A Call For Attention

- External Stakeholder Influence on Executives Within Swedish Banks

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Introductory remark

The authors want to thank our opposition groups during the master thesis, and especially our supervisor Göran Nilsson for all the help.

Moreover, the authors want to thank the interviewed persons who took their time to participate in face-to-face interviews, despite their heavy workload.

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Abstract

In 2008, a financial crisis struck the world economy, causing a risk of a potential system-crash. In order to stabilize the financial system within Europe, European Banking Authority (EBA) presented new guidelines (GL44) as a way, among others, to increase the transparency among financial institutions. As a result of GL44, Swedish Financial Supervisory Authority (FSA) implemented new regulations, with minor adjustments and amendments. At present, the guidelines are weeks from being completely implemented, thus meaning that the financial industry is able to start seeing the changes from the regulations.

The authors have chosen to conduct a study regarding how the banks have been affected from the external authority demands during the previous recession.

The focus of the study has been on three of Sweden’s four large banks, which are considered systematically important, as well as one niche bank.

The study showed that the work in board and top-management was affected by external demands from authorities. The attention on business development was disturbed during the recession since more focus was put on controlling factors such as compliance, risk management and internal audit as well as on board composition and board competence.
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Keywords: Corporate Governance, Managerial Attention, Stakeholder Theory, External Stakeholders, Recession and Swedish Banks.

Research question: In what way have authority demand affected executives attention on how business is conducted within Swedish banks?

Purpose: Due to the recent regulations from European Banking Authority (EBA) and FSA, the study aim at investigating how the boards and top-management have been affected in practice. The study concerns the terms both of board composition and competence among the different managers, as well as their focus of attention during a recession.

Method: The study is of a qualitative character and is based on primary empirical data gathered through semi-structured interviews. The interviews were conducted with five top executives from four different Swedish banks.

Conclusion: The study showed that the work in board and top-management was affected by external demands from authorities. The attention on business development was disturbed during the recession since more focus was put on controlling factors such as compliance, risk management and internal audit as well as on board composition and board competence.
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1. Introduction

During the fall of 2008, a financial crisis struck the world economy causing financial turbulence and risk of a potential system-crash within the banking industry (Hagberg, 2009). Generally within the banking industry, there are two particular aspects that aggravate a financial crisis for banking firms. Firstly, to be considered are the multitude of stakeholders (e.g. depositors, government, creditors, shareholders) that are connected to a bank’s operations. Secondly, the complexity of a banking industry (e.g. regulations, supervisory authorities and financial risks in general such as system crashes), that demands stronger responsibilities on the overall management. These aspects are the reasons why much attention has been paid regarding corporate governance in financial institutions since corporate governance is a tool in order to keep and maintain a steady business. (Mehran et al, 2011; Berger et al, 2012) Moreover, Erkens et al. (2012) stated that, in general, corporate governance had a direct influence on the financial firm’s performance during the crisis of 2008, whereas the outcome of different banks were dependent on their respective corporate governance. In general terms, corporate governance focuses on the governance between shareholders, board and top-management within a firm. Though, as can be seen in Appendix II, there are numerous stakeholders whom, in turn, have the possibility to affect firms’ corporate governance, according to Freeman (1984). In particular, governmental control over financial institutions, such as banks, is of essence in order to keep a sound financial development of the society as a whole (finansinspektionen.se). For instance, governmental bodies use their control as a method to cope with problems in firms where shareholders have great influence on the business and are thereby keen to use their power in order to maximize their personal financial yield (Gompers et al. 2003). The authorities use their influence to secure financial stability before shareholders can be allowed to increase their financial yield. In turn, this has made regulators to restrain and monitor financial institutions (e.g. banks) stricter in order to deal with personal interest, referred to as agency theory (Eisenhardt, 1989; Hart, 1995). Banks are important for the society, thus it lies within the general interest, public or private, to ensure a healthy economy. Therefore, in order to balance the economy and control the volatility, authorities have enforced regulations to protect the domestic economy and to strive for a reduced risk-taking amongst shareholders. (Gaffikin, 2005) One can say that risk has been transferred from
internal shareholders to external stakeholders by implementing regulations on, for instance risk-taking. (Al-Khouri, 2012)

The authors decided to further investigate in the subject of corporate governance during time of recession by conducting empirical interviews with executives in Swedish banks based on an inductive approach. As an inductive approach suggest, the intended aim was to pin-point a problem and later add theory after the interviews. The gathered data from the interviews led the authors to investigate in external demands influence amongst the board and top-management within the banks, both in terms of composition of the board, but also their knowledge and experience. The data gathered from the interviews indicated that the board and top-management of Swedish banks experienced changes in the area of where their focus of attention was best needed. The attention issue regarded development and control of their respective firms, as well as compliance, in order to avoid getting sanctions from Swedish Financial Supervisory Authority (FSA).

1.1. Problem Formulation

From the conducted interviews within this study, the authors were able to identify the attention issues that have arisen within the board and top-management through EBA and FSA’s regulations. The illustration below (Figure 1), show government as an external stakeholder put into a traditional corporate governance model. The model emphasize that the relationship between a bank and authorities can be seen as “external corporate governance” which affects the “internal corporate governance”.

