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Corporate governance in EY Sweden

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List of contents

1. Introduction	4
2. Purpose	5
3. Presentation of EY Sweden	5
4. The share market and the ownership structure	5
4.1 Ownership identity and ownership concentration	6
4.2 Consequences of the ownership structure.	7
4.3 Conclusions of share market and ownership structure	9
5. Board of directors	9
5.1 Board composition	10
5.2 Board tasks	13
5.2.1 Monitoring	13
5.2.2 Providing resources	14
5.3 Conclusions concerning the board of directors	15
6. Strategy and structure	15
6.1 Structure and strategy of EY Sweden	17
6.2 Is there a fit?	18
6.3 Conclusion	19
7. Executive compensation	19
7.1 Compensation at EY Sweden	20
7.2 The mechanism, criterion and consequence	21
7.2.1 Mechanism	21
7.2.2 Criteria	21
7.2.3 Consequence	24
7.3 Conclusions	25
8. Internal and external managerial labour market	26
8.1 EY Sweden and labour markets	26
8.2 TMT and the board of directors	27
8.3 Investments in human capital	29
8.4 Re-employment	30
8.5 Conclusions	31
9. Institutional pressure	31
9.1 Institutional isomorphism	32
9.1.1 Coercive isomorphism	33
9.1.2 Mimetic isomorphism	34

9.1.3 Normative isomorphism	34
9.2 CSR vs. CSV	36
9.3 Corporate governance code	39
9.4 Conclusions	40
10. Managerial discretion & Corporate entrepreneurship	41
10.1 Managerial discretion in EY Sweden	42
10.1.1 Environmental factors	42
10.1.2 Organizational factors	43
10.1.3 Managerial characteristics	44
10.1.4 Role of the manager	45
10.2 Corporate entrepreneurship in EY Sweden	46
10.3 Conclusions	48
11. Summary and concluding remarks	48
References	52

Tables

Table 1 Overview of set of rights for EY Sweden and EY Europe	7
Table 2 Overview of the board of directors at EY Sweden	12
Table 3 Overview of EY Sweden's criterion concerning compensation	24
Table 4 TMT from the year 2012-2015	28
Table 5 Position in TMT, experience and education	29
Table 6 Overview of EY Sweden CSR and CSV activities	39
Table 7 Overview of factors affecting discretion in EY	45
Table 8 EY Sweden's goals and mechanisms that affects them	48

1. Introduction

Corporate governance is defined by Thomsen and Conyon (2012) as “the control and direction of companies by ownership, boards, incentives, company law, and other mechanisms” (s.4). The purpose of corporate governance is to make sure there is good management and good investments in the firm. Corporate governance exist because there are conflicts of interest in a company and people are seen to be self-interested or even opportunistic. A fundamental theory of corporate governance is agency theory which in the extreme consider a firm only to be a nexus of contracts. However, in the modern and less extreme agency theoretical view there is ownership in a firm (Collin, 2006). The agency theory separates ownership and management and suggest a principal-agent relationship (Schleifer & Vishny, 1997). The agent is a person doing something on behalf of another person, the principal. The basic assumptions of the theory is that there are conflicting interests between the principal and the agent, that there is information asymmetry and that principals and agents are rational human beings which means that they prioritize their own interests (Thomsen and Conyon, 2012). Several principal-agent relationships exists and Thomsen and Conyon (2012) mention owner-manager, majority shareholder-minority investors and shareholders-stakeholders. The information asymmetry give rise to two problems; moral hazard and adverse selection. Moral hazard exist when the agent cannot be observed by the principal and suggests that if a person do not experience risk in connection to actions the person will be more careless in the actions or might not act at all. Adverse selection means that there is hidden knowledge. The agent has more knowledge than the principal (Thomsen & Conyon, 2012). Corporate governance deals with solving these agency problems (Schleifer & Vishny, 1997).

Even though agency theory is fundamental it cannot explain everything and therefore other theories, like transaction cost theory and institutional theory, are also used in corporate governance (Thomsen & Conyon, 2012). Corporate governance is the way owners, or principals, use corporate governance mechanisms like ownership structure, board of directors, strategy and structure, executive compensation, labour market, institutional pressure and managerial discretion in order to influence performance and thereby efficiency. Efficiency in this setting is about reaching company goals. At the same time the company is exposed to external forces which can affect the governance mechanisms (Collin, 2007). In order to see how governance mechanisms can be applied, an analysis of a firm was conducted. The company chosen is EY Sweden and their use of governance mechanisms will be presented in this assignment. When looking at corporate governance one should have in mind the contingency

theory that suggests that context matters. One type of governance in one firm might not work in another¹ and different combinations of governance mechanisms can lead to high performance (Garcia-Gastro, Aguilera & Ariño, 2013).

2. Purpose

The purpose of this assignment is to see how different governance mechanisms are used in EY Sweden in order to influence performance and create efficiency.

3. Presentation of EY Sweden

EY Sweden is part of the EY group which was founded in 1989 when two audit companies merged together (EY, 2015a) and is now one of the so called big four audit companies (Civilekonomen, 2011). EY Sweden offers services with the business idea of assuring quality of financial information and to be leaders in the areas of auditing, tax advisory, transaction advisory and business advice. The company has clients in several business areas, for example real estate and construction, retail and consumer products, telecom, technology and media and the industry of oil, gas and energy (EY, 2014a). With 2236 employees (EY, 2015b) the company offers services within four service lines: assurance, tax, advisory and transactions (EY, 2015c). The company works in a dynamic and competitive environment (Öhman, 2007) and has as their main objectives to have a strong brand, be the most attractive employer within the industry, grow and be profitable (EY, 2014a). These objectives will recur throughout the paper.

4. The share market and the ownership structure

The performance of a company can be affected by the firm's ownership structure and is therefore considered to be an influential governance mechanism (Connelly, Hoskisson, Tihanyi & Certo, 2010; Thomsen & Pedersen, 2000; Schleifer & Vishny, 1997). The firm can have different type of owners and it is rare that shareholders are homogenous which means that they all might have different objectives and interests of a firm. Additionally, the owners can have different amount of power of control depending on the concentration of shareholding. Therefore, ownership identities and ownership concentration matters (Thomsen & Conyon, 2012). In order to discuss these two in relation to EY Sweden it is first necessary to give a definition of ownership. According to Thomsen & Conyon (2012) ownership can be defined by a set of rights. These are the right to use an asset, the right to claim profit, the right to sell assets

¹ Timurs Umans, Professor in Business Administration at Kristianstad University. (Lecture, 2015-12-28)

(for example shares) and the right to determine who can use the assets. In addition it can be mentioned that, often, responsibility comes with ownership. The set of rights can be combined in many different ways and it is not always that all four set of rights are applicable but ownership can still exist (Thomsen & Conyon, 2012). In the following sections, the ownership structure of EY Sweden will be presented and discussed concerning ownership identity and concentration as well as the consequences of this structure.

4.1 Ownership identity and ownership concentration

According to Swedish law (the Auditors Act 2001:883) a joint stock company that wants to become a registered audit company must be owned by auditors or by registered audit companies. This means that no external owners, meaning owners outside the profession, are allowed, if the company wants to be registered. EY Sweden is a registered audit company and can be said to have two groups of owners. First, the parent company EY Europe who owns 10% of the shares but it corresponds to 54,2% of the votes. EY Europe could therefore be seen as a blockholder (Connelly et al., 2010). The second group consist of 147 partners that works as managers in the company. Together they own 90% of the company but it corresponds to 45,6% of the votes (EY, 2015b). An offer to become a partner involves buying shares in the company which must be sold back at the same price if or when leaving the position. However, to become a partner means that the individual share the financial risk with the other owners (Civilekonomen, 2011).

Creditors, like banks, also make investments in companies through lending capital. If debt is large, a creditor like a bank can issue control over the company by having certain demands or requirements for the company to fulfill in order to be lending more capital (Schleifer & Vishny, 1997). EY Sweden is financed by both equity and debt. At a first glance of the company's balance sheet the solidity seems to be problematic. However, at a closer look it can be seen that a major part of the debts is current liabilities which is well covered by current assets. The current assets would even cover the long-term liabilities. In addition, the current liabilities stem from cost of personnel like social fees and overtime payments (EY, 2015b). This is liabilities that would not exist without EY Sweden having personnel. Since it is a service company one can assume that the number of employees is determined by the workload. With this in mind, the balance sheet indicates low risk and the financial situation of EY Sweden seems to be strong. Banks are therefore not considered to be able to have a strong influence in EY Sweden (Schleifer & Vishny, 1997).

4.2 Consequences of the ownership structure

According to the definition of ownership it can be seen that both ownership groups, EY Europe and partners, has the right to use the assets but partners are not allowed to sell their shares to other than owners (jmf Van Lent, 1999). EY Europe is not entitled to any dividend which the partners in EY Sweden are (EY, 2014a). The right to profit is therefore entitled to partners. On the other hand, EY Europe has the majority of the votes which indicates that they can control the company. It is therefore difficult to distinguish who is the principal and who is the agent. To let managers become owners is a control mechanism which indicates that EY Europe tries to direct and control partners at EY Sweden. This could imply that EY Europe is the principal and EY Sweden is the agent. However, when it is not possible to separate owners from managers there is no real separation between management and ownership (Thomsen & Conyon, 2012). The interests should therefore be aligned. On the other hand, partners are entitled to dividend which EY Europe are not (EY, 2014a), thus suggesting that partners might be more focused on the financial goal, of being profitable, than EY Europe. Additionally partners work in EY Sweden which EY Europe is not, suggesting that there is information asymmetry (Thomsen & Conyon, 2012). Instead of a principal-agent relationship it therefore seems to be a principal-principal relationship. This arise when there is conflict of interests between shareholders (Thomsen & Conyon, 2012) which could be the case for EY Sweden.

Table 1. Overview of set of rights for EY Sweden and EY Europe

Partners	EY Europe
Rights	
Right to use assets	Right to use assets
Right to sell shares to other owners	Right to sell shares
Right to profit	Control the company by majority of votes
Role in the agency problem	
Principal	Principal

Since EY Europe is not entitled to dividend they must have another reason for being owners and have the majority of the votes. According to Pierce & Sweeney (2005) partners in audit firms cannot be seen as a group with congruent goals because every person is assumed to be self-interested which suggests that partners want to maximize their own benefits. All profit is distributed as dividend every year (EY, 2014a) which could make some partners act myopic, especially if they are about to leave the firm, for example retires. This could be a reason for EY Europe to keep the majority of the voting power. According to Connelly et al. (2010) large owners, blockholders, are interested in effectiveness of wealth creating activities. Since the firm wants a strong brand and to be attractive maybe EY Europe's voting power is a way of assuring

that partners are not making self-interested decisions that threatens reputation and legitimacy of the company. A bad reputation of a firm can be devastating for the whole group which could be seen when the auditing company Arthur Andersen collapsed after the Enron Scandal (BBC, 2002). Although, all shareholders benefit from increased shareholder value they might differ in the priority among goals (Thomsen & Pedersen, 2000) which in this case, due to the assumption of self-interest, can be profit for partners and brand for EY Europe.

Thomsen & Pedersen (2000) argued that maximizing shareholder value is not everything. Instead, corporate governance also matter to corporate strategy. One of EY Sweden's goals are to be an attractive employer. The employees are considered important in order to meet the demand of clients. EY Sweden therefore emphasize that the possibility to offer partnership is a tool to attract the very best employees. This is why all profit is distributed as dividend every year (EY, 2014a). Marxist theorists would probably say that partnership exploits other employees in the company since those are the ones that gets all the extra compensation (Collin, 2006). However, the tournament hypothesis which is similar in the sense that just the top gets the goodies look at it this as an incentive for other employees. This will be discussed in connection to executive compensation.

Another plausible reason for offering partnership could be to maintain knowledge within the firm. Partners work themselves to the top (jmf Van Lent, 1999) and thereby attain a lot of knowledge about the firm, different businesses and clients. Knowledge is the key to success according to EY Sweden (EY, 2014a). Gaining knowledge could lead to asset specificity (Collin, 2006). At EY Sweden teams are put together based on knowledge and skill needed for the audit assignment (EY, 2014a) and it is possible to become expert in an area². This could imply some asset specificity. However, the big four audit companies are similar and offer the same services (Deloitte, 2015; EY, 2015c; KPMG, 2015, PwC, 2015). Also the firms must follow the same standards and regulations concerning the daily work (IFAC, 2015a). Based on this there might not be high asset specificity concerning the daily work but perhaps more specificity exists concerning different systems used in the firms. However, since it is possible to perform similar tasks in other audit firms asset specificity is not high, at least not at lower levels where it is possible to develop knowledge of several industries (EY, 2015d). To have partnership in the ownership structure could serve as an incentive for employees to stay within the firm. However,

² Personal communication

not everyone can become partners so there must be other motives too for the employees to stay in the firm which will be reflected upon in the part concerning executive compensation.

