OWNERSHIP STRATEGY: A NEW GOVERNANCE MECHANISM FOR COLLECTIVE ACTION AND RESPONSIBLE OWNERSHIP

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ABSTRACT

A new strand of the corporate governance literature on ownership seems to be in the process of developing what might be considered the next generation of the concept of active ownership: responsible ownership. This paper aims to contribute to this strand of literature by addressing an element of responsible ownership that is not yet well developed: the collective actions by owners. We introduce what we have named an ownership strategy as a new governance mechanism for collective action and responsible ownership. Using data from semi-structured interviews with owners, board members, and non-executive insiders together with documentary analysis, we find support for the theoretical construction. Specifically, we find that the ownership strategy functions as a collaboration pact, which cultivates long-termism, and that the outcome is improved agency, i.e. that both the relationship between the owners and the directors and between the directors and management is improved due to better alignment. Results show that an ownership strategy is an effective corporate governance mechanism to promote long-term commitment of owners while minimizing agency problems and promoting trust between principals and principals and their agents. The findings indicate that an ownership strategy establishes a much needed long-term focus and commitment of owners while creating a sense of security among the board of directors that they are working within the will of their owners.

Key words: Ownership; Ownership strategy; Collective action; Voice; Long-termism; Stewardship.

INTRODUCTION

Two decades ago, large parts of the corporate governance literature on ownership focused on active ownership as a powerful solution to important aspects of the principal-agent problems that haunt the corporation as a corporate form. In hindsight, it is easy to see that this made a lot of sense after two or three preceding decades with high economic growth and increasingly sophisticated financial markets. In the US, Shleifer and Vishny (1997) famously argued for a corporate governance system that combines large ownership stakes with sufficient power and incentive to be active with appropriate minority shareholder protection. Active ownership, in this way, serves to maximize shareholder value, primarily by improving the governance of the various principal agent relations. In the UK, shareholder activism by institutional investor appeared prominently (e.g. Becht, Franks, Mayer, Rossi, 2009; Black & Coffee, 1994). Throughout the 1990s, in recognition of this, national corporate governance codes emphasising the importance of active ownership were introduced in numerous countries.

More recently, a new strand of the corporate governance literature on ownership seems to be in the process of developing what might be considered the next generation of the concept of active ownership: responsible ownership. Quoting Shakespeare from Romeo and Juliet: “A rose by any other name would smell as sweet”. In lieu of responsible ownership, Bolton and Samama (2013) introduce loyalty shares that provide an additional reward to shareholders if they have held on to their shares for a contractually specified period of time. This reward to loyalty serves to make engaged, long-term ownership, and long-term value creation more attractive. Mayer (2013) writes about committed ownership, and Mayer (2018) advocates that corporations are held accountable to a higher purpose than shareholder value maximization.[1] The latter is closely related to the theory of the economics of higher purpose by Thakor and Quinn (2013, 2018). Hart and Zingales (2017) argue that maximization of shareholder welfare is not the same as shareholder value maximization and propose that company and asset managers should pursue policies consistent with the preferences of their investors.

What these contributions have in common is their attempt to curb the potentially dangerous forces of managerialism and the dominance of short-term financial interest at the expense of healthy longevity and good stakeholder relations. This paper aims to contribute to this strand of literature by addressing an element of responsible ownership that is not yet well developed: the collective actions by owners. We introduce what we have named an ownership strategy as a new governance mechanism for collective action and responsible ownership. Active ownership is most powerful and responsible when the intentions of the active ownership is coordinated, unidirectional, and in agreement with each other.

While there seems to be momentum as far as institutional investors' shareholder duties goes, practitioners and politicians are more resistance when it comes to other shareholders; perhaps because it is considered an interference with their property rights (in that respect, institutional investor are indeed different in that they are merely financial intermediaries). However, as the French said during the revolution: ils doivent envisager qu'une grande responsabilité est la suite inséparable d'un grand pouvoir, which translate into: they must consider that great responsibility is the inseparable continuation of great power.

Shareholders need something to keep them together, if they are serious about reclaiming control and practicing responsible ownership – and not all are of course. An ownership strategy, clearly expressing the will of owners, driven by purpose, anchored on shared values, is an addition to the corporate governance bundle that mitigates the consequences of incomplete contracts and taper problems from agency; principal-agent problems as well as principal-principal problem. It is different from a shareholder agreement in that its focus is not on the relationship between owners and how to settle potential disputes or disagreements but rather on uniting the owners around a set of principles, a strategy, which then serves to improve the relationship between owners, their representatives in the board of directors, and the top management team.

Theoretically, we can say that an ownership strategy, as we present it here, combines a solution for Olson's (1965) collective action problem with the prospects of voice in Hirschman's (1970) terminology. The concept of an ownership strategy also appears in Wahl (2015). We add to his work by suggesting some theoretical structure to the idea, and by situating this mechanism in the corporate governance literature on ownership instead of at the crossroad between corporate governance and strategic management.

Beyond the theoretical arguments for an ownership strategy, this paper also presents a case study of a firm that formulated and adopted such a strategy in 2012 in response to a significant loss of trust following some of its actions in the run-up to the financial crisis in 2008 (Jonsdottir, 2018; Sigurjonsson et al., 2018). Using data from semi-structured interviews with owners, board members, and non-executive insiders together with documentary analysis, we find support for the theoretical construction and the associated research questions. Specifically, we find that the ownership strategy functions as a collaboration pact, which cultivates long-termism, and that the outcome is improved agency, i.e. that both the relationship between the owners and the directors (fewer principal-principal problems) and between the directors and management (fewer principal-agent problems) is improved due to better alignment.

Our empirical method is inspired by the rare work of Tilba and McNulty (2013). Qualitative inquiry is not only a means to reconsider established theoretical ideas but also serves as a very useful practice for understanding the practical and theoretical composition of this new corporate governance mechanism. Adding to the scarce empirical literature that apply such a methodology might be considered a contribution in itself. In summary, our paper adds to the corporate governance literature by identifying the important role of ownership strategy in promoting coordinated active ownership. As such, we contribute to the line of work that the studies by González and Calluzzo (2019) or Renders and Gaeremynck (2012) are examples of, where there is an openness to the fact that shareholders may have either homogenous or heterogeneous interests and may affect PA and PP problems at the firm.

THEORETICAL FRAMEWORK AND RESEARCH QUESTIONS

The transformation of active ownership to committed and responsible ownership carries with it a change in the perception of the shareholder in a corporation; a change that goes from responsibility to the individual, over responsibility to a group or coalition (if shareholders are assumed to be cooperative; on the other hand, if they are non-cooperative, their responsibility is only to themselves), to responsibility to all owners – and potentially all stakeholders. In other words, it is a transformation of the purpose of ownership in a theoretical setting that rejects shareholder value maximization as an unambiguous, unquestionable dictum for all shareholders.