![Figure 1](image_url) – Self-illustrated corporate governance model, extended with the Government as an external stakeholder based on the empirical findings.
The authors believe that banks within the Swedish banking industry accounts for an interesting base of analysis due to the numbers of stakeholders connected to their businesses (SEB.se, 2014; Nordea.se, 2014; Swedbank.se, 2014 & Handelsbanken Sustainability Report, 2012). Further, corporate governance is proven to have a general determine effect on firm performance (Mehran et al, 2011; Berger et al, 2012). Also, as according to the empirical data (view 4.0) and Al-Khoury (2012), regulators started to take control over, for instance, personal interest, business development and risk-taking by enforcing regulations towards banks. With this in mind, the authors believe that it would be interesting to investigate the external demands influence on the banks’ board and top-management.

1.1.1. Purpose of the Study

Due to the recent regulations from European Banking Authority (EBA) and FSA, the study aim at investigating how the boards and top-management have been affected in practice. The study concerns the terms both of board composition and competence among the different managers, as well as their focus of attention during a recession. Swedish banks have been chosen due to the importance to the society they have in regard to domestic growth and the discussion regarding potential system-crash during recession. As mentioned before, many stakeholders are connected to banks’ operations, making it interesting to study how the stakeholders affect the working progress within the banks. Therefore, in regard of authority demand as a stakeholder, it would be interesting to see how regulations affected the working progress within the interviewed banks.

1.1.2. Aim and Contribution

The study aims to contribute to existing theory by empirically investigate executives’ perceptions of external authority demands (regulations) and how external stakeholders altered the working progress within board ant top-management at Swedish banking firms. The aim is to shine a light on existing stakeholder theory by adding managerial attention to the theorem in order to emphasize external stakeholder effect on banks’ business operations during recession.
Based on the above mentioned information the authors have chosen to compose the following research question:

1.2. Research Question

- In what way have authority demand affected executives attention on how business is conducted within Swedish banks?
2. Theoretical Framework

The theoretical framework mainly focuses on, stakeholder theory, corporate governance, regulations and managerial attention. These chosen frameworks were seen as relevant in order to conduct a thorough analysis from the gathered data in the empirical interviews.

2.1. Stakeholder Theory

Stakeholder theory has its origin from Freeman’s book Strategic Management: A Stakeholder Approach from 1984. The stakeholder theory concerns both internal and external stakeholders and their influences on a firm’s operation (Freeman, 1984). Since then, many researchers have discussed the stakeholder theory, and yet there is no distinct definition on what exactly defines as a stakeholder (Miles, 2012; Fassin, 2009). Nevertheless, there are two types of stakeholders, namely internal and external stakeholders. Internal stakeholders refer to employees, managers and owners meanwhile external stakeholders refer to suppliers, customers, society, and government. These are the prominent ones in the vast number of different types of stakeholders, yet also these definitions are constantly challenged. (Miles, 2012)

However, researchers are challenging the concept of stakeholder theory trying to redefine it to a shared conceptual definition of the phenomenon (Miles, 2012). This has further led to rejections regarding the theory, stating that it is too much ambiguity in the definitions in order to accept it as a complete theory (Freeman et al, 2010). Due to the lack of agreement this may in turn lead to a conceptual confusion regarding stakeholder theory which disables a common ground for theory and cannot fully be empirically analyzed (Collier et al, 2006). In terms of this matter, Miles (2012) argued that there is a need of a common frame of reference. This can then enable a theory discussion in order to compose a shared understanding of the meaning of stakeholder theory. Miles (2012) continued by adding that a common framework of reference will also prevent problems of having even more incongruent ideas within the field of stakeholder theory. Freeman et al. (2010) also stressed the issue when lacking of mutual understanding concerning the true definition of a stakeholder.

2.1.1. External Stakeholders and Governmental Bodies

Freeman (1984) highlighted the fact that the overall growing economy called for a realization of compliance. The economy in every domestic economy has, more or less, increased since World War II and there has been evident that
firms need more manpower than before working with risk management and compliance in order to respond to governmental demands (Freeman, 1984).

Further, Freeman (1984) addressed the role of the government as an external stakeholder by illustrating a complex environment, which the different governmental bodies consist of (view Appendix II). The illustrated example highlights the many elements within governmental bodies that have an impact on the firm. As a result from this, Freeman (1984, p. 17) stressed the importance of managing external stakeholders by stating “Management simply must undertake an organized effort to deal with governments in a strategic fashion”. Furthermore, Frooman (1999) also declared the gravity of the stakeholder theory by stating that the essence of the theory enable managers to understand and manage their stakeholders, e.g. the Government.

As discussed in the previous section, there seems to be ambiguities in what a stakeholder really is. However, according to Gamble and Kelly (2011) and Freeman (1984), among others, the Government is regarded as a stakeholder. This can be better understood since theory also suggest that a stakeholder (in general) influences a firm since they can benefit, harm, help, impact, interact with a firm. As for the role of Governments, they influence corporate governance in firms in form of, for instance, regulations (Kothari, 2000). Moreover, Governments influence a firm in various types of interactions, for instance, exchange relationship, exchange transactions, put in moral obligations and responsibilities via incentives such as risk, contract, investment, rights and ownership. (Miles, 2012) The nature of these external stakeholder initiatives can be of different types, but factors such as regulations, legitimacy, moral issues, urgency and future thinking can be linked to the governmental bodies as an external stakeholder (Miles, 2012). All these stakes combined aim to encourage accomplishment of organizations. Furthermore, Miles (2012) stressed that these accomplishments relate to a number of firm-related operations. To name a few: firm performance, organizational operation, organizational decisions, outcomes and action which can be linked to work within the board and top-management. (Miles, 2012)

