking alternatives of corporate financing, the ownership spheres had to accept a replacement of their market-averse governance mode which was perceived as an obstacle for essential renewal. However, the initial necessity of a stable ownership structure with a long-term perspective clarifies why the emergence of a new institutional context embracing the adaptation of shareholder value principles was a long-lasting process confirming the assumption that institutional change does not appear as an abrupt 'Big Bang', but rather as a protracted and ambiguous process. Growth-inhibiting institutions may not be replaced more or less automatically by more efficient arrangements because of the 'fixed cost' aspect of the institutional configuration as well as its 'increasing returns to adoption' argument (Djelic / Quack 2002). Ericsson - as well as several other Swedish companies - was not an active, rather a reluctant institutional 're-designer', but in the end had to respond to changes in the institutional context. The case of Ericsson proves evidence for the assumption that institutional change on firm-level can be traced back to a complex interaction between company-specific trajectories and modifications in institutional settings.

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