

Mikael Aanes Warholm
Christian Wright Thomassen

‘BI Norwegian Business School – Thesis’

- The Information Value of Corporate Governance Reporting for the Financial Stakeholders -

Hand-in date:
01.09.2012

Campus:
BI Oslo

Examination code and name:
GRA 19003 – Master Thesis

Programme:
Master of Science in Business Law, Tax and Accounting

Supervisor:
Janicke L. Rasmussen

“This thesis is a part of the MSc programme at BI Norwegian Business School. The school takes no responsibility for the methods used, results found and conclusions drawn.”

Table of Contents

FOREWORD	III
ABSTRACT.....	IV
1.0 INTRODUCTION.....	1
1.1 OUR MOTIVATION FOR THE STUDY	3
1.2 PROBLEM	3
1.3 LIMITATIONS AND KEY ASSUMPTIONS	4
2.0 LITERATURE REVIEW.....	4
2.1 CORPORATE GOVERNANCE	4
2.2 CORPORATE GOVERNANCE CODES	5
2.3 AGENCY THEORY	9
2.4 INDEPENDENCE	10
2.5 NORWEGIAN CORPORATE GOVERNANCE BOARD.....	11
2.6 NATIONAL CHARACTERISTICS.....	12
2.7 HARD LAW AND SOFT LAW.....	12
2.8 COMPLY OR EXPLAIN	13
3.0 METHOD	14
3.1 DATA COLLECTION	17
3.2 QUANTITATIVE RESEARCH DESIGN.....	17
3.3 SAMPLING FOR THE SURVEY	19
3.4 QUALITATIVE RESEARCH DESIGN	20
3.5 SAMPLING FOR THE QUALITATIVE IN-DEPTH INTERVIEWS	20
4.0 DATA FROM THE SURVEY	21
4.1 FEEDBACK AND DATA CLEANSING	21
4.2 DESCRIPTIVE STATISTICS FROM THE SURVEY	22
4.3 PRESENTATION OF THE DATA FROM THE SURVEY	22
4.4 SUMMARY OF THE SURVEY	49
5.0 QUALITATIVE DATA FROM THE IN-DEPTH INTERVIEW	49
5.1 THE USE OF CORPORATE GOVERNANCE REPORTS IN THE ANALYTICAL WORK.....	49
5.2 THE PRIORITY AND IMPORTANCE OF THE DIFFERENT PARTS IN THE CORPORATE GOVERNANCE CODES	50
5.3 THE QUALITY OF THE CORPORATE GOVERNANCE REPORTS PUBLISHED BY LISTED COMPANIES.....	51
5.4 POTENTIAL IMPROVEMENT OF THE CORPORATE GOVERNANCE CODE	52
5.5 DEVIATION BETWEEN ACTUAL PRACTICE AND THE CORPORATE GOVERNANCE REPORTS....	53
5.6 ALTERNATIVE SOURCES.....	54

5.7 THE CORPORATE GOVERNANCE REPORT ABILITY OF ESTABLISHING MARKET CONFIDENCE	55
5.8 STATEMENTS FROM THE SURVEY AND THE IN-DEPTH INTERVIEW ABOUT THE EFFECT OF THE CORPORATE GOVERNANCE.....	55
5.9 INFORMATION VALUE IN RELATION TO THE FREQUENCY OF REPORTING.....	56
5.10 BUSINESS-SPECIFIC CORPORATE GOVERNANCE CODE.....	57
5.11 OTHER QUESTIONS DERIVED FROM THE SURVEY.....	57
6. 0 RESEARCH FINDINGS AND CONCLUSION	58
6.1 CRITICISM TO OWN RESEARCH	60
6.2 FUTURE RESEARCH.....	60
BIBLIOGRAPHY	61
APPENDIX.....	66
APPENDIX 1 – CORPORATE GOVERNANCE CODES.....	66
APPENDIX 2 – TOPICS IN THE NORWEGIAN CORPORATE GOVERNANCE CODE.....	69
ATTACHMENT – PRELIMINARY MASTER THESIS	70

Foreword

This thesis is a product of a desire to explore a field of common interest we as authors shared; corporate governance recommendations. The topic was a part of some of the courses we had through our Master of Science, however, the courses did not quench our thirst of going deeper into the field and explore more of unanswered questions we had to the Norwegian Corporate Governance Code. A source of inspiration was the awareness that the topic is highly relevant and actualized by financial bankruptcies and crisis occurred the last decade, and that the development of the Corporate Governance Code have not been a subject for much research. The work has been an exciting journey that has opened up a broader insight for us, nevertheless an underlying awareness that our research have its limitations.

Special thanks must be given to our supervisor, Janicke L. Rasmussen, that all along our process have encourage us, inspired us, criticized us and provided us with an academic expertise that was instrumental in shaping and guiding our work.

We also want to thank all the individuals that have contributed to our data collection, and in specific we want to thank the interviewees that were representatives for Carnegie, ABG Sunndal Collier, KLP and The Government Pension Fund of Norway.

Mikael Aanes Warholm

Christian Wright Thomassen

Abstract

This study seeks to explore the information value in corporate governance reporting in a user-perspective, and will focus on the Corporate Governance Code issued by the Norwegian Corporate Governance Board. The thesis will hopefully reveal if there are gaps in what information the end-users, represented by different types of analysts, and what is actually provided of information by the companies.

The study aims to identify if the corporate governance reporting is used, in which way it is used, if analysts use alternative sources and if the Norwegian Corporate Governance Code is sufficient in order to fulfil its purpose. The main goal of the thesis is to provide an insight, and hopefully be a tool in improving the Corporate Governance Code.

Our findings reveals that there are significant differences in the perception of the information value of the corporate governance reporting between different kind of analysts, whereas investment analysts seems somewhat sceptical to this kind of reporting and its ability to gain market confidence. And institutional investors seem more actively using the reports in their analytical work, and are more in favour of emphasising these reports in their valuations of companies.

1.0 Introduction

Corporate governance has been a discussed topic the recent years due to several financial scandals such as Enron and Worldcom. As a result of the economic setbacks in British economy in the 1970s onwards, London Stock Exchange launched the Cadbury Inquiry in 1990 (Davies 2006). The outcome of this was a set of codes of behaviour which were issued in 1992 called *The Cadbury Code* (Nordberg 2011). The Cadbury Code had a huge impact all over the world, and several reports and codes were published (Appendix 1). The following year's further codes emerged in UK like *Greenbury Report (1995)*, *Hampel Report (1998)* and *Turnbull Report (1999)*, which all lead to *Combined Code of Corporate Governance* the same year (Nordberg 2011). There were a huge amount of corporate scandals in the beginning of 2000, consequentially, several reforms were founded or revisited. The scandals have raised the need for increased transparency through reporting of corporate governance in order to improve and sustain market confidence. *The Sarbanes-Oxley Act (SOX)* came into force in July 2002 in USA (U.S. Securities and Exchange Commission 2002) and several corporate governance codes were introduced at other continents as well (Appendix 1). In UK the *Higgs Report (2003)* were incorporated in the *Combined Code of Corporate Governance* and it was widely copied around the world (Nordberg 2011).

Already in 2002 Oslo Stock Exchange issued recommendations of corporate governance reporting for all listed companies (Oslo Stoch Exchange 2002). The Corporate Governance reporting became mandatory for all listed companies in Norway from 2005 (Oslo Stock Exchange 2005). The requirement of corporate governance reporting came after a significant shift in focus on transparency for companies caused by the financial scandals like Enron etc. The issuer of the Corporate Governance Code in Norway, Norwegian Corporate Governance Board (hereby referred to as NCGB), is responsible for providing the framework that the companies build their reports on, and if the framework lack aspects that the user find relevant, it is likely that the companies will not report what the user demand. If the companies avoid reporting relevant information, this will also lead to reduced information value for the users. So this thesis will be dedicated to identify if the users of the corporate governance reports are provided with the desirable

information, and if there is some bottleneck in information availability from the issuer or the companies.

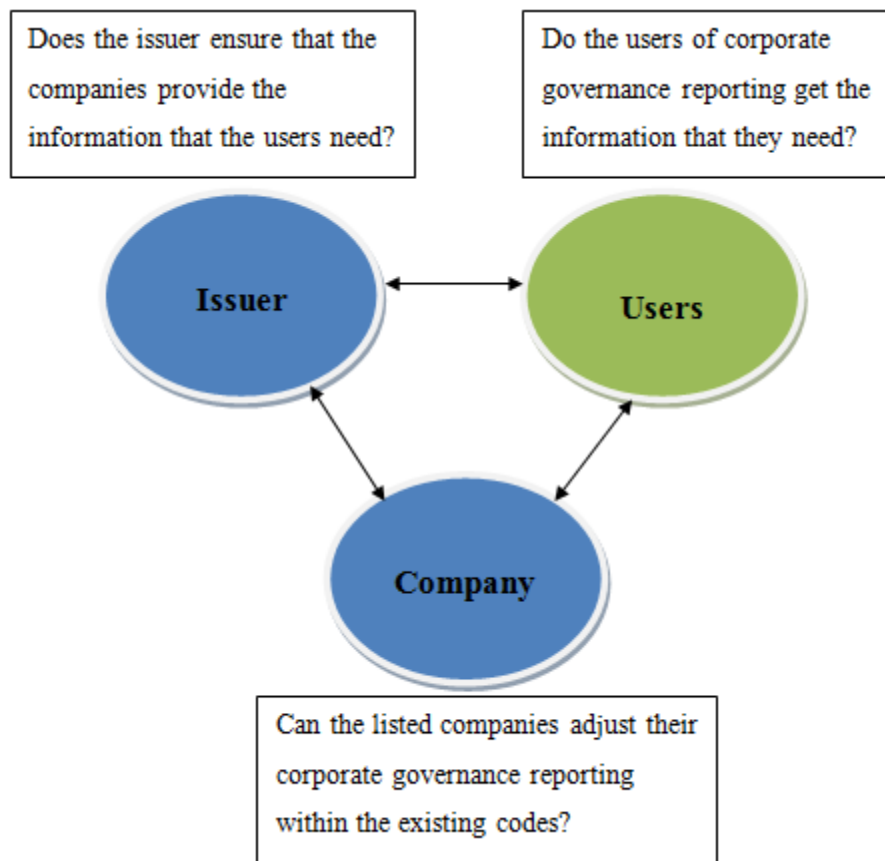


Figure 1 – Information flow of corporate governance (Source: Own model)

This thesis is relevant for companies listed on the Oslo Stock Exchange since the research aim to reveal which information in the corporate governance reporting that is important for financial stakeholders. This may enable the firms to improve the reporting of the corporate governance or the issuer to improve the Code, in order to satisfy the users demand for corporate governance information. *“An open question is whether the market is functioning enough to sanction a lower reporting quality and whether the economic benefits of detailed regulations regarding the corporate governance report will exceed the associated costs”* (Quick and Wiemann 2011, 39). It is important to reveal if the financial stakeholders, represented by analysts`, are provided with the relevant and desirable information from the companies. This may cause awareness for the companies that are publishing the corporate governance reports, which may result in increase of relevant information that the financial stakeholders find valuable. NCGB have a consultation process each year where anyone can participate and promote their views or objections. The process is characterized by committee

work with representatives from the members in NCGB (see chapter 2.5). Apart from this, they do not have any quality assurance of the Corporate Governance Code or of the reports published by the companies. The empirical research of the quality of the Corporate Governance Code is important for the issuer, in order to incrementally improve the Code. This can make a fundament for improvements in the Code in order to provide better information for the users.

1.1 Our Motivation for the Study

Our motivation for the study is to identify if there are gaps between what *is* reported and what kind of information the stakeholders actually demand in the corporate governance reports.

The development of the Corporate Governance Code has gone rapidly, and many sides of corporate governance reporting are not explored yet. Chizema suggests that as long as the codes are not put to use they present unjustified cost at both firm and country-levels considering the time and resources applied in designing them (Chizema 2011). Hence, it is important to evaluate if the end-users of the corporate governance reports find the information valuable. We are not trying to quantifying and measure the value of information provided by the corporate governance reports, but we are seeking to reveal the gaps between what is reported and what the financial stakeholders actually finds valuable.

1.2 Problem

”The information value of corporate governance reporting for the financial stakeholders”

Through this thesis we will study, analyse and determine the value of the information given in the corporate governance report published in annual reports from Norwegian listed companies. The Thesis will mainly focus on the shareholders, represented by the investment analysts, the creditor analysts – and the institutional investors. “The value of information lies solely in its ability to affect a behavior, decision, or outcome. A piece of information is considered valueless if, after receiving it, things remain unchanged.” (WebFinance Inc u.d.). By using the definition above, we consider the information value for the financial stakeholders to occur when the published corporate governance reports affect

behavior, decision or outcome. In other term contribute to improved insight for the analyst that could be utilized to increase accuracy in the analytical work.

1.3 Limitations and Key Assumptions

Our research will only cover the Norwegian Corporate Governance Code that is issued by the Norwegian Corporate Governance Board. The Code are partly harmonised with international codes but have certain national peculiarities (Norwegian Corporate Governance Board u.d.).

The thesis do not seek to *measure* or *quantify* the information value, but rather to elucidate if there are gaps in what companies publish in the corporate governance reports and what practitioners demands of information in order to perform as accurate analysis as possible.

In the research the chosen perspectives, creditor and shareholder, are covered by credit analysts and investment analysts. The assumption is that credit analysts are professionals that represent the creditors' interests, and that investment analysts are professionals that represent the shareholders' interests. The institutional investors are assumed to represent the shareholders' interests.

We use the words *codes*, *code of practice*, *recommendations* interchangeably in the thesis.

2.0 Literature Review

2.1 Corporate Governance

There are several different definitions of corporate governance. "*Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment*" (Shleifer and Vishny 1997, 737). This definition focuses on a shareholder perspective and does not take into account the stakeholders of the corporations. The definition provided by Tirole states that corporate governance concerns the design of institutions that induce or force managers to internalize the welfare of stakeholders (Tirole 2001).

This is, in contrast to the first definition, seen in a stakeholder perspective. A more holistic way of defining the corporate governance concept is provided by Cadbury:

“Corporate governance is concerned with holding the balance between economic and social goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.” (Claessens and Cadbury 2003, vii).

There are as presented above, several approaches and definitions of corporate governance. The NCGB states that “The purpose of the Code of Practice is to clarify the respective roles of shareholders, board of directors and executive officers beyond the requirements of the legislation.” (Norwegian Corporate Governance Board u.d.). This indicates that NCGB have a shareholder approach. On the other hand NCGB states that “The Code of Practice is intended to strengthen confidence in companies and to enhance the greatest possible value creation over time in the best interests of shareholders, employees and other stakeholders.” (Norwegian Corporate Governance Board u.d.), this seems somewhat ambiguous since they take into account other stakeholders as well. The most appropriate definition to use according to the research question may be the one Cadbury presented. This is because we take into account both stakeholders, represented by analysts, and shareholders that base their decisions on the analytical work.

3.2 Corporate Governance Codes

The corporate governance codes are rules, recommendations and sets of business best practices (Akkermans, et al. 2007). There exists several different definition of corporate governance *codes*, and one of the most quoted definitions is Aguilera and Cuervo-Cazurra’s; “Codes of good governance are set of ‘best practices’ recommendations regarding the behaviour and structure of the board of directors of a firm” (Aguilera and Cuervo-Cazurra 2004, 417).

The objective of corporate governance codes vary from country or scope, since the national adoptions have different laws and business structures. According to

Aguilera and Cuervo-Cazurra, the two main objectives of corporate governance codes are to improve the quality of companies' board governance and increase the accountability of companies to shareholders while maximizing shareholder or stakeholder value (Aguilera and Cuervo-Cazurra 2004). Other researchers define corporate governance codes as systems of enhance the quality and transparency of management, thereby improving company performance and restoring investors' confidence (Akkermans, et al. 2007). The focus differs between researchers, and the Norwegian Code is most in accordance with the definition by Aguilera and Cuervo-Cazurra, since the Norwegian Code is focus on maximizing the shareholder value (Norwegian Corporate Governance Board u.d.).

Corporate governance codes can be adapted to meet the international development, or be more national-oriented to satisfy the specific national corporate laws. The issuer of national codes could choose to be more accordance with the national law system and regulatory system, or to construct the codes to harmonize with international developments. Despite the differences between specific national peculiarities and the international universality, the national codes are remarkably similar (Cromme 2005). The explanation can be arguments of efficiency and legitimacy that influence national issuers to reach for harmonization (Aguilera and Cuervo-Cazurra 2004). The Norwegian Code are not considerably different from other codes, but NCGB have adjusted to national characteristics, such as female representation in the board and specific requirements in the Norwegian Corporate Law. The process where national issuers of codes imitate the corporate governance codes of other countries is called *mimetic isomorphism*, in other words; when an issuer of corporate governance codes imitates another issuer because it appears to be beneficial. This might entail institutional isomorphism, and this will lead to more similarities and internationalization of the codes (Chizema 2011). Some authors even argue that uncertainty is a powerful incentive for imitation. In particular, ambiguous goals, poorly understood technologies or symbolic uncertainty could result in countries to model the codes after other countries that consider their codes for being successful (DiMaggio and Powell 1983). This could result in codes with low quality and low adaptation to unique national features, and reducing the information value for the users of corporate governance codes. The Norwegian Code appears quite similar to other codes; however, some national peculiarities

have been added. It is not known how much of the Norwegian Code that are imitated from other issuers, but it is obvious that the NCGB have not developed the Norwegian Code solidly on its own without any influence from other issuers. The hegemony of development of the codes has been on the Anglo-American principles of corporate governance, and has not been a subject to intense competition (Chizema 2011). The main reason for the development of similar corporate governance is that globalization of financial markets and products have forced the capital markets to harmonize internationally (Chizema 2011). On the other hand, others argue that the cross-national differences *are* significant, and the codes vary greatly because they are developed to address corporate governance issues that are specific to a particular country (Lucia and Liliana 2010). The variation between countries capital markets is also emphasised as a potential reason for cross-national differences, since more sophisticated capital markets require more advanced codes recommendations (Lucia and Liliana 2010). In addition, transnational organizations such as the World Bank and OECD actively work for promoting governance by helping developing countries understand how to improve corporate governance practices (Lucia and Liliana 2010). The NCGB have not published what kind of sources they have used in their development of the Norwegian Code, but it is fair to assume that they have done some sort of benchmark or comparison with other codes or practises from other countries or institutions.

The implementation of corporate governance codes varies significantly between nations, and the quasi-legal format of the codes requires a market environment where actors, agents and principals interact and evaluate each other's' choices (Feleaga, Voicu and Feleaga 2009). The NCGB annually have a consultation process where anyone that is interested could send in suggestions, additional requests or objections. This is the only form for evaluation process the Norwegian Code faces. The challenge with introducing corporate governance codes in a country is that soft laws does not have the option to immediate sanctions on deviations such as hard law have with a functional legal system. However, if business partners consider deviations of the corporate governance codes as a reputation loss, and therefore not worthy of doing business with, the companies might find it as a market sanction (Feleaga, Voicu and Feleaga 2009). Several researchers have raised the question about the effectiveness of market sanctions,

and whether the market is functioning enough to sanction a lower reporting quality and whether the economic benefits of detailed regulations regarding the corporate governance report will exceed the associated costs (Quick and Wiemann 2011). The question about market effectiveness regarding sanctions of companies that have low quality on their corporate governance reports might be a fair question to raise in this research paper, since the literature is inconclusive regarding this question. An increasing numbers of companies have begun to view high-quality corporate governance as an importantly competitive tool (Pae and Choi 2011). Whether this is the case in Norway is unknown, and will be an appropriate question to examine, since a perception of corporate governance reporting as a competitive tool might lead to high quality reporting.

Implementation of codes has increased over time, firms tend to adopt a growing percentage of codes recommendations despite their voluntary nature, and nevertheless the decision to adapt to a code does not give an automatically guarantee of effective corporate governance (Lucia and Liliana 2010). Some researcher claims that the codes could be adopted at country-level, but the effectiveness of these codes lies in their implementation at firm-level, thus the ownership structure is a strong determinant in either the adoption or rejection of governance elements by the firm (Chizema 2011). Research findings in Germany suggests that for instants that state and bank ownership may be associated with lower levels of implementation, while the opposite is expected for institutional ownership (Chizema 2011). These findings would be an interesting approach for our research, since the Norwegian Stock Exchange are dominated by partly state owned/controlled companies, and the ownership structure might influence the quality of corporate governance reporting. In relation to implementation of codes one fair question is if the codes are used in the purpose and intention they were set up to. It might be symbolic adoption at the minimum or well-meant adoption at country level which is not matching by an equal response by individual firms especially at the implementation phase (Chizema 2011). Some researchers claim that the compliance increases with company size (Akkermans, et al. 2007), thus the level of implementation might be determined by financial resources and internal competence. In relation to the Norwegian Code the correlation between implementation of corporate governance reporting and size would suggest that implementation rate for Norwegian companies is low, since Norwegian companies that are listed are small compared to other countries. Some corporate

representatives feel that good corporate governance may outweigh the benefits since the investors do not care about corporate governance practice when determining stock prices, and this view on corporate governance recommendations as not value maximization could lead to lower levels of implementation of the codes (Cheung, et al. 2007).

2.3 Agency Theory

To be able to understand the issues addressed in the codes we will present some theories of the underlying issues. The most important one is the well-known *agency theory*. Another issue that is important in the codes are *independence* which is referred to in six of the fifteen chapters in the Norwegian Corporate Governance Code.

The agency theory is based on the interactions between one or more principals and the agent that perform a service on behalf of the principal(s). An agency cost occurs when the agent want to perform the service in a different way than the principal(s) (Jensen og Meckling 1976). There might be significant conflicts of interest which can be costly for the principal(s). This can be recognized as information asymmetry and occurs when one of the parties have more information than the other. The ideal situation will be that a contract is signed between the principal (financiers) and the agent (manager), this will specify exactly what the managers does in every possible scenario, and how the profits are allocated (Shleifer and Vishny 1997). This will though be too expensive and comprehensive to do. It is also hard to predict what is going to happen in the future because of the uncertainty in the market. Another issue that Shleifer and Vishny identifies is that the principal (financiers) get to decide what to do if something unexpected is happening in the firm (Shleifer and Vishny 1997). In practice this will not work because of missing competence and expertise of the principal. That`s the reason why they hire a manager to do the job in the first place.

In this thesis the creditors` represented by the credit analysts and the shareholders` represented by the investment analysts should be seen as the principals and the company represented by their managers should be seen as the agents. We will also take into account institutional investors which invest directly in shares at Oslo Stock Exchange on behalf of their fund investors.

An essential risk for the creditors when providing financing is the probability of bankruptcy costs. In many cases of possible bankruptcy the creditors and managers will have different risk profiles. The creditors will avoid the downside rather than the possibilities of a large upside. This might lead to different focus of corporate governance between these two different stakeholders. It may imply that the credit analysts value the information about e.g. “Risk management and internal control” in the Corporate Governance Code. This is contrary from the shareholder perspective where the benefits lie in the potential upside. The shareholders expect that the managers allocates the resources efficiently at the same time that they expect a high return on their investments. This may imply that the investment analysts value the topic e.g. “Equity and dividends” in the Corporate Governance Code.

2.4 Independence

There are several issues that are covered in the “The Code of Practice”. The most discussed topic is “Independence” which is covered in chapter 6, 7, 8, 9, 11 and 14. The most used argument for independence is that it protects the interests of the shareholders. It should also provide an outside view and different aspects around different topics and issues so that the company will perform the best for the shareholders. The major field within independence is concerned with the board structure, but it is also concerned with the nomination committee and the corporate assembly in the “Norwegian Code of Practice”. There are several empirical research findings regarding this subject area, and the results vary significantly. Rosenstein and Wyatt found that “the addition of an outside director in the board increased firm value” (Rosenstein and Wyatt 1990, 190). Garcia-Meca and Sanchez-Ballesta found that the information reported by firms was improved by the recommendation regarding board independence introduced by The Code of Best Practice (Garcia-Meca and Sanches-Ballesta 2010). Xie, Davidson and DaDalt found that earnings management was less likely to occur in companies with boards that included more independent outside directors (Xie, Davidson and DaDalt 2003). Bhagat and Bolton finds that operating performance is positively effected by greater board independence in the period 2003-2007, in this period they also finds that ROA is positively and significantly effected by independence. In the period 1998-2002 they finds that independence is negatively

related to ROA (Bhagat and Bolton 2009). This are positive effects of the independence area in corporate governance. In a research made by Chhaochharia and Grinstein in 2007 where they measured the impact of the 2002 governance rules, they found that board and committee independence had a positive impact on medium and large firms (Chhaochharia and Grinstein 2007). A finding that is closely related to this paper is the findings from Ashbaugh-Skaife, Collins and LaFond, they found that firms credit rating was positively related to overall board independence (Ashbaugh-Skaife, Collins and LaFond 2006). There are as presented in this section several arguments and research findings of positive effects of independence, but there are also some researchers that arguments for negative effects regarding independence. Bhagat and Black did not find any evidence that greater board independence led to improved firm performance (Bhagat and Black, Leeds School of Business 2000). Hermalin and Weisbach found no relation between board composition and performance with the explanation that the shareholders' interests are represented equally bad (or possible good) by inside and outside directors (Hermalin and Weisbach 1991). There are varied research results regarding independence and performance, but most of the research results suggest that independence have a positive impact.