2.2. Corporate Governance in Financial Institutions

The traditional definition of corporate governance covers the connectedness within a firm's management (i.e. top management, the board, shareholders and stakeholders). The corporate governance sets out the structure how to achieve
the firm’s goals. The top-management then reviews the reached goals. (COM, 2010)

The recession of 2008 showed that especially banks that went bankrupt (which has not been the case in Sweden; authors remark) have a tendency to affect other financial institutes, as a domino effect. This is because of the mutual dependence within a financial system. These risks have forced governments to help and save a number of institutions with public funds. During the financial crisis the long-term profit perspective was harmed due to the owners willingness to quickly sell or/and place investment in other firms. (COM, 2010)

2.2.1. External Corporate Governance

External corporate governance refers to the corporate governance that is influenced by external factors such as customers, suppliers, partners and regulators etcetera. The impact from, for instance, regulators is regarded an external force since firms need to discuss, implement and work towards changing demands from authorities. This has in turn showed that external corporate governance is a key success factor for a firm when executed properly. (Filatotchev & Nakajima, 2010)

According to Babatunde and Olaniran (2009) one of three levels of the determinant factors of a firm’s performance, in a general economy, is the external issue which is beyond the control for firms (e.g. government, defined by Freeman (1984) as an external stakeholder). The corporate governance of a firm will be influenced, in different degrees depending on board composition and competence, by the external governmental factors making it important to cope and deal with. Hence, this calls attention to the external control of corporate governance (Babatunde & Olaniran, 2009).

2.3. Theorizing Regulations

2.3.1. Regulations Implementation

According to The World Bank (2010), global or regional (e.g. The EU) regulations affect the remittance for the involved counter-parts. Especially since regulations are often transferred from one country to another (in the case of this thesis, from EBA to FSA). This remittances cause inconsistence that affects the implementation process for regulators (FSA) due to that regulation has to meet the domestic public objectives. (The World Bank, 2010)
2.3.2. View of regulations

Regarding regulation, it is discussed whether it is beneficial or not. Advocates for a market economy argue that efficiency of a market should be deemed by market forces not regulations. They opt for that market forces will decide which firm serves the society the best. According to Baldwin and Cave (1999) many see regulations as concerning since regulations are focused on control demanded by public agencies (i.e. EBA and FSA) over firms’ activities. Furthermore, regulations have also been classified as a specific set of commands and different forms of social control and influence. However, despite the negative viewpoints, there are cases when regulations are necessary. For instance, there are circumstances when firms do not operate for the best interest of the society. Therefore, some form of intervention is necessary to keep a balance. (Gaffikin, 2005)

2.3.3. Public Interest Theory

To serve the public interest, regulations are implemented in order to achieve desired control, which sometimes cannot be obtained if market forces are to decide. Inefficient and/or inequitable markets can harm the society as a whole. Moreover, from a political-economic perspective on public interest lies that regulations are necessary to balance inequalities and ensure healthy capitalism. The regulations therefore serve its purpose to protect the public interest of capital. (Gaffikin, 2005)

2.3.4. Regulatory strategies

Regulators, when regulating, use different strategies. For instance, self-regulations, command and control, incentive based programs and disclosure programs. (Baldwin & Cave, 1999). To narrow it down, this study will describe the command and control strategy, as the empirical findings suggest.

Command and control, as the name suggests, refers to that the regulators take a clear stand-point regarding what activities are considered to be acceptable. Non-acceptable activities can be followed up by severe penalties from the authorities. This can sometimes lead to overly strict rules which are often seen as inflexible. Further, strict regulations focus on control, which can be hard to enforce, due to uncertainties regarding a unified standard that applies for every firm within an industry. This often forces organizations to schedule many appointments and involve a number of people in order to implement the regulations accordingly to what regulators expect. To spin further on this
matter, there are several approaches that can be used in order to implement regulations. Two main approaches are deterrence and compliance. Deterrence is more direct and definite, using prosecution towards regulations, which is more usual in The U.S. Compliance has been discussed as an appropriate approach in order to cope with regulations. Proponents for a compliance approach argue that it is efficient because it is less costly than the process of, for instance, prosecution. Compliance is also regarded to be more flexible and less confrontational. In general, the aim of compliance is to encourage conformity towards the regulations. (Gaffikin, 2005)

2.4. Regulation Framework

The purpose with the framework is to bring out and explain the important regulations that are discussed in the empirics and analysis.

2.4.1. EBA and GL44

In 2008, after an inquiry, European Banking Authority (EBA) revealed that there were issues with the supervision, risk management and internal control of banking and financial firms. The inquiry showed that the complexity of banking firms made supervision a complex and time-consuming task. This formed the foundation of GL44 as a way of enabling that the task of controlling these issues should become easier to overview and analyze (EBA, 2011).