This is in many ways a continuation of the transformation of the economy in the late 20th century identified by Useem (1996). The nature of this transformation has been a change away from management control and the managerial theories of the firm that were developed in the 1960s, where shareholder are ascribed no active role (Yarrow, 1976; Fama, 1980), to shareholder control, where shareholder value has taken over as the main if not the only relevant criteria by which decisions are evaluated (Fligstein, 2001; Brown, 1998). This shift has taken away some of the managerial autonomy, without, however, necessarily reducing the overall agency costs, as conflicts between different groups of shareholders may arise in its place (e.g. Renders & Gaeremynck, 2012). This is often neglected in the neoclassical flavoured principal-agent analysis, where shareholders are assumed to have identical preferences.

To practice responsible ownership, we might benefit from new mechanisms, one of which may be the following: *An ownership strategy is a governance mechanism that owners use to mitigate potential conflicts of interest between themselves and commit to a purpose and a common set of principles by which the firm should be run.* In this way, the governance problem that the ownership strategy seeks to solve is the lack of a clear ownership mandate that in a mutually agreed way respects the many different ownership preferences. In other words, it holds the potential to limit free riding, reduce expropriation, and foster collective action and responsible ownership. We propose an ownership strategy as a way to formalize and institutionalize the mutual commitments to cooperation – in a way that can survive in an environment of non-cooperative behaviour – making it more general because of less restrictive assumptions.

Why do we need to take the extra step of a formal strategy rather than the looser format of a voluntary coalition? Because it is a credible commitment to the common interests. Like donating the shares of a company to a foundation has been shown to serve as a credible commitment to a particular business purpose (Thomsen et al., 2018), the ownership strategy as well can be thought of in this way. A binding commitment, just like Odysseus, who, upon his return to Ithaka after the Trojan war, commands his sailors to bind him to the mast of his ship to prevent him from giving in to the fatal song of the sirens. The ownership strategy is the mast to which all shareholders are bound. Also to Williamson (1985, 1996), viable coalitions must incorporate mechanisms that bind their members to an acceptable level of co-operation. The ownership strategy is exactly such a mechanism.

In the following, we set out to clarify the theoretical underpinnings of for this new mechanism. Specifically, we want to highlight some theoretical motives and outcomes.

Motives

Dispersed ownership tends to discourage activism because of collective action problems, while high ownership concentration implies that decisions are effectively made by the incumbent block holders, which also deters activism from the smaller ones. In any case, decisions are not being made in a way that incorporates all ownership preferences. Responsible ownership should overcome both concerns – and formulating an ownership strategy is a way to achieve this. It implies both ownership rights as well as ownership responsibilities or shareholder duties – one of which is not to free ride on the larger owner and for the larger owner not to expropriate the smaller owners (Edmans, 2014). Working together to change the company in a better direction is responsible ownership, something we will return to later in our reading of Hirschman (1970).

It is often assumed that all shareholders have the same interests and that the relevant conflict of interest is therefore between managers and shareholders. Hence, these models do not take into account the possibility that shareholders may have heterogeneous interests, perhaps based on different views on what represents sound strategy for the corporation, or larger shareholders' ability to expropriate minority shareholders. Thus, there is room for developing these models so that they can account both for other mechanisms by which coalitions emerge and for other conflicts of interests.

There are a number of studies that highlight that shareholder interest can be heterogeneous, which in turn leads to PP conflicts between minority shareholders and controlling shareholders (Young, Peng Ahlstrom, Bruton, and Jiang, 2008; Peng and Sauerwald, 2013). The findings of these studies suggest that the assumption that shareholder interests are homogenous may be flawed. Goranova and Ryan (2014) highlight that shareholders may differ along several dimensions, including: their investment horizons, business relationships with the firm, portfolio considerations, and discrepancies between cash flow and voting rights.

Even with homogeneous interests, active ownership may well be undersupplied. Shareholder activism can be seen as a public good; the costs for providing it are privately borne, but the benefits often accrue to all shareholders regardless of participation (Olson, 1965; Admati et al., 1994). Thus, for the typical minority shareholder, exit or passivity is usually a more attractive than costly voice. For Olsen, coming from the Berle and Means type of firm, the public good characteristic of shareholder activism ensures that it is generally undersupplied (op. cit.).

Forming a coalition is one way to share the costs and make activism more attractive. A coalition of shareholders can also mitigate the problems of heterogeneity, but only for the shareholders in the coalition; for those outside the coalition, the situation may be better, due to the coalition's ability to reduce principal-agent costs, but it may also be worse, due the coalition's power to expropriate small, outside shareholders. It is difficult for coalitions to embrace all at the same time; the economic rationale, the requirement of identical perception of economic rationale.

Coalitions can also be more or less fragile (partly a function of the social networks that this kind of shareholder activism is embedded in, as demonstrated by Black & Coffee, 1994). Since every potential coalition member knows well the incentives that exist, promises of co-operation among potential coalition members are not necessarily credible. And without this credibility, no intendedly rational individual is prepared to devote resources to a coalition that is unlikely to be viable. In the language of transaction cost economics, inputs devoted to a minority shareholder coalition are specific to that coalition and have little or no alternative use. At the same time, the benefits they potentially yield are uncertain ex ante.

In sum, the opportunity to form a coalition does not appear to be sufficient for collective action. An ownership strategy, on the other hand, is designed to do exactly that. From these observations, we state our first research question:

> *Research question 1. How does an ownership strategy work as a collaboration pact?*

It is important for the formulation of an ownership strategy that owners use voice instead of simply exiting the company if they are unhappy about the way it is governed. Exit, we might say, emphasize the shareholder as an investor, whereas voice emphasize the shareholder as a committed and responsible owner. Alternatively, we might say that it marks the difference between purely performance orientation and conformance. The ownership strategy curbs free riding and requires active engagement in the design of the strategy.

Hirschman's (1970: 33) definition of voice: "voice has the function of alerting a firm or organization to its failings" and further that "voice is not exit but must include time for management to recuperate efficiency." In other words, with voice comes patience and long-termism.

So, what might explain the emergence and viability of minority shareholder coalitions? A satisfactory explanation of why a collective reliance on the exit mechanism is replaced by a reliance on the voice mechanism by a group of minority shareholders must be able to account for two things: the rationale behind the group's choice of voice-strategy, and the mechanisms that allow group members to commit to co-operation in a sufficiently credible manner. The rationale is the failure that Hirschman is writing about. The mechanism is the ownership strategy.

