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

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Abstract

A new strand of corporate governance literature on ownership is developing the next generation of the concept of active ownership: responsible ownership. This paper aims to contribute to this strand of literature by addressing an inchoate element of responsible ownership: collective action by owners. We introduce an ownership strategy as a governance mechanism for collective action and responsible ownership and ask how an ownership strategy improves corporate governance. Using data from semi-structured interviews with owner representatives, board members, and non-executive insiders, together with observation and documentary analysis, we find support for the theoretical construction and an answer to the research question. Specifically, we find that the ownership strategy functions as a collaboration pact, which cultivates long-termism, and that the outcome is improved agency, i.e. that both the relationship between owners and directors and between directors and management is improved due to better alignment. The findings indicate that an ownership strategy establishes a much-needed long-term focus and commitment of owners while creating a sense of security and understanding among the members of the board of directors, i.e. that they are working with the will of their owners. As such, it suggests new avenues of research for corporate governance literature.

Keywords: Ownership, Ownership Strategy, Collective Action, Voice, Long-termism, Stewardship

Authors' individual contribution: Conceptualization – G.E.J. and T.P.; Methodology – G.E.J. and T.O.S.; Writing – G.E.J. and T.P.; Investigation – G.E.J. and T.O.S.; Resources – G.E.J.; Supervision – G.E.J., T.O.S., and T.P.

1. INTRODUCTION

Two decades ago, much corporate governance literature on ownership focused on active ownership as a powerful solution to important aspects of the principal-agent problems that haunt corporations. In hindsight, it is easy to see that this made a lot of sense during the several preceding decades which witnessed high economic growth and increasingly sophisticated financial markets. In the US, Shleifer and Vishny (1997) famously argued for a corporate governance system that combines large ownership stakes with enough power and incentive to be active with appropriate minority shareholder protection. Active ownership, in this way, serves to maximize shareholder value, primarily by improving the governance of the various principal-agent relations.

In the UK, shareholder activism by institutional investors appeared prominently (Becht, Franks, Mayer, & Rossi, 2009; Black & Coffee, 1994). Throughout the 1990s, in recognition of this, national corporate governance codes emphasizing the importance of active ownership were introduced in numerous countries.

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

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

Research shows that specific owner-identities such as families (Asaba, 2013) and industrial foundations (Thomsen, Poulsen, Børsting, & Kuhn, 2018) conduct their ownership with patience and a sense of responsibility. A typical characteristic of these businesses is, however, that the owners are majority owners, if not singular owners (Faigen, Mygind, Sigurjonsson, & Arnardottir, 2018). It is much less clear what happens when different owners must coordinate their actions. While there seems to be momentum as far as institutional investors' shareholder duties go, cf. the amendments to the European Union's 2007 Shareholder Rights Directive (adopted in 2017), practitioners and politicians are more hesitant when it comes to other shareholders. This may be because it is considered interference with their property rights (in that respect, institutional investors are indeed different in that they are merely financial intermediaries with long-term obligations towards their constituency). However, as was said during the French Revolution: *"Ils doivent envisager qu'une grande responsabilité est la suite inséparable d'un grand pouvoir"*, or, *"Great responsibility is the inseparable continuation of great power"*.

Shareholders need something to unify them if they are serious about claiming control and practicing responsible ownership. An ownership strategy, clearly expressing the will of owners, driven by a common purpose, anchored on shared values, adds to the corporate governance bundle that mitigates the consequences of incomplete contracts and taper problems from agency; principal-agent problems as well as principal-principal problem. Ownership strategies differ from a shareholder agreement in that its focus is not on the relationship between owners and how to settle potential disputes or disagreements but rather on uniting the owners around a set of principles. This strategy serves to improve the relationship between owners, their representatives in the board of directors, and the top management team. It is important to improve working relationships between owners and the board of directors so that the latter can cooperate constructively on advancing the company instead of battling different owner interests.

Theoretically, we can say that an ownership strategy, as we present it here, combines a solution for Olson's (1965) collective action problem with the prospects of voice in Hirschman's (1970) terminology. The concept of an ownership strategy also appears in Wahl (2015), where it is defined as an expression of the will of the owners of the company. We add to his work by suggesting a theoretical structure and by situating this mechanism in the corporate governance literature on ownership. Adding an ownership strategy to the governance bundle increases the propensity to resort to voice, because voice, in part, depends on the invention of institutions and mechanisms that allow for cheap and efficient communication of dissatisfaction.