EBA issued GL44 in 2011 and it will be implemented in 2014, July 1, in Sweden as guidelines of how internal governance of banking firms are to be performed. The aim is to strengthen the governance of the banks and facilitate supervision in order to ensure that regulations and legislations are followed (EBA, 2011). Further, GL44 handles the issue of competence and experience among board members, and aims at ensuring that the members do not have too many other commitments, which in Sweden only apply to the four big banks (The Swedish Ministry of Finance, 2014) in order to ensure that they have enough time and effort to be active within their respective organization. It is compulsory to follow the guidelines of GL44 (amendments by financial authorities are allowed to fit a countries financial market) for countries within EU. It is recommended to follow and respective countries had to form an explanation of why they choose not to follow certain parts of GL44. (EBA, 2011)
2.4.2. Financial Supervisory Authority

Out of the guidelines that came from EBA and their GL44, FSA chose to formulate new regulations based on large parts of GL44 regarding corporate governance, risk management and control of banks (Swedish Bankers’ Association, 2013). The guidelines within GL44 are recommended to be followed by all financial institutes within the European Union. In order to have a sound financial development within Sweden, FSA implemented binding regulations based on the guidelines from EBA which will be enforced July 1 in 2014 (FSA, 2014).

In line with GL44, FSA’s new regulations handle the demand of having officers responsible for risk, compliance and internal audit. Further, the members of the board are obligated to be closely connected to the organization’s business agenda (FSA, 2014). The regulations from FSA state that members of the board in banks must have relevant experience, knowledge, no conflicts of interests and sufficient time at hand (secured through a limitation of board assignment, which rule only applies for the board in the big banks) (FSA, 2014).

2.5. Managerial Attention

Due to the limitations connected for someone within an organization to keep track of everything, there is always a need of diverting the attention to where it is needed (Simon, 1947). This limit of human rationale with bounded rationality and the consequences connected with the concepts lays the foundation of Ocasio’s (1997) article on organizational attention. Ocasio’s (1997) paper thus broadens the previous research about rational choices by providing an alternative perspective, taking the limitations of attention into consideration.

Shiffrin and Schneider (1977) discuss information processing of the human mind, which can be allocated to be either controlled or automatic. Shiffrin and Schneider use the metaphor of the inexperienced driver, who has to use controlled information processing when driving in order to maneuver the car safely and shift gears in a controlled manner. The experienced driver does this automatically, without thinking about it. (Shiffrin & Schneider, 1977) Attention and decision can thus differ depending on the situation, environment and what level of experience the decision-maker has. Furthermore, decisions indicate the behavior of a firm, which means that
behavior can then be studied to see whether a firm is able to adapt to a changing environment based on their strategic decisions and their capabilities. (Ocasio, 1997)

The attention-based view focus on the executive and the selective attention, whereas attention is defined as the decision makers’ effort to notice, encode, interpret and focus time and effort on issues and answers. Issues refer to making sense of the environment and answers to the alternative actions to address the environment. (Ocasio, 1997) Moreover, Ocasio (1997) discusses attentional engagement that includes several aspects of focus, namely: time, energy and effort on a selected set of environmental stimuli. Ocasio (2011) also addresses some meta-theories regarding attention, where managerial cognition is discussed. Cognition refers to managers’ ability to interpret the environment and make sense from it. The pattern of the interpretations shapes the firm’s ability to take action and adapt.

Moreover, the members of the board serve as the internal control mechanism within corporate governance. (Daily & Dalton, 1994) Furthermore, Daily and Dalton (1994) stressed that managerial attention is shifting during a potential risk of a financial crisis since more focus is set on controlling factors such as centralization, higher level of formalization and resistance to change.

2.6. Disturbed Attention

Ocasio (1997) broadened the attention-based view by focusing on three principles of “disturbed attention” which decisions-makers most likely encounter in their decision making process. These three principles are: focus of attention, situated attention and structural distribution of attention.

2.6.1. Focus of Attention

The principle covers the selectiveness of the decision-maker depending on issues and answers they attend and what they focus their attention on (Ocasio, 1997; Nadkarni & Barr, 2008). On the individual level, the attentional processing focuses their energy on a limited set of elements that enters their consciousness. This, so called focus attention, facilitates perception and action towards the issues and answers being attended to at one specific time. This in turn generates the selective nature of attending issues, especially since focus is needed at a limited set of issues, which can have both good and bad consequences. (Ocasio, 1997) Cho and Hambrick (2006) further add that managers are limited in their actions thus cannot attend and be fully dedicated
to all sectors (issues) at one time. Some of the issues attract more action than others, especially during times of recession when more focus is set on crisis related tasks.

As mentioned regarding controlled and automatic attentional processing, Shiffrin and Schneider (1977) stressed that both components are vital within the principle of focus of attention. Firstly, the controlled attentional processing, decision-makers base their actions on the set of issues and answers they are aware and mindful of, hence, being selective what to attend. Decision-makers are therefore limited and can only attend particular situations. Secondly, the automatic processing is routinized and habitual, making the decision-maker act reflexively triggered from the environmental stimuli. (Shiffrin & Schneider, 1977)

2.6.2. Situated Attention

Situated attention highlights consequences and effects of the organizational and environmental contexts that shape managers’ focus of attention and actions. Depending on the present situation that managers find themselves in, it will affect the decision-making process. (Ocasio, 1997) The environment of decisions is influenced by a number of elements ranging from cultural factors, competitors, suppliers to institutional rules enforced by governments in form of laws and regulations. (Ocasio, 1997; Nadkarni & Barr, 2008) Moreover, D’Aveni and MacMillan (1990) also stressed the fact that the focus of attention shift or get diverted during a crisis (e.g. due to external factors) which can lead managers into focusing their attention only on current issues, thus ignoring other relevant tasks. The situated attention is focusing on that an individual’s decision is formed by its surroundings and presence, meaning that the focus of attention depends on the decision-makers current situation. Therefore, the decision is affected by the situation of the decision-maker, not only of the characteristics of the individual decision-maker. This can further be linked to the principle of social cognition, since it provides a connection between how decision-makers think and decide in any particular situation, adding the environment as a factor of influencing the situation decision-makers find themselves in. (Ocasio, 1997)