From this we state our second research question:

Research question 2. How does an ownership strategy promote long-termism?

Voice is demanding and expensive. For this reason, it is often replaced with exit. As Tilba and McNulty (2013) find, only very small number of well-resourced and internally managed pension funds are willing and able to express "voice" and exhibit ownership behaviour. Instead, their findings support the view that despite theoretical ideals, the ownership behaviour of institutional investors is more assumed than demonstrated. This finding further highlights the relevance of something like an ownership strategy.

Outcomes

We put forth two specific research questions regarding outcomes from an ownership strategy crafted on the two motives just outlined. One relates to the relationship between the owners and the board of directors, and the other relates to the relationship between the board of directors and management. Both research questions suggest that an ownership strategy improves the governance of the company.

Shleifer and Vishny (1986) also emphasize the ability of shareholder activism (in our case coordinated and mutually committed – as oppose to coalitions) to mitigate agency costs associated with the separation of ownership and control. At a general level, we might say that the ownership strategy serves to homogenise interests – or, alternatively, to work hard to find the union of interests – that in a sufficient way makes everyone happy to carry on as owners of the company. Not only will this reduce PA problems, but also PP-problems.

It is important to improve the working conditions between the owners and the board of directors, so that the latter can cooperate constructively on advancing the company instead of battling different owner interests. Principal-principal costs arise when shareholder interests are heterogeneous, and activists attempt to extract private benefits at the expense of other shareholders.

Existing literature documents that non-activist shareholders that work together can add value to the firm. For example, past research suggests that coordination among non-activist shareholders can improve merger outcomes (Huang, 2013) and reduce the odds of firm default (Chakraborty & Gantchev, 2013). Furthermore, analyzing institutional activism pursued by the Council of Institutional Investors (a group of public and private pension funds), Opler and Sokobin (1995) conclude that coordinated institutional activism creates shareholder value. Finally, Bauer, Moers, and Viehs (2015) examine the determinates of withdrawn shareholder proposals and find that firm management is more likely to proactively negotiate with the proposal sponsor and change governance practices when the sponsor shares similarities with the firm's ownership base.

González and Calluzzo (2019) who find that shareholder activists cluster to reduce the costs associated with activism campaigns, and, moreover, that their activism results in positive abnormal stock market returns (they also become more profitable), which they associate with reduced principal-agent costs as an outcome. They consider a more complex shareholder activism environment that includes potential PP costs. If clustered activism campaigns create PP costs, they may harm shareholder value. González and Calluzzo (2019) contribute to the understanding of the role of shareholder activism in corporate governance by considering that activists and smaller shareholders may have either homogenous or heterogeneous interests and may affect PA and PP problems at the firm. Thus arises our third research question:

Research question 3. How does an ownership strategy align owners and directors?

Second, the principal-agent relation between the board of directors and management will also improve because of having a well-crafted ownership strategy. Regardless of the ownership structure, a company with an ownership strategy will be able to give the owners' representatives in the board of directors a clear mandate. It will remove the burden of being ownerless (Fama, 1980) and reduce managerial discretion (Jensen and Meckling, 1976).

There is a burgeoning literature on this specific relationship, which addresses the issue in too many aspects to review here. In any case, the concern is capture precisely by Katz and Niehoff (1998) when they ask if there is a difference in how firms compete if owners take an active role in setting strategy as opposed to when managers make all the decision. They state that the management literature is full of cases where managers choose strategies that ultimately diminish shareholder wealth and wonder if their decisions would be different if the owners were involved in strategic decisions and "suggest that oversight provided by owners links the implementation of corporate and functional strategies, thus resulting in enhanced firm performance" (op. cit.: 756).

Research question 4. How does an ownership strategy align directors and managers?

RESEARCH DESIGN AND METHODS

The research rests mainly on qualitative research method to gain deeper knowledge of the research subject than is possible with quantitative analysis. Qualitative research method is primarily exploratory research. It was used here to gain an understanding of underlying reasons, opinions, and motivations (Taylor & Bogdan, 1998) for an ownership strategy as a new corporate governance tool. Qualitative data provide insights into the problem and help to develop ideas or hypotheses for further research. Qualitative research methods are in fact interpretative and are based on the suggestion that reality is socially created.

An approach to the subject matter was further obtained by means of induction, meaning that theories and hypotheses arose from the data itself, and were not presented at the beginning of the study (Eisendhardt & Graebner, 2007; Taylor & Bogdan, 1998). Justifying this approach and pointing to its importance, Bansal (2013, p. 127) goes as far as to say that "The present knowledge system in corporate governance is … out of balance: there is too much deductive theorizing and too little inductive." Also, support for the use of this research method is found e.g. in Sjöstrand et al. (2016, p.18) "the poor documentation of practices within the field of governance is in fact an international problem that results from a lack of readily available data. Most studies on corporate governance are based on secondary data sources and official quantitative data" and the results from such studies are inconclusive and often have a rather limited explanatory power (Daily et al., 2003; Gabrielsson & Huse, 2004; Huse, 2007). We thus aim to answer calls for in-depth qualitative studies of corporate governance (Bezemer et al., 2018). Because although qualitative studies in corporate governance have grown in number since 1990s, they still remain a fraction of published work in scholarly peer-reviewed journals (McNulty, Zattoni & Douglas, 2013). Furthermore, using the public sector and the Icelandic energy and utility Reykjavík Energy is of relevance as research into the governance of public energy and utility companies is scarce and is thus an answer to a call for more specific research on local public utilities governance mechanisms (Calabrò et al., 2013; Farrell, 2005; Grossi & Reichard, 2008).

Single Case Study

In addressing our research questions, we employed a case-based approach just as Bezemer et al. did in their 2018 study of boardroom decision-making and the influence of board chairs on director engagement. The empirical methodology is in fact twofold; the study of archival data and qualitative case work within the case company. Single case studies can richly describe the existence of a phenomenon (Siggelkow, 2007) and are particularly useful as we are examining new phenomena, and as Bezemer et al. (2018, p. 222) in a context that is not generally well understood (Bansal, 2013; Eisenhardt, 1989; McNulty et al., 2013).

This is a relevant and enlightening case for a number of reasons. First, understanding what an ownership strategy is. That is to say, defining what seems to be a blurred definition of ownership strategy in the literature. Secondly, understanding what the goals of an ownership strategy are at a case company. That is to contribute to understanding the role of ownership strategy. Thirdly, understanding how an ownership strategy is executed within the case company and with what results. That is to say, introducing the ownership strategy in practice within the case company. A case study approach is suitable for this kind of inquiry as it is meant to explore and asking more explanatory "how" and "why" questions (Eisendhardt & Graebner, 2007; Yin, 2014).