2.5 Norwegian Corporate Governance Board

The Norwegian Corporate Governance Board was established by Oslo Stock Exchange and issued the first edition of the Norwegian Corporate Governance Codes in 2004 (Strøm 2008). NCGB is responsible for publishing the Corporate Governance Code that all listed companies at OSE are obliged to follow. The listed companies compliance with the Corporate Governance Code must be in accordance with the principles of *comply or explain*, in other terms companies can refrain from the Corporate Governance Code, but in that case they have to explain why they do not want to comply. The Corporate Governance Code is a part of Oslo Stock Exchange listing rules for equities. Listing rule number 32 states that: "Confirmation that the company complies with the Norwegian Code of Practice for Corporate Governance. If the company does not comply with the Norwegian Code of Practice for Corporate Governance in any respect, the reason for the deviation must be explained." (Oslo Stock Exchange 2012). NCGB was established by nine organizations; Norwegian Shareholders Association, Norwegian Institute of Public Accountants, Institutional Investor Forum, Finance

Norway, Norwegian Society of Financial Analysts, Confederation of Norwegian Enterprise, Norwegian Association of Private Pension Funds, Oslo Stock Exchange, Norwegian Mutual Fund Association. The board is currently led by Ingebjørg Harto, and Halvor E. Sigurdson provides secretariat services to the board (Norwegian Corporate Governance Board n.d.). The Corporate Governance Code is categorized into 15 major topics (Appendix 2), and each topic distinguishes between recommendations that are optional and the Codes of Practice that is required. The requirements are obtained with the term “should”, and where the Corporate Governance Code refers to requirements imposed by legislations, the term “must” is used.

2.6 National Characteristics

The Corporate Governance Code are adapted to the Norwegian corporate laws and other national peculiarities, hence the Corporate Governance Code are in accordance with unique features of Norwegian corporate law. The Norwegian Corporate Governance Code take into account that for companies with more than 200 employees must elect a corporate assembly with at least 12 members of which 2/3 are elected by shareholders and 1/3 are elected by the employees. The mandate for the corporate assembly is supervision, issuing options and decision-making. In companies with more than 30 employees, the employees have the right to be represented on the board of directors. When it comes to the composition of the board, there are requirements in terms of gender of its members. The chief executive of a company cannot be a member of its board of directors (Norwegian Corporate Governance Board 2010). These are distinct features with Norwegian Corporate Law that Corporate Governance Code have taken into consideration, and it is important to be aware of in any comparison with Corporate Governance Code from other countries.

2.7 Hard Law and Soft Law

“Hard law refers to legal obligations of a formally binding nature, while soft law refers to those that are not formally binding but may nonetheless lead to binding hard law.” (Shaffer and Pollack 2010, 707)

The Norwegian Corporate Governance Code is seen as a soft law document. It is not a binding law but it is based on *comply or explain* approach. However, the companies must give a comprehensive corporate governance statement according to the Norwegian Corporate Governance Code. This is followed up by Oslo Stock Exchange since the Norwegian Corporate Governance Code is implemented in their “Admission Requirements” and in their “Continuing Obligations” (Oslo Stock Exchange 2012). The company laws are seen as hard laws and are implemented in the Norwegian Laws. Skjærseth, Stokke and Wettestad finds that it is more easily to achieve ambitious norms in soft law institutions than in legally binding institutions (Skjærseth, Stokke and Wettestad 2006).

2.8 Comply or Explain

The *Norwegian Corporate Governance Codes* are as mentioned different compared to the mandatory requirement of SOX. The codes have a comply-or-explain framework where the companies listed on *Oslo Stock Exchange* have to comply with the codes or explain why they chose not to. This approach is aiming to get the companies to adopt the spirit of the codes and not only what is written in the codes (Arcot, Bruno and Faure-Grimaud 2010). Since the companies can chose to comply with the codes it is important that they explain clearly if they do not comply. If the explanation is vague the market may lose some of the confidence to what is reported, especially if the company chose to differ from the same subject in the codes several times. Since there are no formal authority that monitors what is reported, it is expected that the reporting varies a lot, hence, the explanation should also be expected to vary. Oslo Stock Exchange only monitor if the companies reporting is satisfactory but they do not monitor the quality of the reports, so the companies can manage to report with the required minimum (Oslo Stock Exchange 2012). In Oslo Stock Exchange Circular no. 2/2006 it is stated that “Company statements are expected to be particularly detailed when dealing with any areas where the company does not comply with the recommendation, and must also explain the reasons for non-compliance” (Oslo Stock Exchange 2006, 2). Oslo Stock Exchange emphasises that companies must report *detailed*, especially if they do not comply, but there are several interpretations of what is considered as detailed, hence the reporting may be of low quality.

Arcot, Bruno and Faure-Grimaud finds an increase in average compliance per principle from 76,7% in 1998 to 91,4% in 2004, which indicates that companies strives to implement the codes. They also found evidence of an average of 17% of non-explained cases in 2004 among the non-compliance issues (Arcot, Bruno and Faure-Grimaud 2010). The trend in the research period from 1998-2004 was relative constant with a small decrease. Since the compliance have increased in this period and the non-explained cases have decreased in this period, it should be expected that this have changed even more in this period where the focus on corporate governance codes have been even greater.

Kragh-Schwarz made a slightly different research to see if the comply or explain approach worked sufficiently. The sample was 24 listed companies in Denmark. The results showed that about 90% of the recommendations in the Corporate Governance Code were followed (Kragh-Schwarz 2007). This may indicate that the “comply or explain” approach is working even if this does not take into account which codes that are not followed. When it comes to the quality of what is reported, Ernst & Young Norway publishes an annual report where they measure the quality of the reporting of every listed company on Oslo Stock Exchange and also some other unlisted companies that follows the codes. This is a subjective measure and operationalized with a range from 1-6, where six is the best grade. The companies’ have a score of 3.2 on average in 2011 which is an increase from the 2010 grade of 3.1 (Earnst & Young 2011). This indicates that some companies are reporting satisfactory but that there are a substantial potential for improvement.

3.0 Method

Within the corporate governance recommendations it is possible to focus on different parts of the information chain, such as the *issued codes*, *company’s corporate governance reports* or *user-perspective*. This thesis will mainly focus on the user-perspective, and the practitioners’ perception of the corporate governance reports. The thesis aims to reveal the users perception of the information value based on their expertise gained from the use of corporate governance reports in their daily work. By gathering data from the users of corporate governance reports, we expect to get the most correct and unbiased data, since the users have incentives to answer the questions honestly, because they are

dependent of exact and accurate information. This might not be the case for the companies, since it is possible that they do not have incentives of requiring more comprehensive corporate governance reporting, because it might potentially lead to more additional work.

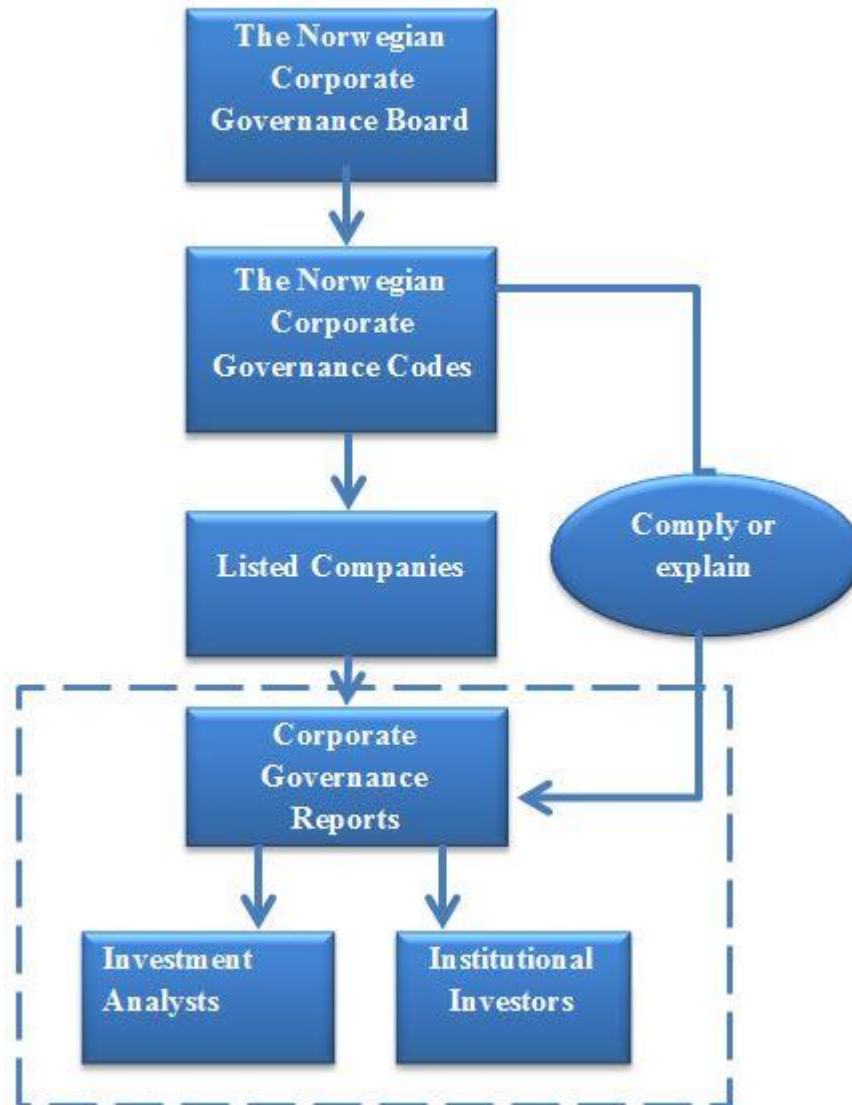


Figure 2 - The research design

In order to answer the research question it is necessary to use scientifically accepted methods. Through the literature search it became clear that the evaluation of corporate governance codes had few research findings. Thus, there are no “a priori” opinions or pre-hypothesis that is possible to draw from existing literature. It will consequentially be appropriate to use an explorative research design. The research design will be based on *mixed methods designs*, which involves collecting data to both quantitative and qualitative methods (Creswell 2005). The methods that will be used are:

1. Quantitative research method - Survey
2. Qualitative research method – In-depth interviews

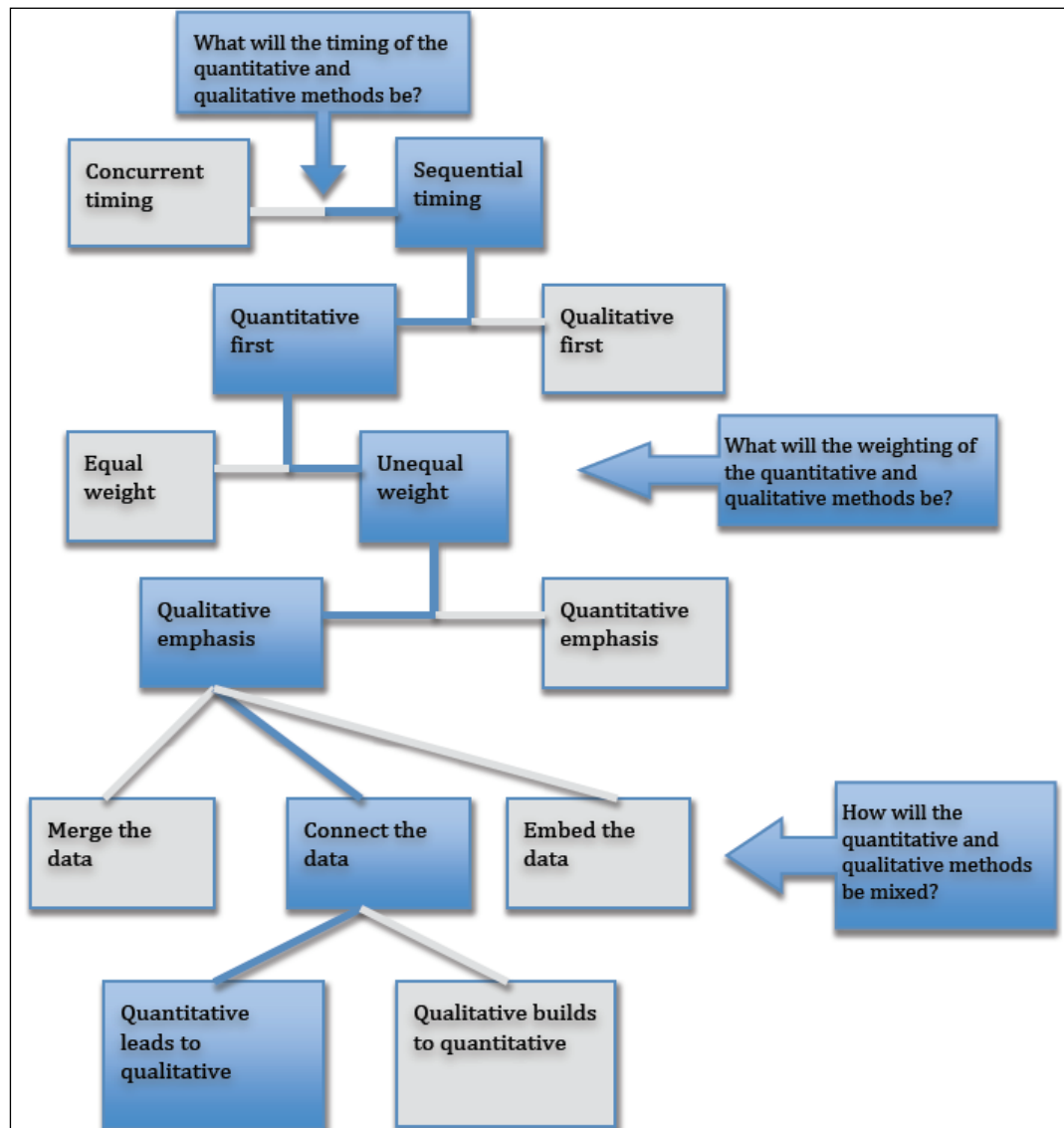


Figure 3 - Decision tree for mixed methods design criteria for timing, weighting, and mixing.
 Source: Based on (Creswell and Plano Clark 2007, 80).

The different methods will be completed sequential in order to gain insight through the survey before we go in depth of the research question. The quantitative method will be essential to build a broader understanding of the topic, and it will be used as a fundament in producing the interview guide, and narrowing the research problem. The purpose of the survey would be to collect data to be able to understand the scope of the topic from an analyst perspective. The survey would give input and an overview that would be crucial to create an interview guide that would contribute to answer the research question. This kind

of approach with mixed methods is defined as *explanatory design analysis* (J. W. Creswell 2005). The thesis will emphasise the qualitative research method since the purpose is to reveal the information value of corporate governance reporting in Norway in a user-perspective, which is a relatively unexplored topic.

3.1 Data Collection

The collection of data was conducted sequentially and in both cases it is first hand data. Both the survey and the in-depth interviews were based on the samples from pre-chosen financial institutions. This gave opportunities to distinguish perspectives in separately populations enabling us to investigate if there were significant differences in perception of the information value in the corporate governance reporting between the financial stakeholders. In the in-depth interviews we examined if there was differences in the stakeholder perspectives by interviewing two investment analysts and two institutional investors.

3.2 Quantitative Research Design

To get a better understanding of the underlying practitioners' perception of information value of corporate governance reporting, it is necessary to use a survey to extract descriptive statistics and statements from the financial stakeholders' perspectives. This will be used to identify the relevant aspects of the corporate governance reporting for financial stakeholders before we go deeper into the subject by in-depth interviews. In the survey, the respondents will be asked if the information provided by the corporate governance reports is valuable in their analytical work. It is necessary to reveal which parts of the corporate governance codes that have valuable information for the users. In cases where the respondent claim low information value, they receive an open follow-up question *why* they consider the information value to be low. The purpose of the survey would not be to generate any hypothesis or to statistically generalize. It will only be used to gather information to elucidate analysts' opinions about the information value of the Corporate Governance Code. The survey was design to capture the view of the analysts about the information value the different chapters represents for their analysis of listed companies. The survey started to identify some background info about the respondent, such as: gender, age, company, years

of education and analytical perspective. The reason for these questions is that the dataset should contain dummy variables so it is possible to statistically check for patterns related to the response in relations to the dummy variables. In order to systematically go through the codes issued by NCGB, the questions was operationalized by the chronological chapters the codes are presented in, and mandatory questions about the addressed chapter/topic and if the analyst consider the information valuable for his/her analysis (YES or NO). The start of the question was a short introduction to the contents in the codes to make sure the respondents knew what the information should be about in the corporate governance reports to listed companies. In case of YES, the respondent got a following up-question about if the information is sufficient for the analysis operationalized in a *Likert scale*. The next questions was if the respondent use other sources of information to analyse the same topic that the chapter is addressing, and this was an open question where the respondent had to type in a qualitative answer. In case of the respondent replaying NO in the question about if the chapter/topic is valuable in the analysis; the following question was *why* the analyst considers the information as irrelevant for the analysis. This was operationalized as an open question where the respondent had to type in a qualitative answer. This structure was performed throughout the fifteen different chapters/topics in the corporate governance code. The assumption in the survey design is that the structure should contribute to get a better understanding of the analysts' perception of the information value in different chapters of the Corporate Governance Code, and to use the findings to develop an interview guide.

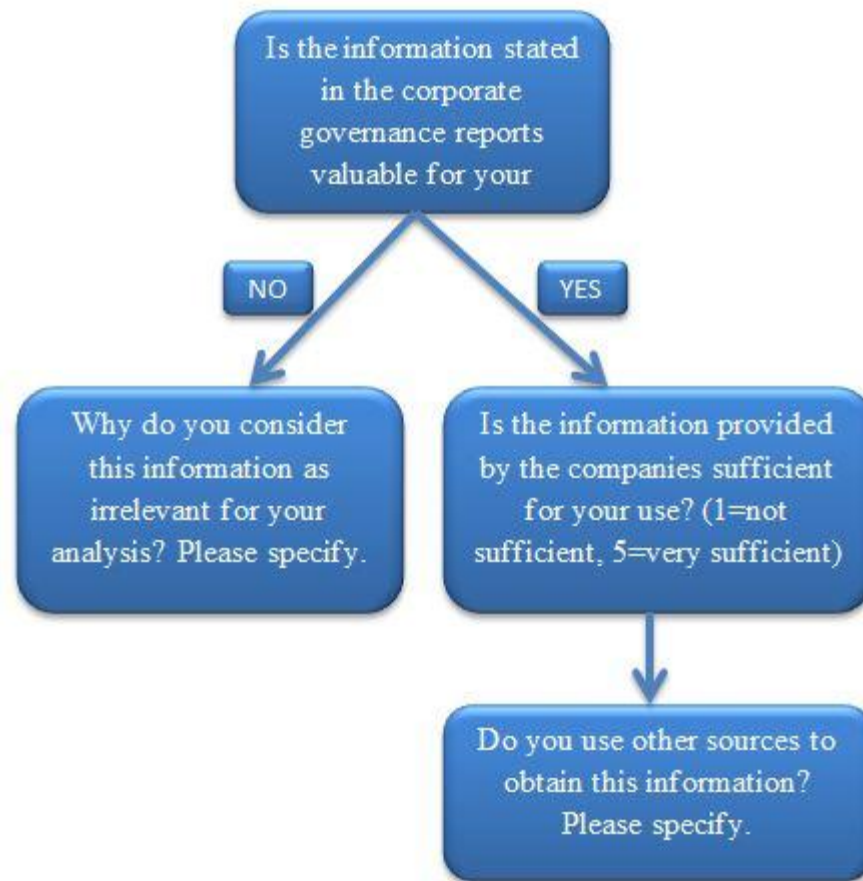


Figure 4 - Design of the question structure in the survey asked for each chapter

3.3 Sampling for the Survey

The survey was based on *nonprobability sampling* because the respondents had a desirable characteristics that we seek to study (J. W. Creswell 2005). The approach will be *purposive sampling*, meaning that the sample is recruited based on the assumption that the respondents have the expertise in the area that we study. To reach the desirable respondents for the study; we have gathered names of analysts' that follows listed companies on Oslo Stock Exchange. The contact information has been gathered from the listed companies' webpage where the companies publish the analyst coverage. This practice by publishing lists of *covering analysts* by listed companies made potential respondents accessible with email-addresses. The sample was stratified into two populations; *credit analysts* and *investment analysts*. To ensure that we recruited analysts with expertise on the Norwegian Corporate Governance Codes all Non-Norwegian analysts was excluded from the sample. The distribution of the survey was done with an online survey-provider (questback.no) where the survey was built in their online system and distributed to the sample with adding email-addresses into the online survey.

The survey was first sent out to the whole sample, and had two reminders sent out successively with a week's delay to all participants in the survey sample. The survey was conducted anonymously and the participants were guaranteed a scientifically ethical use of the data provided.

3.4 Qualitative Research Design

Based on the information gathered in the survey we used a semi-structured in-depth interview with practitioners to get a better understanding of, and to be able to answer, the research question. We are aiming to elucidate the value of the information for the financial stakeholders, and not to measure the value and the variables of the governance reporting. Based on the existing literature on the topic there are no conclusive hypothesis that are possible to use in a quantitative research design. Thus, qualitative methods will be helpful to achieve insight on the corporate governance reporting.

3.5 Sampling for the Qualitative In-Depth Interviews

The *population* in the qualitative study was users of the corporate governance reporting and the *target population* was the users within the selected firms. The *sample* was the participants in the in-depth interviews recruited based on purposive sampling, and the characteristic of the respondents were that they worked as senior advisors for their analysts departments in their respective companies (J. W. Creswell 2005). They are expected to have the expertise within the use of corporate governance reporting in analytical work. The two investment analysts and institutional investors are targeted from Carnegie, ABG Sundal Collier, KLP and Government Pension Fund of Norway.

Carnegie is an investment bank which is stationed in Stockholm. It has two subsidiaries; Carnegie ASA and Carnegie Kapitalforvaltning AS that operates in Norway with own license (Carnegie Holding AB 2011). The important area for the thesis is the analytical area which follows about 300 Nordic companies, this range to about 95% of the market value on the Nordic market (Carnegie 2012).

Kommunal Landspensjonskasse, or KLP, is Norway's largest life insurance company. It is an institutional entity owned by municipalities and counties, health authorities and companies. The entire group has total assets of 315 billion Norwegian kroner. KLP has two whole owned subsidiaries that make this company interesting for our research; KLP Fondsforvaltning AS and KLP Kapitalforvaltning AS. These two work closely together with investment management (KLP 2012).

Government Pension Fund of Norway is an institutional entity. It manages both the State Pension Fund Norway and the State Bond Fund in Norway. They have a target of 80-90 percent of the share portfolio and the fixed income portfolio invested in Norway while the rest should be invested in Denmark, Finland and Sweden (Government Pension Fund of Norway 2012). They have an invested market value of 73 570 000 000 in Norway which is divided on several companies in different sectors.

ABG Sundal Collier is a Nordic investment bank listed on Oslo Stock Exchange. They earn 48% of their revenue in Norway. The whole revenue is derived from two entities; corporate finance with 45% and brokerage services 55%. The market value of ABG Sundal Collier retrieved from Oslo Stock Exchange is per 11.07.2012, about 1493 million Norwegian kroner (ABG Sundal Collier 2011).

4.0 Data from the Survey

4.1 Feedback and Data Cleansing

The survey gave the respondents the option to reject the survey with withdrawal from further reminders. Four participants used this option and rejected the survey without stating any reason for this. 18 of the participants that were emailed generated a default auto replay with notice about ended employment. One respondent wrote in the comment field that he/she had answered systematically things that did not represent his/her real opinion in order to sabotage our dataset, and therefore we had to exclude this response from the dataset in order to ensure consistency and reliability. We also received email from one participant that notified that he found the survey being too comprehensive and time-consuming, and suggested a shorter survey in order to increase the response rate.

4.2 Descriptive Statistics from the Survey

As *table 1* show, the total number in the sample is 183 persons. The respondent rate was 7.7% which might be expected with this type of data collection.

Descriptive statistics	
N	183
n	14
Reply percentage	7,7 %
Credit perspective	2
shareholder perspective	12
Male respondents	13
Female respondents	1

Table 1 – Descriptive statistics

Reasons for low response rate might be following; the participants did not have time, thought that it was too time-consuming, the survey was filtered out as spam, instructions not to answer from their employer, not willing to use time on non-profit activities or just lack of competence on the topic.