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

Our empirical method is inspired by the singular work of Tilba and McNulty (2013). Qualitative inquiry is not only a means to reconsider established theoretical ideas but also serves as a very useful practice for understanding the practical and theoretical composition of this new corporate governance mechanism. Adding to the scarce

empirical literature that applies such a methodology (using primary data) might be considered a contribution. Our paper adds to the corporate governance literature by identifying the important role of ownership strategy in promoting coordinated active ownership. As such, we contribute to the important lines of work by Brav, Dasgupta, and Mathews (2017), González and Calluzzo (2019), and Renders and Gaeremynck (2012), which accept that shareholders may have either homogenous or heterogeneous interests and may affect principal-agent and principal-principal problems at the firm.

The remainder of the paper is organized as follows. In the next section, we focus on the theoretical underpinnings of this new mechanism. Specifically, we examine some theoretical motives and motivations. We then describe the research design and methods before moving on to the research findings. In the last section, we discuss our methodology and suggest future research.

2. THEORETICAL FRAMEWORK AND RESEARCH QUESTION

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

This reflects a continuation of the transformation of the economy in the late 20th century identified by Useem (1996). The nature of this transformation has been a change away from management control and the managerial theories of the firm that were developed in the 1960s, when shareholder were ascribed no active role (Yarrow, 1976; Fama, 1980), to shareholder control, where shareholder value has taken over as the main if not the only relevant criteria by which decisions are evaluated (Courteau, Di Pietra, Giudici, P., & Melis, 2017; Collin, Ponomareva, Ottosson, & Sundberg, 2016; Fligstein, 2001; Brown, 1998; Shleifer & Vishny, 1997). This shift has taken away some managerial autonomy without, however, necessarily reducing the overall agency costs, as conflicts between different groups of shareholders may arise in its place (Renders & Gaeremynck, 2012). This is often neglected in the neoclassical-flavored principal-agent analysis, where shareholders are assumed to have identical preferences.

New governance mechanisms can support the practice of responsible ownership, one of which may be the following: an ownership strategy is a formal governance mechanism that owners use to mitigate potential conflicts of interest in the ownership group and to commit to a purpose and a common set of principles by which the firm should be run. In this way, the governance problem that the ownership strategy seeks to solve is the lack of a clear and unambiguous ownership mandate and the managerial failures that may come with that.

Why do we need to take the extra step of a formal strategy rather than the looser format of a voluntary coalition? Because it is a credible commitment to common interests. Like donating the shares of a company to a foundation, has been shown to serve as a credible commitment to a business purpose (Thomsen et al., 2018), the ownership strategy as well can be thought of in this way. The ownership strategy is the fabled mast of Odysseus, to which all shareholders are bound. Also, to Williamson (1985, 1996), viable coalitions must incorporate mechanisms that bind their members to an acceptable level of co-operation. Ownership strategy is just such a mechanism.

We next set out to further clarify the theoretical underpinnings of this new mechanism. Specifically, we want to examine some theoretical motives and motivations by going back to some formative theories of the corporate governance literature on ownership. This will allow us to suggest a more elaborate answer to our research question, i.e.: *In what way does an ownership strategy improve corporate governance? How may an actual ownership strategy be hewed is an empirical question?*

Dispersed ownership tends to discourage activism because of collective action problems, while high ownership concentration implies that decisions are effectively made by the incumbent block holders, which also deters activism from the smaller ones. In any case, decisions are not being made in a way that incorporates all ownership preferences. Responsible ownership should overcome both concerns – and formulating an ownership strategy is a way to achieve this. It implies ownership rights as well as ownership responsibilities – one of which is not to free ride on the larger owner and for the larger owner not to expropriate the smaller owners (Edmans, 2014).

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

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

Even with (marginally) homogeneous interests, active ownership may well be undersupplied. Shareholder activism can be seen as a public good; the costs for providing it are privately borne, but the benefits accrue to all shareholders regardless of

participation (Olson, 1965; Admati, Pfleiderer, & Zechner, 1994). Thus, for the archetypical atomistic shareholder, quick exit or cheap passivity is usually more attractive than a costly voice. For Olson, coming from the Berle and Means type of firm, the public good characteristic of shareholder activism ensures that it is generally undersupplied.