Data Sources

Multiple sources of data were collected for obtaining a thorough understanding of the phenomena as well as for data triangulation. This included semi-structured, open-ended interviews, archival document analysis and field notes. According to Yin (2014), the use of multiple sources allows researchers to address a broader range of historical, behavioral and organizational issues. No single source obtains an overwhelming advantage over the others; rather, they are thought of as complementary and can be implemented in tandem.

Case Company and Interviewees

The case company and whom to be interviewed were chosen by means of theoretical sampling. The case was selected because it is "particularly suitable for illuminating and extending relationships and logic among constructs" (Eisenhardt & Grabner, 2007, p. 27) and with reference to Patton (1990), this case was selected on the basis of a purposeful sampling as being an information rich case guided by taking advantage of the uniqueness of the specific case in question (Eisenhardt, 1989). The case company, Reykjavík Energy, is an Icelandic power- and utility-company, organized as a partnership and owned by three municipalities; the City of Reykjavík (93.5%), Akraneskaupstaður (5.5%) and Borgarbyggð (1%). RE is in fact a group consisting of a parent company and subsidiaries. Three subsidiaries are the face of RE's activities for customers and working within different markets, both competitive markets and public utility. Interviewees were carefully selected with consideration of their role and expected contribution to uncovering the subject matter.

For the purpose of this research, primary data was collected, further supporting the call in academia for researchers to open up the "black box" of board research (Pugliese et al., 2009) focusing on ownership strategy and the board's role in strategy implementation. Interviews are a highly efficient way to gather rich, empirical data (Eisendhardt & Graebner, 2007). The interviews were semi-structured and open-ended, lasting up to an hour, hour and a half. The formulation of interview questions was based on (Becker, 1998) who advises to ask how things happen, not why they happened. Becker (1998) says this kind of questioning being less constraining and giving people more leeway when invited to answer in a way that suits them. Also, based on Eisendhardt and Graebner (2007) as well as Yin (2014) the questions were meant to explore and thus more explanatory "how" and "why" questions were formulated. Probing was used to gain deeper understanding of interviewee's answers. We interviewed key governance players; a) owners' representatives (that is to say managers/mayors of the municipalities, both former and current), b) board members (both former and current), and c) non-executive insiders (current employees in management team), a total of 12 interviewees. A key approach to mitigate data collection approaches that limit bias is using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives (Eisendhardt & Graebner, 2007).

Archival Documentary Analysis

Written documents were an important source of information. Archival data included primary and secondary data. Secondary data included the Act on the case company, its partnership agreement, the ownership strategy and more. This secondary data was accessible via the internet. Primary data included in-house data such as reports on the compliance to ownership strategy, quality handbook data that pertain to ownership strategy, its implementation, minutes of meetings from board meetings and owners' meetings.

Data Collection

Overall, data collection took place between June 2017 and December 2018. Archival data was collected from June 2017 until mid-year 2018. Participant observation and field notes were taken at that same time. Interviews were taken from August 2018 until December.

A key approach to mitigate data collection approaches that limit bias is using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives (Eisendhardt & Graebner, 2007). We found however that we were reaching data saturation after 10 interviews, as further distinct themes did not appear. A total of 12 interviews were taken. They were taken at a location of the interviewees' choice. The data was analyzed through grounded theory methodology or coding, a general method involving comparative analyses for qualitative data. The idea is to order the text into meaningful themes. All interviews were recorded, transcribed and then coded. Triangulation of evidence was used as means to gain more confidence in the results (Eisenhardt, 1989). For the purpose of triangulation as well as means to limit bias all three researchers were involved in the case study and interpretation of the empirical results.

Limitations

The case study has certain limitations, as well as theoretical and practical implications. From the standpoint of research method, qualitative research has been criticized for not being scientific enough, not putting forward theories that are tested and either sustained or disproven as with qualitative research method. However, we, as Bansal (2013, p. 130) are "strong proponent[s] of paradigmatic and theoretical plurality. Both approaches are important to build a robust system of knowledge." From the standpoint of sampling and sampling size, the limitation is a small sample and representativeness. However, the case company was not picked randomly and for a good reason. "In fact, it is often desirable to choose a particular organization precisely because it is very special in the sense of allowing one to gain certain insights that other organizations would not be able to provide" (Siggelkow, 2007, p. 20). One must also keep in mind the lead author's position towards the case company, namely that she is an employee. However, there are two other co-authors and researchers implicated with data generation and analysis and thus the possibility of this bias is limited. It is the goal of this research to increase learning and understanding of ownership strategy for both scholars and practitioners alike.

Data Analysis

Data collection and analysis occurred concurrently. Initial data analysis began during the secondary data collection. The process of initial data analysis, comparing observational and documentary data and going back to the literature resulted in a systematic development of research themes and development of semi-structured interviews. Analysis of data was inductive as well as interpretive whereas we aimed at a deeper understanding of ownership strategy. NVivo 12.0, a qualitative research software, was used to assist and facilitate the analysis of the qualitative data. Figure 1 demonstrates the data analysis showing the codes (Nvivo nodes) and meaningful themes from which we developed the findings and the relationship between them to uncover the concept of ownership strategy.