4.3 Presentation of the Data from the Survey

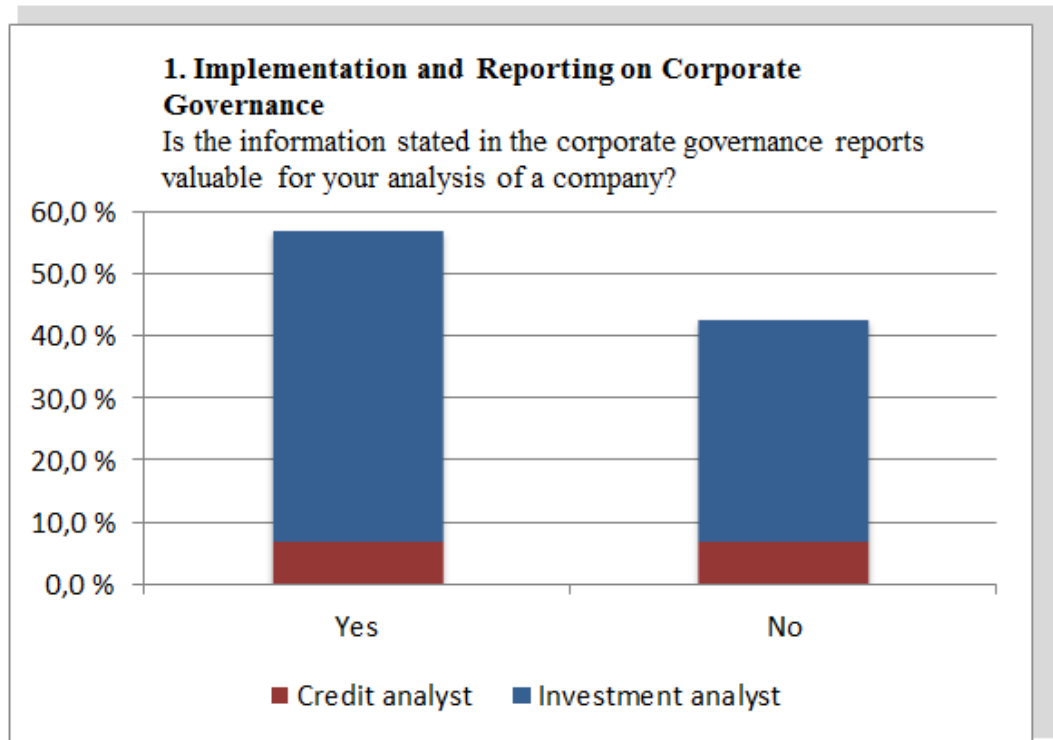
In this part we will present the results of the survey and the comments that are connected to each of the topics in The Corporate Governance Code. The survey is crucial to capture potential gaps between the information value of what is provided through the corporate governance reports and what the users' demand of valuable information. It is appropriate to follow The Norwegian Codes' structure, since some parts could have high degree of information value and others have low degree of information value. To go through each chapter of the Codes will give a necessary insight of the user's perception of The Corporate Governance Code's *information value, the use of the information and alternative sources*. The gathered data will be essential in understanding underlying issues, and will be useful in creating an accurate interview guide for the qualitative research.

4.3.1 Chapter 1: Implementation and Reporting on Corporate Governance

This chapter concerns the fact that the boards *must* ensure that the companies' implements sound corporate governance and that they *must* provide a corporate governance report. The board *should* also define the company's basic corporate

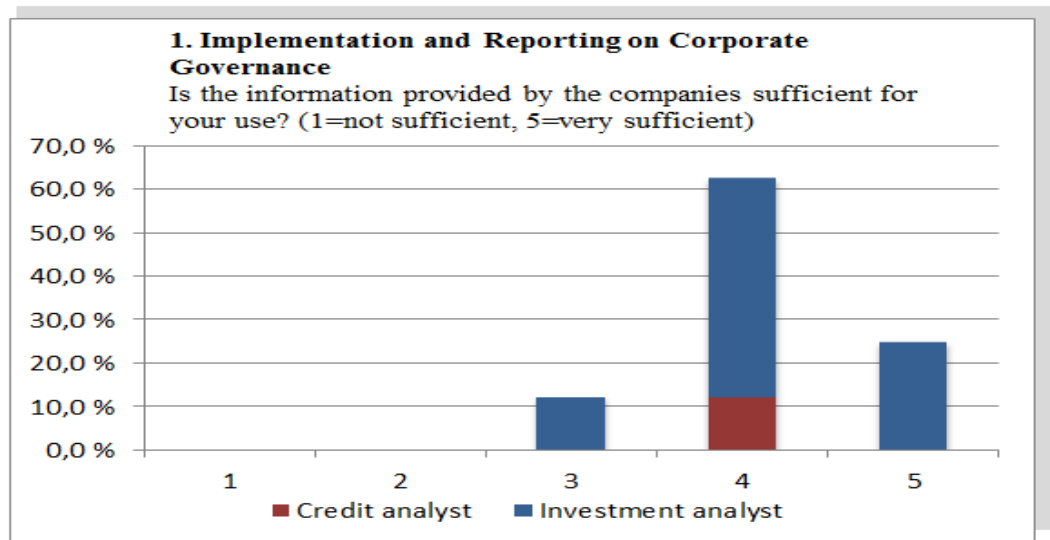
values, ethical guidelines and guidelines for corporate social responsibility (Norwegian Corporate Governance Board 2010).

The results from the survey indicate that the majority (57.1%) of the investment analysts find this information valuable while the credit analysts are divided in their opinion.



Graph 1 - Implementation and reporting on corporate governance

The respondents that found this information valuable have found this information relatively sufficient for their analysis work. This shows that what is reported actually is important for many of the stakeholders, but over 40% of the respondents did not find the information useful.



Graph 2 - Implementation and reporting on corporate governance

The comments that were submitted in relation to this were; “Because what’s standing there is not regarded as reliable for me. A company with really bad corporate governance may present the corporate governance/corporate culture in great terms in the annual report even if that is not the case. The companies that describe themselves as the best may probably just as well be the worst”.

“The value of the reporting varies from case to case but that it is seldom vital for the analysis.”

Another respondent says that he/she assumes that the reporting is there and that it is okay so he/she does not take the time to check.

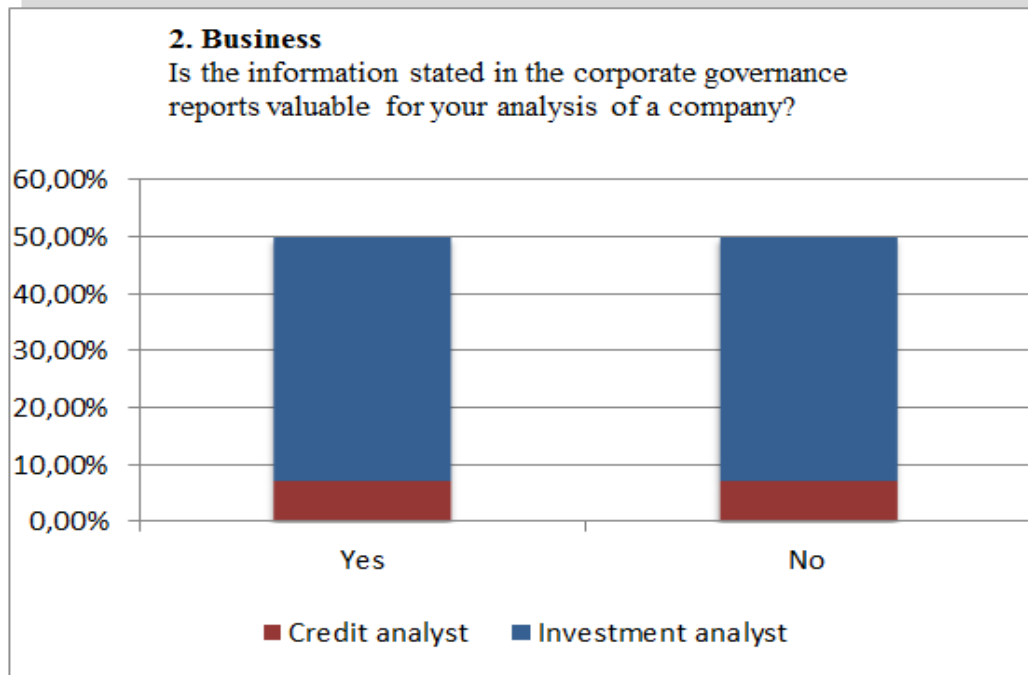
The comments provided on this chapter by the respondents indicates that the reports that the listed companies issues are not reliable. It also indicates that what is reported and what the companies actually do in fact do not match in all cases.

To the question whether the respondents used other sources to obtain the same information, the respondents answered that they used *meetings with management and board, other stakeholders and investor relations*.

4.3.2 Chapter 2: Business

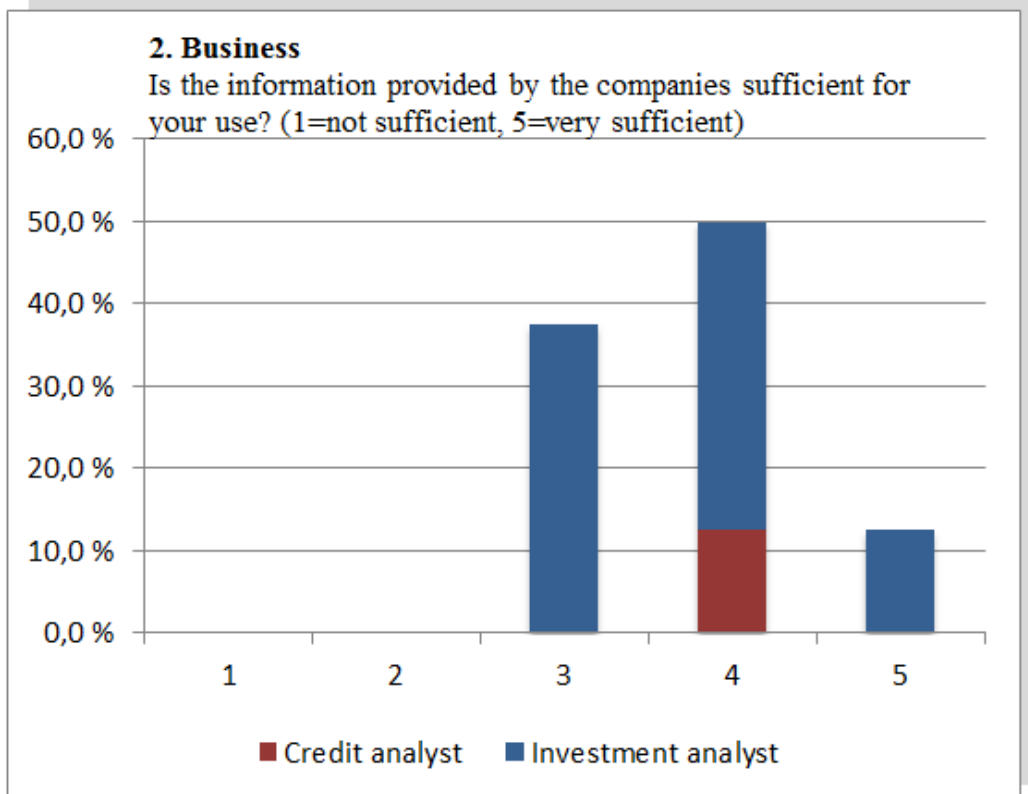
The next chapter concerns the business and that it should be clearly defined and that the company should have clear objectives and strategy within this definition in its articles of association. This should also be implemented in the annual report (Norwegian Corporate Governance Board 2010).

.



Graph 3 - Business

Compared to the first chapter, this one has an equal weight on the answer if the governance reports are valuable for their analysis. The weight on the sufficiency for the participants answering “yes” replies that the information is relatively sufficient indicates that the information is valuable.

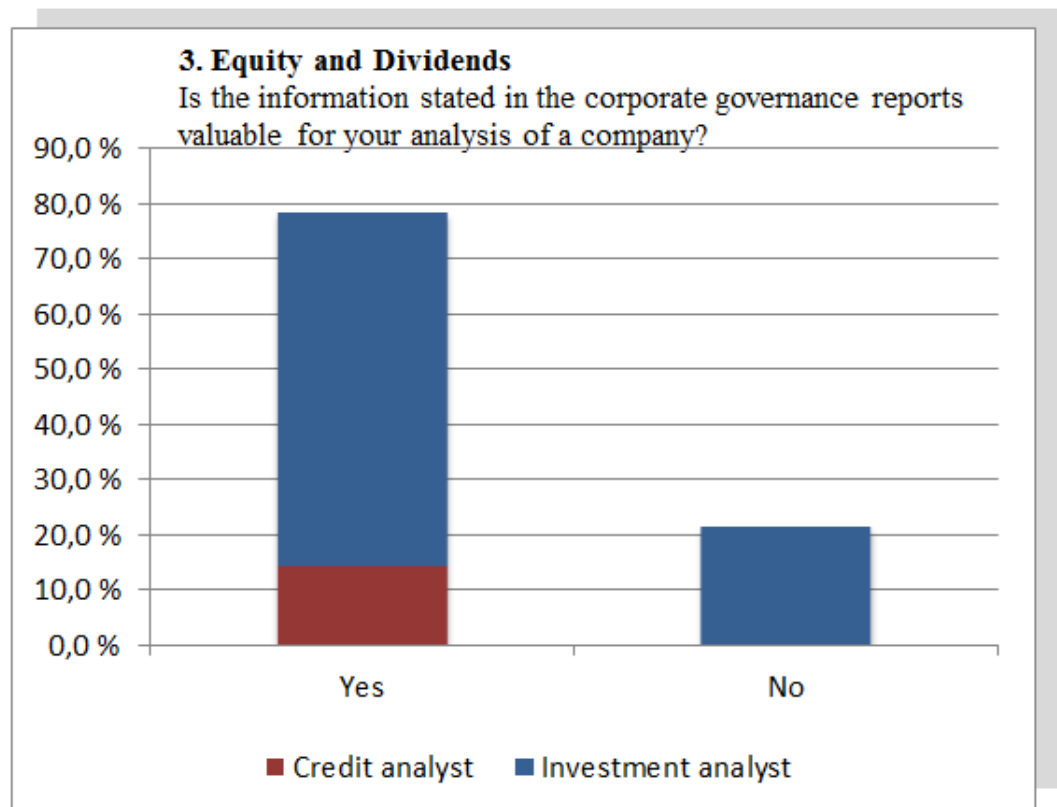


Graph 4 - Business

The respondents did also answer that they found the information in other sources, such as *company management*, *company presentations*, *quarterly presentations* and *other unnamed sources*. These submissions indicate that the information is also easily accessible through other sources. One respondent answered that he/she knew the business by definition, indicating that this information is not that valuable for analysts.

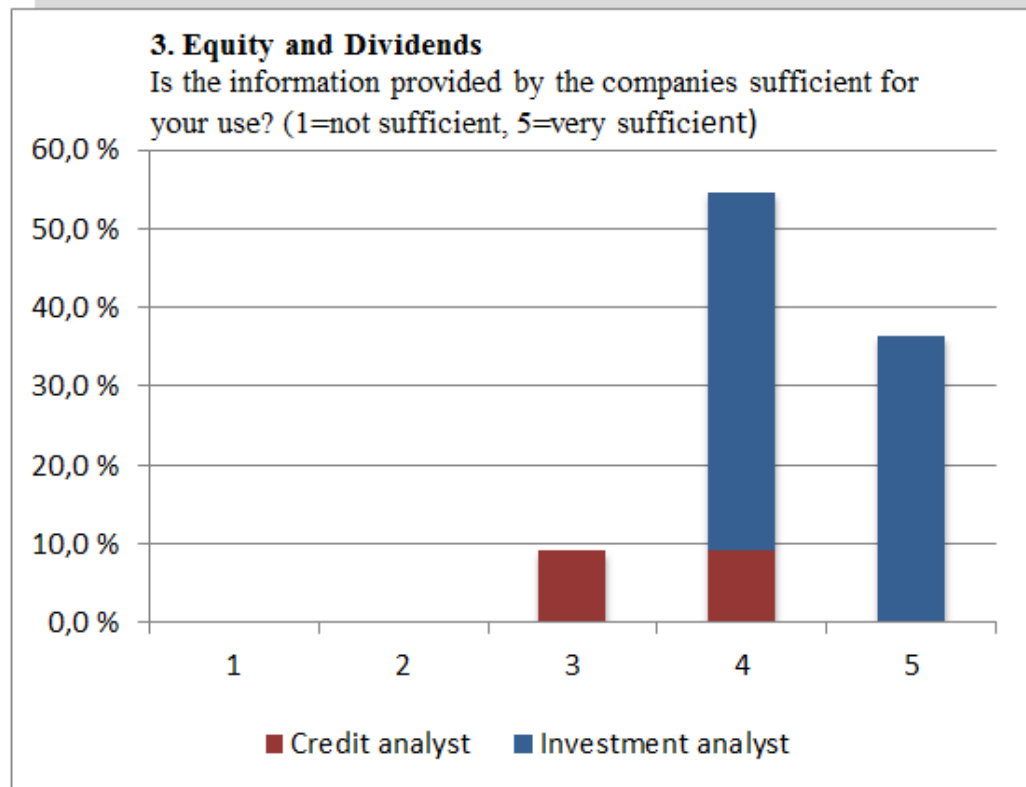
4.3.3 Chapter 3: Equity and Dividends

This chapter concerns the equity and dividend policy. The company should have an equity capital at a level appropriate to its objective while the dividend policy should be clear and predictable (Norwegian Corporate Governance Board 2010). This chapter was expected to have information that was valuable for credit analysts and the result of almost 80% finding this valuable indicates this. Both the credit analysts did also find this valuable.



Graph 5 - Equity and dividends

The next question also indicates that the information is sufficient for their use, with over 50% answering 4 and about 35% answered 5 on the scale.

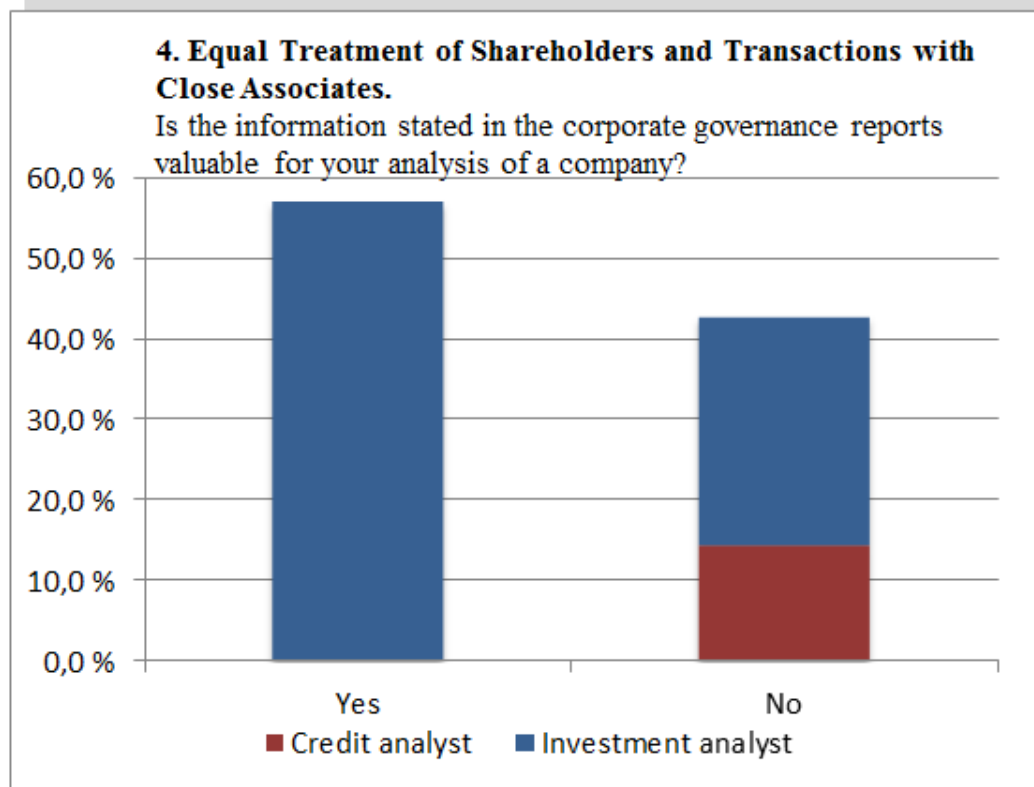


Graph 6 - Equity and dividends

Other sources that were used by the respondents were *company management, quarterly reports, capital markets day material, banks and annual report*. These results indicate as mentioned that the information provided is very useful for analysts but that there are several other reports and sources that are used to get this information.

4.3.4 Chapter 4: Equal Treatment of Shareholders and Transactions with Close Associates

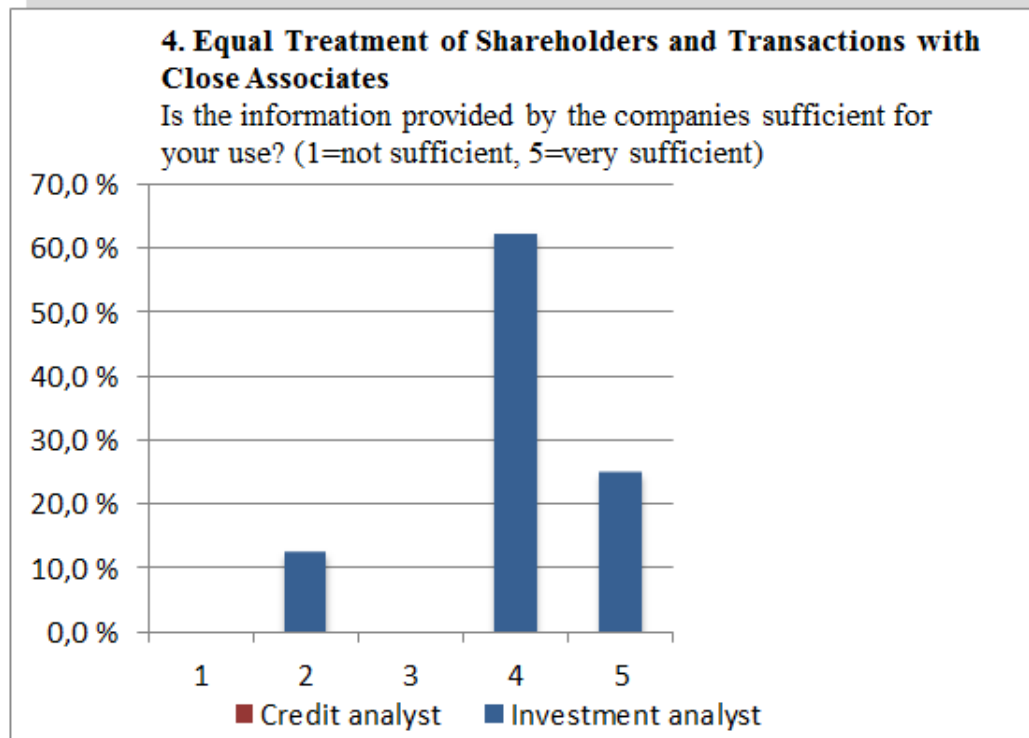
This chapter of the Corporate Governance Codes recommends that the company only have one class of shares, that the pre-emption rights must be protected in case of an increase of share capital. The increase in share capital *must* be justified and announced through the stock exchange. All transactions between the company and close associates should be valued by an independent party (Norwegian Corporate Governance Board 2010).



Graph 7 - Equal treatment of shareholders and transactions with close associates

The results indicate that the information is valuable for the majority of the investment analyst while both the credit analysts find the information irrelevant. Most of the analysts find the information provided by the reporting relative sufficient. Over 60% have answered four and about 25% have answered five, while slightly over 10% have answered two.

Other sources that are used to get this information based on the open question are *company management*, *news releases* and *interim reports*. A more interesting result is the answers on the open question on why the information is irrelevant. One of the answers was: "I do not consider this information as irrelevant. I would rather say that the information in the CGR is not comprehensive enough in this regard". This indicates that the information that the companies report is not good enough to satisfy the need for information. Other answers that were submitted through the survey were; *this is minimum requirement* and *that the actions speak louder than words*. This indicates that the information provided by the company does not always match with the reality or that the information is too vague and general.