4.3 Conclusions of share market and ownership structure

For a registered audit company like EY Sweden, no owners besides auditors and other registered audit companies are allowed (Auditors Act 2001:883). EY Sweden has two groups of owners; the parent company EY Europe and partners which all work in EY Sweden. To have partnership the interests of owners and managers should align. However, with partners entitled to all profit distributed as dividend there exist at principal-principal conflict where partners might be more focused on financial performance than EY Europe who in turn might be focused on reputation and legitimacy and therefore maintain a majority of voting rights. Because asset specificity is not considered high, at least in the lower levels, partnership might be offered as an incentive to maintain employees, and thereby knowledge, within the firm. This can be connected to EY Sweden's goal of wanting to have a strong brand because in order to reach that goal EY Sweden must deliver quality to clients which requires good knowledge (EY, 2014a).

5. Board of directors

The board of directors is elected by the shareholders and can be seen as a mediator between the owners and the top management team. According to the theory of incomplete market contracts it is not possible to cover all thinkable situations in where the Chief Executive Officer (CEO) must act and then connect this to a reward. Therefore, a board of directors is established in order to assure that the CEO and top management team is working in the interest of the owners. The board has the right to make decisions about the firm's assets and evaluate the performance of the company, CEO and top management team. It is the board that elects the CEO, who often is included in the board. Sometimes the CEO is even the chairman of the board which is referred to as CEO duality, but this can differ between countries and cultures. For instance, in the UK the CEO is rarely the chairman of the board while it is very often the case in the US (Thomsen & Conyon, 2012). Shareholders need to choose board members carefully because the board of directors may affect a company's reputation, both positively and negatively (Hillman & Dalziel, 2003).

From the perspective of agency theory it is said that the board of directors are to monitor and control the top management team making sure strategy is implemented satisfactorily. In addition, from the theory of resource dependency, the board is also to provide resources which

can be anything that serve as either a strength or a weakness to a firm. These resources can be seen as board capital and be divided into human capital and relational capital. Human capital can be experience, expertise and reputation while relational capital is connected to advice, networking and information channels (Machold & Farquhar, 2013; Thomsen & Conyon, 2012; Hillman & Dalziel, 2003). Machold & Farquhar (2013) argue that there are high levels of monitoring in boards that are dominated by insiders. In contrast Hillman & Dalziel (2003) argue that boards that are dominated by either insiders or outsiders are less effective in monitoring but instead very effective in providing resources. In addition Hillman & Dalziel (2003) adds that it depends on the incentives. Equity compensation seems to increase both monitoring and provision of resources. However, dependent boards seems to have a positive effect on provision of resources but instead have a negative impact on monitoring (Hillman & Dalziel, 2003). With this in mind an analysis of EY Sweden's board of directors has been carried out and will be presented in the next section. The composition of board members will be explained followed by a discussion of board tasks.

5.1 Board composition

The board of EY Sweden consists of at least seven board members of which five are partners (the chairman, the secretary and three of the directors). The other two are employee representatives, working at EY Sweden with technology advisory and administration respectively (EY, 2014a). By working in the company the board members clearly have ties to the company and is therefore seen as dependent board members (Thomsen & Conyon, 2012).

Why writing 'at least' seven board members is due to that it is not quite clear whether or not the CEO is part of the board in EY Sweden. In 2014/2015 the CEO was in the board but when the new financial year started on the first of July 2015 the CEO was replaced (EY, 2015e). Looking at EY Sweden's webpage it is not fully clear if the new CEO is in the board (EY, 2015f). However, the former CEO is still in the board but now has the title of Chief Operating Officer (COO) until he retires next year (EY, 2015g). If not already, perhaps the new CEO will be part of the board when the former retires, since it seems, from previous year, as if the CEO usually is part of the board (EY, 2014b). Perhaps the former CEO will continue to be seen as the CEO in spirit and mind, like in family firms where a member of the board may have a stronger saying and more respect than the chairman (Bammens, Voordeckers & Van Gils, 2008). Since it is common that the CEO is part of the board of directors (Thomsen & Conyon, 2012), has been so in EY Sweden earlier (EY, 2015e) and that other firms within the EY group does it (EY, 2015h) the analysis will continue as if the CEO of EY Sweden is part of the board.

Therefore it can now be considered to be eight members in the board. This gives the chairman more power than the others because in the case of a tie in voting the chairman will have the last say (Swedish Companies Act, ABL 9:22). That being said it should also be said that there is no CEO duality. EY Sweden follows the UK trend in that the CEO is not the chairman of the board.

The owners are the ones electing board members and evidently EY Sweden choose insiders. Perhaps of the same reason they cannot have external owners, to protect their independence. Another possible reason could be comparable to how family firms choose their board members. Family firms have a tendency to choose family members to be board members because they have “grown up” in the company and gained experience of the firm. The older generation share and discuss their own mistakes with the younger generation (Bammens et al., 2008). This could be similar to an audit company where you start as an assistant and work yourself to the top and perhaps becomes a partner (jmf Van Lent, 1999). Knowledge is gained by experience and from talking to more experienced colleagues.

As mentioned earlier the board consist of insiders but not all are partners. The board members that are non-partners might not have the courage to speak up against the board in fear of being punished later. Even though it is more common in large boards this can result in free-riding problems where the partners in the board makes the decision and the non-partners just ride along with what is suggested. To have employee representatives is regulated in Swedish law and is important in human capital intensive companies in order to assure firm specific skills (Thomsen & Conyon, 2012). However, the free-riding problem might not be a great issue in the case of EY Sweden, especially not for the auditing department, since all auditing companies have regulations, standards and guidelines to follow, set by the International Federation of Accountants (IFAC) and its independent standard-setting boards as well as the Swedish organization FAR, concerning for example education (IFAC, 2015a; FAR, 2015a).

It is said that diversity in boards of directors increases the performance of company due to improved quality of decision-making. This can include ethnicity, gender, experience, education and background of the board members (Thomsen & Conyon, 2012). A presentation of the board members of EY Sweden concerning some of these categories is given in table 2.

Table 2. Overview of the board of directors at EY Sweden

Position in the board	Role at EY	Previous working experience	Education from	Gender
Chariman	Partner, Head of Assurance		University of Gothenburg	Female
Secretary	Partner, Lawyer	Court clerk, Supervisory board of public accountants, swedish national board of trade	Lund University	Female
Director	Partner, authorized auditor	Leader of Nordic IFRS Desk, Nordea, Arthur Andersen, Fondsinans	Norges Handelshøyskole	Male
Director	COO, former CEO, auditor		Karlstad University	Male
Director	Partner, authorized auditor			Male
Employee representative	Administrator			Female
Employee representative	Advisory services, technology advisory	Telia Sonera, Tieto, Protect Data	KTH and Stockholm University	Male
CEO	Partner, authorized auditor	Sports - swedish champion in Rugby		Male

From table 2 it seems as if there is some heterogeneity within the board of directors. There is a composition of different universities and different educations like both auditing and law. Some has worked in other companies before and thus bring knowledge and experience to the company (EY, 2015g; LinkedIn, 2015a, 2015b, 2015c, 2015d, 2015e, 2015f, 2015g). One of the directors has also worked in another country, Norway (LinkedIn, 2015c), but this can perhaps be very similar to Sweden since they both are Nordic countries and neighbours. There is also a fairly even distribution between men and female which EY Sweden encourage it to be among leading positions (EY, 2014a). Diversity is preferable in order to decrease groupthink and instead get different opinions on a matter which can improve the quality of decision-making (Thomsen & Conyon, 2012). Different perspectives, expertise and knowledge in the board enhance thinking outside the box and promotes innovation. However, it can be difficult to reach consensus³. Interesting though could be the fact that most of the board members are partners. Partners are the ones that choose who else can become partner (Civilekonomen, 2011). Since it is said that individuals tend to choose employees that are similar to themselves⁴ this might affect the board of directors. A partner is supposed to have skills in networking and to embody commercialism. In addition a partner needs to be dynamic and outgoing. If partners choose individuals that are similar in character then there is not much heterogeneity in the board anyway. Research argue that partners actually are becoming more homogenous (Carter & Spence, 2014). However, at EY Swedens board there is still different backgrounds in working experience and also experience from different service lines at EY Sweden. Thus there is some heterogeneity. Conclusively it can be said that the board of directors are heterogenous concerning working experience, gender and educational background. However, there seems to be homogeneity in personality. Perhaps this combination can be considered good. Groups that are to heterogenous can make it more difficult to agree on goals, increase conflict and lower the level of teamwork.

³ Timurs Umans, Professor in Business Administration at Kristianstad University (Föreläsning 2015-12-28)

⁴ Timurs Umans, Professor in Business Administration at Kristianstad University (Föreläsning 2015-12-28)

Maybe the homogeneity in personality can ease this up and provide some groupthink (Thomsen & Conyon, 2012) making it possible for members to contribute with different perspectives but still understand each other and be able to reach consensus.

5.2 Board tasks

5.2.1 Monitoring

An agency problem arise because owners cannot be sure that the top management team is working in the interest of the owners. The board of directors is therefore elected to monitor the CEO in order to reduce this agency problem and make sure strategies are implemented (Thomsen & Conyon, 2012) However, the CEO is himself a partner which means that he is a shareholder, an owner. The contract of him being a partner entitles him to dividend (EY, 2014a) which should make his interests align with the objectives of other shareholders (Thomsen & Conyon, 2012). Therefore monitoring the CEO, in the case of EY Sweden, is probably not prioritized. Dependence can promote sharing knowledge with executives which reduces information asymmetry (Thomson & Conyon, 2012). Therefore it is possible that the board cooperate with the CEO instead of controlling him. However, board tasks can change and are not homogenous (Machold & Farquhar, 2013). Boards tend to be more active when the company faces a crisis or in the time of replacing CEOs until the new CEO is settled. Since EY Sweden recently got a new CEO the monitoring might have increased since last financial year. Besides that, there might be horizontal monitoring where the board members monitor each other (Thomsen & Conyon, 2012).

The agency problem in EY Sweden concerning board of directors and CEO an agency problem between owners and owners. The CEO has more information than the other owners. This can result in the CEO withholding certain information from the board in order not be fired in case the information reveals bad performance. However, the board is a dependent board which reduces the risk of him being replaced. This should reduce the information asymmetry because of the cooperation that often comes with dependent boards (Thomsen & Conyon, 2012).

The board is to set the strategy for the company but it is the CEO that initiate and implement the strategy when it is approved by the board. There is a risk of having a dependent board and a CEO who is also an owner. The board might believe that whatever the CEO suggests is in line with the interests of all shareholders. This could lead to rubber stamp decision making by the board. That means that proposals might be approved immediately without thorough consideration. This could be one of the reasons to why EY keeps the majority of the votes (EY,

2015e), in order to be able to monitor, evaluate and perhaps replace the board of directors at the next annual general meeting if they are considering to do a bad job.

According to research it is said that equity incentives increases monitoring. However, dependent boards decreases monitoring (Hillman & Dalziel, 2003). The majority of the board of directors in EY Sweden are entitled to equity incentives because they are partners (2014a) but the board is considered to be dependent because all members work in EY Sweden. Since it appears as if the board does not have monitoring as a primary task it seems as if a dependent board is stronger than equity incentives. Dependent boards are said to increase provision of resources. This will be the discussion of the next section.

5.2.2 Providing resources

Besides monitoring, the board of directors also provide resources (Machold & Farquhar, 2013; Thomsen & Conyon, 2012; Hillman & Dalziel, 2003). According to research it seems that both equity incentives and dependent boards are good at providing resources. (Hillman & Dalziel, 2003). The fact that the board of EY Sweden is dependent and that some members are partners receiving equity compensation support that the board of EY Sweden should be a board that provides resources.

To start the analysis of the provision of resources it is important to reflect on EY Sweden's objectives. These are; having a strong brand, be the most attractive employer in the industry, to grow and to be profitable. In order to reach the objectives EY Sweden highlights the importance of knowledge in the company. Knowledge is the key to success (EY, 2014a). According to Van Lent (1999) specialized knowledge, brand name and human capital are the main assets of an auditing company. It seems therefore logical that the board of Sweden provides resources, both human capital and relational capital. Since the majority of the board consists of partners, meaning that they have worked themselves to the top, the board most likely possess experience and expertise that has been gained on way of becoming partners. Advice is therefore a probable task for the board which is common in firms that has growth as an objective (Thomsen & Conyon, 2012). The present CEO says that his experience, knowledge and network may contribute positively to the company (EY, 2015g), thus indicating that the board is engaging in providing board capital. The CEO mention network both internally and externally (EY, 2015g). This network can be valuable in enhancing legitimacy (Hillman & Dalziel, 2003). Having a strong brand is an important objective and EY Sweden stress the importance of having good relations to stakeholders. This supports the idea that the board of EY Sweden are a provider of resources.