Furthermore, environmental scanning is according to Hambrick (1982) linked to a firm’s organizational strategy since managers in any firm will pay attention to external issues. The external issues that are taken into account are considered relevant for their specific operations, thus being of selective nature.
Managers will scan their environment in order to reduce uncertainties and other potential risks that might generate a maladaptive behavior. A maladaptive behavior will most likely lead a firm deeper into a crisis as a result of having, for instance, a mind-set of not feeling a need to change. This can be a result of either overestimating the firms’ strength or dismissing the seriousness and/or relevance of the external factors (i.e. competition, regulations, consumer demands, etcetera). The normative theory of environmental scanning provides an insight of bringing a fit between strategy, structure and external constraints. Not surprisingly, there is a correlation between a firm’s ability to scan their environment and the performance of a firm, especially during recession. Therefore, allocating attention to the external environment has been proven to be a “critical success factor”. Moreover, an internal declining performance (e.g. negative annual result and turnover) of a firm often force managers to pay attention to these internal short-term problems in order to ride out the storm, which makes it even harder to focus on external, long-term, issues. (D’Aveni & MacMillan, 1990)

Nadkarni and Barr (2008) elaborate Ocasio’s (1997) paper by focusing largely on the environmental impact (i.e. situated attention) on managers’ focus of attention, where the governmental demands are categorized as a macro-economic concept that influences strategy. Nadkami and Barr (2008) shine a light on human rationale and managerial attention by introducing an industry structure and cross-industry differences point-of-view, downplaying the role of cognition. According to their research, too little attention is put on a specific industry, which has led previous research to draw to wide generalizations. Furthermore, Nadkami and Barr (2008) test the cognition literature by investigating if industry context affect managerial cognition regarding their environments and how it is linked to strategic action. Certain industry characteristics influence managers’ structure of cognition (e.g. influencing the speed of response towards certain environmental events). This concludes that industry characteristics in combination with cognition are critical in explaining managers’ strategic actions. (Nadkami & Barr, 2008)

2.6.3. Structural Distribution of Attention

Depending on how the organization distribute and control the allocation of issues, answers, and decision-makers in activities, communications and procedures will influence the particular context that a decision-maker will find him- or herself in. Attentional process of decisions (individual and in groups) are distributed throughout multiple functions that take place in an
organization. Different levels in the firm focus on their own specific or delegated tasks creating a local procedure, communication and activity. This leads to the requirement of being able to distribute cognition and information processing in order to coordinate the activities of the organizational participants. (Ocasio, 1997)
3. Methodology

3.1. Qualitative Method

A qualitative approach focusing on providing rich and detailed information on a small number of respondents (compared to quantitative methods) where data is collected by means of words (Jacobsen 2002; Hedin, 1996). Jacobsen (2002) stated that a qualitative method is favorable when the study-approach requires an open mind for the contextual aspects. With this in mind, the authors choose to use the approach when conducting the study for this thesis.

In order to increase the validity of the study it is crucial to be able to find extensive and detailed information. This is of even higher importance due to the subject’s delicate nature since the financial industry includes a large number of stakeholders (Mehran et al, 2011). Changes within the industry that may occur can lead to a large impact on stakeholders, as could be seen on e.g. the Lehman Brothers crash. Hedin (1996) stated that qualitative research often is inductive, thus meaning that rather then composing a hypotheses out from studied theory, as a deductive approach suggests, models and/or theory are based upon the empirical observations from e.g. conducted interviews. (Hedin, 1996)

This study used an inductive approach with the aim to pinpoint a problem based on the conducted interviews. The authors considered the approach most suitable since it gave the authors the opportunity to be pragmatic further throughout this study, compared to what a deductive approach would have been. The inductive approach could further be argued to be the best suited since the study aimed at finding how newly implemented regulations have been perceived and experienced. Moreover, the authors found that qualitative data was most suitable as base since there was only a small amount of interviews, though containing a large amount of detailed information, thus tackle the limitations of being granted access to interviewees.

3.2. Validity and Reliability

Validity of the research refers, according to Jacobsen (2002), to that researchers measure what they intend to measure. Relevance and applicability are stressed as key points in order to raise the validity of a research. Reliability refers to that the sources are reliable and trustworthy. Jacobsen (2002) divides the validity of two categories, internal and external validity. The internal aims at evaluating whether the information gathered was the one that was sought.
Further, external refers to how information could be used in other contexts than the one investigated.

In the sense of this study, reliability is of importance since the authors interviewed executives in board and top-management. It is important to gather information from the interviewees so that wrong, untruthful or refined data can be avoided. Since the study engaged interviews with key executives from banks the answers were based on their own experiences, therefore being of subjective nature. Hence, it was up to the authors to treat the information from an objective point-of-view.

The issue of validity within the study, despite a low number of interviews, were tackled through that the interviewees consisted of top executives with high influence, experience and expertise, thus ensuring that the authors were able to get access information that covered the topic of corporate governance. It should be noted that the low number of interviews affects the reliability of the study. Though, the authors still believe that the overall reliability of the study is high. The interviews conducted offered in-depth information and data that were coherent overall throughout the interviews, thus indicating that the reliability of the study have been kept to a satisfying level.