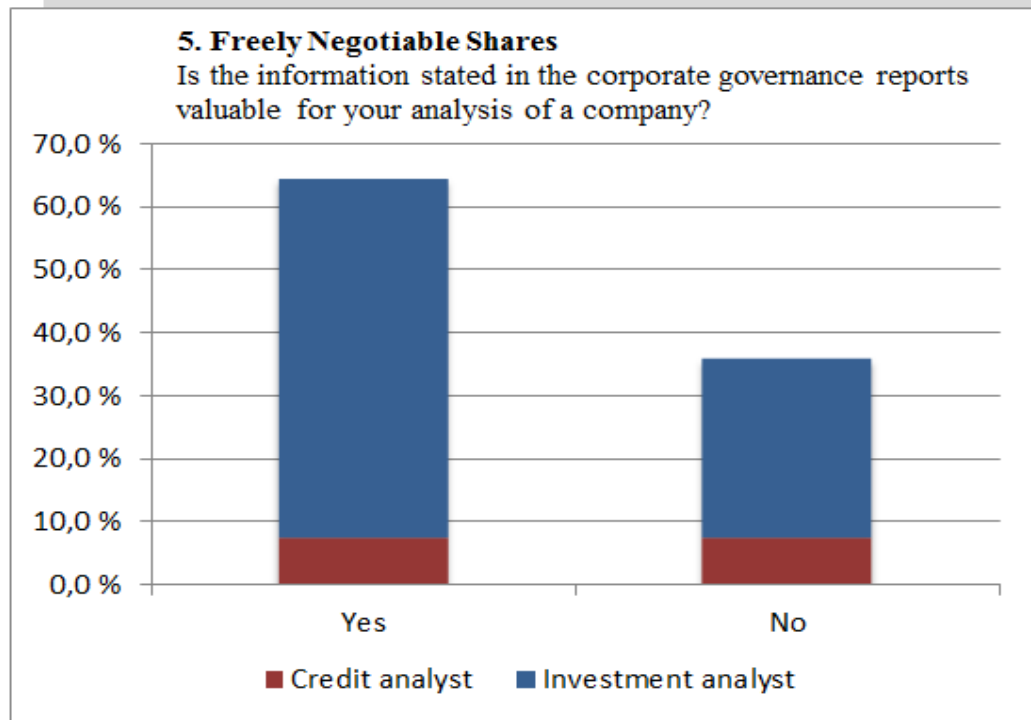
Graph 8 - Equal treatment of shareholders and transactions with close associates

4.3.5 Chapter 5: Freely Negotiable Shares

The company's shares must, in principle, be freely negotiable.

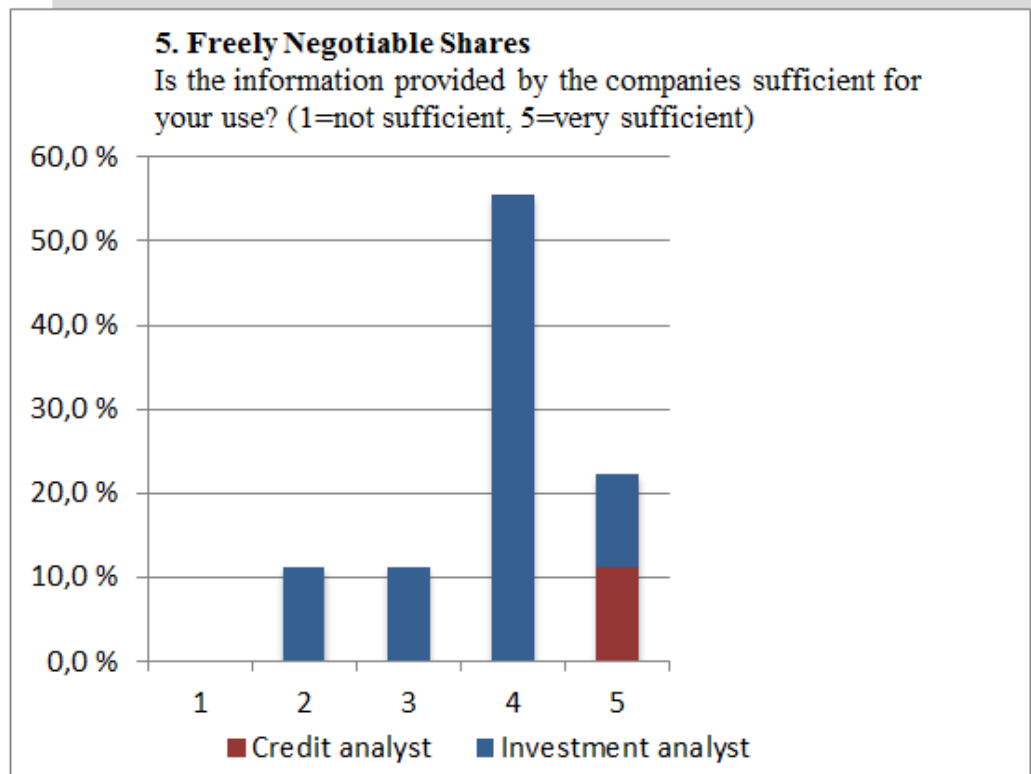
Therefore, no form of restriction on negotiability should be included

in a company's articles of association (Norwegian Corporate Governance Board 2010). This seems to be very important for most of the respondents with a rate of almost 65%.



Graph 9 - Freely negotiable shares

The respondents find this information relatively sufficient with a response rate on about 65% on the fourth alternative and over 20% on the fifth alternative.

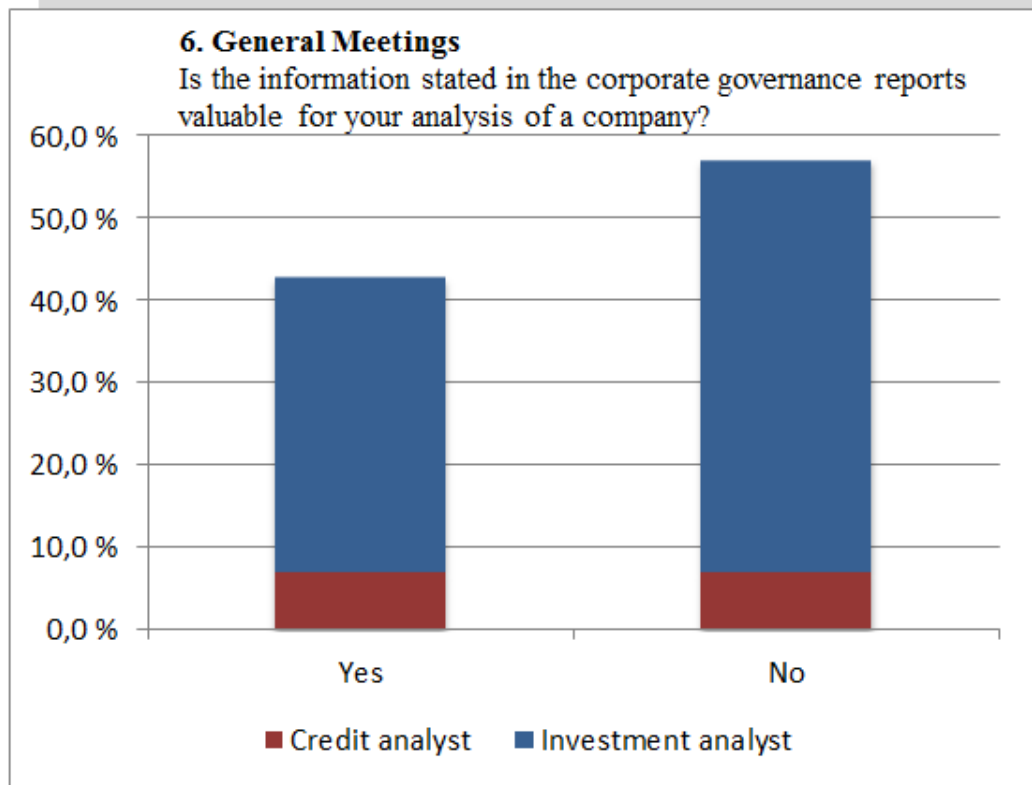


Graph 10 - Freely negotiable shares

Some of the respondents did also use other sources to get the same information, like the *annual report* and *the company management*. One of the respondents answered that “*listed shares are by definition freely negotiable*”, which is in a way true for most of the shares, but the listed companies may differ from the requirement about freely negotiable shares by having restriction in the articles of association. The legal title for these deviations follows from the Norwegian Corporate Laws, cf. asal § 4-16 (Lovdata n.d.).

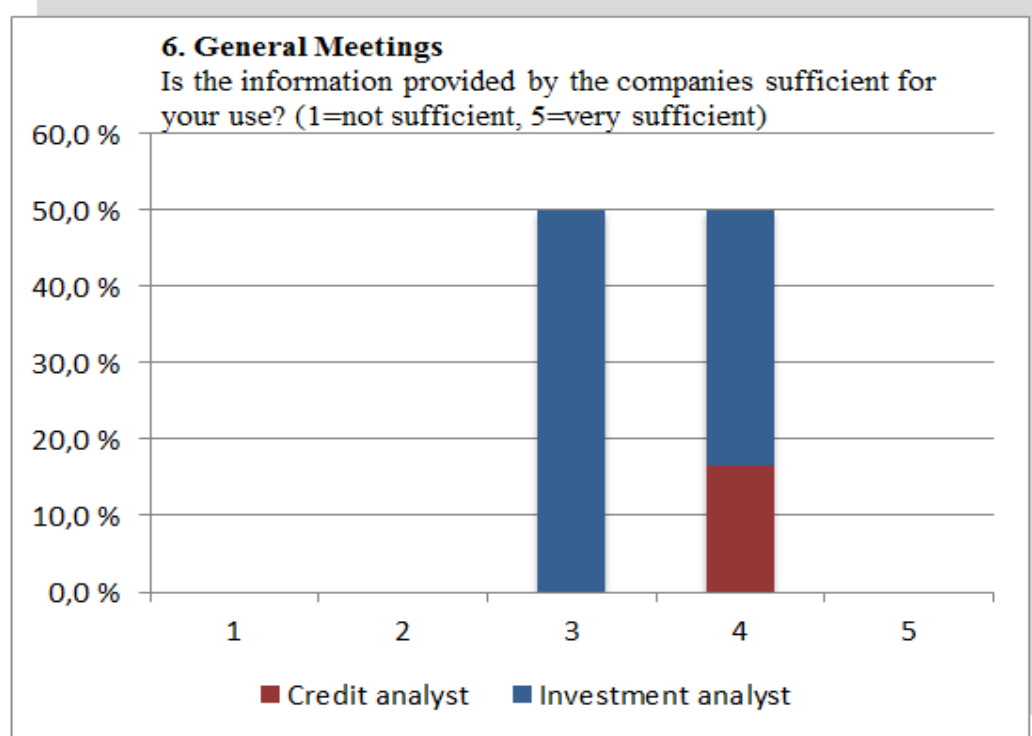
4.3.6 Chapter 6: General Meetings

The board of directors should take steps to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the company. Shareholders who cannot attend the meeting in person should be given the opportunity to vote (Norwegian Corporate Governance Board 2010). This is the most important from chapter six in the Corporate Governance Codes. The majority of the analysts, with a percentage of almost 60%, have answered that this information is not valuable for their analysis work. The answer on the question why the information is irrelevant was that “*it does not impact the valuation of a company*” and that “*it is usually not a focus when doing a credit analysis of a company*”. Other answers that were posted was that “*it is mandatory anyway*” and “*that the annual general meeting is protected by shareholder rights and the company have to issue a separate invitation to all the shareholders.*” This is of course right and regulated by the law, but there are many adaptations the company can do to ensure that most of the shareholders may participate on the general meetings to have their opinions represented in different cases.



Graph 11 - General meetings

The measure of sufficiency of the information for the analysts is divided equally on three and four with 50% on each. This indicates that it is relative sufficient for the respondents

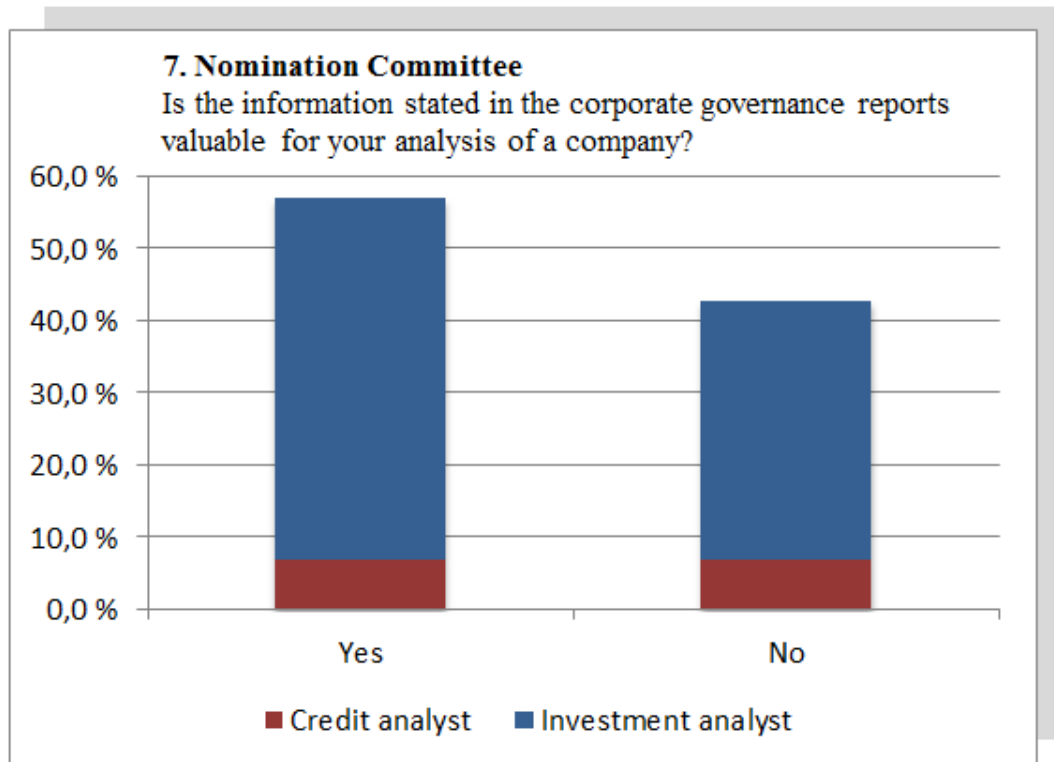


Graph 12 - General meetings

4.3.7 Chapter 7: Nomination Committee

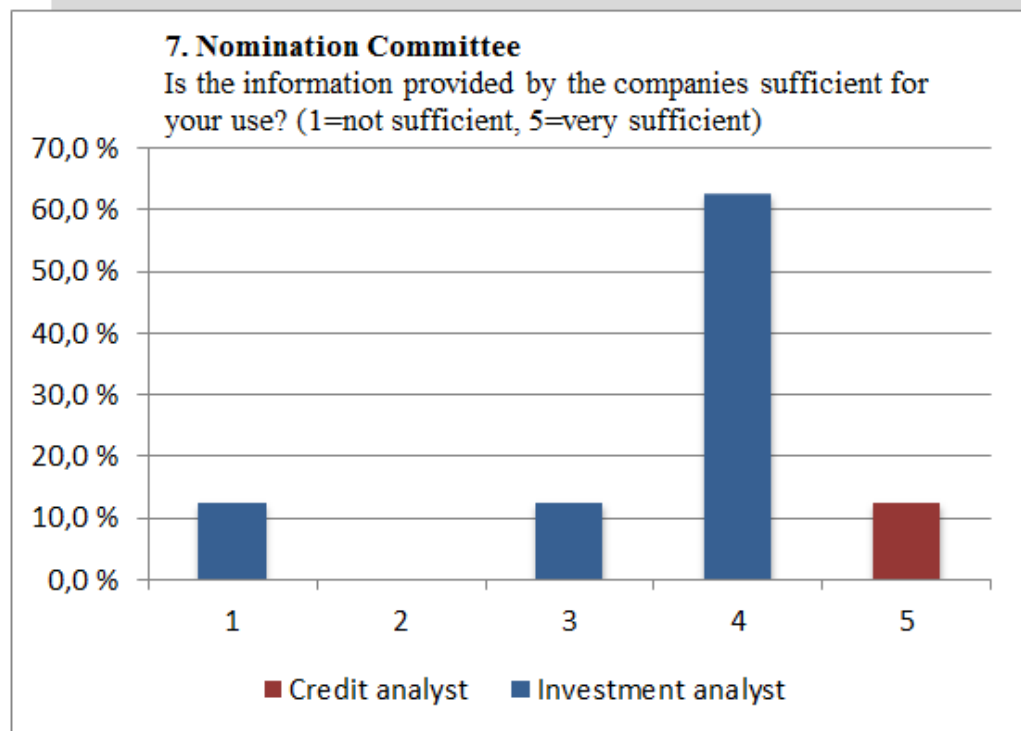
NCGB recommends that the company should have a nomination committee and that the general meeting should stipulate guidelines for the duties of the nomination committee. The majority of the committee should be independent of the board of directors and executive personnel. The nomination committee should not include the company's chief executive or any other executive personnel (Norwegian Corporate Governance Board 2010).

The majority of the respondents find this valuable for their analysis of a company.



Graph 13 - Nomination committee

The information seems to be relative sufficient for the respondents that found it valuable with over 60% on value four.



Graph 14 - Nomination committee

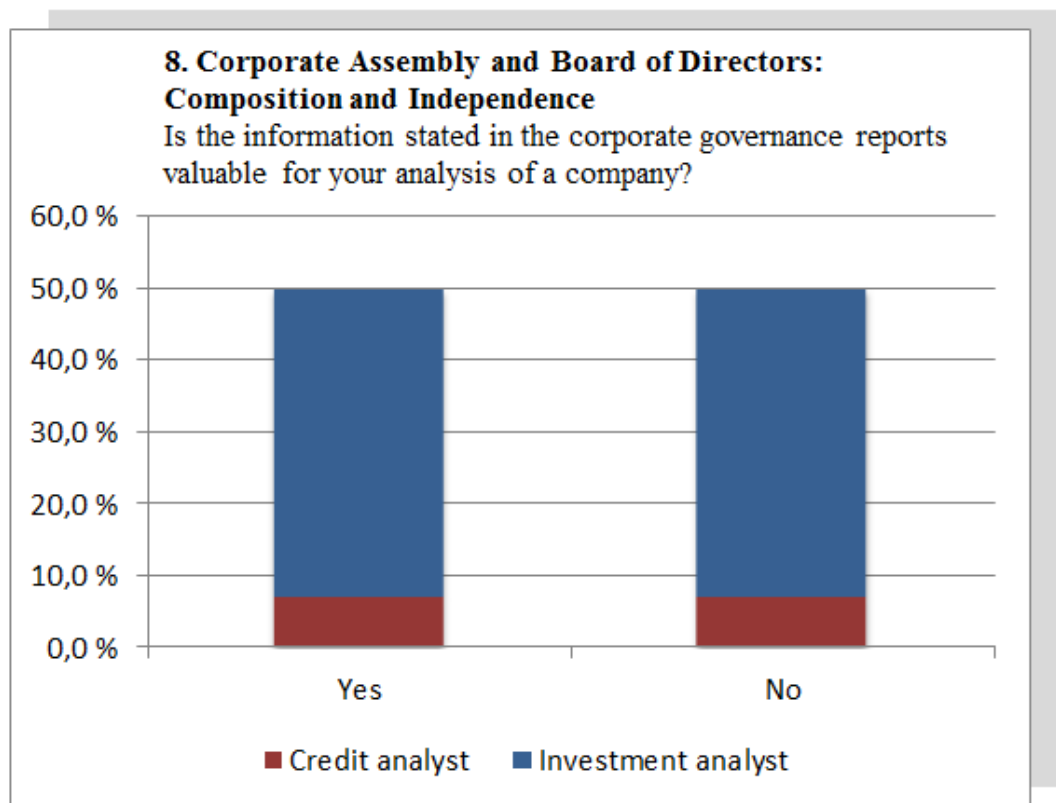
The respondents that did not find the information valuable have answered that “*they assume sound practice in this case and as long as the company follow general practice on this matter, this does not need to be stated in the information*”. This means that some of the respondents that did not find the actual written information that companies provide may find it valuable that the company have a nomination committee.

4.3.8 Chapter 8: Corporate Assembly and Board of Directors: Composition and Independence

The composition of the corporate assembly should be determined with a view to ensuring that it represents a broad cross-section of the company’s shareholders. The composition of the board of directors should ensure that the board can attend to common interests of all shareholders and meets the company’s need for expertise, capacity and diversity. That it can operate independently of any special interest. The majority of the shareholder-elected members of the board should be independent of the company’s executive personnel and business conducts. The board of directors should not include executive personnel. The annual report should provide information about the independency of the members of the board of directors. The term of office for members of the board of directors should not

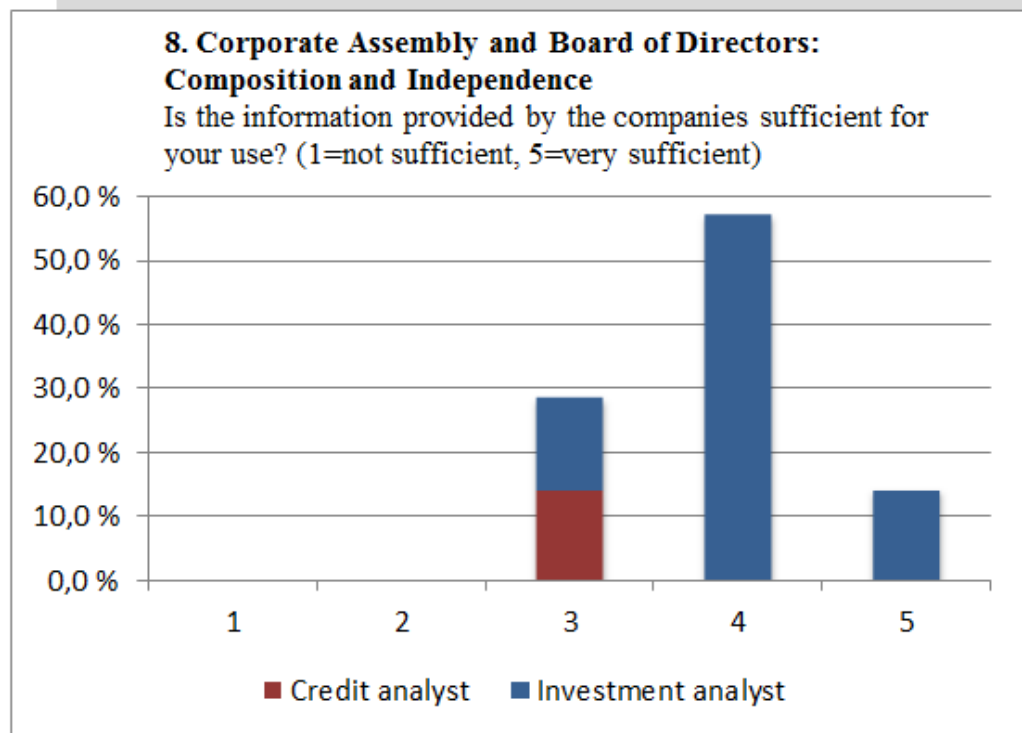
be longer than two years at a time. The annual report should provide information to illustrate the expertise of the members of the board of directors, and information on their record of attendance at board meetings. Members of the board of directors should be encouraged to own shares in the company (Norwegian Corporate Governance Board 2010).

This section has many recommendations concerning the corporate assembly, which is one of the unique features corporate structures in Norway, and the board of directors. The independence is one of the most important and maybe also the most discussed issue in this section. The respondents are divided equally whether this information is valuable or not.



Graph 15 - Corporate assembly and board of directors: composition and independence

The importance of the information for those that found it valuable seems to be on the upper end of the scale. The majority has answered *four* on the scale.