The auditing industry is constantly changing (EY, 2014a). Regulations and guidelines from IFAC and its independent boards therefore change from time to time (IFAC; 2015a); EY, 2014a). This must be communicated to the company. The board can therefore also be seen as a channel for communication between the external organizations and the company (Hillman & Dalziel, 2003). The board of EY Sweden is because of the provision of resources most likely not a paper board (Thomsen & Conyon, 2012). Instead, the board of EY Sweden is can be seen as a friendly board because of the cooperation with CEO and provision of resources.

Earlier it was stated that the directors of the board can affect the company's reputation (Hillman & Dalziel, 2003). The present chair of the board for EY Sweden is now under investigation for not having been careful enough in the auditing of SAAB automobile. This happened just after she was elected to the board (Dagens Industri, 2015). These type of situations is probably something the board of directors usually work in order to prevent by experience, expertise and the creation of legitimacy. Since board tasks can change, this might lead to stronger horizontal monitoring.

5.3 Conclusions concerning the board of directors

The board of directors are heterogeneous in previous working experience, education and gender. However, there is homogeneity in the board members personality. Since heterogeneity promotes new perspectives but can cause difficulties of reaching a consensus while homogeneity increases group thinking (Thomsen & Conyon, 2012), this combination at EY Sweden may facilitate decision-making by balancing each other. Having some heterogeneity promotes new ideas which probably can be useful in order to grow which is one of EY Sweden's goals. Further, when there is equity compensation in the board monitoring increases while a dependent board decreases it (Hillman & Dalziel, 2003). Both exist at EY Sweden but the dependent board seems to be stronger than the equity compensation because the major task of the board is to provide resources by advice, networking and distribute information. This can increase legitimacy and be connected to EY Sweden's goal of having a strong brand. Dependent boards more often cooperate with the CEO than control him. Thus, the board of directors at EY Sweden can be considered to be a friendly board (Thomsen & Conyon, 2012) which should reduce the information asymmetry that can exist between the board of directors and the CEO.

6. Strategy and structure

A firm is high performing when there is a fit between strategy and structure. It is considered to be a direct link between the fit between strategy and structure and performance. Performance

is to reach goals and objectives. According to theory there is three types of structures and three types of strategies. Structure deals with how the functions are organized in the firm. Either there is the so called functional form (F-form) which means that a firms different functions are separated into different departments. Each department is controlled by a manager but there is coordination between them through chain of commands. Next there is the multidivisional form (M-form) which is a common organizational form. In the M-form the firm has different divisions that are self-supporting and contain many functional areas. Each division is like an independent firm within the firm. The overall strategy is set by the head office but it is up to each division to operationalize it. The M-form can also be extreme in two ways. Either the firm develops into a holding company (H-form) which means that there are almost no coordinating links between the divisions. The links then exist by the flow of capital and managerial labour. The other extreme form is an integrated M-form where the divisions only are separated by a transfer price system. An integrated M-form has large monitoring capabilities but it can be costly due to time and resources spent on the negotiation of the transfer price system with the divisions. Apart from the F-form and the M-form there is also the X-form which is a matrix form. This form is rare among corporations but it combines different functions with different entities. It has three responsibility areas; profit-centre responsibility, divisional responsibility and market responsibility. This can result in too much information from the different functions and can also be costly because of a transfer price system (Collin, 2006).

Strategy, on the other hand, is the relationship between a firm and its markets. The strategy is set with care taken to the long-term goals and objectives of the firm. According to Rumelt (1974, refererat i Collin, 2006) there are three types of strategies. First there is the single business suggesting that the firm only produce one type of good or service. Next there is the related business where the firm produce different types of goods or services but they are similar or connected to each other. Finally there is the unrelated business where the firm produce different goods and service that are not related to each other at all. The word business can be interpreted as the use of the same technology in both production and distribution or the use of the same knowledge base in production.

A firm is considered to be high performing when there is a fit between strategy and structure. To analyze if there is a fit between them it is possible to look at scale and scope economies. Scale economy means that the unit costs decreases if there is an increase in product volume. Scope economy means to engage in several product lines and to be able to add one more line without increasing cost as much. The F-form structure is preferred for single businesses and is

therefore not suitable for handling several product lines, thus implying that they do not engage in scope economy but rather in scale economy. The M-form however manage to have several product lines and therefore engage much in scope economy. Because the M-form make it possible to coordinate capital and managerial labour it is possible to reduce overhead costs per item, thus implying that the M-form can engage in some scale economy too. The X-form on the other hand is not highly engage in either scope or scale economy but is a mix in between.

Knowing the meaning of structure and strategy and what makes a good fit, it is possible to apply these theories on EY Sweden in order to see what their structure and strategy looks like. This can be combined with EY Sweden's goals and objectives but also what EY Sweden themselves consider to be the strategy of the firm.

6.1 Structure and strategy of EY Sweden

EY Sweden has 57 offices in Sweden with the head office located in Stockholm (EY 2015i). The firm offers different types of services in the areas of assurance, tax, advisory and transactions regardless of where in Sweden, or even in the world, EY is hired (EY, 2015c; EY, 2014a). Each office is like a firm on its own. All offices offer the same services and there is cooperation between different business areas but also between different offices (EY, 2014a). This implies that the structure of the firm is multi-divisional. An M-form firm is said to have increased monitoring capacity and the separation of activities makes it possible for the head office to measure performance of each division (Collin, 2006). However, since EY Sweden cooperate between offices this may make the measuring of performance of each division more difficult. On the other hand, it is earlier concluded that monitoring is not the board of directors' main task but rather to provide resources. The coordination and cooperation between the offices might be seen as a resource provision. For EY Sweden to be a holding company is excluded by the fact that there is coordination between the entities which is not the case when the M-form goes extreme to be an H-form, except for capital and managerial labour.

EY has clients in several industries like real estate and construction, retail and consumer products, telecom, technology and media and in the industry of oil, gas and energy (EY, 2014a). The services offered by EY Sweden in the four areas of assurance, tax, advisory and transactions can be seen as interconnected. Assurance services like auditing and accounting is strongly connected to tax where advice might be valuable. The dynamic world we live in entails risk which is dealt with in the services of advisory and transactions (EY, 2015c). To look at risks is also a great part of auditing which is included in the assurance services. Thus, it seems as if the

strategy of EY Sweden is related business. To conclude it is now possible to say that EY Sweden has the structure of a multidivisional firm with a related business strategy.

6.2 Is there a fit?

According to theory there is a fit when the structure of multidivisional firm has the strategy of related business. As previously mentioned the M-form is highly engaged in scope economy (Collin, 2006). This can be seen in EY Sweden. The firm has been able to have more than one service line of related character. The firm also focus on several industries. Concerning scale economy it is said that a firm with the strategy of related business will not be able to engage in scale economy to a full extent because an increase in one product line affects the costs of another product line (Collin, 2006). Scale economy means that an increase in production volume will decrease the cost per unit. Looking at, for example, the service auditing in EY Sweden this could be seen as carry out one more audit in the same amount of time as before. However, this could lead to time pressure which may have a negative impact on quality which would harm the firm's reputation and thereby the brand (Pierce & Sweeney, 2004). This time pressure could also lead to underreporting of time (Svanberg & Öhman, 2013), thus reducing profit. Since having a strong brand and being profitable is important for EY Sweden it seems reasonable that they have a strategy that is not fully committed to scale economy.

By offering different services EY Sweden can compete with the other big four audit firms that offers the same services (Deloitte, 2015; EY, 2015c; KPMG, 2015, PwC, 2015). At the same they can balance the business because audit companies have business cycles where audits are mostly conducted during the spring⁵. The other services can balance this by being conducted during other parts of the year, thus reducing dramatic effects in the business both concerning profit and loss of human capital if dismissal would have been necessary. According to EY Sweden the employees are crucial in order to reach the goals of the firm. In addition, EY Sweden state that their strategy is to recruit and develop employees that delivers value to customers and paves a way to a sustainable economic development (EY, 2014a). Even though it might not be the main reason for having a related business the strategy might play at an intrinsic motivation, the desire to continuously develop, among future employees (Collin, 2006). By having several business areas EY Sweden offer the possibility to develop within the firm by education and the possibility of changing business area (EY, 2015d). A related business might attract employees which is one of EY Sweden's goals and needed in order to fulfill goals. Employees with good knowledge is needed in order to deliver quality (EY, 2014a). A related

⁵ Personal communication

business might attract good employees to the company which increases the possibility of delivering quality. Thus it can help strengthening the brand.

Another goal of EY Sweden is to be profitable. Due to competition in the audit market it has been shown that it is necessary to have several service lines (Öhman, 2007) which may be a reason for why EY Sweden has a related business strategy. According to Grahn (2011) it is just about half of the revenue in audit companies that stems from audit activities. A single business does not seem to be a good way of ensuring survival. To be profitable it therefore seems as if a related business strategy is needed for EY Sweden. Presumably this will also help the firm to grow which also is one of EY Sweden's goals.

6.3 Conclusion

Each office in EY Sweden is operating as a firm on their own but cooperates with other offices too. This suggest that the firm is M-formed (Collin, 2006). By cooperation knowledge can be shared which is important in order to deliver quality and by that increase reputation and brand (EY, 2014a). Therefore this can be connected to the goal of having a strong brand. The strategy is to offer different services which all are interconnected. This suggest that EY Sweden is having a strategy of related business (Collin, 2006). Having a related business is protecting the company from dramatic effects due to the business cycles the firm faces concerning audits and it can secure investments in human capital. Also it is necessary due to the competitive environment (Öhman, 2007). This can therefore be connected to the goal of being profitable and to grow. There is a fit between strategy and structure. The shape of an M-form support the strategy of having related business (Collin, 2006), in a way for EY Sweden to be able to fulfill its goals.

7. Executive compensation

Executive compensation can be looked at by two different theories. According to optimal contracting theory executive compensation is used to solve agency problems. In contrast there is the managerial power theory which suggest that executive compensation is part of the governance problem instead of being the solution (Thomsen & Conyon, 2012). The managerial power view suggest that the CEO has power over the board and set the payment according to own interest instead of in the shareholders interest. When boardroom governance is poor there is usually an excess pay as a result. This is usually the case when there is a weak board which it is considered to be if the board is too large, dominated by outside directors appointed by the CEO and if there is CEO duality. The board of EY Sweden cannot be considered to be weak by

this definition since it has eight members (EY, 2015e) which is considered good (Thomsen & Conyon, 2012) and only consist of insiders. Also there is no CEO duality. Therefore it can be concluded that the executive compensation of EY Sweden is not the governance problem but rather in line with the optimal contracting theory of attempting to solve agency problems.

Executive compensation usually consist of four elements; annual salary, annual bonus, equity compensation and other benefits like retirement pay. CEO salary is often connected to firm size. The bigger a company is, the greater the salary is. Annual bonuses are often in cash and related to internal accounting variables of the company. Equity compensation can be stock options, restricted stocks or ordinary shares (Conyon & Thomsen, 2012). Stock options are considered to be the best compensation for a CEO (Collin, Gustafsson, Petersson & Smith, 2014). However, other compensations or rewards are also used like employment and opportunities of employment, reputation and intrinsic rewards (Collin, 2006). Further on the compensation at EY Sweden will be presented followed by a discussion of the mechanism of compensation, criteria for compensation and consequence of compensation. This will in turn be followed by conclusions including a discussion of how the executive compensation is connected to the strategy of EY Sweden.

7.1 Compensation at EY Sweden

At EY it is only partners that gets monetary remuneration, apart from the base salary which also partners are presumed to have since they still work in the company and are not just external owners. As discussed previously about ownership structure partners are owner and therefore owns shares which entitles them to dividend (EY, 2015e). This can be seen as the equity compensation. Besides this compensation the partners also get compensated by being evaluated through a process called Global Partner Performance Management (GPPM) process which is an evaluation process for all partners in EY Global member firms. This process tries to link performance to goals and values of EY. The evaluation concerns quality and risk performance measures. This include technical skills, behavior and attitude in accordance with EY values, demonstrating knowledge and leadership in quality and risk management, compliance with policies, procedures, laws and regulation and professional duties as well as contributing to protect and enhance the EY brand. Apart from these evaluation measures the GPPM process also considers seniority, role and responsibility, long-term potential and mobility. It is not allowed to evaluate the sale of non-assurance services to audit clients in order to promote independence and objectivity among the partners (EY, 2015e).