While the need for collective action is a motive for formulating an ownership strategy, we need better insight into what motivates owners to enter into such a binding commitment. To this end, we begin with prospect theory, which shows us that losses of a given amount matter more than gains of a similar amount. This suggests that it is easier to mobilize owners for collective action when interests currently being satisfied are threatened, i.e., pressing concerns are more about what might be lost than about what might be gained. A motivation to formulate an ownership strategy to overcome collective action problems thus comes from a failure to keep up the good work that initially attracted the incumbent owners to become shareholders in the company. This leads us to Hirschman (1970) and the importance of "repairable lapses" is his work.

"To exit or not to exit" is the question that Hirschman (1970) asks. The motivation for this question comes from a decline in performance, or, more generally, a deterioration of some unspecified kind; this is the lapse. If the lapse is repairable, each owner will think about voicing his or her dissatisfaction instead of exiting. When owners agree on what concerns to voice, we can start thinking about collective voice, which, consequently, can be produced by an ownership strategy. This tells us that an ownership strategy is more likely to be formulated and agreed upon when there is managerial failure that puts all owners at risk at the same time, and where the (immediate) irreplaceability of the company and the purpose it serves makes the alternatives (exit or passivity) somewhat pale by comparison.

It also tells us that an ownership strategy, as a recuperation mechanism, is a strategy for the long term. In Hirschman's (1970, p. 33) definition, "voice has the function of alerting a firm or organization to its failings" and further that "voice is not exit but must include *time* for management to recuperate efficiency". This reminds us that with a voice comes such fundamental governance qualities as trust in general and trust in management, patience, and long termism. Paraphrasing Hirschman (p. 79), voice also serves long-termism in that it prevents deterioration from becoming cumulative, as it so often does when there is no barrier to exit.

However, even when there is agreement among owners for the need for collective voice and collective action, the question of costs and the net benefits needs to be addressed, because the voice is demanding and expensive. For this reason, it is often replaced with exit (Tilba & McNulty, 2013). Owners will ordinarily base their decision about exit or voice on experience with the cost and effectiveness of voice, even though the possible discovery of lower cost and greater effectiveness, new ways of exerting influence and pressure towards recovery define the essence of voice.

It is possible, nonetheless, that some large owners, provided that the lapse is repairable, are willing to seek out a compromise based on Olson's expropriative doctrine of selective incentives. In other words, some large owners are willing to bear disproportionally high shares of the costs of ownership strategy. Indeed, such contributions are likely when there is competition with counterparts in other groups (rather than with their own group mates). Here are two examples: First, product market competition. The largest owners are more willing to cover the costs when product market competition is tough, i.e. when there is a higher risk of losing market shares. Second, alternative ownership teams. This is when the fear of another owner or group of owners taking over dominates the sensitivity to the costs of the public good. This is often the case when there is a particular purpose that comes along with the ownership, which is neither uncommon nor necessarily bad for business.

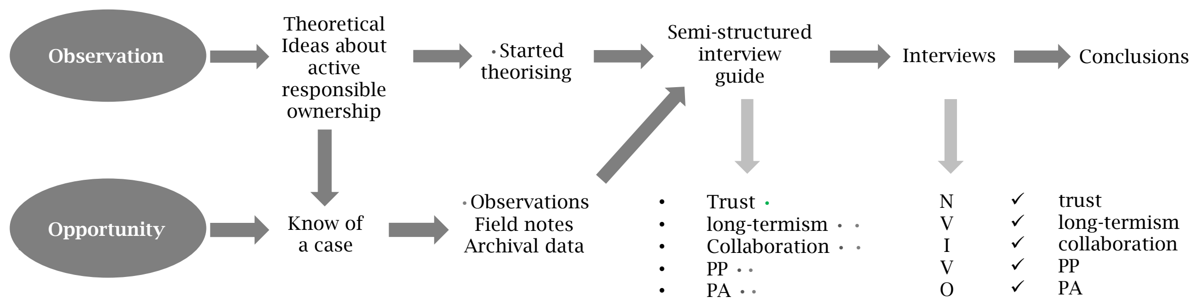
To recap and synthesize our theoretical framework: an ownership strategy produces collective voice, which is called for by the recognition of a need for collective action, which, again, is called for by the realization of a managerial failure, ultimately due to problems between the owners and the board and/or between the board and the daily management. Next, we turn to our empirical investigation of the ownership strategy as a governance mechanism for collective action and responsible ownership.