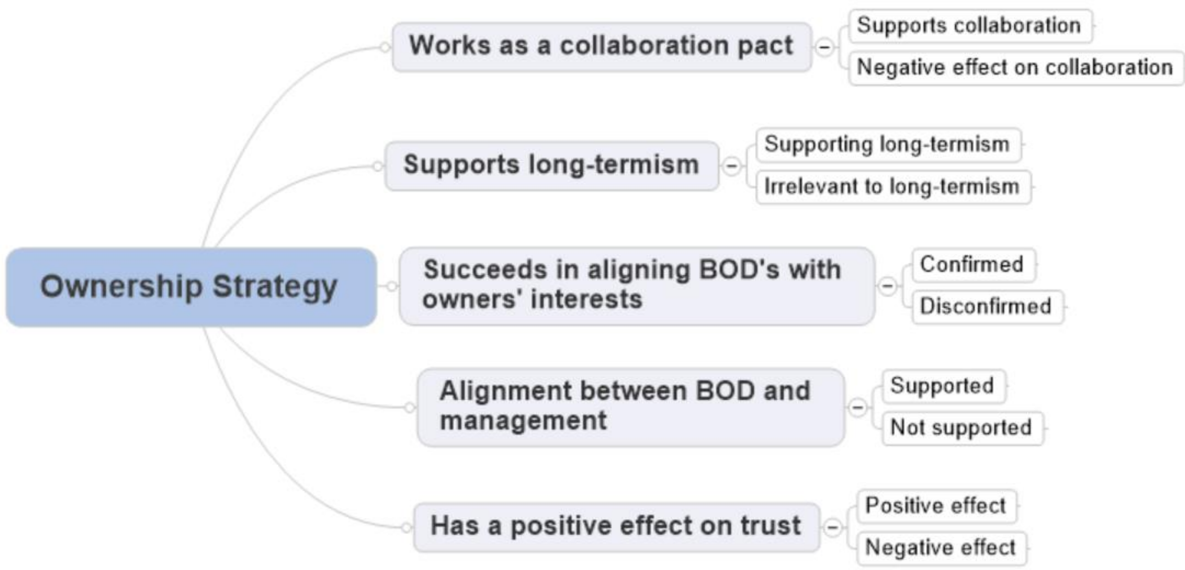

Figure 1: Data analysis

RESEARCH FINDINGS

The purpose of this research is to establish an understanding of an ownership strategy as a way to solve governance issues relating to principal-agent as well as principal-principal conflict while promoting trust, supporting long-termism, and fostering collaboration of owners. We sought major stakeholders' view of an ownership strategy in semi-structured open-ended interviews to uncover the role and an ownership strategy in practice at a case company.

Below is table 1, presenting each theme and its coverage. We will now go through each theme and the results in the same order as presented in the table. The text relating to each theme refers to the results presented in the table.

	Supports collaboration	232	92%
Works as a collaboration pact			
	Negative effect on collaboration	21	8%
	Supporting long-termism	74	86%
Supports long-termism			
	Irrelevant to long-termism	12	14%
	Confirmed	137	93%
Succeeds in aligning BOD's with owners' interests			
	Disconfirmed	10	7%
	Supported	43	100%
Alignment between BOD and management			
	Not supported	0	0%
	Positive effect	59	98%
Has a positive effect on trust			
	Negative effect	1	2%

Table 1: Node / Theme coverage.

Collaboration

We started out by identifying the respondents view on collaboration between owners and if and how an ownership strategy had an effect. Research question 1 was: *How does an ownership strategy works as a collaboration pact?* Ownership strategy is namely that, a mechanism that explicitly expresses the will of the owners and guides their agents while minimizing the principal-principal conflict that sometime arises when the biggest owners uses its power to the detriment of the smaller owners. By agreeing on their mutual will, owners are collaborating. Coding the interviews and looking to see if ownership strategy supports or has negative effect on collaboration of owners, we found strong evidence that the ownership strategy works as a collaboration pact between owners (232 instances or 92% as opposed to 21 instances or 8%), see table 1.

The impetus for the formulation of an ownership strategy was amongst others the need to coordinate the will of the owners. In fact, one of our respondents, in the management team, called the ownership strategy "*a constitution for this union of owners.*" The need for collaboration, as expressed by a member of the board:

> *… the impetus was in fact to coordinate the view of the owners, that relate to the role of the company and in fact to get the owners together … to set a framework for us [the board] to work within, a coordinated framework that all [owners] could agree upon.*

A member of the management team described the ownership strategy as clearly expressing the will of owners while promoting long time horizons and commitment of owners. All this while at the same time guiding their agents. The ownership strategy is not a standalone document as before mentioned. The compliance to it is written in the partnership agreement. The following quote describes and mentions all of the above:

> *… there is of course much more determination when things are documented like this in one place and it is more difficult to make changes to it. And they [the owners] have as well in the partnership agreement decided how decision-making should be, they have determined it and the smaller owners have a lot to say about it, how it should be. And it has been formalized with the partnership agreement and the ownership strategy how the owners intend to make decisions, in both form and content. The owners have in fact tied their hands. So it has been said, explicitly; we want things this way, we want it so and so and so. And you [the board] will have to show* us*, at an owners' meeting, per a special agenda, once*

a year- not just the traditional annual general meeting ... It is not enough that the board does it as usual.

Member of the board also expressed the need for an ownership strategy for different companies as apparent by the different companies that make up the case company group. It is not only the need for coordination, collaboration or long-term focus that justifies the formulation of an ownership strategy, it is straight forward as described by another member of the management team:

The owner owns the company. In this case three municipalities ... The owner should have a view of the company's role, it should be clear, the basics of how to operate it and where it is headed, because the board of directors works within the owners' authority.

When asked directly if the ownership strategy could be seen as the owners' being more committed owners, one respondent, an owners' representative, said "*... taking responsibility for the right things, and defining responsibility for others."*

Even though the relationship between owners was considered being good, the inherent discussions regarding the formulation of an ownership strategy is good. Expressed by one of our respondents, a member of the boards: "*... I think the relationship was always good but there is nothing wrong with formalizing it more."* Then, as expressed by a different member of the board:

They [the owners] agreed on the role and essence *of the company and certain matters regarding internal operations that they came to a consensus about. It is in that way it [the ownership strategy] reflects this will [of the owners]*

The mere fact that the owners of the case company found themselves formulating an ownership strategy suggest that other mechanisms or tools in the governance bundle were not enough. We thus explicitly asked about difference between shareholder agreements (this case partnership agreement) and an ownership strategy. The difference between partnership agreement and ownership strategy as expressed by one of the owners' representatives:

> *… this was indeed an innovation. There are certain things in the partnership agreement, and that an ownership strategy does not replace. However, there was a considerable lack of vision in terms of separation of* roles *… see, it [the ownership strategy] is more compact. We at least thought that the partnership agreement did not state all those things, or to say we decided to do it in a way that we wanted to have a detailed ownership strategy, or let's say clear, so that impartial or professional board members were perceptive about the owners' vision.*
>
> *We wanted to make a governance structure that would be such that the owner[s] put forward an ownership strategy, […] lines that could be changed with changes to the ownership strategy, and that might not be at home in the partnership agreement, or shareholder agreement. We include [in the ownership strategy] decision-making such as unusual or vital and unusual decisions to be sent to owners. … So we were trying to make a system where the board could first and foremost focus on [the company], its interest, that the owner[s] were still in the role of laying […] lines but it would be done through arms-length* structures *but not by breathing down the neck of directors or be themselves on the board.*

A member of the management team described the difference between an ownership strategy and a partnership agreement in this way:

> *… the partnership agreement frames in part WHAT people are doing, what role do the owners want this* company *to play, and then maybe at the same time what not. Ownership strategy is then more on the note HOW people are doing things, what points of view are guidelines and what to take care of – how you do it.*

And another member of the management team put it this way:

> *... the three owners agree on one voice towards the company, towards its board of directors. That is to say what is top-down, so to speak. But the partnership agreement is just about working together. The cooperation of owners.*

A member of the board about the distinction between ownership strategy and

> *... firstly, shareholder agreements might be more formal papers ... it is in fact a contract. So it is often something* non-negotiable ...