Graph 16 - Corporate assembly and board of directors: composition and independence

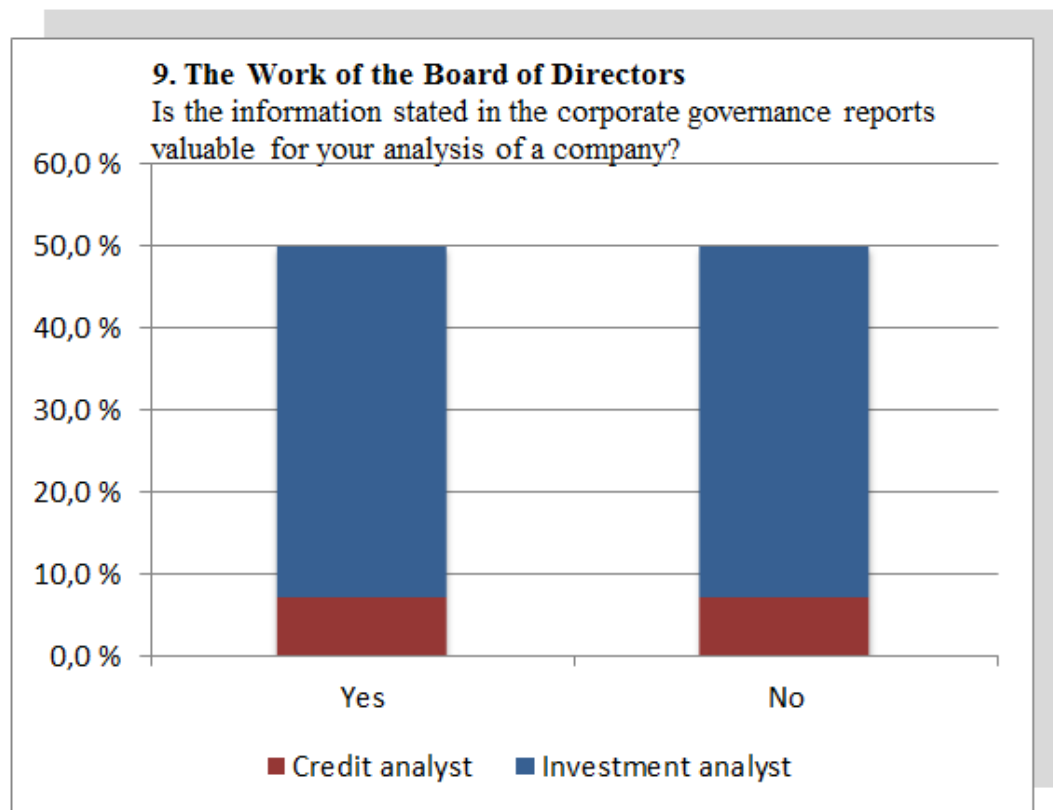
It seems that the views concerning independence of board members are divided. The arguments for independent board members are stated in the codes and are mentioned above (chapter 2.4). The arguments against independence are that the members do not have the required knowledge and expertise of the operations in the company.

The comments regarding this chapter of the codes were that; *“this has little impact on valuation, that all listed on the stock exchange followed the regulations and that the board usually were diversified”*. The interpretation of this answer may be that since all the listed companies follow the regulations, the board structure does not matter since they follow the regulations anyway. This does not prevent the possibility of agency costs. Even if they follow the rules, the agent may make bad decisions such that the investor/owner loses money. The importance of an independent board of director is that it may work as a monitoring organ. They will not have personal interest, only if they have shares in the company, hence they will act in the best sense for the company.

4.3.9 Chapter 9: The Work of the Board of Directors

This chapter concerns the work of the board of directors. The board of directors should issue instructions for its own work as well as for the executive managers. They should not act as the company's audit committee and they should provide details in the annual report of any board committees appointed. They board of directors should also evaluate its performance and expertise annually (Norwegian Corporate Governance Board 2010).

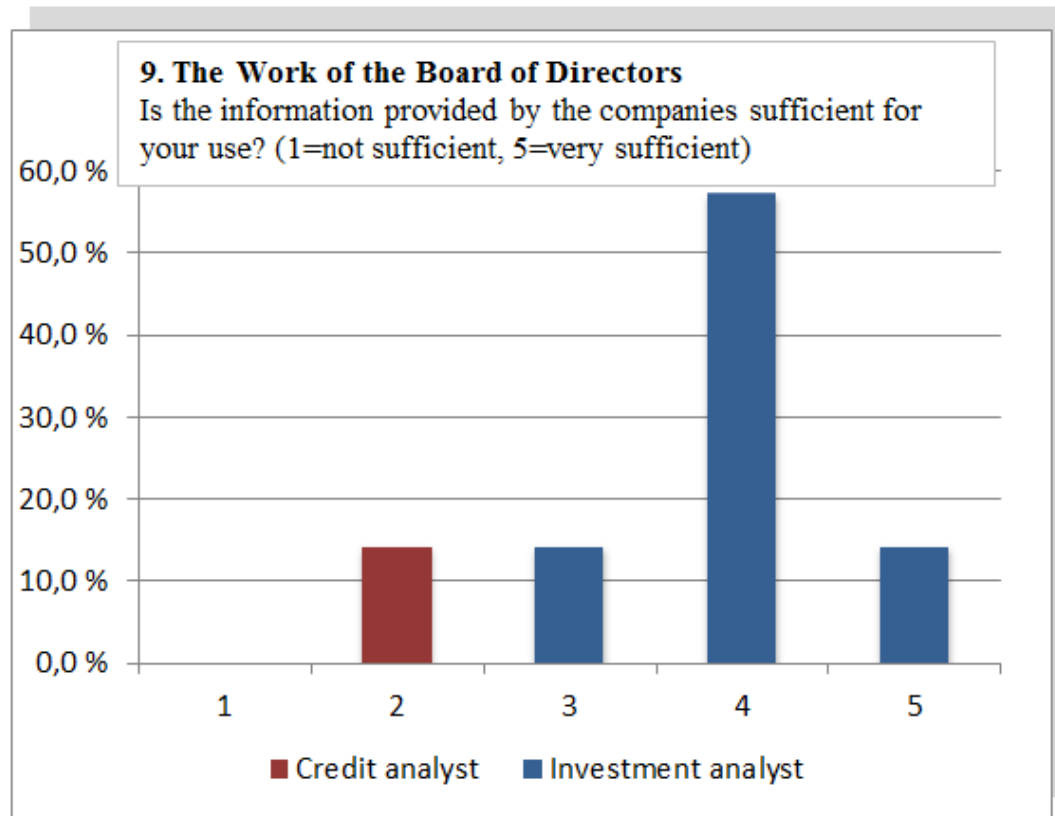
The last recommendation is widely discussed, whether the board of directors should evaluate its own performance and expertise or whether some others should evaluate the board. The respondents are divided in their views on whether this information provides is valuable for their analysis or not.



Graph 17 - The work of the board of directors

The importance of the work of the board of directors and how it is done is valuable for half of the respondents, but the comments that are submitted by the other half indicates that they assume that the work is done properly. One respondent said that *“This is irrelevant for valuation; it is considered that the board of directors is doing their tasks according to the corporate law in Norway.”* Another respondent says that it has *“a low impact on the running operations and more impact on mergers and acquisitions”*.

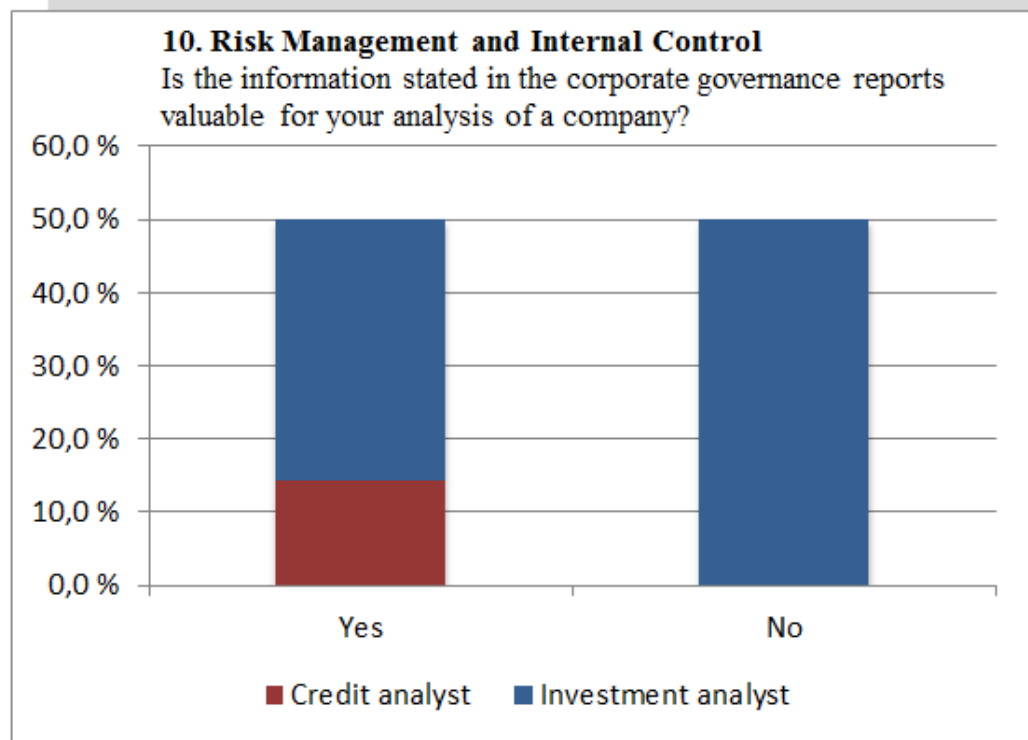
The sufficiency of the information has a range from two to five on the scale; with the majority on four meaning that the information is sufficient. The credit analyst did not find the information very sufficient even if it was valuable for the analysis work.



Graph 18 - The work of the board of directors

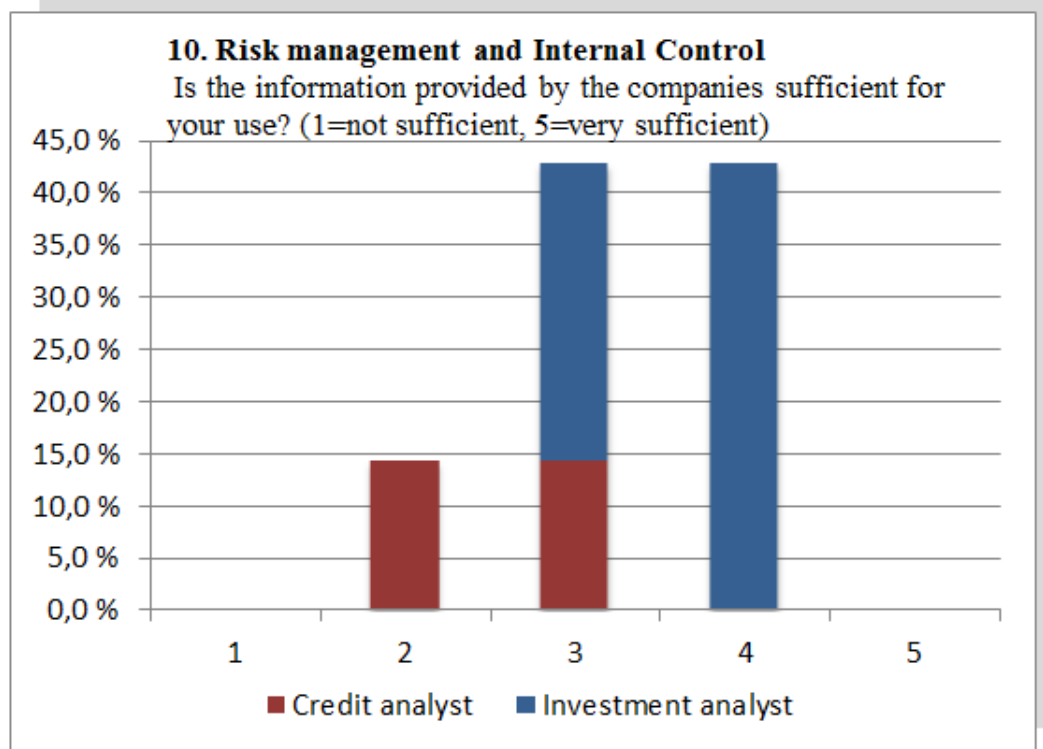
4.3.10 Chapter 10: Risk Management and Internal Control

The board of directors must ensure that the company has sound internal control and system for risk management that are appropriate in relation to the extent and nature of the company's activities. The board of directors should carry out an annual review of the company's most important areas of exposure to risk and its internal control arrangements (Norwegian Corporate Governance Board 2010).



Graph 19 - Risk management and internal control

This chapter was expected to have information that was valuable for the credit analysts, and both the analysts found it valuable. This is probably because of the reasons mentioned in the chapter about *agency theory* (chapter 2.3); the creditors have a potential downside which is high and a limited upside. The more interesting findings were that the credit analysts did not find the information very sufficient for their work. This may indicate that the information presented by the companies is not comprehensive enough or that they get better information directly from the source that needs credit. The majority of the investment analysts did not find the information valuable.



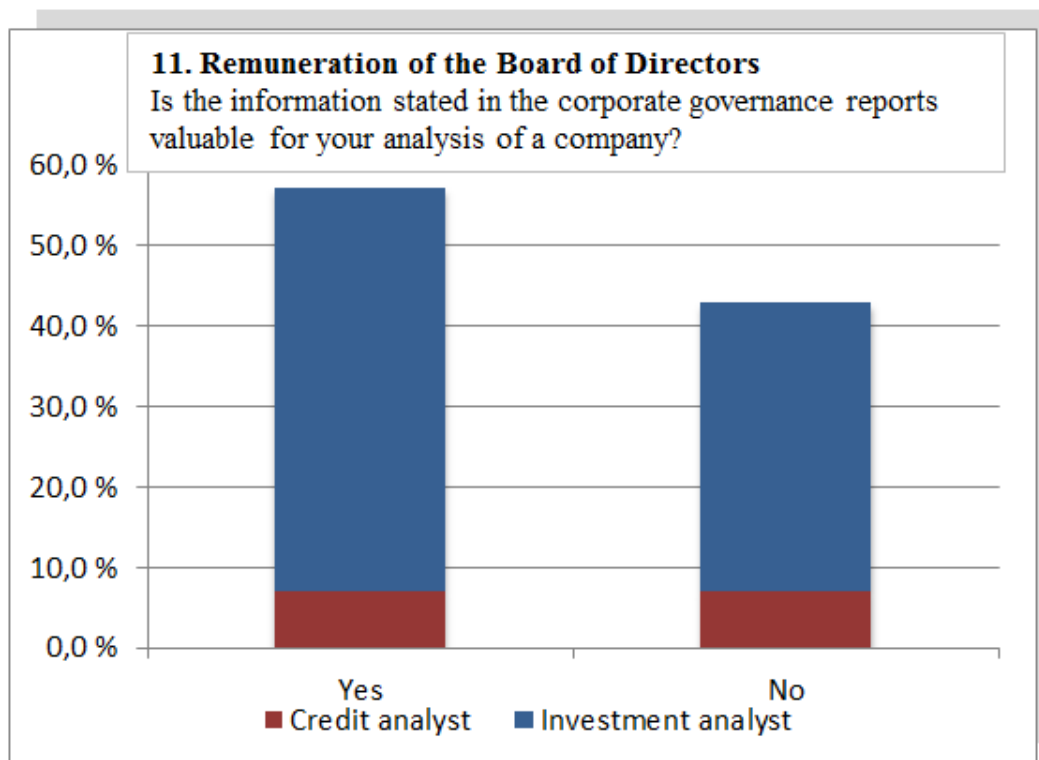
Graph 20 - Risk management and internal control

The comments from the investments analysts were that *“This is irrelevant for valuation; it is considered that the board of directors is doing their tasks according to the corporate law in Norway.”* This was the same comment regarding the board of directors as for the previous chapter. This indicates that the respondent trust that the board of directors do their job right and for the company’s best interest. Another response was that *“it is too little information and that it is a question of trust.”* The information was also regarded as irrelevant for the company valuation for one respondent.

4.3.11 Chapter 11: Remuneration of the Board of Directors

The remuneration of the board of directors should reflect the board’s responsibility, expertise, time commitment and the complexity of the company’s activities. The remuneration of the board of directors should not be linked to the company’s performance. The company should not grant share options to members of its board. Any remuneration in addition to normal directors’ fees should be specifically identified in the annual report (Norwegian Corporate Governance Board 2010).

The remuneration of the board of directors is in most cases straight forward. They usually receive a fixed remuneration to do the work. Regardless to this it should be important to report if the board of directors have a remuneration linked to the performance of the company. This information seems valuable for the majority of the analysts.

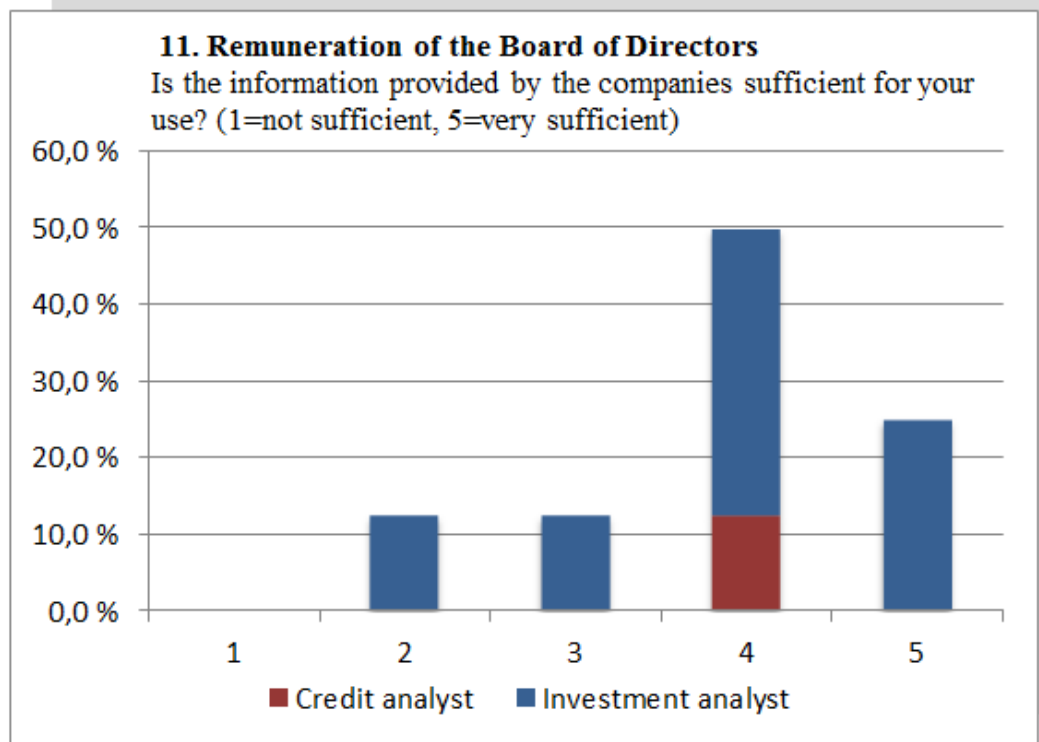


Graph 21 - Remuneration of the board of directors

The analysts find this very sufficient with 50% answering four on the scale and about 25% answering five, making this a total of 75%.

The comments to this chapter were that; *“it has low impact on valuation, many board members are shareholders thus the remuneration is performance based”*.

The corporate governance codes actually recommends in chapter eight that the board should own shares in the company. This is because the board members should have interests in the company that they have invested privately. The meaning of this must be that they will act in the company's best interest since they have shares in it. This is not the same as getting performance based remuneration such as options which links directly to performance.

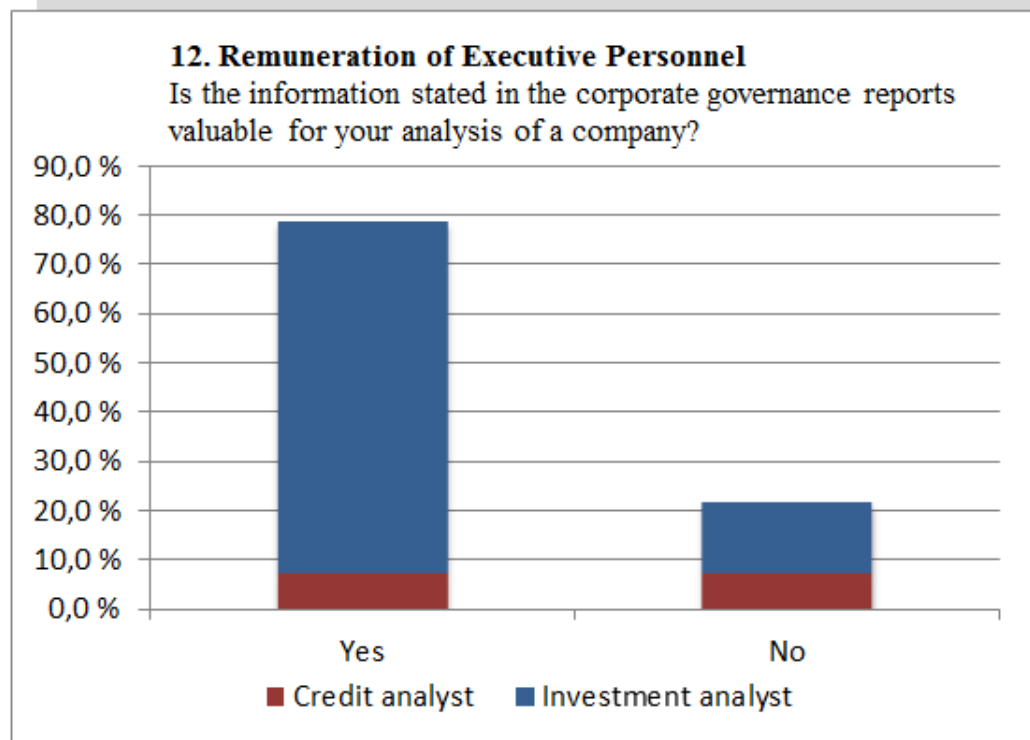


Graph 22 - Remuneration of the board of directors

4.3.12 Chapter 12: Remuneration of Executive Personnel

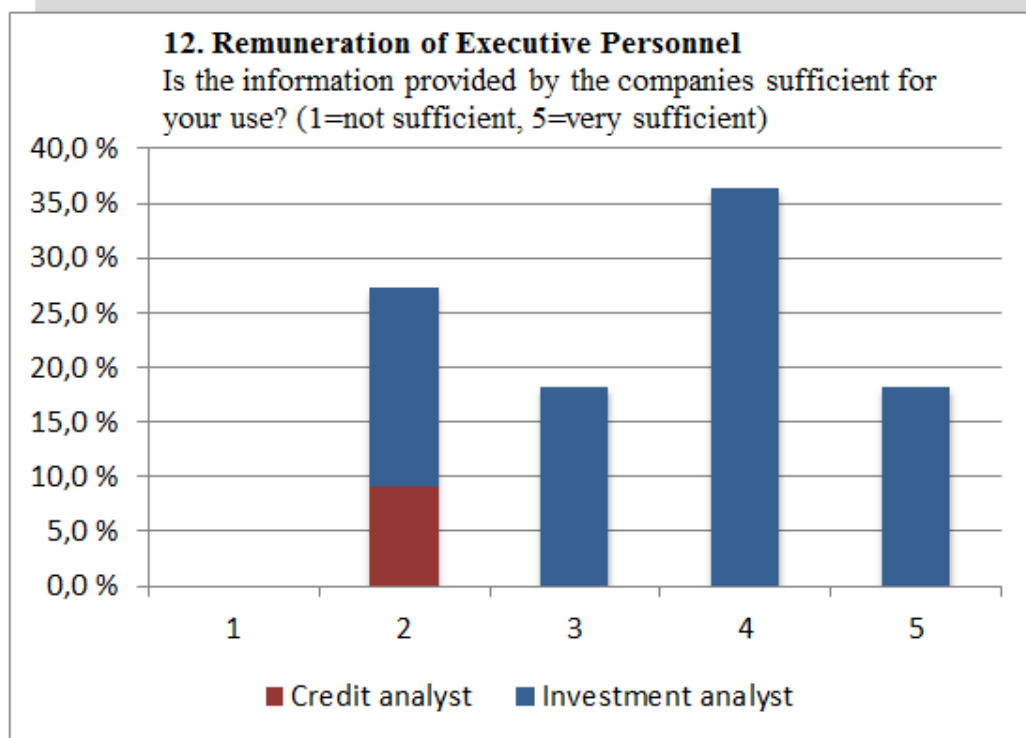
The guidelines for the remuneration of the executive personnel should set out the main principles applied in determining the salary and other remuneration of the executive personnel. Performance-related remuneration of the executive personnel in the form of share options, bonus programs or the like should be linked to value creation for shareholders or the company's earnings performance over time. Performance-related remuneration should be subject to an absolute limit (Norwegian Corporate Governance Board 2010).

The remuneration for executive personnel is very different from the remuneration of the board of directors. It consists of complex options and other performance-based remuneration and fixed remuneration. This is the most valuable part of the corporate governance codes for the analysts. Almost 80% found this information valuable. The remunerations of executive personnel are often very high and the bonus programs and options usually increase this significantly. In other words, money is directly taken out of the company. If executive personnel have an unreasonable high remuneration, options or bonus program; this may affect investors' willingness to invest in the company.