3.3. Data Collection and Procedure

The study gathered both primary and secondary data in order to analyze in the subject of corporate governance. First, primary data was collected through interviews. After the conducted empirical interviews the authors composed the research question and started to apply relevant theory. The theory regards the topic of corporate governance (i.e. managerial attention and stakeholder theory)

![Figure 2 – The study’s approach](image-url)
Regarding the procedure of the study, the qualitative interviews were conducted with top executives. Also, regulations and updates regarding corporate governance were gathered from the website of FSA.

Furthermore, the interview questions were proof-read by objective participants. One of them is an experienced banker who has been Vice President and member of the board of advisory in two different banks. The proof-reading was made in order to reduce any uncertainties or misunderstandings. To be noted, this person was not interviewed as a part of the empirical data.

3.3.1. Interview Approach

The study was conducted by applying an inductive approach. Nevertheless, the authors could not disregard the fact that knowledge still was required to engage a fruitful discussion with executives from the respective banks. The authors were still aware to keep the interviews semi-structured. Therefore, a simplified theoretical database was gathered in order to build up a basic knowledge. Hence, a few topics (i.e. theories), as proposed by Barriball & While (1994) and Miles & Gilbert (2005) have been briefly studied rather than an in-depth study of one or two phenomenon. The authors are confident that this approach was the best-suited in order of pinpoint a problem. A narrow theoretical framework, before composing the interview questions/topics, could decrease the chances to build up a contextualized understanding of corporate governance in banks.

3.3.2. Choice of Interviewees

For this study, the authors have chosen to focus on top executives and members of the board in the interviewed banks. Due to the interviewees’ positions and the workload it entails, the authors were able to conduct five interviews with four banks. The conducted interviews were thorough and catered the authors with rich and detailed information for the study.

In order the gather information from the regulators’ point of view, the authors have been in contact with FSA. After numerous calls, e-mails and being in touch with several employees in charge of implementing the new legislation the authors have come to the conclusion that FSA were not interested in participating in an interview.
3.4. Primary Data Collection

Semi-structured interviews are based on a set of questions, designed and asked in order to cover a topic, however, the conversations during the interview are free to vary. Semi-structured interviews are to be preferred when interviewers are looking for why rather than how. The flexibility of a semi-structured design facilitates for the interviewee to answer why questions. It is to be preferred for the interviewers to have prepared a schedule (list of questions) which will help to cover topics that the authors think are important for the study. Further, semi-structured interviews encourage a social construct of the interview, which is a suitable approach when discussing complex and sensitive information. (Miles & Gilbert, 2005) The authors are confident that this approach is the most suitable one for the study since the combination of an inductive approach and the nature of semi-structured interviews gives the authors the opportunity to engage in a more open discussion with the executives in the banking firms. It also gives the authors the chance to pinpoint a problem to investigate further within the executives’ respective area of governance.

3.5. Primary Data Implications

Due to the study was looking for sensitive information based on top executives’ experiences it was important to be aware of potential problems and work pro-active in order to prevent any fatal misunderstandings or other issues harming the validity of the primary data. Factors such as accessibility and information sensibility can be obstacles if interviews are not conducted with suitable persons (e.g. knowledgeable, influential and experienced). (Barriball & While, 1994; Miles & Gilbert, 2005)

Since the study aimed at finding information of how members of the board and within top-management are experiencing and handling regulations and legislations, the information must be considered as sensitive information. FSA have the possibility to individually test and deny members of board and top-management positions within a firm. This further strengthens the authors’ intention to make all interviews anonymous in order of securing that no interviewee or their individual bank can be traced back to, in order of getting more truthful data from the interviews. (FSA, 2013:2)

3.5.1. Issue of Social Desirability

The interviews during this study differed from each other due to the nature of using a semi-structured interview method. Therefore, sub-questions were
spontaneously asked during the interviews depending on the response given. By encouraging the interviewees to be anonymous during the interviews, the authors believed that it was possible to overcome problems such as social desirability. Social desirability could be a problem since the potential interviewee could answer a question in line with what he/she believes is the preferred social response, which could result in untruthful answers (Barriball & While 1994). Further, Bailey (1987) stated that the social desirability problems can become more complex when the interviewee and the interviewer differ in ethnicity, gender, socioeconomic status, education or age. The authors were aware of that the issue of social desirability could occur during interviews since top-management or board members are often experienced and differ especially in age, status, education and socioeconomic compared to the interviewers. This can be overcome if the study is of social nature by conducting a semi-structured interview since the authors could be more open and carefully describe the scope of the study for the interviewees (Barriball & While, 1994). For this study, engaging a free discussion and offering the interviewees anonymity dealt with these issues. Furthermore, the authors ensured the interviewees that the information was treated confidentially.

Moreover, as Barriball & While (1994) propose, audiotape was used during the interviews in order to allow a better replication when transcribing the gathered information. This reduces the risk of recording incorrect data (Barriball & While, 1994), which helped the authors to keep track of spontaneously asked questions during the interviews since the chosen approach allowed a more open dialogue. Also to be noted, it helped the authors to transcribe the gathered information more accurately, which resulted in a better empirical execution.