7.2 The mechanism, criterion and consequence

7.2.1 Mechanism

Compensation is a mechanism to be used for directing the behavior of an individual and to direct the individual toward efficiency, which is to reach goals. According to Gomez-Mejia & Wiseman (1997, referred in Collin, 2006) the process of compensation consist of three parts; the mechanism of compensation, the criteria used for establishing compensation and the consequences of the compensation. Concerning the mechanism of compensation there is to views, either contracting or monitoring. Contracting is an agreement before the start of a period while monitoring is a subjective evaluation made after the periods ending (Collin, 2006).

Contracting can be seen to be highly objective, predictive and transparent since the measure is independent of subjective evaluation, the outcome is known in advance and the individual know the criterion in advance (Collin, 2006). EY Sweden has equity compensation that entitles partners to dividend (EY, 2015e). It is objective and the outcome is known in that sense that the higher the profit the higher the dividend and the partners know the criterion in advance. It is discussed that it is not always that contracting is precise, meaning that other factors than the influence of the partner might affect the outcome (Collin, 2006). It is not only partners working at EY Sweden. Whether it is seen fair among partners and other personnel depends on the culture at the firm (Collin, 2006).

Since EY Sweden also have rewards that are dependent on subjective evaluation, for example have an attitude and behavior according to EY values and to show leadership and have knowledge in quality and risk management it can be said that EY Sweden also uses monitoring as a mechanism of compensation. The objectivity is not as high as contracting since it demands a subjective evaluation and predictability, precision and transparency is neither high nor low. The partners know what the evaluation is based on but they do not know the outcome for sure. However, monitoring as an advantage that contracting does not have to the same extent which is the relational capacity. Discussion after situations can create trust and a common understanding which will bind the partner tighter to the company (Collin, 2006).

7.2.2 Criteria

Moving on to the criteria of compensation Collin (2006) discuss six criterion on which compensation can be based on. These will now be discussed in relation to the situation of EY Sweden. An overview is presented in table 3. The first criteria to be discussed is performance. The compensation can be connected to firm performance and firm efficiency. In addition the

variable must be motivational. The equity compensation for partners can be considered to be connected to firm performance since profit is one goal for EY Sweden. The better the company performs, the higher the profit. This should also be motivational since a higher profit results in higher dividends to the partners. According to Thomsen & Conyon (2012) the link between performance and compensation is clear in that sense. The GPPM process criterion for compensation that concerns protection and enhancement of the EY brand could also be connected to performance. It is one of EY Sweden's goals to have a strong brand. If the brand is considered to be stronger the partner will be rewarded. However, it can be difficult to distinguish when the partner has been able to influence the performance, especially in environments that are facing low or high levels of uncertainty. EY Sweden is operating in a dynamic world (EY, 2014a) with competition but it is difficult to say what level of uncertainty they are facing.

The second criteria is to look at actual behavior which is open for subjective evaluation due to events that can be out of the individuals control (Collin, 2006). This demand lots of knowledge and competence from the monitor and it can also be considered costly due to the time that need to be spent observing behavior. Besides the monitoring of the CEO this is a rare criteria for compensation (Collin, 2006). However, at EY Sweden there is a criteria of looking at behavior and attitude and how well these two are connected to EY values. The values of EY should be connected to the goal of having a strong brand and thus it is reasonable that EY Sweden use this criterion for compensation.

Individual characteristics is the third criteria mentioned by Collin (2006). This especially refers to firm-specific skills. This criteria is used in GPPM process for EY Sweden by the criterion technical skills and to show knowledge of and leadership in quality and risk management. The fourth criteria concerns labour market price. The supply and demand of goods and services influence the price of labour (Collin, 2006). It is not mentioned by EY Sweden to what extent this affects the salary of the partners but it is said that the payment is higher the bigger the firm is. The variance in payment due to size is said to be explained by 40% of labour market forces. Perhaps this is also the case for EY Sweden, influencing how much reward it is possible to pay in relation to the other criterion. However, among partners there might be high asset specificity due to the knowledge they have gained on their way to the top (Collin, 2006) and the specific task of the networking and commercialization role they have (Carter & Spencer, 2014). Not many can become partners, as can be seen at EY Sweden with 147 partners on 2236 employees (EY, 2015b). Thus, it might not be easy to just become a partner in another audit firm which

suggest that there is low mobility of partners in the audit industry. This might affect the compensation because supply and demand influence the price of labour force (Collin, 2006). If there are few job opportunities there is low threat for the partner to leave to another firm. This should reduce compensation since there is no need to give this compensation in order to maintain partners.

The fifth criteria is position. Traditionally compensation reflects the hierarchical level. A higher level means a higher payment due to for example more responsibility and increased information processing capacity. This can be seen in the criterion for the evaluation in EY Sweden. Seniority is connected to hierarchical levels and so is role and responsibility. According to the tournament hypothesis a CEO is at the top with the highest level possible (Collin, 2006). This could be reflected at EY as the partners since the CEO is also a partner. The tournament hypothesis look at the compensation at the top as an incentive for lower level managers, something to strive for even though it is difficult to reach (Collin, 2006). As previously mentioned not everyone becomes a partner (EY, 2015e). The compensation is said by EY Sweden to be important in order to attract employees (EY, 2015e) which is one of the main goals of the firm. Hence, the compensation to partners might act as an incentive for lower level managers at EY Sweden.

The sixth and final criteria is peer comparison. A board of directors probably compare CEO compensation to their own when making a decision. Also, directors recruited from other large corporations might compare the compensation form past experience (Collin, 2006). This also leads in to who the decision-maker of the compensation is. At EY Sweden this is not clear but since EY Sweden discuss in their transparency report that they evaluate according to the GPPM process criterion (EY, 2015e) it is assumed that it is the board of directors that decide about the executive compensation. Since the CEO of EY Sweden is a partner just as the majority of the other members of the board it seems reasonable that the board of directors would compare their compensation to the CEO and thus it might influence the compensation. Often the peer comparison set an upper bound of the compensation (Collin, 2006). Perhaps this is not the case at EY Sweden since there are partners at the board. Maybe, the non-partners at the board are strong enough to speak up against the other board members even though their job might be depending on it as was discussed in the chapter concerning board of directors.

Table 3. Overview of EY Sweden's criterion concerning compensation.

Category	Criteria at EY Sweden
Performance	Profit- Equity compensation
Behavior	Behaviour and attitude according to EY values. Comply with laws and regulation. Protect and enhance the EY brand - strong brand
Individual Characteristics	Technical skills. Knowledge of leadership in quality and risk management
Labour Market Price	Supply and demand for partners, high asset specificity
Position	Seniority. Role and responsibility. Tournament hypothesis - attract employees.
Peer Comparison	Partners deciding on partners compensation. Upper bound?

7.2.3 Consequence

As previously mentioned it is assumed that partners have a base payment in the form of a salary since they are still working in the firm and is not only external shareholders. This can be the majority of the payment or not. This often differs among countries. Often it is said that CEO in the US have more so called pay-at-risk than non-US countries thus suggesting that the partners of EY Sweden have at least half of the compensation as a base payment (Thomsen & Conyon, 2012). This can signal that it is not only the partner that carries the risk of the company (Collin, 2006) but others may influence the outcome as well, such as the lower level managers. The variable pay is another compensation consequence (Collin, 2006). At EY Sweden this has been discussed as the equity compensation by partners owning shares. This is supposed to align the interest of the manager to the one of the owners (Collin, 2006) which should already be the case since the managers are partners which in turn are owners. It is said that options are the best compensation for CEOs and that CEO ownership encourage the use of options (Collin et al., 2013). However, EY Sweden contradicts this since it seems as if the partners of EY Sweden owns ordinary shares even though the CEO is an owner in the firm. Still it is a form of equity compensation that can be used to attract competent CEOs instead of serving as an incentive (Collin et al., 2012).

Besides base payment and variable payment there are other consequences of compensation that should be applicable to EY Sweden both at partner level but also at lower manager levels. Promotion can be an incentive for persons (Svanberg & Öhman, 2013; Collin, 2006) that wants to develop and there are possibilities for development at EY Sweden (2015d; 2015e). However, promotion is often more used as a reallocation tool in order to place individuals where they

create efficiency rather than it is used as a reward (Collin, 2006). On the other hand EY Sweden use dismissal as a punishment which can be seen as the opposite of promotion (EY, 2015e). It seems very rare but if a partner don't comply with the quality standards dismissal is a possible outcome. This should be an incentive to make an effort at work since a dismissal threatens an individual's reputation.

So far it is mostly partners' compensation that has been discussed. The partners seem to be the only ones that get compensated monetarily other than the base payment of a salary. It could be interesting to reflect upon what the incentives of non-partners in the organization are. This can be intrinsic rewards. Earlier it was mentioned that the possibility of development can be an incentive for others to do a good job which perhaps also can be connected to increased responsibility (Collin, 2006). EY Sweden wants their employees to be part of the organization with possibility to influence decisions (EY, 2015j) which perhaps could be an intrinsic reward. Even promotion can sometimes be an incentive (Svanberg & Öhman, 2013; Collin, 2006). Intrinsic rewards can also be the feeling of working for a good cause. Several of EY Sweden's service lines are to help companies improve their business (2015b) and the main objective of auditing according to ethical standards is to work for the public interest (IESBA, 2015a). This can perhaps be considered to be working for a good cause and thus serve as an intrinsic reward.

7.3 Conclusions

Previously it has been discussed that the strategy of EY Sweden is a related business and that the firm wants to recruit and develop employees that delivers value to customers and paves a way for a sustainable economic development (EY, 2014a). After the executive compensation has been discussed it can be seen that the compensations are in line with the strategy. In order to attract new employees partnership is offered and with this comes compensation, both base pay and variable pay. There is compensation connected to profit which should make partners want to increase profit which is one of EY Sweden's goals (EY, 2014a). There is also variable pay based on evaluation of behavior which could be connected to the goal of having a strong brand since the evaluated behaviour is connected to EY values. It has also been said that the variable pay can be connected to position in the firm thus working as an incentive for employers to develop and reach new levels within the firm (EY, 2014a). This should be in line with EY Sweden's goal of wanting to develop new employees in order to be able to deliver value to customers. It is concluded that the executive compensation can be affected by the fact that there are mostly partners in the board which is the decision-maker. Perhaps there is no upper level of remuneration but hopefully the non-partners will be able to speak up against the other board

members. As a final remark it can be said that EY Sweden use both mechanisms of compensation, all criteria for compensation and also offers different types of compensation.

8. Internal and external managerial labour market

In order to discuss internal and external labour market it is necessary to define what these two concepts mean. Internal labour market refers to the recruitment of employees from within the firm. External labour market, on the other hand, refers to the recruitment of employees from outside the firm. Both types of recruitment has its advantages and disadvantages. By recruiting people that already work in the organization information asymmetry and adverse selection is reduced. It is said that the employer already know what can be expected from the employee. However, when an individual is being promoted the person might change which then increase information asymmetry once again. On the other hand, recruiting internally has the advantage that the employee already knows the firm, its products and the working environment. Long tenure, however, can lead to routine and reduce thinking outside the box. Here external recruiting has an advantage. Even though the employee might not exactly know the company and its products to a full extent an externally recruited employee will be able to bring new perspectives upon different issues⁶.

Closely connected to labour market is the investments in human capital. Each individual on the labour market has invested in some sort of capital by experience and the choice of education. In addition, companies invest in human capital by training and educate the employees within the firm (Wright, Coff & Moliterno, 2014). Each individual has a unique portfolio of human capital which can be seen as education, skills and knowledge but also personality characteristics (Wright et al., 2014). In this way each individual contribute to firm value in different ways. Sometimes individuals' human capital can be seen as complementary to each other which means that the value of two individuals together might be greater than the value of each individual alone. Because of this, human capital can be seen both individually and as a firm-unit. Strategic human capital deals with the effects human capital can have on different outcomes (Wright et al., 2014).