3. RESEARCH DESIGN AND METHODS

Given our focus, the qualitative method was used to gain an understanding of underlying reasons, opinions, and motivations (Taylor & Bogdan, 1998) for an ownership strategy as a new corporate governance tool. Support for the use of this research method is found in Sjöstrand, Berglund, Grönberg, Kallifatides, Poulfelt, Pöyry, and Sigurjonsson (2016, p. 18) who argue that "the poor documentation of practices within the field of governance is, in fact, an international problem that results from a lack of readily available data. Most studies on corporate governance are based on secondary data sources and official quantitative data". The results of such studies are inconclusive and often have a rather limited explanatory power (Daily, Dalton, & Cannella, 2003; Gabrielsson & Huse, 2004; Huse, 2007). We thus aim to answer calls for in-depth qualitative studies of corporate governance (Bezemer, Nicholson, & Pugliese, 2018). Although qualitative studies in corporate governance have grown in number, they remain a fraction of published work in scholarly journals (McNulty, Zattoni, & Douglas, 2013). A flow chart depicting the research process is provided in Figure 1. We learned about a case company that fits our theoretical ideas about responsible ownership, and we were granted access to this company. This access allowed us to make observations, take field notes and collect archival data, both secondary and primary data not available to others.

The research process was iterative, while data collection and initial analysis occurred simultaneously. We compared observational and documentary data and went back to the literature. Spending time in the field revealed what to look for in the documentary analysis which then fed into the semi-structured interview guide to minimize spending time on asking general questions on ownership strategy.

Figure 1. Flowchart depicting the research process



In addressing our research question, we used a case-based approach. Single case studies can richly describe the existence of a phenomenon (Siggelkow, 2007) and are particularly useful as we are examining new phenomena, and as Bezemer et al. (2018, p. 222) "in a context that is not generally well understood" (Bansal, 2013; Eisenhardt, 1989; McNulty et al., 2013). An ethnographic stance was taken to the case in question as one of the authors is an industrial PhD fellow working in the case company, thus being a highly embedded investigator. This allowed unique access and an opportunity to use primary data not available to others. The empirical methodology is, in fact, threefold; participant observation, the study of archival data and qualitative case work within the case company.

3.1. Data sources

Qualitative data allow the researcher to explore and theorize by getting close to actors and settings in order to examine relationships. To understand an ownership strategy, multiple sources of data with a deep immersion in the phenomenon (Gehman, Glaser, Eisenhardt, Gioia, Langley, & Corley, 2018) were collected for obtaining a thorough understanding of the phenomena as well as for data triangulation (Yin, 2014). This included observations and field notes, semi-structured, open-ended interviews and archival document analysis. Table 1 provides an overview of data, timeline, and output.

Table 1. Data collection, timeline, and output

Data	*Data collected (time)*		*Output*	
Archival data analysis	June 2017 – May 2018	Act on Reykjavík Energy; Partnership Agreement; Ownership Strategy; Reports to owners on the compliance to ownership strategy; Memos from BOD meetings; In-house presentations on ownership strategy, strategic management and implementation of ownership strategy	Semi-structured open-ended questionnaire	
Case Observation	June 2017 – June 2018	Observation of board meetings where ownership strategy was discussed; Observation of management meetings	Field notes	Theoretical purposeful sampling
Case Interviews	August 2018 – December 2018	12 interviews, digitally recorded	250 pages of transcribed and coded interviews	Theoretical, purposeful sampling

The case company and whom to be interviewed were chosen by means of theoretical sampling, a process of data collection in order to develop a hypothesis as it emerges. The case was selected because it is "particularly suitable for illuminating and extending relationships and logic among constructs" (Eisenhardt & Grabner, 2007, p. 27). With reference to Patton (1990), this case was selected on the basis of a purposeful sampling being an information-rich case guided by taking advantage of the specific case in question (Eisenhardt, 1989).

The case company, Reykjavík Energy (RE), is an Icelandic power and utility company, organized as a partnership and owned by three municipalities: the City of Reykjavík (93.5%), Akraneskaupstaður (5.5%) and Borgarbyggð (1%). RE is, in fact, a group consisting of a parent company and subsidiaries. Three subsidiaries are the face of RE's activities for customers and working within different markets, both competitive and public utility. Following the financial crash of 2008, the case company nearly went bankrupt. An extensive financial rescue plan had to be set up in order to save the company and to ensure its future sustainability the owners agreed amongst themselves on an ownership strategy, that has guided the governance of the group of companies since its formulation.