3.5.2. Ethical Aspects of Conducting the Interviews

As Hedin (1996) emphasize, studies which purpose is gathering sensitive information, should have concerns regarding potential ethical issues, especially in the case of a qualitative study. As in this study, there are a few numbers of interviewees who are contributing with important and sensitive information from a subjective perspective. Therefore, the authors ensured that the interviewees would not be identifiable or risking to suffer from the result of the study. It is important to respect the respondents wishes, e.g. if a respondent regret something or does not want something to be published. (Hedin, 1996)
It might be self-evident to act ethically, but the authors think that it is important to emphasize ethical issues in order to make the interviewees aware of how this study treats the information collected from the conducted interviews. This would help the authors to better have a chance of getting access to sensitive information. Furthermore, Hedin (1996) also mentions that interviewers need to be open about their study. Therefore, as Hedin (1996) suggests, it is significant to be open with these following points before conducting the interviews:

- The purpose of the research.
- The gathered information is handled confidentially.
- That the interview is voluntary and can be dismissed or disrupted.
- A contact person.
- If there is a need of a second (or more) interview in order to complement after the problem/research question.

The authors used this guideline when initially talking to the interview objects in order to avoid potential misunderstandings about the study or any risk of suspiciousness about the authors’ treatment of the sensitive information.

3.6. Method Discussion and Limitations

This study’s initial aim was to study the Swedish banking industry, which covers all banks from the four big banks, niche banks and smaller banks. Since this is outside the scope of this study the authors chose to focus on four banks. The authors succeeded to gain interviews from five executives from three big banks and one niche bank. Since this empirical data suggested that all banks (big and niche) follow the same regulations the authors decided not to compare the two different types as this study focus on external stakeholders influence on board and top-management. However, the authors will state what type of bank the interviewees represent to keep the reader aware of the type of bank being discussed. Also to be noted, some differences between the two types of banks will be stated based in the empirical data, but not compared, since the analysis will instead focus on the scope of the four banks.

This study treats delicate and subjective data, which in turn comes with access difficulties. The first barrier of access-difficulties has been reduced since the authors have gained the conducted interviews via recommendations through
contacts. As a result of this, the authors have been able to interview top executives thanks to the recommendations which come with trust.

Further, as previously mentioned, the authors have been in contact with FSA at several occasions but have not been successful in getting them to participate by agreeing on being interviewed. This is unfortunate for the study within this thesis since it limits the responses without the viewpoint from the regulators themselves.

Regarding the regulations of GL44 and the large amount of details concerning the regulations it entails, the authors have chosen to focus on the aspects within the matter of board composition, board competence and the internal control (compliance, risk management and internal audit).

The authors choose to only investigate within the banking industry due to several reasons. Firstly, out of convenience sample, where contacts enabled the authors to conduct interviews with four banks. Secondly, the authors aim was not to do a comparative study, rather, the initial target was to get a number of firms within the same industry to build up a broader scope. Thirdly, the banking industry, as mentioned above, is interesting due to its role in the society (i.e. many stakeholder and systematical important).

There are a vast majority of stakeholders (Appendix II). Nevertheless, the authors have chosen to focus on the authorities since the empirical data suggested this approach. During time of recession it seems that banks’ focus is turned towards the authorities, which emphasize this limitation as well.
4. Primary Empirical Data

4.1. Interview 1 – Person A

*Interview 1 was conducted with “Person A”, who during the financial crisis of 2008 were CEO of “Bank 1”.*

In the beginning of 2008 “Person A” was appointed the role of CEO of “Bank 1”, there was an understanding among the board within “Bank 1” that authority demand had increased. In general terms, it was the competence and knowledge among the board members that was a concern. “Person A’s” experience was that the knowledge about traditional banking within “Bank 1” was not sufficient among the different board members. It was due to “Person A’s” extensive knowledge about the banking industry that “Person A” initially came to be a member of the board, before becoming CEO of “Bank 1”.

In 2009, “Person A” experienced that the owners started replacing parts of the board in order to match the new authority demands. Larger focus was put on that the bank was able to present a board with a satisfying resume in terms of experience and knowledge.

In general terms, “Person A” believed that Swedish banks handled the financial crisis of 2008 better than in many other countries. The reason for this is due to the domestic crisis of 1992 when the Swedish bankers’ association was instated in order to stabilize the economy. The domestic financial crisis of 1992 also gave the active executives personal experience to identify and cope with a crisis.

“Person A” stated that the previous method of composing a board was to install well-known persons with previous success behind them to increase the credibility of the bank. The focus of the background of the board members has changed as a consequence of the new regulations.

When the new board was instated in 2009 and the financial crisis was at its peak, “Person A” experienced that there was a general fear of making faulty decisions among the new members of the board. Further, the new approach that the members of the board were active within different committees ensured that the board members were highly involved within the organization and top-management. These committees further became links of information flow within the organization, rather than only making the CEO the link between the board and top-management.
“Person A” experienced that a shift from business development to business control occurred, as the organization changed to the increased authority demand. Rather than focusing on where to steer the firm, the board and top-management now had to shift to a high focus on compliance and that all regulations were met.

“Person A” experienced that during the time as CEO of “Bank 1”, there was too much focus on short-term goals. The long-term goals were, according to “Person A”, somewhat disregarded in order to keep track of present years’ problems and results. “Person A” stated that this can be due to a number of reasons, though one is that the authorities does not focus on where the banking industry is aiming, but how it is conducting its business.