Graph 23 - Remuneration of executive personnel

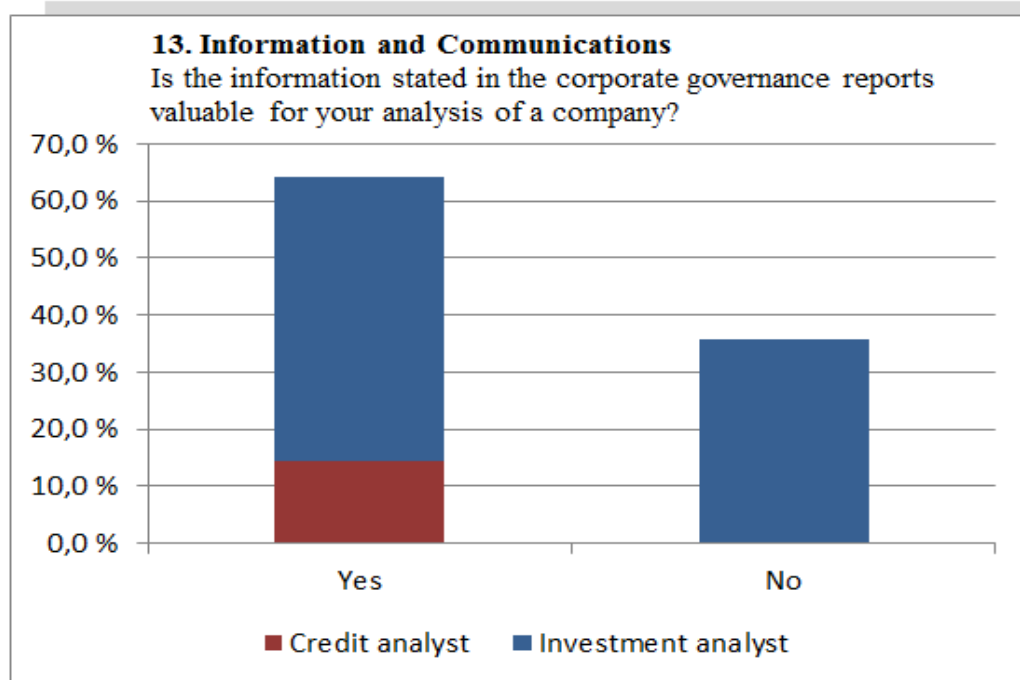
Almost the whole scale is used when measuring the sufficiency of the information. Almost 60% have answered four and five together meaning that the information is highly sufficient. Over 25% have answering two which is very low. This may indicate that the information that the companies reports are too little comprehensive. Other sources that were used were *the annual report, investor relations* and *management meetings*. This may also be an indication that the information *reported* are not comprehensive enough.



Graph 24 - Remuneration of executive personnel

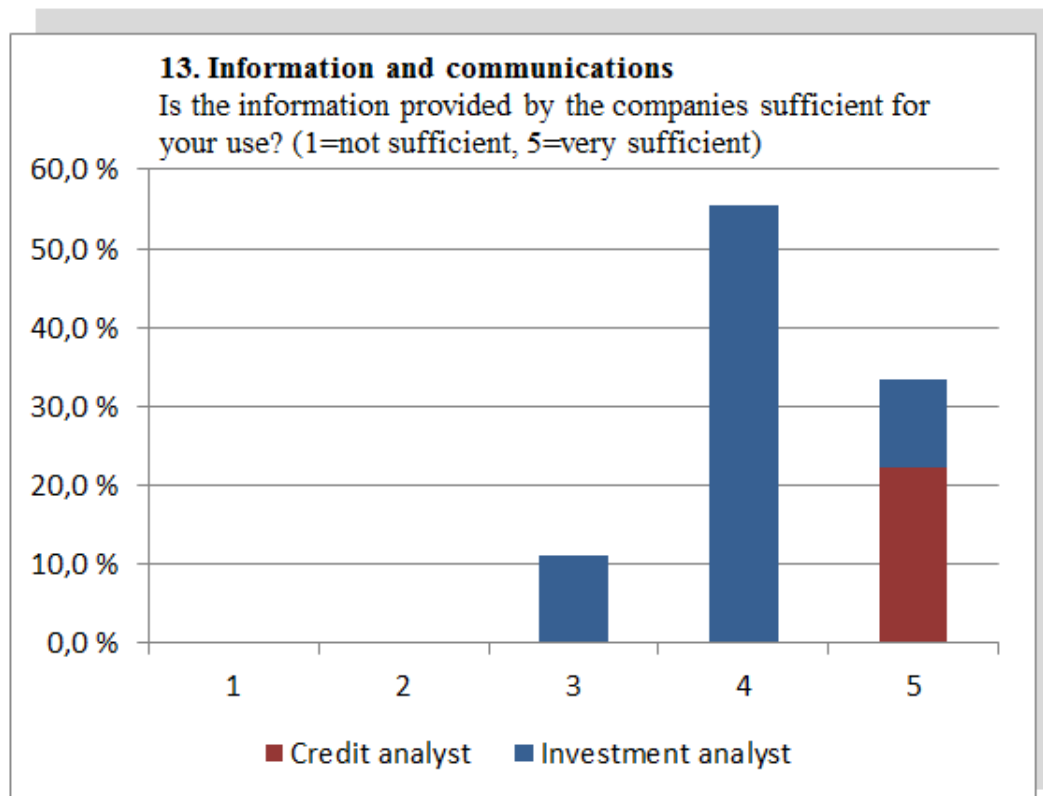
4.3.13 Chapter 13: Information and Communications

The company should publish an overview each year of the dates for major events such as its annual general meeting, publication of interim reports, public presentations, and dividend payment date if appropriate etc., at the same time as it is sent to shareholders (Norwegian Corporate Governance Board 2010).



Graph 25 - Information and communications

This information seems very valuable for the credit analysts. Both found it valuable and both found the information very sufficient. Most of the analysts did also find the information valuable and the degree of sufficiency is also high. Clearly it is important companies publish an overview over major events. This can also be found from other sources such as *company's website*. The respondents that did not find the information valuable answered that *it is irrelevant for valuation and that they get the information from day to day in the investor relation calendar*.



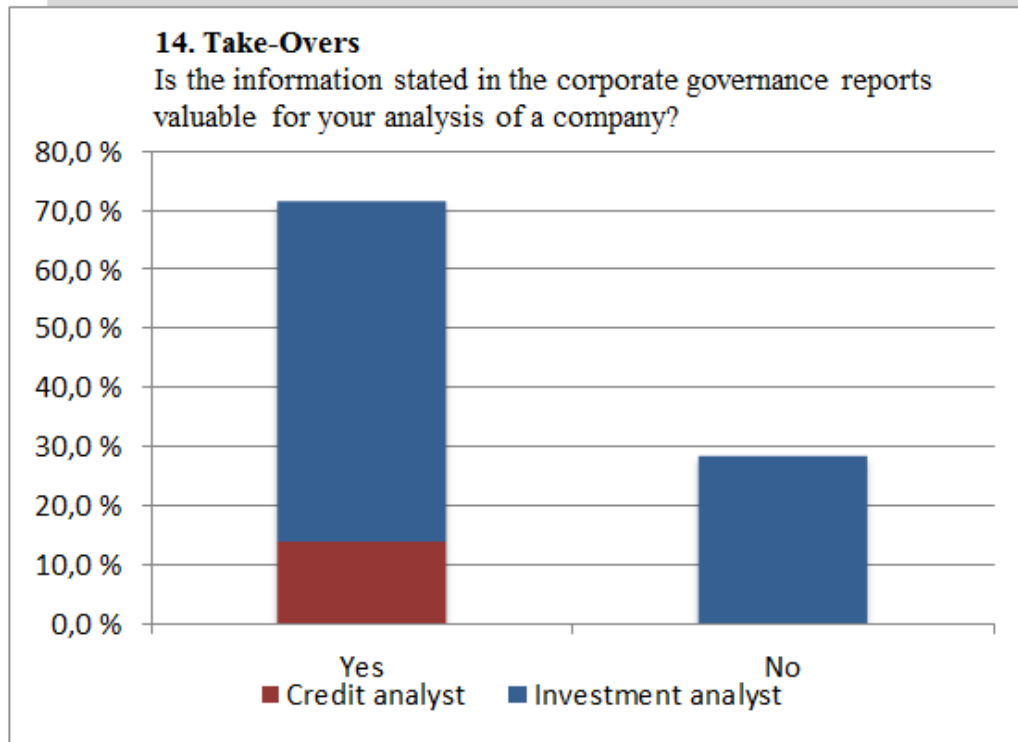
Graph 26 - Information and communications

4.3.14 Chapter 14: Take-Overs

The board of directors should establish guiding principles for how it will act in the event of a take-over bid, and ensure that shareholders are treated equally.

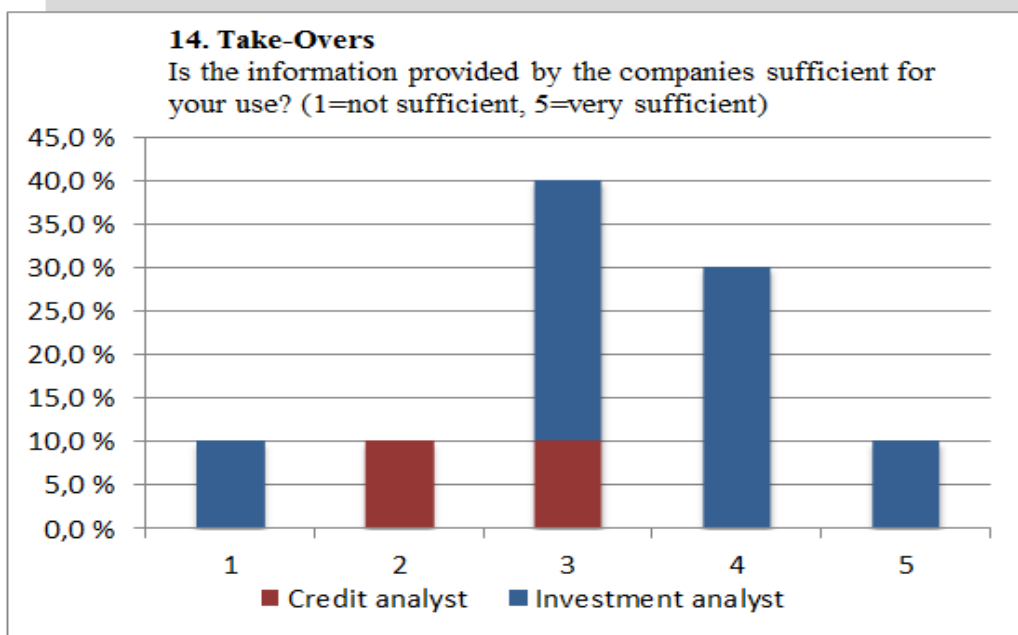
The board of directors should not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this.

If an offer is made for a company's shares, the company's board of directors should issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The board should arrange a valuation from an independent expert (Norwegian Corporate Governance Board 2010).



Graph 27 - Take-Overs

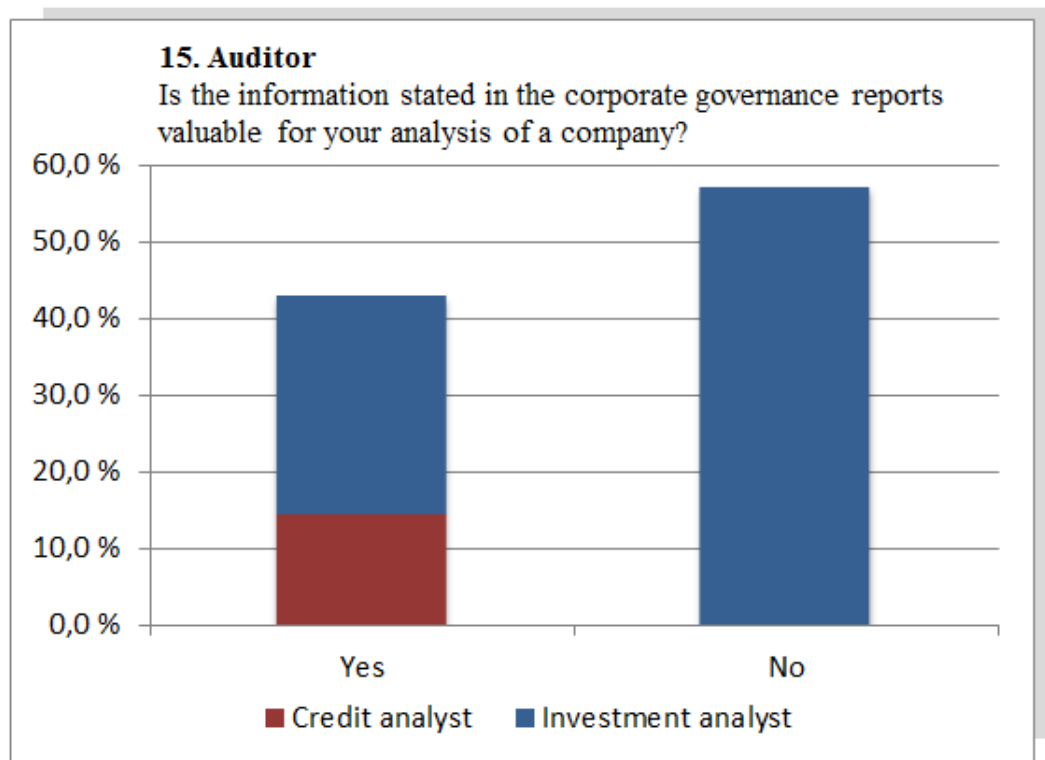
The majority of the investment analysts does find this information valuable, likewise do both the creditors. The sufficiency of the information for the respondents that found it valuable is relatively low. This may indicate that the information provided is not comprehensive enough. This may be because of the difficulty of having a fixed strategy in the case of take-overs. The comments from the respondents do also indicate this. One of the responses was that “*it is very seldom described how companies act to a takeover situation*”.



Graph 28 - Take-Overs

4.3.15 Chapter 15: Auditor

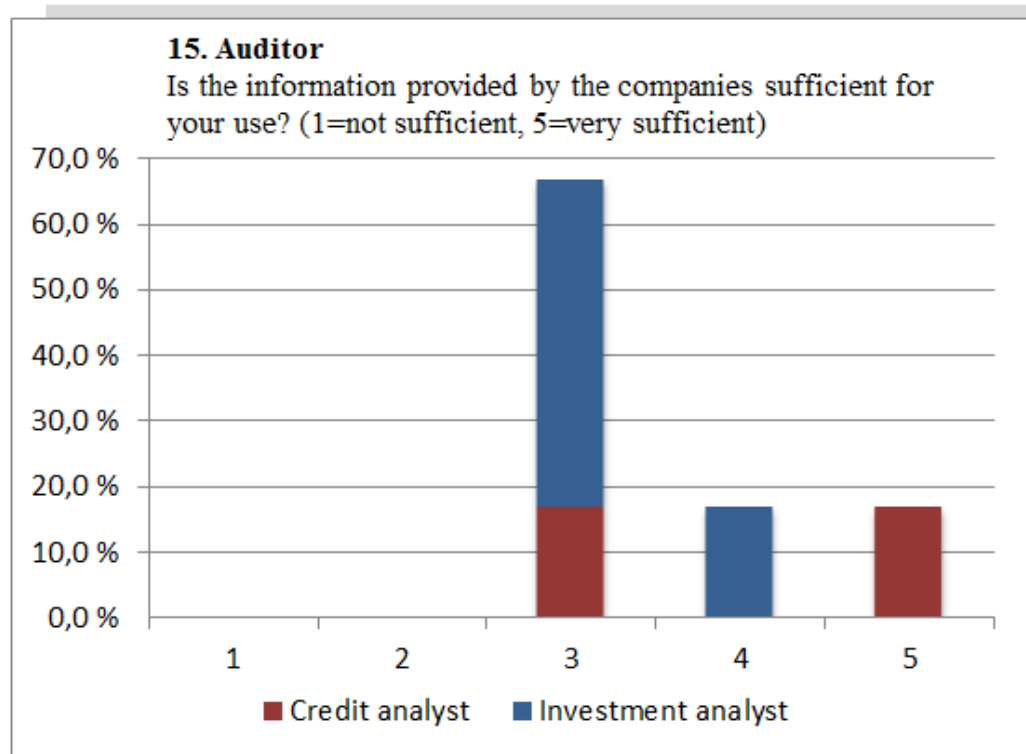
The auditor should submit the main features of the plan for the audit of the company to the audit committee annually. The auditor should participate in meetings of the board of directors that deal with the annual accounts. The board of directors should hold a meeting with the auditor at least once a year at which neither the chief executive nor any other member of the executive management is present. The board of directors must report the remuneration paid to the auditor at the annual general meeting, including details of the fee paid for audit work and any fees paid for other specific assignments (Norwegian Corporate Governance Board 2010).



Graph 29 - Auditor

It does not seem important for most of the analysts that the auditor participate in meetings with the board of directors and provide a plan for their work. It should be important to report the specific fees paid to the auditors for their work. But some of the analyst seems not to trust what is being reported. Taken into account what happened with the accounting firm Arthur Andersen LLP, who was one of the “Big Five”, in the Enron scandal, it should be vital that the transparency around the accounting firm is high. Over 55% of the respondents did not find this valuable but the sufficiency of the information is medium to high having almost 70% of the respondents answering *three* and about 17% each on *four and five*.

There was several comments regarding this chapter and one of them was; “*This gives a reassurance that an auditor has performed, but it could never be reassured of any fraud.*” Another comment was that “*it was not interesting for a valuation purpose*”. The last comments did also regard fraud stating that; “*the figures just have to be real according to laws or else it has little impact of valuation*”. There seems to be a trust issue between what is actually reported and what is done in the real life. This should increase the importance of transparency concerning the work of the auditor.



Graph 30 – Auditor

4.3.16 Open Questions in the Survey

The respondents were asked about potential improvements of the Corporate Governance Codes. The only response we received regarding this question was that the Code should implement the number of years that the auditor has audited the company. The respondents were also asked if they had comments regarding the Corporate Governance Codes. The responses to this question was; “Corporate Governance Codes is relatively meaningless when it comes to establishing a value of a public traded company.”, “Corporate Governance reporting is rarely used by analysts.” and “Corporate Governance is important, but it is more important how the company acts rather the standard statements listed in the report.”

4.4 Summary of the Survey

The survey gave necessary input to the following in-depth interview, and issues that was raised in the survey were; the extent of use, which parts of the Code that have information value, the quality of the Code, deviation between actual practice and what was reported, potential improvements of the Code, alternative sources to the Code and the question of market confidence. According to the data from the following chapters was confirmed as valuable by the majority of the respondents; “equity and dividends”, “freely negotiable shares”, “Remuneration of executive personnel”, “information and communication” and “Take-overs”. According to our data the following chapters was declared not valuable by the majority of the respondents: “Auditor”, “General meetings”. The rest of the chapters had a relatively even distribution in comparison to the other chapters, which indicates that the information is not that valuable. These findings are highly relevant to pursue in the in-depth interviews, since they indicates that some parts are valuable for the analysts, and others are irrelevant for analysts, and might be costly information to provide for the companies without contributing to any information value for the users. In light of the submitted comments in the survey, the analysts seems relatively skeptical to whether to rely their analysis on the published corporate governance reports. It emerge that they do not consider corporate governance reports to be vital for their work, and that corporate governance reporting is somewhat minimum requirements that nevertheless is assumed to be acceptable in the first place. On issues that analysts do find interesting, the corporate governance reports seem not to be comprehensive enough, another specific comment that was submitted in the survey was improvements regarding the reporting on auditors’ engagement in companies.

5.0 Qualitative Data from the In-Depth Interview

5.1 The Use of Corporate Governance Reports in the Analytical Work

The respondents from the in-depth interview were asked about their *use* of the corporate governance reports, and in which extend they use it in their analytical work.

The investment analysts replies that they have a portfolio of listed companies that they follows continuously over time, and that they do not actively use the corporate governance reports as a primary source in their analytical work, which

is mainly corporate valuation. The investment analysts are pursuing the relevant value drivers in a narrow scope, thus they are focusing on new information or changes in the firm specific developments, industry developments or macro figures. However, it seems like they consider corporate governance to be an important fundament and in some cases essential to their analytical work. One of the investment analysts consider corporate governance reports to be a mandatory statement from the company that he do not use time on the reports, and only seek such sources if there is suspect aspects or public known issues related to the corporate governance of a company. The analysts do have more trust when it comes to Norwegian companies' corporate governance than foreign companies in their portfolio, and this might be an evidence of a more comprehensive compliance of good practice of corporate governance in the Norwegian market. The two institutional investors use the corporate governance reports more actively and systematic in their analytical work and integrates the reports as an indicator in their judgment of corporate performance, nevertheless as a tool to evaluate the management and board performance. The corporate governance structure is evaluated by analyzing the report and is an essential document for the institutional investors ahead of general meetings and NCGB's code of practice are used as a guideline for voting on general meetings in companies the institutional investor are investors in.

5.2 The Priority and Importance of the Different Parts in the Corporate Governance Codes

The interviewees were asked about which part of the Code they uses, and which parts in specific they consider as valuable for their work. The Respondents had the Corporate Governance Code physical in front of them, in order to clearly identify the particular parts they find valuable.

The investment analysts do not use any specific part in general, but use elements as needed in analysis of certain companies.

The first institutional investor state that he uses specific parts in the report more than other and his emphasis in his analytical work is mainly on *general meeting issues, mandate and authorization to the board, remuneration for executive personnel, election of board of directors and nomination committee*. The other institutional investor emphasised *remuneration for board of directors*,

remuneration for executive personnel, incentive schemes, general meetings, independence of members of the board of directors and composition of the board of directors. Overall, the two institutional investors have a rather corresponding focus in relation to assessment of the different elements in the corporate governance reports.

5.3 The Quality of the Corporate Governance Reports Published by Listed Companies

The respondents were asked about their opinion about the quality of the corporate governance reports that the listed companies publishes. They were also asked if the quality differs systematically in relation to particular characteristics with the companies, such as size, ownership, experience and other unique features.

According to the investment analysts the quality varies somewhat, and they consider it to be an issue of resources for the companies, since financial strong corporations tend to have more comprehensive reports than smaller and financial weaker companies.

One of the institutional investor claims that the Norwegian listed companies generally have high quality on their corporate governance reports, and he emphasise that if a company chose to explain instead of comply does not necessarily mean that the quality of the corporate governance report is low, hence differing from the codes does not reduce the quality of the report. In specific some elements in the reports are often of low quality, such as remuneration of executive personnel, bonuses, pension schemes and options, but the rest is often of higher quality.

The other institutional investor claims that the corporate governance reports are significantly varying in quality and there are generally large potential for quality improvement of the reports. The focus should be on reporting information that is valuable for the shareholders, and omitting irrelevant information in the report. There is also a significant difference between Norwegian companies listed on Oslo Stock Exchange and foreign companies listed on Oslo Stock Exchange, since these companies often have complied codes from country of origin that is less comprehensive, and in some cases the reports does not contain any relevant information. The most common exception is American companies listed on Oslo Stock Exchange, because the corporate governance report is often of high quality

for US companies. A specific issue of bad corporate governance is reporting of bonus schemes that make it difficult to compare periodical bonus payments, since certain companies' does report the actually paid bonuses and not how much bonus that is *incurred*. The quality is basically correlated to financial strength and experience, but there are many exceptions where small inexperienced companies have high quality on their corporate governance reports.

5.4 Potential Improvement of the Corporate Governance Code

The interview respondents were asked about potential improvements or additional recommendations that would be valuable for them in their analytical work.

The first institutional investor emphasise that all companies should have nomination committee, in other terms it should not be optional to choose to have a nomination committee or not, consequentially the requirement of nomination committee should be incorporated in the Norwegian Corporate Law. In relation to the composition of the nomination committee the corporate governance codes should recommend that all the members have to be independent of board of the directors, corporate assembly and the committee of representatives. However, the nomination committee should cooperate closely with the board of directors and chairman of the board. In relation to additional extraneous topics that is not strictly related to corporate governance should not be included in the corporate governance report, such as corporate social responsibility, so the corporate governance report does not get to diluted with irrelevant information that is without information value in a analysis of the corporate governance of a company. The *management remuneration statement* is included in the corporate governance codes and in the Norwegian Corporate Law, but the companies does not report this in a satisfactory manner.

The second institutional investor emphasise that corporate values and ethical guidelines is very important in the analytical work, and on these matters the codes are too vague, and consequentially the companies are not thorough enough in the corporate governance reports on these issues. The reporting on severance packages is often inadequate, since the policy and duration frequently is omitted in the reports because the recommendation does not require that companies publish a detailed overview on severance packages in the corporate governance reports. The Corporate Governance Code is supplemented with an internal

guideline/best practices statement that draws a more precise corporate governance structure. The purpose is on one side to use it as a voting guidelines for the institutional investor, and the on the other hand it represents a best practice indicator for the companies where the institutional investor are a significant shareholder. The Corporate Governance Code should require that the companies have to report the cost of a capital increase with issuing new shares in the financial markets, because the commissions the company pays are often very high, and the shareholders will find it highly relevant in relation to determine the cost/benefit of capital increase, hence it should be comprehensively presented in the corporate governance reports. The companies should visualize the costs connected to different incentives schemes and share programs for the management and the CEO.