The research was introduced to the board of directors at the case company and access was granted. Also, the case company's CEO approved participation and the lead researcher's double role as an industrial PhD fellow. We do not have any indications that this has in any way influenced behavior or answers of interviewees. The case company did not impose any restrictions on what could or could not be documented.

Written documents were an important source of information. Archival data included primary and secondary data. Secondary data included the act on the case company, its partnership agreement, the

ownership strategy, etc. This secondary data was accessible via the internet. Primary data included in-house data such as reports on the compliance to ownership strategy, quality handbook data that pertain to ownership strategy, its implementation, minutes of board meetings and owners' meetings. This information was reviewed prior to the interviews and fed into the semi-structured interview guide to minimize redundant questions on ownership strategy.

Interviewees were carefully selected with consideration of their role and expected contribution to illuminating the subject matter. We interviewed key governance players: a) five owners' representatives (managers of the municipalities, both former and current), b) four board members (both former and current), and c) three employees in the management team (current), a total of 12 interviewees. A further description of respondents is not provided to protect their anonymity. Also, it is not useful to further distinguish between them.

3.2. Data collection and analysis

Data collection took place between June 2017 and December 2018. Archival data, along with field notes, was collected from June 2017 until mid-year 2018. Interviews were conducted from August until December 2018. The interviews were semi-structured and open-ended, lasting up to 90 minutes. The formulation of interview questions was based on (Becker, 1998) who advises asking how things happen, not why they happened. Also, based on Eisenhardt and Graebner (2007) as well as Yin (2014) the questions were meant to probe and thereby gain a deeper understanding of the interviewee's answers.

A key approach to mitigating data collection approaches that limit bias is using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives (Eisenhardt & Graebner, 2007). A total of 12 interviews were conducted, at the location of the interviewees' choice. We found that we were reaching data saturation after ten interviews, as further distinct themes did not appear. The data was analyzed through grounded theory methodology, coding where the text was ordered into meaningful themes. All interviews were digitally recorded, transcribed (250 pages in total) and coded. Triangulation of evidence was used as means to gain more confidence in the results (Eisenhardt, 1989). For the purpose of triangulation as well as means to limit bias, all three researchers were involved in the case study and interpretation of the empirical results.

Initial data analysis began alongside observations and data collection. We compared observational and documentary data and went back to the literature, which resulted in the systematic development of research themes and the development of semi-structured, open-ended interviews. Analysis of data was inductive as well as interpretive whereas we aimed at a deeper understanding of ownership strategy. Nvivo 12.0, a qualitative research software, was used to assist and facilitate the analysis of the qualitative data.

4. RESEARCH FINDINGS

The purpose of this research is to establish an understanding of an ownership strategy as a collaboration pact supporting long-termism and fostering responsible ownership. We sought major stakeholders' views of an ownership strategy in semi-structured open-ended interviews to uncover the role and an ownership strategy in practice at a case company. Using Nvivo to assist and facilitate analysis of the qualitative data, coding themes (nodes) were established. Below is Table 2, presenting each theme and its coverage. We will review each theme and the results in the same order as presented in the Table. The text relating to each theme refers to the results presented in Table 2.

Table 2. Node/theme coverage

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

4.1. Collaboration

We started out by identifying the respondents' views on collaboration between owners and if and how ownership strategy had an effect. More narrowly, we wanted to understand if and how an ownership strategy works as a collaboration pact. The results show that an ownership strategy is a mechanism that explicitly expresses the will of the owners and guides their agents while minimizing the principal-principal conflict that sometimes arises when the biggest owners use their power to the detriment of smaller owners. By agreeing on their mutual will, owners are collaborating. Coding the interviews and looking to see if ownership strategy supports or has a negative effect on the collaboration of owners, we found strong evidence that the ownership strategy works as a collaboration pact between owners (232 instances or 92% as opposed to 21 instances or 8%), see Table 2.

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

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

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

… there is of course much more determination when things are documented like this in one place and it is more difficult to make changes to it. The owners have as well in the partnership agreement decided how decision-making should be, they have determined it and the smaller owners have a lot to say about it, how it should be. How the owners intend to make decisions has been formalized with the partnership agreement and the ownership strategy, in both form and content. The owners have in fact tied their hands.

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

The owner should have a view of the company's role… the basics of how to operate it and where it is headed, because the board of directors works within the owners' authority.