8.1 EY Sweden and labour markets

EY Sweden can be said to have both an internal and an external labour market. Individuals that are about to start a career within for example auditing and accounting are often recruited from external labour markets. EY Sweden finds it important to cooperate with schools and

⁶ Timurs Umans, Professor in Business Administration at Kristianstad University. (Lecture, 2015-12-28)

universities in order attract future employees (EY, 2015k; EY, 2014a). EY Sweden also says that they welcome former employees back to the company because they bring new perspectives and experience to the firm (EY 2015l). This has happened to one of the current partners and board members that is said to have “rejoined” EY (EY, 2015m). However, when it comes to more senior positions within the firm, recruitment may be more internal. Employees at EY Sweden are part of a hierarchical system where they have to work themselves to the top and the possibility of becoming a partner. Therefore employees are promoted to higher positions. External recruitment to higher positions could disturb the tournament hypothesis since employees work to reach the top with the top compensation as an incentive and then someone just steps in higher up in the hierarchy (Collin, 2006). Often there is an up-or-out mentality in audit firms. If you don’t develop you are not to stay in your position, as a so called blocker, but rather leave the firm to give room for others that tries to climb to the top (Kornberger, Justesen & Mouritsen, 2011; jmf Van Lent, 1999). Only those that can prove their worth to the firm will survive (Carter & Spence, 2014). Wanting to stay at a certain level would mean that all training is thrown away (Kornberger et al., 2011). Conclusively it can be said that the audit company would feel their investment in human capital to be thrown away. On the other hand, is it really thrown away? If the individual would leave the firm the human capital should be more thrown away, since the human capital of a firm is built up by the combination of each individual’s human capital (Wright et al., 2014).

8.2 TMT and the board of directors

Concerning the labour market for the board of directors and the top management team (TMT) for EY Sweden it seems as if it is an internal labour market. They had all been working within the organization when they were selected for the board and the TMT. In this way human capital like education, experience and networks is kept within the company

In table 4 is a presentation of the TMT from 2012-2015. It can be seen that one of the former CEOs had quite a long tenure of six years (LinkedIn, 2015h) compared to the most recent CEO that had two years as a CEO before he was succeeded. A long tenure may cause routine and loss of thinking outside the box⁷. This could perhaps be a reason for why the CEO with six year tenure was replaced. Another possible reason could be that he was going to retire. In addition, the former CEO had dual roles in the board as both a CEO and Country Manager Partner (CMP) (EY, 2013). So did also his successor but instead the roles of CEO and Chief Operating Officer

⁷ Timurs Umans, Professor in Business Administration at Högskolan i Kristianstad. (Lecture, 2015-12-28)

(COO) (EY, 2014b). After a year and a half he got back to only to be a COO and a new CEO took his place. The reason for leaving the post as a CEO seems to be due to retirement. At the same time as a new CEO got to the board, the CMP was replaced (EY, 2015g). The former CMP held the position for a year and a half, and the reason for leaving is not quite clear. According to theory a possible reason for leaving is bad performance. A bad performance increases the risk of top-level managers to lose their jobs (Jensen & Zimmerman, 1985). However, since there is lack of information, free will could also be an explanation. Another possible reason for the TMT to change might be the fact that EY Sweden want to reach new perspectives since the auditing business is situated in a very dynamic environment (EY, 2014a).

Table 4. TMT from the year 2012-2015

	CEO	CMP	COO
2012-2013	Jan Birgerson (2008-2014)	Jan Birgerson	Håkan Gustafsson (until oct. 31, then succeeded by Stefan Persson)
2013-2014	Stefan Persson	Ragnar Gustavii	Stefan Persson
2014-2015	Stefan Persson (succeeded by Hamish Mabon, 1 july)	Ragnar Gustavii (succeeded by Lars Weigl, 1 july)	Stefan Persson

Table 5 gives a presentation of TMT concerning position, former experience, education and gender. Earlier the same was presented for the board of directors in table 2. Previous experience and education can be seen as human capital (Wright et al., 2014). Even though the information is limited it seems as if there is some heterogeneity also within TMT as it was for the board of directors. There is different experience from auditing, management and even sports (EY, 2015g; LinkedIn, 2015d; ComputerSweden, 2002). In addition the CMP has previously worked in the US (ComputerSweden, 2002). However, concerning education no conclusions can be drawn due to lack of information but looking at gender there is no diversity as EY Sweden says they strive for (EY, 2014a). Also, all three are partners. Just like the board of directors it seems therefore as if there is both heterogeneity and homogeneity which can balance discussions and facilitate decision-making.

It is said that a heterogenic TMT with an internally recruited CEO indicates a stable strategy with innovation⁸. For example, EY Sweden have been engaged in innovation regarding recruitment methods which attempts to focus more on strengths than competence (Garcea,

⁸ Timurs Umans, Professor in Business Administration at Högskolan i Kristianstad. (Lecture, 2015-12-28)

Isherwood & Linley, 2011). Perhaps innovation is not as great as if there would have been a greater heterogeneity in the board or if they were not already heavily regulated by standard-setters. However, due to the competitive environment, innovation might be necessary for the company to grow and to make profit which are two of EY Sweden's goals (EY, 2014a), and therefore there is an attempt to create heterogeneity within the board of directors and TMT.

Table 5. Position in TMT, experience and education

Position in TMT	Role at EY	Previous working experience	Education from	Gender
CEO	Partner, authorized auditor	Sports - swedish champion in Rugby		Male
COO	Former CEO, auditor		Karlstad University	Male
CMP	Partner, Management & Consulting	Wall Street: Cap Gemini Ernst & Youngs consulting for asset manager and private banks		Male

8.3 Investments in human capital

As mentioned earlier, knowledge, education, experience and skills are considered to be relevant human capital. However, also personality and motivation traits might be valuable for a company (Wright et al., 2014). Since it is valuable to embody commercialism, be dynamic and outgoing are necessary to become a partner, these characteristics should be important human capital for EY Sweden. Besides this EY Sweden themselves says that they are looking for leadership and networking skills. They also encourage openness to other backgrounds, opinions and experiences since it can give several perspectives which in the end might lead to increase quality of the work being done. EY Sweden look for people with a team-spirit and a will to listen and to learn (EY, 2015n). This is the human capital that EY Sweden is looking for when choosing a new employee. EY Sweden need to invest time and money in a recruiting process in order to find this human capital even though this is not going to change the human capital (Wright et al., 2014). Once employed EY Sweden educate and train employees in order for them to have good knowledge in order to deliver quality to customers (EY, 2014a) but also in order for the employees to climb the hierarchy. Close to the top this education could be media training and not just education connected directly to the daily work (Kornberger et al., 2011).

Besides the capital EY Sweden is especially looking for and the training for the employees to deliver quality and climb the hierarchy the firm also have to consider regulations. In order for an employee to be allowed to work as an auditor there is certain educational criteria set which the employee must live up to. The Swedish organization Supervisory Board regulate the amount of education one need in order to become an authorized auditor. At least three years at a university is necessary and need to include some specific subjects. Thereafter some practical work has to be made, wither five years practical work or four if another year at the university

is added (Revisorsnämnden, 2015). This shows that both the individual and EY Sweden needs to invest in human capital. However, in order for the human capital to develop the employee must be active, engaged and willing to learn (Wright et al., 2014). Once an employee becomes authorized auditor other regulations apply too. This concerns further education. The Swedish professional association FAR has ethical guidelines that Swedish auditors need to follow. This includes at least 20 hours of education each year and a total of 120 hours of education during a period of three years. Of these, 60 hours need to be verifiable (FAR, 2015b). It is obvious that there is a lot of investment in human capital at EY Sweden, as for other auditing firms. However, human capital is not owned by the firm (Wright et al., 2014). It is placed inside the individual. Hence, it can be lost to the company if the employee leaves the firm. Perhaps, the choice of offering partnership is a way to try and maintain this human capital within the firm since it is necessary in order to have a strong brand which is one of EY Sweden's goals (EY, 2014a).

8.4 Re-employment

As previously mentioned there are employees that has been recruited externally without having started at the bottom. On the other hand, the director that was recruited had worked at EY Sweden earlier since it was said that he "rejoined" (EY, 2015m). This director has an interesting background. He used to be a partner at Arthur Andersen, the auditing company that collapsed due to the Enron-scandal (BBC, 2002). According to research, the probability of a manager from a failed company to become employed at a similar position in another company is depending on the manager's accountability for the failure. If the failure is out of the manager's control the manager is evaluated based on performance before the failure. If the firm is failing and it is outside the managers control there is a great probability for the manager to be reemployed at a similar position in another firm (Cannella Jr, Fraser & Lee, 1995). Concerning the director at EY Sweden, the Enron Scandal seems to be out of his control, thus the chances to become employed at a similar firm is not reduced. The director worked at other companies before turning back to the auditing business but was apparently able to become a partner at EY Sweden, a similar position as he had in Arthur Andersen. If the director could have been held accountable for what happened during the Enron-scandal the chances of him getting a partnership would probably have been small or none since having a strong brand is one of EY Sweden's major goals (EY, 2014a). In this case though, the director might have a good reputation and a good network. Hence, EY Sweden might see this as valuable to the firm.

8.5 Conclusions

From the analysis of EY Sweden and its labour market and investment in human capital it can be said that EY Sweden recruit from both internal and external labour market. However, it seems as if external recruiting is more common in the beginning of the career and later on it is more common with internal recruiting through promotion in the hierarchy. This maintains the human capital within the firm, which is important in order to deliver quality to customers and thereby make the brand stronger which is one of EY Sweden's goals (EY, 2014a).

The board of directors and the TMT is recruited from internal labour market and the members seem to be heterogenic, however, some homogeneity might exist since partners choose who can become partners and it is said that people often select and employ people similar to themselves⁹. It is only partners in the TMT and the majority of the board consist of partners. Thus, it is an internal CEO in combination with a slightly heterogenic TMT which should indicate a stable strategy with a touch of innovation¹⁰. Perhaps some innovation is needed in a competitive environment where audit companies operate. Recently the CEO and the CMP in the TMT was replaced. This can be a result of wanting to bring new perspectives and ideas to the TMT because audit companies work in a very dynamic environment (EY, 2014a).

Concerning human capital EY Sweden has several characteristics they look for in an employee. Once employed EY Sweden invest in human capital by educate and train the employee. This is done in order to reach good knowledge which is important in order to deliver quality and thereby strengthening the brand. Besides this, EY Sweden is obliged to offer employees education because of regulation by standard-setters concerning minimum amount of education (FAR, 2015b). If the employee is willing to listen and learn this will enhance the individual's human capital. If there is no interest in learning and to develop then the individual is expected to leave the company. Investments in human capital can be related to the firm wanting to have a strong brand and to be profitable because knowledge is needed for the work and knowledge may increase quality which in turn is good for reputation and brand (EY, 2014a).

9. Institutional pressure

Organizations has been said to become more and more homogenous which can be explained by institutional pressures (DiMaggio & Powell, 1983). These pressures can be either formal by laws and regulation or informal by norms and values. The pressures are called institutions and

⁹ Timurs Umans, Professor in Business Administration at Högskolan i Kristianstad. (Lecture, 2015-12-28)

¹⁰ Timurs Umans, Professor in Business Administration at Högskolan i Kristianstad. (Lecture, 2015-12-28)

can be defined as the rules of the game¹¹. These institutions put pressure on individuals and organizations on how to behave and increases chances of survival for the organization. Going against these pressures could bring consequences like fines, sanctions or exclusion from society. However, sometimes an organization must go against some of the pressures in order to develop, change and differentiate from competitors. In that way there is a trade-off between meeting the institutional demands and the competitive demands¹². Besides this trade-off there is also a tension between legitimacy and efficiency. By adapting to the pressures an organization can enhance legitimacy but it is not always that it at the same is useful and increases efficiency (Deegan & Unerman, 2011). However, organizations adapt anyway in order to be accepted in the society and enhance legitimacy, since it increases the chances of survival. DiMaggio and Powell (1983) identified three mechanisms, or types of institutional pressures, which are called isomorphism. These will be discussed in the next section in relation to EY Sweden. Other ways to create legitimacy is to engage in corporate social responsibility (CSR) activities. These activities can come in different forms, with different focus and targets (Thomsen & Conyon, 2012) but is considered to be closely connected to the reputation of the organization (Porter & Kramer, 2011) which in turn is considered to be an informal governance mechanism (Thomsen & Conyon, 2012). However, pure CSR activities are criticized by Porter & Kramer (2011) who instead introduced the concept of shared value. This will be discussed further on in relation to EY Sweden. To finish this chapter there will be a reflection upon corporate governance codes, which is also seen as an informal governance mechanism.

9.1 Institutional isomorphism

Organizations are said to become more and more homogenous and the big four auditing firms is be said to be similar to each other (Carter & Spence, 2014) and EY Sweden is part of one of the big four audit firms. As mentioned, homogeneity can be explained by institutional pressure which can be divided into three institutional isomorphism. These are coercive, mimetic and normative isomorphism, which all affect the behavior of individuals and organizations (DiMaggio & Powell, 1983). Coercive isomorphism deals with legal and political influences but also pressure from stakeholders that the organization is dependent upon. The mimetic isomorphism is when companies mimic other organizations, meaning that they benchmark or copy other organizations. This could for example concern best practice or innovation and is often spread by employee turnover or consulting firms. The normative isomorphism stems from

¹¹ Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

¹² Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

professionalization and group norms, meaning that it is how the organization or individual should behave according to the norms of the group. Individuals with similar training is said to adopt similar practices (Deegan & Unerman, 2011; DiMaggio & Powell, 1983). Which pressures EY Sweden faces will now be presented.