Asked directly, a few of our respondents could come up with anything negative about the ownership strategy. As expressed by one of our respondents:

> *I am having some difficulties talking about what could be the cons of an ownership strategy. But its pros are that all stakeholders, owners, employees and customers alike know what the company wants to stand for.* That *in my opinion is the biggest quality.*

What was mentioned as having possible negative effect was the threat that the ownership strategy would not be implemented, as described by one of the management team:

> *The cons with having an ownership* strategy *(thinks)? I don't see any cons per se, but there might be a risk that it succumbs, fades out, if people aren't working regularly with it.*

And one board member mentioned that the owners could use the ownership strategy better in coordinating themselves and said that "*I think that the owners could put it to better use, in an engaging conversation amongst themselves*" and the reason for them not doing so are more of a practical nature, that the discussions take such a long time:

> *... discussions about the ownership strategy are of course supposed to take place between the owners. But I think,* and *I don't know if there is, some fear that then someone is going to want to make some changes, I don't know.*

One inherently negative attitude towards the ownership strategy was that there were many companies well run that did not have an ownership strategy, as expressed by one respondent, and one only, a member of the board:

> *… there are many great companies in Iceland, that are very well run, that do not have an ownership strategy. The board formulates a strategy, but the owners appoint the board members so there is an equal sign between.*

To oppose his view one respondent, a member of the board as well, expressed his opinion in the success of the ownership strategy as an effective governance tool and creating trust:

> *It has totally revolutionized the company's corporate governance. Absolutely, and in fact it has been a prerequisite for the results we have achieved. I think in regards to coordination and just how the company is managed today. Just super effective management and I think, I think the main premise is ownership strategy, that it has been set and enforced. ... it creates the framework for strategic* management *within the company.*

To summarize, we found overwhelming support for ownership strategy working as a collaboration pact between owners. In fact, one of our respondents went so far as to say that the implementation of ownership strategy had revolutionized the company's governance. We think therefore it would suffice to say that our respondents were highly supportive of an ownership strategy as a collaboration pact and minimizing the likelihood of a principal-principal conflict. We also wanted to understand the role an ownership strategy might have on promoting long-termism. This discussion follows.

Long-term focus

We have identified the important role of ownership commitment in promoting long-term corporate governance. Based on that it is significant to find remedies for short-termism. We have suggested that an active ownership strategy, clearly expressing the will of owners, might be a corporate governance mechanism that can successfully promote long time horizons and committed long-term owners. Research question 2 (Hirschman) that we laid out was to uncover if and *how an ownership strategy promotes long-termism?* We found that long-term focus was deemed important by our respondents and the results showed that an ownership strategy has an inherent long term focus. Long termism is strongly supported by the interviews. We coded for 74 instances (86%) that supported the view that ownership strategy had an inherent long term focus and 12 instances (14%) were respondents found that it had not (see table 1).

One reasoning for the existence of an ownership strategy, or its importance, and how it benefits the company was laid out by one of our respondents in the management team. He was asked if an ownership strategy was both an owners' strategy and a governance mechanism at the same time:

> *Yes it is, but it is of course called an ownership strategy. It answers the questions: Why do the owners want to own this company and what do they expect from it?* What *is its role? That is the strategic factor. But then there is also a restriction of mandate [of the board]. That is to say, all vital decisions, whether financial or strategic decisions, the owners themselves have the last word.*

To clarify and reiterate, the ownership strategy limits the mandate of the board of directors by stipulating that certain decisions are subject to owners' consent; i) new commitments exceeding 5% of booked equity, ii) unusual and strategic altering or formulating decision or iii) plans to harness or utilize natural resources at intact areas and that require environmental-impact assessment. With this the owners are committed to collaborate on all long-term affecting decisions, as opposed to leaving those particular decisions to their board as is customary. As described by a respondent in the management team:

> *… I think it is an important, unusual document … It is very important as an [ownership] strategy; where we are headed, how the owners want the company to be run. Then it is of course, it is a safety net by limiting … the board of director's mandate. The company will not be steered into* trouble *by decisions of the board alone.* [At this point in the interview our respondent laughed and said]: *Owners would all have to agree upon it being done!*

Our respondents confirmed the inherent long-term focus of the ownership strategy. One of the owner's representatives described it this way:

> *It describes the long-term focus and the will of owners. In the arms-length principle is also inherent that we want the members of the board to be working within the objectives laid out. And we want,* first *and foremost, that they have the best interest of the company in mind by following owners' responsible vision for the long-term interest of the company.*

In addition to the long-term focus agreed upon by owners, the ownership strategy is a clear guideline and outline of the will of the owners towards the future, guiding the board of directors. An owner's representative described this in a way that the ownership strategy:

> *… sets it [the board] a framework. It sets it a strategic framework. This is a part of steadfast strategic thinking, over a longer period of time and not to have to be in any detailed management. Our will as owners is clear and if the board of directors estimates, based on company interests, that the [ownership] strategy is wrong or if they want to go another path then they have to get an approval for it by suggesting changes in the ownership strategy itself or some deviation from it.*

This view was supported by a member of the board who said:

> *The ownership strategy paints certain broad lines … or the framework that we are supposed to run* the *company within. And that clearly is for the long term.*

If short-termism is understood as to the detriment to the company then long-termism is important. Ownership strategy is deemed by interviewees to have an inherent long-term focus and is thus important for the company and its future, and is in fact a protection for the company so that a new board of directors does not suddenly or swiftly change the course of the company, to its detriment. This is evident as one member of the board said:

> *… this is a certain protection for the company for the long run. … the pros are in my opinion indisputable. They establish clear limits the board should work within. And that is enormously important. We can* lean *into the ownership strategy. It establishes a certain framework and that helps with all management … the ownership strategy assures a long*-term *focus which helps us to frame the operations and prevents us from running towards something that really does not concern the company, that we do not take company in any directions that might put it at risk.*