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

Even though the relationship between owners was considered good, the inherent discussions regarding the formulation of an ownership strategy are valuable. As was expressed by a member of the board:

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

The mere fact that the owners of the case company found themselves formulating an ownership strategy suggests that other mechanisms or tools in the governance bundle were insufficient. We thus explicitly asked about differences between shareholder agreements (this case partnership agreement) and an ownership strategy. The difference between partnership agreement and ownership strategy as was expressed by one of the owners' representatives:

… this was indeed an innovation. There are certain things in the partnership agreement that an ownership strategy does not replace. However, there was a considerable lack of vision in terms of separation of roles (…) [the ownership strategy] is more compact. We at least thought that the partnership agreement did not state all those things, or to say we decided to do it in a way that we wanted to have a detailed ownership strategy, or let's say clear, so that impartial or professional board members were perceptive about the owners' vision.

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

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

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

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

And a member of the board on the distinction between ownership strategy and shareholder agreements said:

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

Asked directly, few of our respondents could come up with anything negative about the ownership strategy. One respondent on the management team mentioned the potential threat that the ownership strategy would not be implemented:

(T)here might be a risk that it succumbs, fades out, if people aren't working regularly with it.

One board member mentioned that the owners could use the ownership strategy better in coordinating among themselves; the reason for them not doing was practical, e.g. that discussions take too much time. Opposing this view, one respondent, another board member, expressed his opinion on the success of the ownership strategy as an effective governance tool and creating trust:

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

To summarize, we found strong support for ownership strategy working as a collaboration pact between owners. In fact, one of our respondents went so far as to say that the implementation of ownership strategy had revolutionized the company's governance. Our respondents were highly supportive of an ownership strategy as a collaboration pact and minimizing the likelihood of a principal-principal conflict.

We also wanted to understand the role and ownership strategy might have on promoting long-termism. This discussion follows.

4.2. Long-term focus

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

To clarify and reiterate, ownership strategy limits the mandate of the board of directors by stipulating that certain decisions are subject to owners' consent: 1) new commitments exceeding 5% of booked equity, 2) unusual and strategic altering or formulating decision or 3) plans to harness or utilize natural resources at sensitive areas and that require environmental impact assessments. With this, the owners are committed to collaborating on decisions with long term effects, as opposed to leaving those decisions to their board as is customary. As described by a respondent on the management team:

I think it is an important, unusual document (…) It is very important as a strategy; where we are headed, how the owners want the company to be run. Then it is of course, it is a safety net by limiting (…) the board of director's mandate. The company will not be steered into trouble by decisions of the board alone. Owners would all have to agree upon it being done!

Our respondents confirmed the inherent long-term focus of the ownership strategy. In the words of one of the owner's representatives:

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

In addition to the long-term focus agreed upon by the owners, the ownership strategy is a clear marker. It outlines the will of the owners towards the future and guides the board of directors. An owner's representative said that the ownership strategy:

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

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

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

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

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

Restrictions on owners were also mentioned in relation to payments of dividends. The ownership strategy states that the board of directors shall formulate a dividends policy that the owners shall review and accept. One respondent said that the birth of a dividends policy, based on the ownership strategy, sparked a new means for ensuring the company being on the right future path. While doing this, the ownership strategy thus also puts a constraint on the owners themselves as they have decided upon the future path of the company and mitigate against sudden decisions that would disturb operations. One respondent, an owner's representative, voiced this regarding dividend payments:

… now there is some methodology, that by itself is allowed to evolve over time, but it is based on something real, not just the owner's need for money or the company's willingness or lack thereof to hand it over, rather it is, it has been weighed and contemplated …

The few opinions expressed relating to ownership strategy not supporting "long-termism" were not strong or definite. These opinions related more to the fact that owners needed to stay alert about changes the future might bring. One owner's representative said that:

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

To summarize, we set out to uncover if and how an ownership strategy affects the long-term commitment of owners. We found that it has an inherent long-term focus that the owners have agreed upon and that guides the board of directors. As discussed, committed ownership leads us to think that committed owners are focusing on their ownership for the long-term and are less likely to engage in short-termism. We wanted also to see if an ownership strategy affected the alignment between the owners and their board of directors. This discussion follows.