9.1.1 Coercive isomorphism

To begin with, and as mentioned concerning the ownership structure, EY Sweden must comply with Swedish law, especially the Auditing Act (Revisionslag 1999:1079) and the Auditors Act (Revisorslag 2001:883). The Auditing Act regulates for example what the task of the auditor is, professional secrecy, when conflicts of interests exist, when an auditor can end the relationship with a client and what the audit report must include and when to be delivered. It also states the punishments if the auditor is not complying with the responsibilities which can be payment for damages or prison.

The Auditors Act further regulates the task of the auditor like that the auditor must comply with good auditing practice, be independent and have professional secrecy. It also regulates that the all audit work must be documented. Further on the auditors act regulates who can become an authorized auditor and also when an auditing firm can be registered. This was also mentioned when discussing the ownership structure and that an auditing firm can only be registered if the firm is owned by auditors and/or registered audit companies.

Even though these laws and regulations may not enhance EY Sweden's efficiency per se but it sure must enhance legitimacy that they follow laws and regulations. To be a registered audit firm should signal that EY Sweden has professionals at their board and professionals owning the company which suggests that they are independent from external stakeholders. The independence of audit firms is of great importance according to EY Sweden (EY, 2015e) but also to standard setters (IESBA, 2015a). Since the task of auditors is to serve the public interest (FAR, 2015c), and independence is seen as necessary for this, signaling independence should enhance legitimacy. One of the goals of EY Sweden is to strengthen the brand name (EY, 2014a) which enhanced legitimacy should help to improve. This should also attract employees to the company which is another of EY Sweden's goals (EY, 2014a). Thus, coercive pressure might indirectly enhance EY Sweden's efficiency

.The Auditing Act regulates what the task of the Supervisory Board is. They in turn set standards and regulations for the auditing profession. This will be discussed further in the section

concerning normative pressures since pressures arisen from professionalization is considered to be a normative pressure (DiMaggio & Powell, 1983).

9.1.2 Mimetic isomorphism

EY Sweden provide networks in order for customers to exchange knowledge (EY, 2015k). This might also allow EY employees to share and gain experience and knowledge which perhaps could be useful in the organization. The board of directors and the top management team have different backgrounds which has been discussed earlier. Perhaps previous experience can be useful in this organization. The CMP has been working with consulting on Wall Street. Perhaps he have ideas concerning consulting that worked there which can be applicable for consulting services at EY Sweden. Also, there is one director that once worked for Arthur Andersen. Perhaps EY Sweden should not try and benchmark a company that collapsed but maybe this director can bring suggestions from past experience on what not to do or mimic. EY Sweden is an integrated firm which means that they cooperate with EY offices around the world and put teams together from different parts of the world if necessary for a global customer (EY, 2015e). This might transfer experience from different offices in different parts of the world that EY Sweden can learn from. It is said that companies can copy innovation and development (DiMaggio & Powell, 1983). Now, the big four audit firms offers similar services (Deloitte, 2015; EY, 2015c; KPMG, 2015, PwC, 2015). Because of the competitive environment they operate in (Öhman, 2007) this could be a result of mimicking each other and perhaps, if one of the other big four audit firms will add another service line in the future the others will follow.

9.1.3 Normative isomorphism

The coercive isomorphism stems, as previously mentioned, from professionalization. It arise from group norms to adopt certain practice (Deegan & Unerman, 2011) and from professional members that wants to define the conditions and methods of their work (DiMaggio & Powell, 1983). For EY Sweden it can be somewhat difficult to distinguish between the coercive and normative institutions. This because Swedish law regulates the tasks of the Supervisory Board who in turn is to develop good auditing practice which is also influenced by global standard and norm-setters like International Federation of Accountants (IFAC) and its independent boards; International Auditing and Assurance Standards Boards (IAASB), International Accounting Education Standards Board (IAESB), International Ethics Standards Board for Accountants (IESBA) and International Public Sector Accounting Standards Board (IPSASB). Moreover, IFAC and the independent boards influence the regulation made by FAR which is a professional association for auditors, accountants and advisors. However, since the normative

isomorphism stems from professionalization the standards and regulations from all now mentioned boards and associations should be included in the normative isomorphism since they are groups within the profession that set standards and regulations for auditing firms. The law only regulates that the Supervisory Board is to regulate the auditing profession, not how the work should be done. On these boards professional associations and practitioners are working (IAASB, 2015; IAESB, 2015; IESBA, 2015b; IFAC, 2015; IPSASB, 2015). This self-regulation is a typical characteristic of a profession (Öhman, 2007).

These boards regulate the education necessary in order to become an authorized auditor and how much further education is needed once becoming an authorized auditor. The boards also regulate the ethical perspective. An auditor must be independent and work for the public interests. If there is conflicts of interests and auditor is not to take on that client. Also according to the ethical standards an auditor should not work in other companies or boards outside the auditing company. The boards also set standards of what the auditing should include but this is to some extent like a framework and auditors must use professional judgement in their daily work. Besides this the boards also set standards for accounting like the accounting system IFRS and the IPSAS for public accounting. FAR is the professional association in Sweden that cooperates with IFAC and thereby the independent standard setting boards and adapt to the regulation they propose. This is what EY Sweden must adjust to and adopt. From what has been described now it is fairly clear that EY Sweden faces a lot of normative pressures and that they are regulated on many areas. Since these regulations and standards apply to all auditing firms it is not surprising that the audit firms are becoming more similar in their work. This has an impact on how the organization is structured and how it behaves. As previously mentioned EY Sweden must continuously educate the employees, not just because EY Sweden thinks it is necessary and important for the success of the firm but also because it is a normative pressure on them to do so.

Besides the standards set by different boards for EY Sweden and other audit companies to follow, EY Sweden must follow EYs Global Code of Conduct (EY, 2015e) which is guidelines on how an employee within EY Sweden should behave. This includes team-working, acting with professional integrity, keep objectivity and independence as well as to respect intellectual capital (EY, 2015e) which could be interpreted as to be humble towards seniors' knowledge and experience¹³. Failure to comply with the regulation threatens an employee's promotion or

¹³ Personal communication

compensation. In worst case scenario an employee can also be excluded from EY Sweden (EY, 2015e). It should therefore be a normative pressure among the employees to act in a way that is considered acceptable by the firm.

According to Coffee (referred in Thomsen & Conyon, 2012) trust can be a way to protect minority investors in Scandinavian countries. A strong brand name will enhance legitimacy (Ahlberg & Ponomareva, 2015) and attract customers to the company. Reputation will in that way encourage investors, in the case of EY Sweden partners, to invest in them (Ahlberg & Ponomareva, 2015; Thomsen & Conyon, 2012). If personal reputation is connected to the firm's reputation it will also serve as a function to deal with agency problems between managers and owners (Thomsen & Conyon, 2012). For EY Sweden it is important to have a good reputation which the firm strive to increase by objectively and ethically provide high-quality audit services. EY Sweden also states that no client is more important than the professional reputation (EY, 2015e), thus indicating that employees must follow the code of conduct and also the coercive institutions in order to be a part of the company. This because EY Sweden consider reputation to be the key to success and it must not be threatened (EY, 2015e).

9.2 CSR vs. CSV

Corporate social responsibility (CSR) has been defined by Thomsen and Conyon (2012) as companies voluntarily striving to align the interest of the society with the interest of owners and other stakeholders. It can also be defined as a concept where social and environmental concerns are voluntarily integrated in a firm's actions and interaction with stakeholders which should not be limited to fulfilling laws and regulations but go beyond that and invest in human capital, the society and environment (Commission of European Communities, 2001, referred to in Deegan & Unerman, 2011). According to Tirole and Bénabou (2009, referred to in Thomsen & Conyon, 2012) there are three perspectives of CSR activities. It can either be the insider initiated corporate philanthropy which is when a manager working in the firm distribute money according to own preferences, for example giving it to a non-profit organization in which the manager is engaged. It can also be the philanthropy view where the stakeholders' preferences are considered. Resources are spent on activities that are valued by the stakeholders which could have been carried out by non-profit organizations but the firm does it because it lowers the transaction costs. This is also a perspective used when stakeholders do not have the information or the resources necessary to carry out the activities themselves but are considered valuable to them. Lastly, there is the win-win approach. This is where both the company and the society

benefit from the corporate social responsibility activities. This is also close to the concept of shared value which was introduced by Porter and Kramer (2011).

Porter and Kramer (2011) criticized corporate social responsibility for focusing too much on the concept of philanthropy and not considering the good for the company, only the good for society. It was considered to only be a response to external pressure with no thought of the wealth of the company (Porter & Kramer, 2011). Therefore Porter and Kramer (2011) argued that shared value was a better option. Shared value is defined as policies and actions taken that increase a company's competitiveness while at the same time increases economic and social wealth in the community in which the company operates (Porter & Kramer, 2011). However, this concept was criticized for not being original, making underlying assumptions of companies obeying the law and not considering that there is a tension between social and economic goals (Crane, Palazzo, Spence & Matten, 2014). Concerning originality, as mentioned before shared value come close to the win-win approach by Tirole and Bénabou (2009, referred in Thomsen & Conyon, 2012) Shared value aims at actions doing good for the society also is doing good for the company. Porter and Kramer (2011) also explains in a response that obeying the law is not an assumption, it is a prerequisite for shared value to work and they also highlight that shared value cannot be applied to every single issue (Crane et al., 2014).

Shared value involves listening to the stakeholders and pay attention to what is demanded. It also involves to improve the value chain including distribution, energy usage, employee productivity and location. For example concerning employee productivity; investing in health benefits can be cheaper than having long-termed illness among employees in the company and the society benefits in health. Shared also value emphasize local clusters which mean collaboration between companies, institutions like universities and trade associations. To exercise shared value is to find gaps and deficiencies where the firm can improve which increase the wealth for both the company and the society (Porter & Kramer, 2011).

EY Sweden is engaging in CSR activities. Those are categorized into education, entrepreneurship, sustainable environment and community engagement and an overview is presented in table 6. In the category of education EY Sweden is lecturing and schools and universities. They also support research and essays at some universities in Sweden, offer sponsorships and give donations. In addition EY Sweden also offers internships for high school students in order for them to get a grip of the auditing work. Moreover EY Sweden offers education for clients and other stakeholders in subjects concerning Swedish business, public sector and voluntary sector. As mentioned earlier EY Sweden provides networks with the

purpose of knowledge and experience sharing among individuals (EY, 2015o). Since the concept of shared value includes clusters where companies and institutions collaborate (Porter & Kramer, 2011) it seems as if EY Sweden is engaging in a win-win situation by providing networks that can be useful both for companies in the society but also for EY Sweden. However, by lecturing and support research the questions is if it really benefits EY Sweden in that sense as is suggested by the concept of shared value. EY Sweden consider these activities to increase the knowledge of their business (EY, 2015k). In that sense they can spread their brand and perhaps that helps in strengthening it which is one of EY Sweden's goals (EY, 2014a). The schools also benefit because they get knowledge from the real world. However, the question is if it really is a shared value concept behind it or if these actions more serve as a legitimacy enhancer or marketing tool.

Concerning entrepreneurship EY appoints an entrepreneur of the year based on criterion of entrepreneurships, financial development, strategic approach, influence on the surroundings and integrity. This award is given in order to inspire creativity and innovation (EY, 2015p). Considering this as shared value could be that innovation and creativity strengthens the society socially and economically (EY, 2015p) which then open up for more business opportunities for EY Sweden. However, once again, this might be seen more as a marketing tool.

When it comes to the sustainable environment EY Sweden is trying to reduce the environmental impact their transportation might cause, try to use good energy sources, have environmental demands during purchase and reduce the use of office supplies (EY, 2015q). From this it looks more as CSR than CSV, unless for perhaps the reduction in office supplies because that would lower the costs for the company while it at the same time benefits the environment. Since the business of EY Sweden is not an environmentally unfriendly organization per se, as for example the car- or transportation industry, but they must transport themselves to clients (EY, 2015a; EY, 2015q). The reasons for engaging in sustainable environment activities might therefore be more of doing a good thing as Porter and Kramer (2011) expressed it and to respond to external pressures which might increase the legitimacy of the company. The same goes for the community engagement where EY Sweden offers their employees to work 16 hours of working time in a voluntary organization.