Restrictions on owners were also mentioned in relation to payments of dividends. The ownership strategy states that the board of directors shall formulate a dividends policy that the owners shall review and accept. That has in fact been done and with restrictions on when dividends are paid out, certain criterion that has to be met in order for dividends payments. One respondent said that the birth of a dividends policy, based on the ownership strategy, was the birth of a new methodology for ensuring the company being on the right path towards its future. While doing this the ownership strategy thus also puts a constraint on the owners themselves as they have decided upon the future path of the company and do not allow swift decisions disturbing the running of it. One respondent, an owner's representative voiced this in regards to dividend payments;

> *… now there is some methodology, that by itself is allowed to evolve over time, but it is based on something real, not just the owner's need for some money or*

> *the company's willingness or lack thereof to hand it over, rather it is, it has been weighed and contemplated …*

Opinions expressed relating to ownership strategy not supporting long-termism were not strong, definite nor many. These opinions related more to the fact that owners needed to stay alert in regards to changes the future might bring. One owner's representative said that:

> *… people have to be ready and able to say "we have to respond to …" either changes in the vision for the* future *or different circumstances. People cannot set the course too firmly.*

To summarize we set out to uncover if and how an ownership strategy affects the long-term commitment of owners. We found that it has an inherent long-term focus that the owners have agreed upon and that guides the board of directors. As discussed, committed ownership leads us to think that committed owners are focusing on their ownership for the long-term and are less likely to engage in short-termism. We wanted to see if an ownership strategy affected the alignment between the owners and their board of directors, not least because of the restriction of their mandate and how board members made sense of that. This discussion follows.

Alignment between Owners and BOD

We set out to see if an ownership strategy could be the owner's way to minimize the principal-agent conflict and the risk that managers might serve their own interests at the expense of the ones of the owners. This could be done by alignment between owners and the board of directors. Research question 3 was *How does an ownership strategy align owners and directors?* With that question we sought out to see if an ownership strategy was that corporate governance mechanism that actually expresses the will of the owners and guides their agents. In coding for the guidance of agents we searched for alignment between the owners' will and their board of directors. The results showed that an ownership strategy creates an alignment between the owners and their board of directors (137 instances (93%) confirm it against 10 (7%) disconfirmed, see table 1).

The ownership strategy outlines the will of the owners and creates a framework for the decision making of their board of directors. Therefore, in fact by following the ownership strategy the board of directors is working in line with their owners' will. Board members expressed true appreciation for the ownership strategy and its guidance. As expressed by one of them:

> *I think it would be much more difficult to be a member of the board without an ownership strategy … both because the owners, they think they know where the company is supposed to go forward and is going forward and the board of directors, or the members of the board, know where they are supposed to go with the company. So both stakeholders have some comfort for what they are doing is what is expected of them.*

The interviews uncovered that an ownership strategy gives members of the board more comfort that they are in fact working in line with their owners' will. One might come to think that ownership strategy would do the opposite, give members of the boards a sense of distrust towards them because of the limitations on their mandate. However, instead of them feeling some kind of distrust it creates this comfort, a sense of trust. This made it easier for board members to make decisions and to work together. In fact one board members described is thus: "*The spirit of the ownership strategy is apparent in the boardroom."* Another board member expressed the same inherent spirit and took a concrete example of how the board worked with the limitation on their mandate, and how the ownership strategy affects the strategic decision making of the board of directors directly. When asked how the ownership strategy affected his decision-making as a member of the board he responded:

> *Just in a variety of ways. It of course stipulates particular decisions. It maybe also conveys a certain spirit. Soon after it [the ownership strategy] was accepted, I remember there came up a matter, we were accepting something that was on this 5% limits [of book equity] and we were pointed out that it depended on how we would calculate it, we could be on either side of 5%. We just said that if there was any doubt, and this was some undisputed matter I think, we will* just *refer it to the owners. And it was good to have guidelines, and just the general spirit that here responsibility should be taken and if you think someone is exceeding himself then you can discuss that.*

Another board member also expressed the influence the ownership strategy had on board dynamics and said, asked if it somehow affected the dynamic of the board: "*Yes! It does, it facilitates communications, it does.*" The same board member iterated:

> *... because the ownership strategy creates these boundaries for us and that put its mark on discussions within the board, doing away with maybe some tension that would be if there was no ownership* strategy. *We could be arguing about matters that could overturn the company, if you see what I mean. We are dealing more with important matters, not foundational ones. And I think that in that sense it has in fact facilitated better communication within the board because it has made it clear what we are supposed, our framework, what we are supposed to be discussing.*

Board members in general expressed appreciation for the guidelines the ownership strategy provided them with and even the limitation on their mandate because it was in fact some assurance for board members that they were doing exactly what was asked of them:

> *…as with the conditions, when decisions are subject to owners' revision and such, there are of course three matters there, this is just really important because*

then there is a certain assurance … of what is expected and the framework that I have to work within, and that the board has to work within.

A member of the management team mentioned the restraint the ownership strategy must have for the board of directors and mentioned that a report on the compliance to the ownership strategy was a part of solid framework for corporate governance:

… discussions arise when report on the compliance to ownership strategy is handed in, putting the ownership strategy in the spotlight. This of course makes for a solid and trustworthy framework for corporate governance, I think.

Although limitations on the mandate of the board was not negative in the minds of the board members one described that an ownership strategy could not go too far in that sense. Inherently negative attitudes towards the ownership strategy were not coded. One respondent, a member of the management team was not sure if the case company's ownership strategy was effective in the alignment of the owners and the board of directors. On respondent, a member of the board, expressed some concern that it might be possible to justify deviations from the ownership strategy or its inherent spirit

To sum up, ownership strategy creates alignment between owners and their board of directors. It guides the board of directors so that they know where their owners want to go with the company. A restriction on the boards mandate was not seen as distrust or negative, rather, board members appreciated knowing exactly what the owners wanted from them. Ownership strategy strongly affects strategic management and the strategic decision-making of the board. Next level effect of ownership strategy would be from the board of directors towards management, which we will discuss next.

Alignment between BOD and Management

For the board of directors and managers alike an ownership strategy clearly expresses the will of the owners making it clear what owners expect from them. The ownership strategy clearly expresses their guiding vision, the company role has been outlined by the owners as well as the core business. The board of directors sees this in a positive light, even though restrictions have been made in their mandate. We sought out to see if the ownership strategy had any effect on the alignment of the board of directors and the management team. Research question 4 we put forth was: *how does an ownership strategy align directors and managers?*

The results show that an ownership strategy has a positive effect on the cooperation of the board and management (100%, no coding was made for an ownership having a negative effect on the alignment of the board and management, see table 1). One member of the management team described this alignment in this way:

> *Managers get, through ownership strategy and the* corporate *strategy, a message in regards to where the company is headed. Where they are supposed to go, what they are supposed to do. They are supposed to set goals and measures, submit it to the board and in some instances submit it to the owners, and then go in that direction.*

A different member of the management team also described the alignment on not only the board and managers, but all employees:

> *I think that all of us that work at Reykjavik Energy and the board of directors are true, are working within the* spirit of what the owners want to see, without setting a scale to it I think that there is harmony between employees, managers, the board and owners in regards to the path of this company, the role and in what spirit we want to work.