The first investment analyst calls for a own topic in the corporate governance codes where the company must state historical information about any kind of conflicts of interest that have led to legal law suits between shareholder, and in particular conflicts of interest between majority shareholders and minority shareholders. The purpose of this historical overview in the corporate governance reports is so that potential investors are informed about earlier legal conflicts that might be relevant in the pricing of the company if the conflict could occur again. The second investment analyst does not want to improve the corporate governance codes by adding other elements, since the reports not are used in his analytical work.

5.5 Deviation between Actual Practice and the Corporate Governance Reports

We asked the interview objects about their opinion about the relation between companies' actual practice and what they claim in the corporate governance reports.

The first institutional investor claims that the market is transparent enough to detect if there are major differences in the actual practice and what is reported, and good leadership will be rewarded and bad leaders will be replaced.

The second institutional investor believes that the majority of what is reported complies with the actual practice for most companies. Norwegian companies in general are often more governed by the administration/management, rather than by the board of directors, as the Annual Report usually claims. A typical example of deviation between actual practice and reporting is that no company would

admit in the corporate governance report that they are paying the highest salaries in the market, even though many of them are.

The first investment analyst claims that there are significant differences between actual practice and what is reported by some companies. The market transparency is high and the market is so efficient that bad corporate governance will immediately affect the pricing in the market.

The second investment analyst believes that there are significant deviation on actual practice and the corporate governance reports. Any company could claim to be shareholder-friendly; however the reality is reflected in the share price.

5.6 Alternative Sources

To reveal if the analysts use other sources to supplement their analytical work related to the corporate governance reports, the question about alternative or additional sources was asked in the survey, and the findings from the survey was used to check if the interview objects seeks alternative sources in their work.

The first institutional investor use publically sources such as Annual Report, but supplement with meetings with the management where direct inquiries about corporate governance are addressed.

The second institutional investor uses the Annual Report and an external supplier of information analysis that goes through the corporate governance reports, and meetings with the management of the companies. However, the timespan between the publishing of the corporate governance reports and the general assembly is short; nevertheless meetings are not preferable since it is a time-consuming process to get access to information. The corporate governance reports are the main source in the analytical work. In some cases direct inquiries occurs to the companies in certain circumstances where specific information is required to the analytical work.

The first investment analyst use SEC Filings as an additional source for US companies that are listed on Oslo Stock Exchange. In some cases agreements between shareholders and the companies that relates to corporate governance issues is taken into consideration in cases where they are not presented in the corporate governance report. If there is a large corporate shareholder that have significant control of the company, it might be appropriate to look into the shareholders own Annual Report and corporate governance report. In several of the listed companies in the Norwegian market the government is a significant

owner, and then it is important to take into consideration The Norwegian Government's Ownership Policies.

5.7 The Corporate Governance Report Ability of Establishing Market Confidence

In order to reveal if the corporate governance reports contribute to market confidence for the reporting companies, the respondents were asked about their opinion about market confidence-effects in relation to corporate governance reporting.

The first institutional investor finds the corporate governance reports as essential for the companies to gain market trust and confidence, and companies that systematically work toward complying to the codes are sending an important signal to the market, that over time will reinforce the market confidence.

The second institutional investor believes that the corporate governance reports creates market confidence, and the codes are essential to force the companies to do a proper reporting and complying to the recommendation, and the market confidence would most certainly be worse if the companies did not have the corporate governance codes to comply to.

The first investment analyst suggests that in the Nordic countries it is very seldom that the corporate governance reports leads to distrust in the markets.

The second investment analyst considers the corporate governance reports to be compulsory formalities and have no trust-making effect in the market.

5.8 Statements from the Survey and the In-Depth Interview about the Effect of the Corporate Governance.

The interview objects were asked about their opinion about a statement generated from the survey that is inspired from the psychology about work motivation, where the theory suggests that hygiene at the work place does not trigger motivation, but rather avoid demotivation (Herzberg, Mausner og Snyderman 1959). Analogous to this theory, we asked the following question:

“Does the corporate governance reports generate trust or confidence in the market, or does it only contribute to avoid distrust?”

The first institutional investor was confident in the markets positive perception of the corporate governance reports and its ability to generating trust and confidence in the market.

The second institutional investor believes that this is a statement that generally could be true for many types of reporting that companies do, but in particular this do not apply for the corporate governance reports. The main reason is that the Code forces them to take active decisions regarding issues that are admitted to the general assembly. The companies that take the corporate governance reporting seriously and use it for actively communicating with the market achieve a higher degree of confidence in the market. In particular the market could expect more comprehensive corporate governance reporting from companies where the government is a large shareholder. Start-up companies that are in excessive growth are more likely to have a less comprehensive corporate governance report, and this is often influencing the market confidence.

The first investment analyst considers that in general, listed companies in Norway could be described with the statement, since they avoid distrust rather than gain trust in the market.

The second investment analyst admits that he does not find the corporate governance reports useful, thus it does not create trust, but at the other hand fully lack of reporting on corporate governance would create distrust.

5.9 Information Value in Relation to the Frequency of Reporting

The interview objects were asked if a more frequently reporting on corporate governance would increase the information value for their analytical work, and how potential implementation of an increased frequency of reporting could be executed.

The first institutional investor did not believe that an increase of reporting on corporate governance would give any additional value for the analytical work. Publication annually is reasonable, nevertheless these reports are resource- and time consuming for the companies to develop.

The second institutional investor did not consider that a more frequent reporting would contribute to more information value for the analytical work in a longer perspective, because a more frequent reporting might lead to a more short-term thinking.

The first investment analyst does not find a more frequent reporting valuable for the analytical work, and it is necessary to limit the information flow somewhat. If a company have major changes in the corporate governance structure for quarter

to quarter it is a bad signal, but complementation of the report on significant shifts in the corporate governance structure would be valuable.

The second investment analyst consider a more frequent reporting as non-valuable reporting, and corporate governance published in quarterly reports would just be skipped by analyst, hence more frequent reporting would have no additional information value. The time of publishing of the corporate governance is coincide with the Annual Report with its voluminous content, and the corporate governance report drowns in all the information, so the corporate governance report should be published more isolated on another time than the Annual Report. It is fair to say that the corporate governance report is not time-critical information.

5.10 Business-Specific Corporate Governance Code

The interview objects were asked if changing the Code to a more business- and industry-specific character would improve the Code and increase information value.

The first institutional investor believes that a universal corporate governance code in a “one-size-fits-all” format is better, and the Norwegian Corporate Law captures issues that could be related to industry-specific aspects, such as the financial sector where the laws regulate certain aspects in relation to the corporate governance.

The second institutional investor considers a “one-size-fits-all” format as more efficient and desirable.

The first investment analyst find it necessary that companies with unique industry specific features report on these issues, and it would be more information value in the reports if the companies reports more specific aspects related to the industry.

The second investment analyst did not find any reason for the Code to be more industry-specific.

5.11 Other Questions Derived from the Survey

The interview objects was asked specific questions derived from the survey about potential improvements of the corporate governance codes in order extract thoughts about potential improvements that the interview objects did not generate themselves during the semi-structured interview session. In addition, the first

interview object had ideas to improvements of the codes that were introduced for the three last interview objects.

1. Should the Corporate Governance Code provide information about the auditor's services, such as duration of the engagement and policy of replacement of the auditor?
2. Should the Corporate Governance Code provide historical information about lawsuits or legal disputes among the shareholders

The first institutional investor considered the information about auditor replacement as interesting, and believes that a statement on these issues would be a valuable improvement of the Code. When it comes to lawsuits among the shareholders it is already publicly known information, and reporting on lawsuits of this kind would not be a valuable improvement of the Code.

The second institutional investor considers information about auditor replacement as valuable information, and having a policy on auditor replacement is common, and transparency on auditor policy would be valuable. It should be more transparency about legal disputes, and a historical overview would be particularly helpful.

The first investment analyst does find both positive and negative aspects with publishing information about replacement of auditor, but it would be appropriate to inform about replacement of the auditor. This interview object suggested the possibility of improving the Code with incorporate information about legal disputes.

The second investment analyst considers it highly valuable to incorporate information about replacement of auditor and policy on auditor replacements. In relation to incorporate historical overview of legal disputes in the Code the interview object did not found it suitable, since this would be distinctively for the Norwegian Code, consequentially not desirable.

6. 0 Research Findings and Conclusion

In order to answer the research question, the data collection have aimed to reveal the information value of corporate governance reporting in a user-perspective, according to the data it appears that the different user-groups find different degree of information value. In general it seems like the two analyst groups, investment analyst and institutional investors, are divided in their perception of the value of corporate governance reporting, and use the reports differently. The institutional

investors use the corporate governance reports in a larger extent than the investment analysts. One reason could be that the institutional investors actually owns shares in the companies they analyse on behalf of their customers, while the investment analysts analyses the companies in order to provide their customers, that is *potential* shareholders in the company, with investment recommendations. This could be affecting the different groups in their access to supplementary information from the companies, and this is also confirmed by the data, since the data indicates that the institutional investors more often have directly communication with the companies they analyse. Institutional investors appear more satisfied with the corporate governance reports than the investment analysts, but in one particular case an institutional investors had developed additional corporate governance codes they recommend companies in their portfolio to implement. This is a signal that the Corporate Governance Code issued by NCGB is not comprehensive enough, and the data indicates overall that the Corporate Governance Code is a subject of potential improvements.

The institutional investors are coherent in the importance of issues regarding remuneration of executive personnel, and find the reporting on these issues to be of too low quality. The costs associated with capital increase were another issue that was raised during the interview, and more comprehensive reporting on these issues would increase the information value.

The data also propose that it could be done improvements to the Corporate Governance Code that would lead to higher degree of information value for the end-users. In particular, the in-depth interview revealed that the timespan from the release of the corporate governance reports (through companies' annual reports) to the general meetings is short, and makes thorough analysis difficult because of lack of time. Other findings in the in-depth interview stated that the corporate governance reports do not contain time-critical information, and all the interview objects agreed that increased frequency on the reporting does not increase information value. According to some of the interview objects the corporate governance reports simply "drowns" in all the information published in the annual reports provided by the companies. These findings raised the question whether if the corporate governance reports should be published in the annual reports, since the information value might be increased for the users if the corporate governance information was published on a more suitable point of time.

It is clear that the different groups of users of corporate governance reports have different perception of the information value; however, it is obvious that their use of the reports is differing significantly, and this indicates that the different analysts groups use the reports in different decision processes. Future development of the Corporate Governance Code should define for *whom* the Code are developed, and in which way they should provide the different users with valuable information. It is many potential improvements that will increase the information value for large groups of users, nevertheless there are potential improvements that could be done that increase the information value for several groups of users.

6.1 Criticism to own research

The Thesis has been based on assumptions, limitations and simplifications that could be significant for our findings. Our assumption that the financial stakeholders in companies are fully represented by analysts is a simplification done to able us to collect data. If this simplification is adequate is an academic question that could be debated. Another question is if the method used in the Thesis is threatened by impartiality, since the corporate governance environment in Norway is small and it is possible that the interview objects have links to either NCGB or associations represented in NCGB. The Thesis is limited in relation to reveal the users' perception of the information value of the corporate governance reports, since the chosen perspective does not give a holistic review of the information value for all users.

6.2 Future research

Our study does only attempt to explore some aspects of the information value of corporate governance reports; nevertheless it remains overwhelmingly much research to do on these issues. The development of the Code has perhaps lack of academic research or evaluation. Other perspectives and approaches could be desirable to use in future research. Future research can identify the benefits in relation to the associated costs of producing such corporate governance reports, and might answer if the corporate governance reporting is justified.

Bibliography

- ABG Sundal Collier. *Annual Report*. 2011.
<http://www.abgsc.se/Global/Annual%20Reports/ASC%20Annual%20Report2011.pdf> (accessed 07 11, 2012).
- Aguilera, Ruth V., and Alvaro Cuervo-Cazurra. "Codes of Good Governance Worldwide: What is the Trigger?" *Organizational Studies*, 2004: 417-446.
- Akkermans, Dirk, et al. "Corporate Governance in the Netherlands; An Overview of the Application of the Tabaksblat Code in 2004." *Corporate Governance: An International Review*, 11 2007: 1106-1118.
- Arcot, Sridhar, Valentina Bruno, and Antoine Faure-Grimaud. "Corporate governance in the UK: Is the comply or explain approach working?" *International Review of Law and Economics*, 2010: 193-201.
- Ashbaugh-Skaife, Hollis, Daniel W. Collins, and Ryan LaFond. "The effects of corporate governance on firms' credit ratings." *Journal of Accounting and Economics*, 2006: 203-243.
- Bhagat, Sanjai, and Bernard Black. *Leeds School of Business*. 02 2000.
<http://leeds-faculty.colorado.edu/Bhagat/bb-022300.pdf> (accessed 06 25, 2012).
- Bhagat, Sanjai, and Brian Bolton. "Sarbanes.Oxley: Governance and Performance." *Social Science Research Network*. 17 03 2009.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1361815 (accessed 06 25, 2012).
- Carnegie. *Analysis*. 2012.
<http://www.carnegie.se/no/no/Verdipapirhandel/Verdipapirhandel/Analyse/Virkosomhet/> (accessed 07 11, 2012).
- Carnegie Holding AB. "Annual Report." 2011.
<http://www.carnegie.se/DocGlobal/IR/carnegie%20%C3%85R%20SV%20RGB%20120516.pdf> (accessed 07 11, 2012).
- Cheung, Yan-leung, J. Thomas Connelly, Piman Limpaphayom, and Lynda Zhou. "Do Investors Really Value Corporate Governance? Evidence from the Hong Kong Market." *Journal of International Financial Management and Accounting*, 05 2007: 86-122.

-
- Chhaochharia, Vidhi, and Yaniv Grinstein. "Corporate Governance and firm value: The impact of the 2002 governance rules." *The journal of finance*, 2007: 1789-1825.
- Chizema, Amon. «The Influence of Ownership Structure on the Implementation of National Codes of Corporate Governance: Development of Research Propositions.» *International Journal of Management*, 2011: 238-253.
- Claessens, Stijn, and Sir Adrian Cadbury. 2003.
http://www.gcgf.org/wps/wcm/connect/7fc17c0048a7e6dda8b7ef6060ad5911/Focus_1_Corp_Governance_and_Development.pdf?MOD=AJPERES (accessed 08 23, 2012).
- Creswell, John W., and Vicki L. Plano Clark. *Designing and conducting mixed methods research*. California: Sage Publications, Inc., 2007.
- Creswell, John W. *Educational research-planning, conducting, and evaluating quantitative and qualitative research*. New Jersey: Pearson Education Ltd., 2005.
- Cromme, Gerhard. «Corporate Governance in Germany and the German Corporate Governance Code.» *Corporate Governance: An International Review*, 19 05 2005: 362-367.
- Davies, Adrian. *Best practice in corporate governance*. Aldershot: Gower Publishing Limited, 2006.
- DiMaggio, Paul J., and Walter W. Powell. "The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields." *American Sociological Review*, 04 1983: 147-160.
- Earnst & Young. "Corporate Governance 2011." 2011.
[http://www.ey.com/Publication/vwLUAssets/Corporate_Governance-undersokelsen_2011/\\$FILE/Corp%20Governance%202011_WEB_final.pdf](http://www.ey.com/Publication/vwLUAssets/Corporate_Governance-undersokelsen_2011/$FILE/Corp%20Governance%202011_WEB_final.pdf) (accessed 06 12, 2012).
- European Corporate Governance Institute. *Index of codes*. u.d.
http://www.ecgi.org/codes/all_codes.php (funnet 01 11, 2012).
- Feleaga, Niculae, Dragomir Voicu, and Liliana Feleaga. "Corporate Governance Codes: are They Fresh or Trite." *The Academy of Economic Studies of Bucharest, Romania*, 11 2009: 30-37.
- Garcia-Meca, Emma, and Juan P. Sanches-Ballesta. "The association of board independence and ownership concentration with voluntary disclosure: a meta-analysis." *European Accounting Review*, 2010: 603-627.
-

Government Pension Fund of Norway . *Statens Pensjonsfond Norge*. 2012.

<http://www.ftf.no/no/c-18-Statens-pensjonsfond-Norge.aspx> (accessed 07 11, 2012).

Hermalin, Benjamin E., and Michael S. Weisbach. "The effects of board composition and direct incentives on firm performance." *Financial Management*, 1991: 101-112.

Herzberg, Fredrick, B. Mausner, og B. B. Snyderman. *The Motivation to Work*. New York: John Wiley, 1959.

Jensen, Michael C., og William H. Meckling. «Theory of the firm: Managerial behavio, agency costs and ownership structure.» *Journal of Financial Economics* 3, 1976: 305-360.

KLP. *About us*. 2012. <https://www.klp.no/om-klp/fakta/organisasjon> (accessed 07 11, 2012).

Kragh-Schwarz, Maja. «Comply or explain - virker det?» *Nordisk tidsskrift for selskabsrett*, nr. 4 (2007): 94-108.

Lovdata. *Lov om Allmennaksjeselskaper*. n.d. <http://www.lovdata.no/all/tl-19970613-045-019.html#4-16> (accessed 06 14, 2012).

Lucia, Kolozsi, and Durgheu Liliana. "National Experience Regarding Corporate Governance - "Proper Practice" Codes." *The Journal of the Faculty of Economics - Economic*, 12 2010: 578-583.

Nordberg, Donald. *Corporate Governance principles and issues*. London: SAGE Publications Ltd., 2011.

Norwegian Corporate Governance Board. *About: NUES*. n.d.

http://www.nues.no/English/About_NUES/ (accessed 07 25, 2012).

—. *Anbefaling: Eng*. 21 10 2010.

http://www.nues.no/filestore/Anbefaling_Eng_2010.pdf (accessed 02 17, 2012).

—. *Corporate Governance Abroad*. u.d.

http://www.nues.no/English/Corporate_governance_abroad/ (funnet 07 25, 2012).

—. *The Norwegian Code of Practice for Corporate Governance*. u.d.

www.nues.no/English/ (funnet 07 24, 2012).

—. *What is Corporate Governance?* u.d.

http://www.nues.no/English/What_is_Corporate_Governance+/ (funnet 07 23, 2012).

Oslo Stock Exchange. *Regelverk: Børssirkulær*. 09 12 2002.

<http://www.oslobors.no/Oslo-Boers/Regelverk/Boerssirkulaerer/5-2002-Corporate-Governance> (funnet 01 12, 2012).

Oslo Stock Exchange. "Circular No.2." 25 01 2006.

<http://www.nues.no/filestore/Circular2-2006.pdf> (accessed 06 12, 2012).

Oslo Stock Exchange. *Continuing obligations of stock exchange listed companies*. Rules, Oslo: Oslo Børs, 2012.

Oslo Stock Exchange. *Listing Rules for equities on Oslo Børs*. Rules, Oslo: Oslo Stock Exchange, 2012.

—. *Regelverk: børssirkulær*. 01 12 2005. <http://www.oslobors.no/Oslo-Boers/Regelverk/Boerssirkulaerer/7-2005-Nye-boersregler-om-opptak-av-aksjer-grunnfondsbevis-og-obligasjoner-samt-loepende-forpliktelses-forutstedere> (funnet 01 12, 2012).

Pae, Jinhan, and Tae Choi. "Corporate Governance, Commitment to Business Ethics, and Firm Valuation: Evidence from the Korean Stock Market." *Journal of Business Ethics*, 05 2011: 323-348.

Quick, Reiner, and Daniela Wiemann. "The quality of corporate governance reporting - empirical evidence from Germany." *Advances In Management*, 2011: 29-42.

Rosenstein, Stuart, and Jeffrey G Wyatt. "Outside directors, board independence and shareholder wealth." *Journal of Financial Economics*, 1990: 175-191.

Shaffer, Gregory C., and Mark A. Pollack. "Minnesota law review." *Hard vs. Soft Law: Alternatives, Complements, and Antagonists in International Governance*. 2010. http://www.minnesotalawreview.org/wp-content/uploads/2011/08/ShafferPollack_MLR.pdf (accessed 06 19, 2012).

Shleifer, Andrei, and Robert W. Vishny. "A survey of corporate governance." *The Journal of Finance*, 1997: 737-783.

Skjærseth, Jon Birger, Olav Schram Stokke, and Jørgen Wettestad. "Soft Law, Hard Law, and Effective Implementation of International Environmental Norms." *Global Environmental Politics*, 2006: 104-120.

Strøm, Reidar Øystein. «Independence and incentives.» *Beta*, 2008: 22-39.

Tirole, Jean. «Corporate Governance.» *Econometrica*, 2001: 1-35.

U.S. Securities and Exchange Commission. «About: Laws.» *www.sec.gov*. 30 07 2002. <http://www.sec.gov/about/laws/soa2002.pdf> (funnet 01 12, 2012).

WebFinance Inc. *Definition: Information*. u.d.

<http://www.businessdictionary.com/definition/information.html> (funnet 07 25, 2012).

Xie, Biao, Wallace N. Davidson, and Peter J. DaDalt. "Earnings management and corporate governance: the role of the board and the audit committee." *Journal of Corporate Finance*, 2003: 295-316.

	2000	2001	2002	2003	2004	2005
Europe	Belgium	Czech Republic	Austria	Cyprus	Belgium	Austria
	Denmark	Denmark: Natby	Cyprus	Denmark	Czech Republic	Belgium
	Germany	Germany: Baums	France	Finland	France	Denmark
	Portugal	Greece	Germany: Cromme	France	Iceland	Germany: Cromme
	Romania	Malta	Hungary	Macedonia	Norway	Iceland
	UK: Combined Code	Portugal	Italy	Germany: Cromme	Poland	Latvia
		Sweden	Poland	Lithuania	Slovenia	Malta
		UK	Russia	Portugal	Spain	Norway
			Slovakia	Spain	Sweden	Slovenia
			Switzerland	Sweden		Spain
			UK	Netherlands: Tabaksblat		Turkey
				Turkey		UK
				Ukraine		
				UK: Combined Code		
America	2000	2001	2002	2003	2004	2005
		Brazil	Brazil	Canada	Brazil	
		Canada: Saucier Report	USA	USA	Argentina	
		USA			USA	
Middle east, Africa, Asian-Pacific	2000	2001	2002	2003	2004	2005
	India	China	Australia	Australia	Bangladesh	Singapore
	Indonesia	Indonesia	Kenya	New Zealand	China	
	Malaysia	Japan	Pakistan	Nigeria	Japan	
	Philippines	Singapore	South Africa: King 2	South Korea	Mauritius	
			Taiwan		New Zealand	
			Thailand			
			Philippines			
Multilateral	2000	2001	2002	2003	2004	2005
				Latin America	OECD	ICGN
					OECD	OECD

Europe	2006	2007	2008	2009	2010	2011
	Austria	Austria	Denmark	Austria	Croatia	Greece
	Bosnia and Herzegovina	Bulgaria	Finland	Belgium	Finland	Guernsey
	Cyprus	Germany	France	Croatia	France	
	Estonia	Hungary	Germany	Germany	Germany	
	Finland	Ireland	Hungary	Iceland	Ireland	
	Germany: Cromme	Moldova	Ireland	Luxembourg	Latvia	
	Israel: Goshen Report	Norway	Italy	Montenegro	Norway	
	Italy	Poland	Serbia	Norway	Poland	
	Luxembourg	Portugal	Slovakia	Romania	Portugal	
	Norway	Slovenia	Sweden	Slovenia	Sweden	
	Portugal	Sweden	Switzerland	Netherlands	Netherlands	
	Spain	UK	Netherlands	UK	UK	
	Switzerland		UK: Combined Code			
	UK					
America	2006	2007	2008	2009	2010	2011
	Canada	Colombia	USA	Brazil	Mexico	
	Jamaica	Trinidad and Tobago		Colombia	USA	
	Trinidad and Tobago	USA				
Middle east, Africa, Asian-Pacific	2006	2007	2008	2009	2010	2011
	Egypt	Australia	Jordan	Algerie	Australia	Egypt
	Indonesia	Kazakhstan	Morocco	India	Bahrain	Ghana
	Lebanon	Malaysia	Nigeria	Japan	Lebanon	Morocco
	Nigeria	Mongolia	Qatar	Qatar	Malawi	Nigeria
	Saudi Arabia	Taiwan	Sri Lanka	South Africa: King 3	Singapore	United Arab Emirates
	Sri Lanka	United Arab Emirates	Tunisia		Yemen	
	Thailand					
Multilateral	2006	2007	2008	2009	2010	2011
	United Nations		Santiago Principles		Baltic States	

Appendix 2 – Topics in the Norwegian Corporate Governance Code

Chapter	Topics in the Norwegian Corporate Governance Code
1	Implementation of the Code of Practice
2	Business
3	Equity and Dividends
4	Equal Treatment of Shareholders and Transactions with Close Associates
5	Freely Negotiable Shares
6	General Meetings
7	Nomination Committee
8	Corporate Assembly and Board of Directors: Composition and Independence
9	The Work of the Board of Directors
10	Risk Management and Internal Control
11	Remuneration of the Board of Directors
12	Remuneration of the Executive Personnel
13	Information and Communications
14	Take-overs
15	Auditor