Table 6. Overview of EY Sweden CSR and CSV activities

CSR Category	Activities	CSR vs CSV
Education	Lecturing, sponsorship, donations, essaysupport, researchsupport, internships, education, provide networks	Both
Entrepreneurship	Entrepreneur of the year	CSR
Sustainable environment	Asses clients risk with consideration to environmental factors, reduce environmental impacts from traveling, use best energy source, demands on environmental aspects in purchase, reduce use of office supplies, implement environmental friendly view in business culture	CSR
Community engagement	Volunteering at work	CSR

As a conclusion it seems as if EY Sweden mostly engage in CSR activities rather than CSV activities, apart from the networks that they provide in the category of education. Because of restraints from lots of regulations perhaps it is not possible for EY Sweden to engage in activities that would create shared value except for networking. Human capital is their main resource and they use that in their corporate social responsibility activities. It seems as if their CSR activities is a way to spread the brand which, might strengthening the reputation of the brand through legitimacy (Ahlberg & Ponomareva, 2015), but also attract new employees to the firm which is one of EY Sweden's goals (EY, 2014a).

9.3 Corporate governance code

A corporate governance code can be considered to be soft law (Thomsen & Conyon, 2012) as in contrast to laws and regulations. In Sweden such a code is said to be compulsory for listed firms (Kollegiet, 2015) but often they are used on a comply-or-explain basis meaning that if a company is not following the code this should be explained. However, companies might feel an institutional pressure to adopt this code which can increase legitimacy (Ahlberg & Ponomareva, 2015). These codes set standards for what is considered to be good corporate governance (Ahlberg & Ponomareva, 2015; Thomsen & Conyon, 2012) which often includes recommendations on structure, decision processes of the board, but also investor relations or

executive pay (Thomsen & Conyon, 2012). Good corporate governance aims at solving agency problems. This concept promotes independent boards in order to assure monitoring. The code focus on listed companies but can be used for other organizations as well. It follows a one size fits principle meaning that the context is not taken into consideration (Ahlberg & Ponomareva, 2015; Thomsen & Conyon, 2012). This code is therefore not appropriate or useful in certain organizations as has been shown in family firms. In the context of family firms monitoring can be divert focus from the more important tasks of service provision and conflict resolution (Ahlberg & Ponomareva, 2015).

EY Sweden is not mentioning the Swedish corporate governance code. Not even an explanation is given to why the firm does not comply with the code. However, EY Sweden is not listed and is therefore not obliged to follow the code. This might be due to a couple of reasons. A corporate governance code promotes a majority of independent board members. However, this is not possible for EY Sweden due to the regulations in the Auditor Act that states that 75% of the board members must be auditors. Next, it is said that monitoring might divert focus of service provision in family firms (Ahlberg & Ponomareva, 2015). It has earlier been discussed that the task of the board of directors seems more to concern provision of resources than monitoring. Perhaps for the same reason as in family firms the corporate governance code would not be beneficial to EY Sweden because monitoring would divert the attention from resource provision, which is considered valuable in a human capital intense firm like EY Sweden.

Even though not following the Swedish corporate governance code EY Sweden the firm complies with the European Union's 8th Company Law Directive (EY, 2015e) which also regulates structure and task of the board of directors (FERMA, 2015a). However, EY Sweden highlights that they comply with the transparency objectives, thus saying that EY Sweden must be transparent with information about internal quality control systems, remuneration and structure (EY, 2015e).

9.4 Conclusions

EY Sweden face all three isomorphism; coercive through laws, mimetic by competition and networking and normative by standard setters. By responding to these pressure EY Sweden may enhance legitimacy which can enhance reputation (Ahlberg & Ponomareva, 2015). A good reputation is needed in order to survive, which can be concluded from the collapse of Arthur Andersen in connection to the Enron-scandal (BBC, 2002). To respond to institutional pressures could therefore be connected to the goals of having a strong brand and perhaps also to grow and being profitable. Following the Swedish corporate governance code could also enhanced

legitimacy but this code is mostly focused on listed companies and is not always applicable to other firms (Ahlberg & Ponomareva, 2015). This is the case of EY Sweden. However, the institutional pressures might be enough in order to be perceived as legitimate. Also, the firm engage in CSR activities which can promote legitimacy. Even though activities that creates shared value is promoted (Porter & Kramer, 2011) this seems not be the case for EY Sweden, possibly because EY Sweden must keep its independence.

10. Managerial discretion & Corporate entrepreneurship

Managerial discretion is by Hambrick and Finkelstein (1987) defined as the latitude of managerial action. It can be said to be the amount of options for a manager to decide upon¹⁴. Managerial discretion can be discussed in relation to the question whether managers matter or not (Hambrick & Finkelstein, 1987). The more options a manager has the more influence the manager can have and the other way around, the more restrained the manager is the less influence he has and then the less he matters¹⁵. Discretion is affected by the environment, the organization and the managers own characteristics. That means that managerial discretion is affected by for example product differentiability, market growth, demand instability, size and age of the company, resource availability and managers aspiration level, commitment and tolerance for ambiguity (Hambrick and Finkelstein, 1987).

A manager has discretionary bounds, meaning that there is a zone of acceptance among powerful parties. Some actions are allowed and some are not which can be difficult for a manager to know in advance. Managerial discretion deals with the action itself and does not consider the outcome. If a manager decides upon something that is not approved by owners there may be consequences like reduced influence or loss of job and often the action is reversed. This happens regardless of the outcome of the action. However, if the manager take actions within the approvement of owners and the outcome is positive the manager might get greater influence but if the outcome is negative the manager will get reduced influence (Hambrick & Finkelstein, 1987). Depending on the environment, the organization and the managers own characteristics it can be considered to be different managerial roles within a company. The two extremes are called the titular figurehead and the unconstrained manager. The first one refers to a manager that does not have much discretionary possibilities either by the environment, the organization or the managers own characteristics, thus meaning that the manager just have a

¹⁴ Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

¹⁵ Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

decision-making role on paper. The latter one on the other hand refers to a manager that is very little restrained and has high discretion. In between these two extremes there are other managerial roles which depends on the mix of discretion-level determined by the three factors (Hambrick & Finkelstein, 1987). Depending on if there is high or low managerial discretion it will have different effects on the company which affects the strategy and organizational form. A high managerial discretion indicates a shifting strategy while low managerial discretion indicates a stable strategy (Hambrick & Finkelstein, 1987). Managerial discretion in EY Sweden will be discussed later on. Hambrick and Finkelstein (1987) made certain assertions about the forces affecting managerial discretion, especially concerning the CEO. The analysis of managerial discretion in EY Sweden will therefore also focus on the CEO

What also will be discussed in relation to EY Sweden is corporate entrepreneurship which is a strategic position within an organization that incorporates the processes, practices and activities which make it possible for a firm to create value in entrepreneurial manners (Wales, Gupta & Mousa, 2011). Research within the area has focused on many different variables, separately, and their effects on entrepreneurial orientation, for example CEO characteristics, culture, environment, networking and organizational characteristics. However, the variables innovation, proactiveness, risk-taking, competitive aggressiveness and autonomy seems to be the ones used in multidimensional research on the subject. (Wales et al., 2011). How EY Sweden entrepreneurial orientation will be discussed later in relation to the variables of the multidimensional research.

10.1 Managerial discretion in EY Sweden

10.1.1 Environmental factors

The environmental factors enhancing managerial discretion are considered to be product differentiability, market growth and demand instability while environmental factors reducing managerial discretion is seen to be industry structure, quasi-legal constraints and powerful outside forces (Hambrick & Finkelstein, 1987). An overview of EY Sweden's status to these factors is presented in table 7. According to Hambrick & Finkelstein (1987) intensive advertising is a sign of product differentiability. However, EY Sweden is encouraged to be careful about advertising since it can conflict with fundamental principles like independence and professional behavior (FAR, 2015). Also, as already stated earlier, the big four audit companies are already offering similar products which suggest that EY Sweden is not that differentiated from its competitors. Low differentiability is said to reduce managerial discretion. The large audit firms in Sweden is said to have a steady growth (Balans, 2015) but that certain

service areas grow more than others (Balans, 2014a). According to Hambrick and Finkelstein (1987) high-growth industries have competitive variation which seems not be the case for the audit firms because of similarity. Thus indicating that EY Sweden is not a high-growth industry which then means reduced discretion compared to high-growth industries (Hambrick & Finkelstein, 1987).

As earlier mentioned EY Sweden is operating in a competitive environment (Öhman, 2007), thus excluding structures as monopoly or oligopoly. This restricts the options a manager has due to competitive discretion, thus this contributes to low discretion at EY Sweden (Hambrick & Finkelstein, 1987). Further on, EY Sweden perceive the demand for the firms services to be stable due to different service lines and different customers (EY, 2014a) thus, it should reduce options to mostly focus on capacity and staffing. This means low managerial discretion (Hambrick & Finkelstein, 1987). What also restricts options and lowers managerial discretion is the presence of quasi-legal constraints which is indicated by heavy regulation (Hambrick & Finkelstein, 1987). EY Sweden must follow regulation implied by Swedish law, Supervisory Board, IFAC and its independent standard setting boards and FAR. Also, EY Sweden has strong competitors which could be considered powerful outside forces. To keep up with them might lead to fewer options and means that it lessens the managerial discretion (Hambrick & Finkelstein, 1987). As a conclusion of the environmental factors it can be said that it restrict managers' options, thus indicating low managerial discretion.

10.1.2 Organizational factors

According to Hambrick and Finkelstein (1987) there can be factors internal to the organization that affect managerial discretion. These factors may be internal forces like size, age, culture and capital intensity can affect as well as resource availability and powerful inside forces like shareholding and board members appointed by the CEO. An overview of the status of EY Sweden to these factors are presented in table 7. By being a big four audit company it can be concluded that EY Sweden is a large company and it has been active as EY since 1989 when the audit companies Arthur Young & Company and Ernst & Ernst merged together (EY, 2015a). This implies that the company has been active for quite a long time. This and the fact that EY Sweden perceive themselves of having a strong business culture (EY, 2014a) implies that there is low discretion among managers. Service firms are not considered to be capital intensive which should enhance managerial discretion (Dagens Industri, 2013). However, among the organizational factors low managerial discretion can be concluded since most of the factors points in this direction.

10.1.3 Managerial characteristics

Hambrick and Finkelstein (1987) suggest that aspiration level, commitment, tolerance of ambiguity, cognitive complexity, locus of control, power base and political acumen to affect managerial discretion in a firm. An overview of these factors and EYs status in relation to them is presented in table 7. Aspiration level among managers affect managerial discretion by the more the manager care the more the manager search for options (Hambrick & Finkelstein, 1987). In EY Sweden, the CEO is a partner which implies that he has been climbing the hierarchical ladder by working himself to the top. According to Hambrick and Finkelstein (1987) this should indicate ambition and aspiration but once reaching the position this can change. However, the executive compensation might be useful in order increase ambition and aspiration for the CEO since the better the company performs, the more he can get in dividend through his shareholding in the company (EY, 2015e). This therefore should imply that managerial discretion exist. Furthermore, it is suggested that tolerance of ambiguity and ability to deal with cognitive complexity should enhance managerial discretion since it allows for a manager to consider several different actions at the same time with the possibility of going against the status quo (Hambrick & Finkelstein, 1987). Considering the CEOs former experience as a Swedish champion in the sport rugby he might have developed these skills since team-sporting like rugby demands the possibility to consider several options in order to get in a better position than the opposing team (Dagens Nyheter, 2011). If so, this implies that there is high managerial discretion for the CEO at EY Sweden (Hambrick & Finkelstein, 1987).

Another factor that can affect managerial discretion is internal locus of control, meaning whether the manager recognize events as being a result of the managers own control or if it is determined by destiny or luck (Hambrick & Finkelstein, 1987). This information is uncertain but according to Hambrick and Finkelstein (1987) a CEO is expected to have an internal locus which means that the CEO beliefs that events is happening as a result of his actions. This is due to their beliefs that they have been selected intentionally and not by luck. Since the CEO at EY Sweden is a partner and it is partners that choose who else can become a partner (Civilekonomen, 2011) this explanation seems plausible. Thus, it is suggested that there is managerial discretion since the CEO wants to consider options because this will affect the outcome (Hambrick & Finkelstein, 1987).

Power base is also considered to affect managerial discretion. The more power the manager has by shareholding, long tenure and control over the board of directors the more discretion the manager has (Hambrick & Finkelstein, 1987). However, the CEO was fairly recently appointed

to the position (EY, 2015e) which means that he does not have a long tenure as a CEO. Neither does he appoint board members or have a large shareholding since he share 45,8% of the votes with 146 other partners and there is a majority owner (EY, 2015e). This implies that others have a saying too. Because of this there should be low managerial discretion (Hambrick & Finkelstein, 1987). Political acumen and commitment should also be factors affecting managerial discretion but there is lack of information on these. However, the majority of the managerial characteristics point in the direction of high managerial discretion.