This same member of the management team also said that an ownership strategy affected the governance of the group as a whole, not just the parent but the subsidiaries as well:

> *... the boards that manage the companies [subsidiaries] and their* managers*, it being clear from the owners, what is expected of them. The role of the group, in the minds of the owners and what we should all have as a guiding light, what the core business is etc. ...*

Our results support that an ownership strategy has a positive effect on the cooperation of the board and management. Clear and formal documentation of what the owners expect from the company enables the board and managers alike to work within the owners' will. This creates a sense of comfort for the stakeholders that they are in fact working within the will and vision of their owners. This sense of comfort can be translated to trust, as we will next shed light on.

Trust

Ownership has a positive effect on trust among stakeholders. We coded for 60 instances whereas 59 of them (98%) supported that the ownership facilitated trust while only one instance (2%) was coded for negative attitude. This instance was though not inherently negative. In his opinion the ownership strategy was just as important, and not more important, that strategizing in general. He made no point of ownership strategy creating distrust. And while all respondents said that ownership strategy was important, this same respondent said that he thought it was, but a corporate strategy would do the same. He was alone in his opinion.

Asked directly if the ownership strategy had affected trust between stakeholders most answers were quite clear, as one of the owners' representative simply put it: "*yes, increased trust a lot between stakeholders*." Another respondent, a member of the management, said:

> *...I think that it has [increased trust] without doubt. Both trust towards the company employees, trust of the owners* towards *the board of directors and the company in general.*

In part this had to do with the transparency the ownership strategy stipulates clearly. An owners' representative put an emphasis on transparency when asked if the ownership strategy might affect trust and in what way:

> *There is no question about it. When the flow of information is effective, you might tend to underestimate the need for it, and when you see things being organized, explained and introduced, that builds up a certain trust in that things are done in an organized manner and in accordance to this fundamental manifesto that the ownership strategy is. That kind of things, this interaction. That these are not just words on paper. This means that there is a certain comfort, or should we say a feeling of trust in that everyone sits at the same table, get information and* everyone *has every chance to ask for information and so on. It is important that this side of the coin is*

The empirical results strongly suggest that such an ownership strategy can be made out to increase trust. Owners having decided on a collective voice, having created a clear mandate for the board of directors and a guidance, for the board, managers and all employees alike, was seen in a positive light and increasing trust between stakeholders.

DISCUSSION

Empirical results show that an ownership strategy is an effective corporate governance mechanism to promote long-term commitment of owners while minimizing agency problems and promoting trust between principals and principals and their agents. To summarize, an ownership strategy represents ownership as a unity where the owners speak with a collective voice. Theoretically, we can say that an ownership strategy combines a solution for Olson's (1965) collective action problem with the prospects of voice in Hirschman's (1970) terminology. The results of the interviews support that of Wahl (2015) who says that an ownership strategy states the will of the owner. It enables the owners to express their will that they have together agreed upon explicitly, as Wahl (2015) suggests. We confirmed that an ownership strategy is a governance mechanism able to align the interest of owners and their agents and that "By combining owners' will on one document, the ownership strategy gives one clear message from principals to agency instead of several signs" (Wahl, 2015, p. 95).

Empirically, the research findings indicate that an ownership strategy establishes a much needed long-term focus and commitment of owners (Bolton and Samana, 2013; Mayer, 2013, 2018; Thakor and Quinn, 2013, 2018; Hart and Zingales, 2017) while creating a sense of security among the board of directors that they are working within the will of their owners. Whereas ownership strategy conveys the will, vision and long-term focus of owners to the board of directors it affects strategic decision-making and dynamics of the board while promoting trust between stakeholders. Thus, it is a way to avoid the trap between companies being ownerless (Fama, 1980) and burdened by powerful and self-interested owners (Shleifer and Vishny, 1997; Edmans, 2014). The research findings therefore allow for a suggestion to be made for a new tool in the governance bundle for promoting collective action and responsible ownership. Active ownership is most powerful and responsible when the intentions of the active ownership is coordinated, unidirectional, and in agreement with each other.

Our empirical research gives way to thinking that an ownership strategy is an important mechanism for different kinds of companies. It serves to seek out the homogeneous interests as well as the mutually acceptable heterogeneous interests (González and Calluzzo, 2019; Goranova and Ryan, 2014; Renders and Gaeremynck, 2012) – and thus also the expected agreement amongst their respective representatives in the board. It is also a very generic mechanism in the sense that it makes no presumptions about the content; only that coordination is required (Olson, 1965), and that owners resort to patient voice instead of quick exit (Hirschman, 1970). For companies and their boards of directors it is important that the owners are clear on what they expect from their ownership. For the case company in question it is really important as it is organized a group of companies, parent and subsidiaries, that are working both competitively and serving as a public utility. The owners are however, the same for the group as a whole and it is of much importance that they give one clear message concerning what they want from their group of companies.

Our research has a substantial explanatory power, introducing an ownership strategy as a corporate governance tool in action at a case company. In addition, although the results are not generalizable, we have added to the theorizing about ownership strategies. As with qualitative research, hypotheses arise from the data at the end of the study. This allows us to hypothesize that an ownership strategy is an effective governance tool to promote the cooperation between owners and establish their long-term focus. In doing so, owners and their board of directors are aligned as are the board and managers. A suggestion for further research is therefore to use a bigger sample and test if the hypothesis stands.

In addition, for companies with more owners, the discussion and formulation of an ownership strategy might be difficult. However, there are indications that an ownership strategy is an effective governance tool to establish a long-term focus and promote collaboration of owners while providing guiding vision for their board of directors. By limiting the mandate of the board and having long-term affecting decisions sent their way the owners are more committed.

ENDNOTES

[1] There is also an interest in this from the business community as well as politically. In Asia, for example, the Stewardship Asia Centre has published a stewardship code for institutional owners, where "the act of safeguarding and enhancing the capability of the business to create economic and societal value over time" is at the center of attention. In the European Union, amendments to the Shareholder Rights Directive from 2007 was adopted in 2017, putting more emphasis on the role of institutional shareholder engagement.

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