Attachment – Preliminary Master Thesis

ID number: 0832443
ID number: 0832797

‘BI Norwegian Business School – Preliminary Thesis Report’

- The information value of
Corporate Governance reporting
for the financial stakeholders -

Hand-in date:
16.01.2012

Campus:
BI Oslo

Examination code and name:
GRA 1902 Preliminary Master Thesis

Programme:
Master of Science in Business Law, Tax and Accounting

Supervisor:
Janicke L. Rasmussen

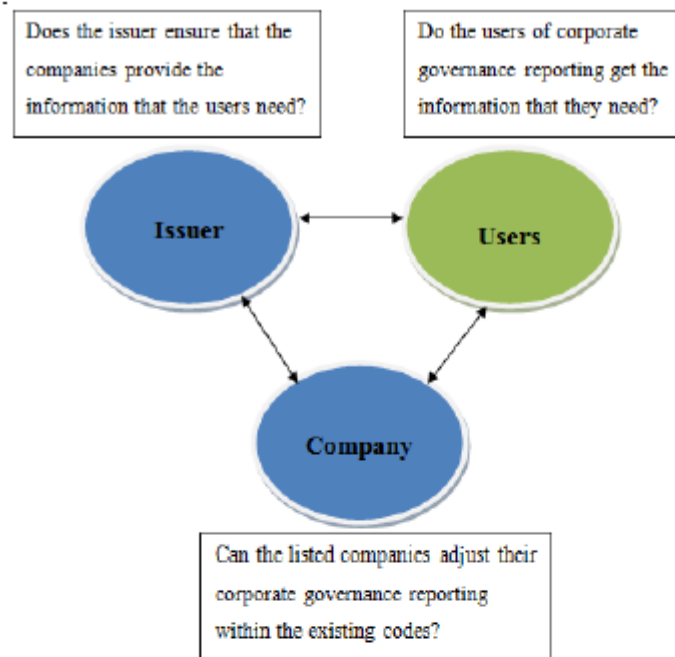
Table of Contents

SUMMARY	II
1.0 INTRODUCTION	1
1.1 OUR MOTIVATION FOR THE STUDY	3
2.0 PROBLEM	3
2.1 LIMITATIONS AND KEY ASSUMPTIONS	3
3.0 LITERATURE REVIEW	4
3.1 CORPORATE GOVERNANCE	4
3.2 AGENCY THEORY	4
3.3 NORWEGIAN CORPORATE GOVERNANCE BOARD	5
3.3.1 <i>The purpose of the Norwegian Code of Practice</i>	5
3.3.2 <i>Organisation</i>	6
3.3.3 <i>National amendments</i>	6
3.3.4 <i>The Norwegian Corporate Governance Codes</i>	6
4.0 METHOD	7
4.1 PILOT SURVEY	9
4.2 QUALITATIVE RESEARCH DESIGN	9
4.3 DATA	9
4.3.1 SAMPLING FOR THE PILOT SURVEY	10
4.3.2 SAMPLING FOR THE QUALITATIVE IN-DEPTH INTERVIEWS	10
5.0 PLAN FOR THESIS PROGRESSION	10
BIBLIOGRAPHY	11
APPENDIX	12
APPENDIX 1 – CORPORATE GOVERNANCE CODES	12

1.0 Introduction

Corporate Governance has been a discussed topic the recent years due to several financial scandals such as Enron and Worldcom. As a result of the economic setbacks in British economy in the 1970s onwards, London stock exchange launched the Cadbury Inquiry in 1990 (Davies 2006, p.4). The outcome of this was a set of codes of behaviour which were issued in 1992 called *The Cadbury Code* (Nordberg 2011, p. 93). The Cadbury Code had a huge impact all over the world, and several reports and codes were published (Appendix 1). The following year's further codes emerged in UK like *Greenbury Report (1995)*, *Hampel Report (1998)* and *Turnbull Report (1999)* which all lead to *Combined Code of Corporate Governance* the same year (Nordberg 2011, p. 98 and 99). There were a huge amount of corporate scandals in the beginning of 2000 and "Seven of the twelve largest bankruptcies in American history were filed in 2002 alone" (Monks and Minow, p 2). As a consequence of these scandals, several reforms were founded or revisited. The scandals have raised the need for increase the transparency through reporting of corporate governance in order to improve and sustain market confidence. *The Sarbanes-Oxley Act (SOX)* came into force in July 2002 in USA (U.S Securities and Exchange Commission 2002) and several corporate governance codes were introduced at other continents as well (Appendix 1). In UK the *Higgs Report (2003)* were incorporated in the *Combined Code of Corporate Governance* and it was widely copied around the world (Nordberg 2011, p. 100). In contrast to the comply-or-explain approach in the UK, SOX is mandatory for all public firms.

The issuer of the corporate governance codes in Norway (NCGB) is responsible for providing the framework that the companies build their reports on, and if the framework lack aspects that the user find relevant, it's likely that the companies will not report what the user demand. If the companies avoid reporting relevant information, this will also lead to reduced information value for the users. So this thesis will be dedicated to identify if the users of the corporate governance reports are provided with the desirable information, and if there is some bottleneck in information availability from the issuer or the companies.



Picture 1 - Information flow SOURCE: Own model

This thesis is relevant for companies listed on the Oslo Stock Exchange since the research aim to reveal which information in the corporate governance reporting that is important for financial stakeholders. This may enable the firms to improve the reporting of the corporate governance to satisfy the users. According to market efficiency theory the companies have incentives to produce and publish comprehensive corporate governance reporting, but a fair question is whether the market is functioning enough to sanction a lower reporting quality and whether the economic benefits of detailed regulations regarding the corporate governance report will exceed the associated costs (Quick and Wiemann 2011). It is important to reveal if the users, credit analysts' and investment analysts', are provided with the relevant and desirable information from the companies. This may cause awareness for the companies that are publishing the corporate governance reports, which may result in increase of important information that the financial stakeholders find valuable.

The empirical tests of the quality of the corporate governance codes are important for the issuer of the codes (NCGB). This can make a fundament for improvements in the codes in order to provide better information for the users.

1.1 Our Motivation for the study

Already in 2002 Oslo Stock Exchange issued recommendations of corporate governance reporting for all listed companies (Oslo Stock Exchange 2002). The Corporate Governance reporting became mandatory for all listed companies in Norway from 2005 (Oslo Stock Exchange 2005). The requirement of Corporate Governance reporting came after a significant shift in focus on transparency for companies caused by the financial scandals like Enron etc. The development has gone rapidly, and many sides of Corporate Governance reporting are not explored yet. Our motivation is to identify if there are gaps between what is reported and what kind of information stakeholder actually demand.

2.0 Problem

“The information value of Corporate Governance reporting for the financial stakeholders”

Through this master thesis we will study, analyse and determine the value of the information given in the corporate governance report that is made available in corporations annual report, that are listed at Norwegian stock exchange. The thesis will have a stakeholder approach, but will mainly focus on the shareholder – and creditor perspective.

2.1 Limitations and key assumptions

Our research will only cover the Norwegian corporate governance codes that are being issued by the Norwegian Corporate Governance Board (hereby referred as NCGB). The codes are partly harmonised with international codes but have certain national peculiarities.

Since we are studying Norwegian corporate governance codes it will be appropriate to only take into account the Norwegian stakeholders' perceptions of the information value of corporate governance reporting.

In the research the chosen perspectives, creditor and shareholder, are covered by credit analysts and investment analysts. The assumption is that credit analysts are

professionals that represent the creditors' interests, and that investment analysts are professionals that represent the shareholders' interests.

3.0 Literature review

3.1 Corporate governance

There are several different definitions of corporate governance. According to (Shleifer and Vishny 1997) corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. This definition focuses on a stockholder perspective and does not take into account the stakeholders of the corporations. The definition provided by (Tirole 2001) states that corporate governance concerns the design of institutions that induce or force managers to internalize the welfare of stakeholders. This is, in contrast to the first definition, seen in a stakeholder perspective. A more holistic way of defining the corporate governance concept is provided by (Cadbury 2004):

“Corporate governance is concerned with holding the balance between economic and social goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.”

We will base our thesis on this definition since it is more in accordance with the fundament of *Corporate Governance Codes* issued by *The Norwegian Corporate Governance Board*, since this is a more stakeholder oriented definition.

3.2 Agency theory

The agency theory is based on the interactions between one or more principals and the agent that perform a service on behalf of the principal(s). An agency cost occurs when the agent want to perform the service in a different way than the principal(s) (Jensen and Meckling 1976). There might be significant conflicts of interest which can be costly for the principal(s). In this thesis the creditors' represented by the credit analysts and the shareholders' represented by the

investment analysts should be seen as the principals and the company represented by their managers should be seen as the agents.

An essential risk for the creditors when providing financing is the probability of bankruptcy costs. In many cases of possible bankruptcy the creditors and managers will have different risk profiles. The creditors will avoid the downside rather than the possibilities of a large upside. This might lead to different focus of corporate governance between these two different stakeholders. It may imply that the credit analysts value the information about "Risk management and internal control" in the *Corporate Governance Codes*. This is contrary from the shareholder perspective where the benefits lie in the potential upside. The shareholders expect that the managers allocates the resources efficiently at the same time that they expect a high return on their investments. This may imply that the investment analysts value the topic "Equity and dividends" in the *Corporate Governance Codes*.

3.3 Norwegian Corporate Governance Board

The Norwegian Corporate Governance Board was established by Oslo Stock Exchange (Herby abbreviated with OSE) and issued the first edition of the Norwegian Corporate Governance Codes in 2004 (Strøm 2008). NCGB is responsible for publishing the Corporate Governance Codes (CGC) that all listed companies at OSE are obliged to follow. The listed companies compliance with the CGC must be in accordance with the principles of *comply or explain*, in other terms companies can refrain from the CGC, but in that case they have to explain why they do not want to comply.

3.3.1 The purpose of the Norwegian Code of Practice

The objectives of the CGC is that companies listed on regulated markets in Norway is to regulate the division of roles between shareholders, the board of directors and executive management more comprehensively than is required by legislation (Norwegian Corporate Governance Board 2010). The purpose of including corporate governance report in the disclosure is that it strengthens the confidence in companies, and help to ensure best possible value creation over time in interests of shareholders, employees and other stakeholders. NCGB emphasise

that it is important that companies enjoy a good relationship with the society as a whole, and especially stakeholder groups that are affected by their business activities (Norwegian Corporate Governance Board 2010).

3.3.2 Organisation

NCGB was established by nine organizations; Norwegian Shareholders Association, Norwegian Institute of Public Accountants, Institutional Investor Forum, Finance Norway, Norwegian Society of Financial Analysts, Confederation of Norwegian Enterprise, Norwegian Association of Private Pension Funds, Oslo Stock Exchange, Norwegian Mutual Fund Association. The board is led by Ingebjørg Harto, and Ida Weyer-Larsen, provides secretariat services to the board (Norwegian Corporate Governance Board 2010).

3.3.3 National amendments

The CGC are adapted to the Norwegian corporate laws and other national circumstances, hence the CGC are in accordance with unique features of Norwegian corporate law. The Norwegian CGC take into account that for companies with more than 200 employees must elect a corporate assembly with at least 12 members of which 2/3 are elected by shareholders and 1/3 are elected by the employees. The mandate for the corporate assembly is supervision, issuing options and decision-making. In companies with more than 30 employees, the employees have the right to be represented on the board of directors. When it comes to the composition of the board, there are requirements in terms of gender of its members. The chief executive of a company cannot be a member of its board of directors (Norwegian Corporate Governance Board 2010). These are distinct features with Norwegian Corporate Law that CGC have taken into consideration, and it is important to be aware of in any comparison with CGC from other countries.

3.3.4 The Norwegian Corporate Governance Codes

The CGC are categorized into 15 major topics, and each topic distinguishes between recommendations that are optional and the Codes of Practice that is required. The requirements are obtained with the term "should", and where the

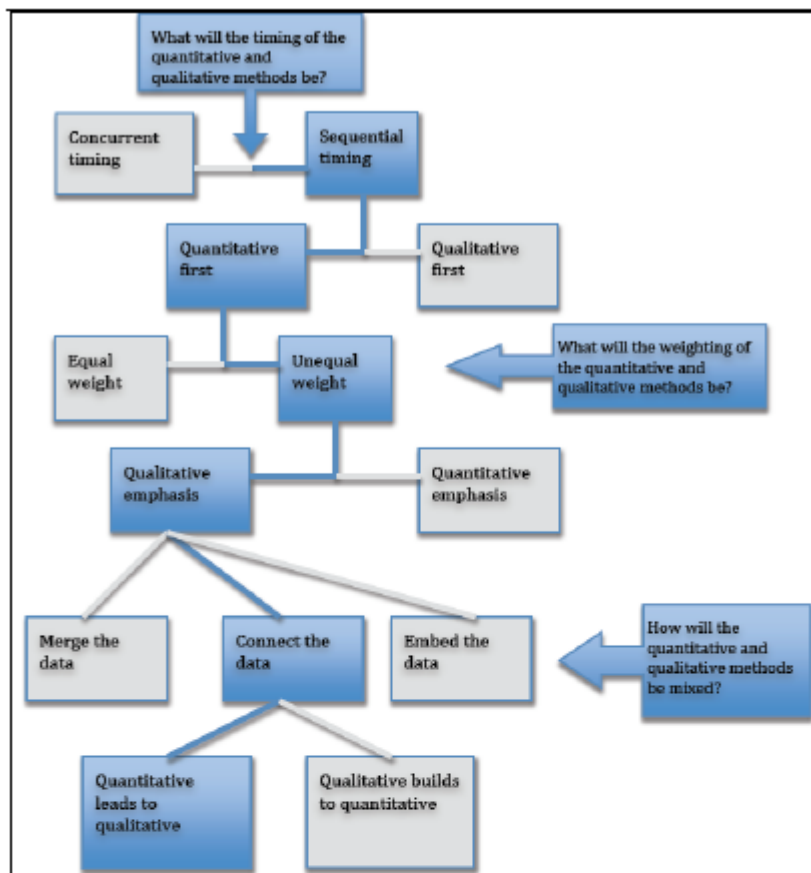
CGC refers to requirements imposed by legislations, the term “must” is used. The topics in the CGC are:

1. Implementation and reporting on corporate governance
2. Business
3. Equity and dividends
4. Equal treatment of shareholders and transactions with close associates
5. Freely negotiable shares
6. General meetings
7. Nomination committee
8. Corporate assembly and board of directors: composition and independence
9. The work of the board of directors
10. Risk management and internal control
11. Remuneration of the board of directors
12. Remuneration of executive personnel
13. Information and communications
14. Take-overs
15. Auditor

4.0 Method

In order to answer the research question it is necessary to use scientifically accepted methods. Through the literature search it became clear that the evaluation of corporate governance codes had few research findings. Thus, there are no “a priori” opinions or pre-hypothesis that is possible to draw from existing literature. It will therefore be appropriate to use an explorative research design. The research design will be based on *mixed methods designs*, which involves collecting data to both quantitative and qualitative methods (J. W. Creswell 2005, p 53). The methods that will be used are:

1. Pilot survey – descriptive statistics
2. Qualitative research method – in-depth interviews



Picture 2 - Decision tree for mixed methods design criteria for timing, weighting, and mixing. Source: Based on (Creswell and Plano Clark 2007, p 80).

The different methods will be completed sequential in order to gain insight before we go in depth of the research question. The quantitative method will be essential to build a broader understanding of the topic, and it will be used as a fundament producing the interview guide, and narrowing the research problem. This kind of approach with mixed methods is defined as *explanatory design analysis* (J. W. Creswell 2005, p 521). This thesis will emphasise the qualitative research method since the purpose is to reveal the userperspective of corporate governance reporting in Norway which is a relatively unexplored topic.

4.1 Pilot survey

To get a better understanding of the underlying practitioner's perception of information value of corporate governance reporting, it is necessary to use a pilot survey to extract descriptive statistics within the two stakeholder perspectives: credit analysts and investment analysts. This will be used to identify the relevant aspects of the valuable corporate governance reporting for financial stakeholders before we go deeper into the theme by in-depth interviews.

4.2 Qualitative research design

Based on the information gathered in the pilot survey we will use a semi-structured in-depth interview with practitioners to get a better understanding of and to be able to answer the research question. We are aiming to identify the value of the information for the financial stakeholders, and not to measure the value and the variables of the governance reporting. Based on the existing literature on the topic there are no conclusive hypothesis that are possible to use in a quantitative research design. Thus, qualitative methods will be helpful to achieve insight on the corporate governance reporting.

4.3 Data

The collection of data will be conducted sequentially and in both cases it will be first hand data. Both the pilot survey and the in-depth interviews will base the

Investment analysts - owner perspective	Credit analysts - creditor perspective
DNB	DNB
Nordea	Nordea
Fokus Bank	Fokus Bank

samples from pre-chosen financial institutions that run both departments for investment analysis and creditor analysis. This will give opportunities to distinguish the two perspectives in separately populations enabling us to investigate if there are significant differences in perception of the information value in the corporate governance reporting between the two perspectives *creditor* and *shareholder*.

4.3.1 Sampling for the pilot survey

The pilot survey will be based on *nonprobability sampling* because the respondents have a desirable characteristics that we seek to study (J. W. Creswell 2005). The approach will be *purposive sampling*, meaning that the sample is recruited based on the assumption that the respondents have the expertise in the area that we study. The sample will be stratified into two populations; *credit analysts* and *investment analysts*.

4.3.2 Sampling for the qualitative in-depth interviews

The *population* in the qualitative study will be the users of the corporate governance reporting and the *target population* is the users within the three selected firms. The *sample* is the participants in the in-depth interviews recruited based on purposive sampling, and the characteristic of the respondents is that they are senior advisors for their analysts departments (J. W. Creswell 2005). They are expected to have the expertise within the use of corporate governance reporting in their analysis.

5.0 Plan for Thesis Progression

By February 1st, we should have developed the questionnaire for the quantitative part of the thesis. After the completion of the questionnaire we will contact the relevant companies for this thesis.

By March 31st we will have conducted the qualitative data collection.

By June 1st the draft of the final thesis should be prepared and it must then be revised and completed in June.

The final thesis should be handed in Jun 30th 2012.

Bibliography

- Cadbury, Adrian. "Corporate governance and development." *Global Corporate Governance Forum*, 2004: Foreword.
- Creswell, John W., and Vicki L. Plano Clark. *Designing and conducting mixed methods research*. California: Sage Publications, Inc., 2007.
- Creswell, John W. *Educational research-planning, conducting, and evaluating quantitative and qualitative research*. New Jersey: Pearson Education Ltd., 2005.
- Davies, Adrian. *Best practice in corporate governance*. Aldershot: Gower Publishing Limited, 2006.
- European corporate governance institute. *Index of codes*. 11 01 2012. http://www.ecgi.org/codes/all_codes.php (accessed 01 11, 2012).
- Jensen, Michael C., and William H. Meckling. "Theory of the firm: Managerial behavior, agency costs and ownership structure." *Journal of Financial Economics* 3, 1976: 305-360.
- Nordberg, Donald. *Corporate Governance principles and issues*. London: SAGE Publications Ltd., 2011.
- Norwegian Corporate Governance Board. *The Norwegian code of practice for corporate governance*. NCGB, 2010.
- Oslo Stock Exchange. *oslobors.no*. 01 12 2005. <http://www.oslobors.no/Oslo-Boers/Regelverk/Boerssirkulaerer/7-2005-Nye-boersregler-om-opptak-av-aksjer-grunnfondsbevis-og-obligasjoner-samt-loepende-forpliktelser-forutstedere> (accessed 01 12, 2012).
- . *oslobors.no*. 09 12 2002. <http://www.oslobors.no/Oslo-Boers/Regelverk/Boerssirkulaerer/5-2002-Corporate-Governance> (accessed 01 12, 2012).
- Quick, Reiner, and Daniela Wiemann. "The quality of corporate governance reporting - empirical evidence from Germany." *Advances In Management*, 2011: 29-42.
- Shleifer, Andrei, and Robert W. Vishny. "A survey of corporate governance." *The Journal of Finance*, 1997: 737-783.
- Strom, Reidar Øystein. "Independence and incentives." *Beta*, 2008: 22-39.
- Tirole, Jean. "Corporate Governance." *Econometrica*, 2001: 1-35.
- U.S Securities and Exchange Commission . "SEC." *www.sec.gov*. 30 07 2002. <http://www.sec.gov/about/laws/soa2002.pdf> (accessed 01 12, 2012).

Appendix

Appendix 1 – Corporate governance codes

Codes of corporate governance (Source: adapted from ECGI)

Europe	1992	1993	1994	1995	1996	1997	1998	1999
	UK Cadbury			France: Virent UK: Greenbury report		Netherlands: Peeters report	Belgium: Cardon Report France Germany France Germany Spain UK: Hampel Report	France: Virent 2 Greece Ireland Italy UK: Turnbull Report
America	1992	1993	1994	1995	1996	1997	1998	1999
			Canada Toronto Report		USA			Mexico USA
Middle east, Africa, Asian- Pacific	1992	1993	1994	1995	1996	1997	1998	1999
			South Africa King I	Australia: Boehr report		Australia Japan	India Thailand	Australia China South Korea Thailand
Multilateral	1992	1993	1994	1995	1996	1997	1998	1999
								ICGN OECD

	2000	2001	2002	2003	2004	2005
Europe	Belgium	Czech Republic	Austria	Cyprus	Belgium	Austria
	Denmark	Denmark; Norway	Cyprus	Denmark	Czech Republic	Belgium
	Germany	Germany; Baunus	France	Finland	France	Denmark
	Portugal	Greece	Germany; Oromme	France	Iceland	Germany; Oromme
	Romania	Malta	Hungary	Macedonia	Norway	Iceland
	UK; CombinedCode	Portugal	Italy	Germany; Oromme	Poland	Lavia
		Sweden	Poland	Lituanis	Slovenia	Malta
		UK	Russia	Portugal	Spain	Norway
			Slovakia	Spain	Sweden	Slovenia
			Switzerland	Sweden		Spain
				Netherlands; Tasakibak		Turkey
				Turkey		UK
				Ukraine		
				UK; CombinedCode		
America	2000	2001	2002	2003	2004	2005
		Brazil	Brazil	Canada	Brazil	
		Canada; Saude Report	USA	USA	Argentina	
		USA		USA	USA	
Middle east, Africa, Asian-Pacific	2000	2001	2002	2003	2004	2005
	India	China	Australia	Australia	Bangladesh	Singapore
	Indonesia	Indonesia	Kenya	New Zealand	China	
	Malaysia	Japan	Pakistan	Nigeria	Japan	
	Philippines	Singapore	South Africa; King Z	South Korea	Mauritius	
			Taiwan		New Zealand	
			Thailand			
			Philippines			
Multilateral	2000	2001	2002	2003	2004	2005
				Latin America	OECD	ICGN
					OECD	OECD

	2006	2007	2008	2009	2010	2011
Europe	Austria	Austria	Denmark	Austria	Croatia	Greece
	Bosnia and Herzegovina	Bulgaria	Finland	Belgium	Finland	Guernsey
	Cyprus	Germany	France	Croatia	France	
	Estonia	Hungary	Germany	Germany	Germany	
	Finland	Ireland	Hungary	Ireland	Ireland	
	Germany: Crimea	Moldova	Ireland	Luxembourg	Latvia	
	Israel: Goshen Report	Norway	Italy	Montenegro	Norway	
	Italy	Poland	Serbia	Norway	Poland	
	Luxembourg	Portugal	Slovakia	Romania	Portugal	
	Norway	Slovenia	Sweden	Slovenia	Sweden	
	Portugal	Sweden	Switzerland	Netherlands	Netherlands	
	Spain	UK	Netherlands	Netherlands	UK	
	Switzerland		UK: Combined Code			
	UK					
America						
	Canada	Colombia	USA	2009	2010	2011
	Jamaica	Trinidad and Tobago	USA	Brazil	Mexico	
	Trinidad and Tobago	USA		Colombia	USA	
Middle east, Africa, Asian-Pacific						
	2006	2007	2008	2009	2010	2011
	Egypt	Australia	Jordan	Algeria	Australia	Egypt
	Indonesia	Kazakhstan	Morocco	India	Bahrain	Ghana
	Lebanon	Malaysia	Nigeria	Japan	Lebanon	Morocco
	Mexico	Mongolia	Qatar	Qatar	Malawi	Nigeria
	Saudi Arabia	Taiwan	Sri Lanka	South Africa: King 3	Singapore	United Arab Emirates
	Sri Lanka	United Arab Emirates	Tunisia		Yemen	
	Thailand					
Multilateral						
	2006	2007	2008	2009	2010	2011
	United Nations		Santiago Principles		Baltic States	