4.3. Alignment between owners and BoDs

We set out to see if an ownership strategy could be the owner's way to minimize the principal-agent conflict and the risk that managers might serve their own interests at the expense of the owners. This could be done by an alignment between owners and the board of directors. We sought to answer if and how an ownership strategy aligns owners and directors. With that question in mind, we sought to see if an ownership strategy was a corporate governance mechanism that expresses the will of the owners and guides their agents. In coding for the guidance of agents, we searched for alignment between the owners' will and their board of directors. The results showed that an ownership strategy creates an alignment between the owners and their board of directors: 137 instances (93%) confirm it against 10 (7%) disconfirmed (see Table 2).

The ownership strategy outlines the will of the owners and creates a framework for the decision making by their board of directors. Therefore, by following the ownership strategy, the board of directors is working in line with the owners' will. Board members expressed appreciation for the ownership strategy and its guidance. As expressed plainly by one of them: I think it would be much more difficult to be a member of the board without an ownership strategy.

The interviews uncovered that an ownership strategy gives members of the board more comfort that they are in fact working in line with their owners' will. One might think that ownership strategy would do the opposite, i.e. give members of the boards a sense of distrust towards them because of the limitations on their mandate. However, instead of them feeling distrust it creates a sense of trust. This made it easier for board members to make decisions and to work together. In fact, one board member described it thus: "The spirit of the ownership strategy is apparent in the boardroom".
Inherently negative attitudes towards the ownership strategy were not coded. One respondent, a member of the management team, was not sure if the case company's ownership strategy was effective in the alignment of the owners and the board of directors. One respondent, a member of the board, expressed some concern that it might be possible to justify deviations from the ownership strategy or its inherent spirit.

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

4.4. Alignment between BoD and management

For the board of directors and managers alike, an ownership strategy clearly expresses the will of the owners making it clear what owners expect from them. We sought to see if the ownership strategy had any effect on the alignment of the board of directors and the management team where we sought to answer if and then how an ownership strategy aligns directors and managers.

The results show that an ownership strategy has a positive effect on cooperation between the board and management (100% - 43 instances), no coding was made for an ownership strategy having a negative effect on the alignment of the board and management, see Table 2. One member of the management team described the alignment in this way:

> *Managers get, through ownership strategy and the corporate strategy, a message regarding where the company is headed. Where they are supposed to go, what they are supposed to do. They are supposed to establish strategic objectives and key performance indicators, submit it to the board and in some instances submit it to the owners, and then go in that direction.*

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

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

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

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

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

4.5. Trust

Our theorizing was not only validated via the above-mentioned categories. We also saw the emergence of trust as a theme. Ownership strategy has a positive effect on trust among stakeholders. We coded for 60 instances wherein 59 of them (98%) supported that the ownership strategy facilitated trust while only one instance (2%) was coded for a negative attitude (see Table 2). This instance was not inherently negative. In the opinion expressed, the ownership strategy was just as important, and not more important than strategizing in general. The respondent made no point in ownership strategy creating distrust.

Asked directly if the ownership strategy had affected trust between stakeholders most answers were unambiguous. As one of the owners'

representative simply put it: "Yes, trust increased a lot between stakeholders".

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

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

The empirical results strongly suggest that such an ownership strategy can increase trust. Having owners decide on a collective voice and creating a clear mandate for the board of directors and guidance for the board, managers, and employees, was seen in a positive light and as increasing trust between stakeholders.

5. DISCUSSION

Many compelling theoretical arguments and empirical results on active ownership (Becht et al., 2009), shareholder activism (Brav, Dasgupta, & Mathews, 2017; González & Calluzzo, 2019), and responsible ownership (Mayer, 2018; Hart & Zingales, 2017) appear in these years. Steps to improve shareholders' opportunity to participate and make their voice heard in the governance of corporations are important because shareholder activism curbs managerial rent extraction as well as entrenchment by large shareholders, by limiting their voting superiority and related private benefits (Poulsen, Strand, & Thomsen, 2010).

We have reviewed important contributions to this literature and found that the question of collective action by all owners for the promotion of responsible ownership is not yet well developed. Activism might not be beneficial for the firm and its stakeholders. Active ownership needs to be responsible (coordinated, unidirectional, and in agreement with each other) in its attempt to strike a balance between these different interests. We emphasize the need for a credible commitment to common interests. Our paper contributes to the literature on ownership by providing theoretical arguments and empirical support for a governance mechanism called ownership strategy. It serves to seek out homogeneous interests as well as mutually acceptable heterogeneous interests (González & Calluzzo, 2019; Goranova & Ryan, 2014; Renders & Gaeremynck, 2012).