Table 7. Overview of factors affecting discretion in EY.

Factors	Status EY Sweden	Discretion
Environmental factors		
Product differentiability	Some differentiability	Low/Medium
Market growth	Steady but not high	Low
Industry structure	Competitive market	Low
Demand instability	Stable demand	Low
Quasi-legal constraints	Heavily regulated	Low
Powerful outside forces	Powerful competitors	Low
Internal organizational factors		
Inertial forces	Large, existed long, strong culture, not capital intensive	Low
Resource availability	High	High
Powerful inside forces	Shareholding but not significant, board members have worked in the firm and are not appointed by the CEO	Low
Managerial characteristics		
Aspiration level	Continue to exist - high/medium	High
Commitment	?	-
Tolerance of ambiguity	Yes	High
Cognitive complexity	Yes	High
Internal locus of control	Internal	High
Power base	Shareholding, short tenure, not appointing board members	Low
Political acumen	?	-

10.1.4 Role of the manager

It can be concluded that for EY Sweden environmental factors suggest low discretion, organizational factors suggest low discretion and managerial characteristics suggest high discretion. According to Hambrick and Finkelstein (1987) this combination means that the manager, the CEO, has one of the roles in between the two extremes titular figurehead and

unconstrained manager. It implies that the CEO has the role of a so called guerilla manager which means that the CEO is constrained by the organization and the environment (Hambrick & Finkelstein, 1987). This seems fair to say since EY Sweden is heavily regulated, as was discussed in the section about institutional pressure, and since it is a large firm with strong business culture and long existence which tend to put firms in a position of status quo (Hambrick & Finkelstein, 1987). It is also in line with the findings of Schleifer and Vishny (1997) who argues that if there is weak minority protection investors want to have a large shareholding in order to control which reduces discretion. There is one major owner in EY Sweden (EY, 2015e) and it is said that Scandinavian countries lack in protection of minority interests (Coffee, 2001, referred in Thomsen & Conyon, 2012). However, the findings are interesting because according to Ponomareva, Shen and Umans (2015) monitoring should be used in an organization with low discretion. However, in the section concerning the board of directors it is shown that monitoring is not their main task but rather to provide resources. On the other hand, increasing monitoring is said to bring a need to increase incentives in order to compensate for the increased monitoring. This in turn would suggest further monitoring to deal with agency problems which then again much be compensated. It becomes a vicious circle which can be costly to the firm¹⁶. Monitoring is said to cause consequences like demotivation of managers and slowing down decision-making processes. Perhaps the board of directors do not monitor to a great extent because they want to encourage the CEO to consider options and to act when possible since it is said that there is change going on in the audit business (Balans; 2015; Balans, 2014a; EY, 2014a).

10.2 Corporate entrepreneurship in EY Sweden

Corporate entrepreneurship deals with why organizations differ and why some are doing better than others.¹⁷ By being innovative, proactive, risk-taking, competitive aggressive and autonomous a firm can create an entrepreneurial orientation that can provide value to the firm (Wales et al., 2011). Since the auditing business is heavily regulated by several boards and standard setters the question is if EY Sweden has the possibility of being innovative. Heavily regulated firms are considered to have only a few options for existing business and is often prohibited from entering a new business (Hamrick & Finkelstein, 1987). Since it is a service company no traces of expenditure on research and development can be found in the income statement (EY, 2015b; EY; 2014a). However, EY Sweden do have a heterogenic TMT with an

¹⁶ Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

¹⁷ Yuliya Ponomareva, PhD Candidate at Linnaeus University. (Lecture 2016-01-07)

internal CEO which suggests a stable strategy that allows innovation. EY Sweden has engaged in innovation connected to their main resource in the firm, the human capital, by developing new recruitment methods in order to find the right employees (Garcea, Isherwood & Linley, 2011). This would perhaps create the value to the company as Wales et al. (2011) mention since the employees are EY Sweden's most important factor to success.

Concerning proactiveness, the big four audit firms are not considered to be as proactive as they could or should be as can be seen when it comes to integrating reporting (Balans, 2014b). Perhaps proactiveness could be impeded by the environmental and organizational restraints on managerial discretion. Even if there is a will to keep up with changes there might be other forces slowing this process down. According to the balance sheet and the low liabilities it does not seem as if EY Sweden take any big risks (EY, 2015b; EY, 2014a) which could possibly be explained by the low innovation investments. Also, since they should remain independence stocks and options in other firms is not allowed (FAR, 2015c) which otherwise could have brought some risk-taking to the company. Further, EY Sweden strive to reduce potential risks to the firm. For example the firm evaluate potential risks when accepting a new client. This could perhaps be connected to the strive to remain a good reputation (EY, 2015e) and not engage with ethically undoubtable companies (Herolf, 2013).

Competitive aggressiveness can be defined as a company's effort to overcome its competitors (Wales et al., 2011). Since the big four auditing firms are similar when it comes to what services they offer (Deloitte, 2015; EY, 2015c; KPMG, 2015, PwC, 2015), this could perhaps be seen as some competitive aggressiveness, to always keep up with what the other audit companies can offer their clients. Since the firms are similar the same human capital needed might already exist in EY Sweden.

Concerning autonomy the audit business as a whole is autonomous with the possibility of regulating the auditing business by self-regulation (Öhman, 2007). However, concerning members within the specific firm, EY Sweden, it was shown in the discussion about managerial discretion that there is not much room for pursuing new ideas due to the environmental and organizational constraints.

Combining all factors for EY Sweden; somewhat innovative and competitive aggressive but not very proactive, risk-taking or autonomous on manager level it can be concluded that EY Sweden is not an entrepreneurial oriented company to a great extent but that there exist some space for new ideas but mostly concerning human capital and reputation and not the daily work.

10.3 Conclusions

In EY Sweden the CEO has the role of a guerilla manager, meaning that the environmental and organizational factors restrain discretion while the CEOs personal characteristics enhance it (Hambrick & Finkelstein, 1987). This in turn affects corporate entrepreneurship. There is not much room for decision making due to heavy regulation but the firm engage to some extent in innovation (Garcea, Isherwood & Linley, 2011) and the firm is also competitive aggressive which means that there is some entrepreneurial orientation. Innovation have for example considered new recruiting methods which could be related to EY Sweden’s goal of employing good employees and competitive aggressiveness is most probably needed in a competitive environment in order to be profitable and to grow.

11. Summary and concluding remarks

From the analysis it can be concluded that different mechanisms affects different goals of performance. A summary of which mechanisms that targets certain goals is presented in table 8 and will be discussed in more detail in this section of summary and final conclusions.

Table 8. EY Sweden’s goals and the mechanisms that affects them

Goals and the mechanisms that affects them			
Strong brand	Attract employees	Profitable	Growth
Ownership structure	Executive compensation	Ownership structure	Board of directors
Board of directors	(Strategy & Structure)	Board of directors	Strategy & Structure
Strategy & Structure		Strategy & Structure	Managerial discretion
Labour market		Managerial discretion	
Insitutional pressure			

The agency problem that exist in EY Sweden is a principal-principal conflict where partners might be more focused on profits due to their compensation of dividend while EY Europe who is not entitled to any profit might be more focused on legitimacy and reputation. Since partners will get compensated based on profit this will probably align the interests of being profitable. However, considering the assumption of opportunistic behaviour EY Europe might keep the majority of voting power in order to assure that legitimacy is not sacrificed for opportunistic behaviour. Legitimacy and reputation increases the chances of survival.

The board of directors and top management team consists of insiders of which the majority are partners. This means that it is a dependent board that is entitled to equity compensation through their shareholding. Even though equity compensation often implies monitoring as the main board task, a dependent board implies provision of resources (Hillman & Dalziel, 2003) which

is considered to be the main task for the board of directors at EY Sweden. This because the CEO is in the board of directors suggesting that interest are fairly aligned and also that dependent boards promotes sharing knowledge with executives which implies cooperation rather than control (Thomsen & Conyon, 2012). The board of directors can serve as an information channel and possess board capital by experience, education and networks which can be provided to the company. The board of directors could therefore be seen as targeting the goal of strong brand since knowledge is needed in order to strengthen it. However, having a dependent board might increase the risk of rubber-stamping (Thomsen & Conyon, 2012), which might also be a reason for EY Sweden to keep the majority of the voting power.

The board of directors also targets the goals of growth and profitability by its composition. The board of directors and the TMT is heterogeneous when it comes to previous working experience, gender and education. However, all members are partners and can therefore be considered homogenous in personality since partners often have certain characteristics. A heterogenic board promotes new perspectives and innovation while the homogeneity can balance this and reduce the difficulties of reaching a consensus (Thomsen & Conyon, 2012). A possibility of thinking outside the box might be necessary in a dynamic and competitive business environment in order to be able to keep up with changes which is the reason to why the composition of the board targets the goals of profitability and growth.

The structure of the firm is a multidivisional form where each division operates as a separate firm. There is cooperation between the entities which promotes knowledge sharing. Knowledge is considered by EY Sweden to be important in order to deliver quality to customers which enhance reputation (EY, 2014a). The structure can therefore be considered to affect the goal of having a strong brand. In close connection to the structure is the strategy which for EY Sweden is a related business because of the different service lines that all in some ways are connected. Since EY Sweden is working in a competitive environment having several service lines is necessary for survival (Öhman, 2007). However, the audit business is cyclical and thus an unrelated business can be a way of protecting the business from dramatic effects on profit or loss of human capital. Therefore strategy can be seen to target the goals of growth and being profitable. In table 8 strategy and structure is put within brackets under the goal of attracting employees. This is because strategy and structure might indirectly affect the goal of attracting employees even if it is not the main purpose. EY Sweden offer the possibility of changing business area and service line and thus this strategy might attract people with the intrinsic motivation of continuously wanting to develop.

While on the subject of intrinsic motivation, this can be the motivation for lower level employees to stay in the firm while the executive compensation serve as an incentive for partners to stay in the firm. However, because of rather high asset specificity at the top this might not be the major reason to have executive compensation. According to the tournament hypothesis this could rather act as an incentive for lower employees, giving them something to strive for, which motivates them to do good job, even though it is a low possibility of becoming a partner. Also, by offering partnership, which includes executive compensation, employees might be attracted to the firm. Thus, executive compensation can be seen targeting the goal of being an attractive employer.

Moving on to managerial labour market it has been shown in the analysis that EY Sweden recruit lower level employees from external labour markets while it then is more common with internal labour market through promotion in the hierarchy. EY Sweden, as other audit firms, must according to standards continuously educate its employees (FAR, 2015b) which increases human capital. By recruiting internally, EY Sweden can keep the human capital within the firm. Thus, knowledge is kept within the firm. Once again, since knowledge is needed in order to deliver quality which positively affects reputation (EY, 2014a) this should target the goal of having a strong brand.

Several of the mechanisms have now been seen to affect the goal of having strong brand but there is still one more to discuss in relation to this goal and it is the role of institutional pressures. EY Sweden deals with all three isomorphism. The coercive by following the national law, the mimetic by engaging in networking where knowledge can be shared and the normative by adapting to standards set by IFAC and its independent boards. By adapting to institutional pressure legitimacy is enhanced (Ahlberg & Ponomareva, 2015). Even though activities that cause a win-win situation would be preferable, EY Sweden engage in corporate social responsibility activities which can enhance legitimacy and reputation. Hence, this targets the goal of having a strong brand.

Lastly, managerial discretion and corporate entrepreneurship. EY Sweden is heavily regulated by national law but mostly by standard setters and the firm operates in a competitive environment. Further it is a large company that has existed for many years and the CEO does not have large shareholding. This restrain managerial discretion even though the manager's personal characteristics promotes discretion. The CEO can therefore be said to have the role of a guerilla manager (Hambrick & Finkelstein, 1987). Even though the CEO possess characteristics of being able to handle different options and look at different perspectives he is

restrained in options by the organizational and environmental factors. This also affects the entrepreneurial orientation of EY Sweden. Even if there is a will to consider options he is restrained in doing so which affects autonomy and possibly proactiveness and innovation. This contrasts to what was said about the composition of board of directors which promotes innovation. However, EY Sweden engage in some innovation activities and can be considered competitive aggressive which can be good for profitability. Therefore, managerial discretion and corporate entrepreneurship can be related to the goals of growth and being profitable.

As can be seen different corporate governance mechanisms target different goals. Not all are designed to target all goals. However, it must also be remembered that the design of the corporate strategy is not entirely by choice but is also affected by external forces, for example the law affects the ownership structure. This is an analysis of how the EY Sweden use the corporate governance mechanisms and as was said already in the introduction, this solution might not apply to other organizations.

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