Our empirical results, which are based on case-based, qualitative data from interviews with owner representatives, directors, and executives, show that such an ownership strategy is indeed an effective corporate governance mechanism to unite owners and promote their long-term commitment to the business (purpose) while minimizing agency problems and promoting trust between principals and between principals and their agents. To our interviewees, there is no doubt that the outcome of the ownership strategy has significantly improved corporate governance, especially on two broad dimensions. First, directors feel more certain about their role, duties, and tasks. Second, and as a result of this certainty, directors are better able to identify vision and strategy to the executives, who then also feel better equipped to do what is expected from them. A further outcome is that this increases general trust throughout the firm.

This outcome was obtained by the owners setting up a committee, funded and organized by the company. The committee, comprised of members appointed by the owners, tried to create a common ground for the ownership strategy. It was clear that all owners shared some of the same concerns as well as a belief in the reparability of the managerial failures that caused these concerns. The committee was thus able to identify a common foothold. From there, the challenge was to establish a collective voice to drive collective actions aimed at these concerns specifically and other (long-term) concerns more generally. The ownership strategy, in this way, served a particular purpose at a point in time, but at the same time, it served to commit to some more general principles and goals for the future collective management of the ownership. It was built partly on known commonalities and partly on new, collectively agreed-upon goals and purposes, anchored on shared values. This process uses Hirschman (1970) to deal with Olson (1965) in order to go in the direction of Mayer (2013, 2018), Thakor and Quinn (2013, 2018), and Hart and Zingales (2017) without being trapped by, for example, Fama (1980) or Edmans (2014). It shows that "voice is essentially an art constantly evolving in new directions" (Hirschman, 1970, p. 43).

6. CONCLUSION

While this is surely an attractive outcome, it is probably not available or even accessible to everyone. Some barriers follow from the theoretical framework. First, an ownership strategy is more likely to be formulated and agreed upon when there is a managerial failure that puts all owners at risk at the same time. Second, it is also more likely when the irreplaceability of the company and the purpose it serves increase exit costs substantially if not prohibitively. An ownership strategy may, therefore, be more relevant when asset specificity is higher. Third, in order to reach a collective outcome, one or more large owners may be needed to bear disproportionally high shares of the costs of an ownership strategy. This is more likely when owners and/or their interests are homogeneous, when there is tough product market competition, or when there are alternative ownership teams, i.e. tough competition in the market for corporate control.

Ownership strategy does not work in isolation from all other governance mechanisms, but it is difficult to argue for the general relevance and effectiveness of the ownership strategy in relation to the existing configuration of governance mechanisms. Nonetheless, while there is an unsettled question about corporate governance bundles in the literature, where, on the one hand, homogenous bundles have been considered superior to heterogenous bundles, and, on the other hand, heterogeneous bundles have been considered superior to homogenous ones (García-Castro,

Aguilera, & Ariño, 2013), ownership strategy rests on some degree of pre-existing orientation towards ownership governance – whether this is driven directly by the owners or by other parties in the corporate governance system. Otherwise, there would be no one to initiate and take responsibility for the process.

Barriers from the standpoint of the research method also arise whereas qualitative research has been criticized for not putting forward theories that are tested and either sustained or disproven as with quantitative research method. However, we, as Bansal (2013, p. 130) are "strong proponent[s] of paradigmatic and theoretical plurality. Both approaches are important to build a robust system of knowledge". From the standpoint of sampling and sampling size, the limitation is a small sample and representativeness. However, the case company was not picked randomly and for a good reason. "In fact, it is often desirable to choose a particular organization precisely because it is very special in the sense of allowing one to gain certain insights that other organizations would not be able to provide" (Siggelkow, 2007, p. 20).

This paper also suggests future research. As with any other qualitative research, hypotheses arise from the data at the end of the study. This allows us to hypothesize that an ownership strategy is an effective governance tool to promote cooperation between owners and establish a long-term focus. In doing so, owners and their board of directors are aligned, as are the board and managers. A suggestion for further research is, therefore, to use a larger sample and test if the hypothesis stands. This could be done in other qualitative work, in experimental studies, or, if possible, in quantitative studies with the aim of capturing some of the observed variances in agency-related outcome variables. Finally, there is also the important question of how to make the ownership strategy happen. While this will often depend on the specific circumstances of the company in question, it might be possible to derive some more general guidelines for how to do this in practice; we suggest future research in this area.

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