4.2. Interview 2 – Person B

Interview 2 was conducted with “Person B”, the chairman of “Bank 1”. Before the time within the board, “Person B” was the CEO of the bank.

During the years leading up to the financial crisis of 2008, “Bank 1” had undertaken important changes in order to increase the part of their turnover connected to regular banking services. Though, as stated by “Person B”, this comes with responsibilities. The regulators that regulate the banking industry in Sweden do not take into consideration the scope of the business. Thus, if a firm is active within the banking industry, it has to follow the same laws regardless of its turnover.

GL44 among other regulations came with the result that parts of the board and top-management had to be replaced. The new board members had to both engage in a closer relationship in the organization as well as establish a relationship over a short period of time.

“Person B” stated that the new regulations with GL44 and FSA have led to complications regarding the board meeting agendas. Up to 80% of current board meetings are spent on compliance and ensuring that all regulations are met. Only as little as 20% of ordinary time of board meetings were spent on business operations.

“Person B” stated, as previously mentioned, that the working progress did not change to any large extent, but that the change was due to the major changes in members of board and top-management. Due to regulations from FSA stating that individual members of a board can be fined up to € 5 Million as a
sanctuary to faulty decisions, it is now harder to recruit a good and strong board.

“Bank 1” is according to “Person B” going against the trend within the industry to close down stores and improving their internet services. Instead, the focus remains on being a “personal bank” with a personal connection with their customers. Further, the bank focuses on both organic growth as well as buying existing firms. To date, the major development of the bank has been organic and by improving the “regular” banking services provided, they aim at continued long-term organic growth.

4.3. Interview 3 – Person C

The authors interviewed “Person C”, whom during the financial crisis of 2008 was chairman of the board in “Bank 2”.

Within “Bank 2”, the changes in regulations and legislations that came with GL44 and FSA had a small impact. Due to the size and extent of the banks’ organization, many of the new regulations were already implemented, thus meaning that the firm was able to continue conducting business as usual. The owners on the other hand stood, according to “Person C”, for the major changes that came with the financial crisis of 2008, rather than changes due to authority demand. Instead of talking about dividends, as is customary in good times, the owners focused much more on wealth keeping actions. Thus, the bank had to make some cutbacks that came to be the major changes within the bank.

With the financial crisis of 2008, the major changes for the board and top-management were in the form of increased workload, both informal and formal. This was due to the increased need of monitoring as well as keeping themselves up-to-date with information about the financial development. The financial instability further increased the need for better preparation from all members of the board and top-management in order of being able to cope with the development.

Like previously mentioned, the owners increased their demands on wealth keeping rather than business development and expansions. Thus, the financial crisis of 2008 came with cost reductions and a focus on securing current interests.
Regarding employees, the bank came to focus less on younger employees and more on senior staff with the knowledge and experience to identify and tackle potential dangers, thus preventing potential crises.

4.4. Interview 4 – Person D

“Person D”, whom the authors had the fourth interview with is currently Vice President of “Bank 3”, one of the four big banks in Sweden, and executive of two of their committees.

Being one of the four big banks in Sweden, “Bank 3”, much like “Bank 2”, had already started implementing the new regulations that came with GL44 and FSA’s legislation. This meant that they were able to continue with business as usual, at least in their domestic market. Instead, the major changes with the financial crisis of 2008, according to “Person D”, were that they now had to evaluate other banks and e.g. debtors and creditors, whether they were able to make payments as promised or not. This became more obvious since parts of the banking transaction system are based on a mutual trust between the parties.

In time of crisis, especially during 2009, as a consequence of abroad investment, (establishing banks in other regions) there was focus put on the abroad establishments. As a consequence of this, other tasks were repudiated, or a general decrease in focus of other tasks. To tackle this problem, “Bank 3” decided to split the top-management into two groups. Team one took responsibilities for the defensive part of crisis related tasks. Meanwhile team two took care of running a profitable business. “Person D” stressed that it is hopeless for a manager to deal with both tasks and staying on top of everything.

“Person D” stated that there were some issues between the new regulations from GL44 and FSA and the boards in Swedish banks. Earlier it has been prestigious and honorable to be member of the board of a bank. Unfortunately, with the new legislation where individual members of the board are not allowed to be a member of more then four boards in order to stay connected with the organization, it is more favorable to be member of a larger number of boards within the industrial sector instead. “Person D” added that on top-management level there have not been any direct consequences from these regulations. However, there has brought more focus towards risk control, compliance and internal audit.
As the financial crisis of 2008 hit the banking industry, questions regarding capital and liquidity became much more frequent, according to “Person D”. Like previously mentioned, the bank had to ensure that debtors had sufficient funds to cover their debts. Though these new concerns regarding liquidity that comes with a higher risk-awareness is more connected to short-termism, “Person D” stated that the long-term goals was stronger than ever from the owners.

4.5. Interview 5 – Person E

“Person E” is part of the executive top-management team in one of the Swedish four big banks and is currently working with questions regarding GL44 and the new legislations from FSA. “Person E” has been working within “Bank 4” since 2010. 

In 2010, the demands from authorities forced “Bank 4” to install new committees in order to cope with the regulatory changes from external institutions (i.e. FSA and EBA). The new version of e.g. compliance committee took charge over regulatory related tasks and overall compliance (internally towards the divisions and externally over regulatory demands). “Person E” stated that up to year 2010, there was no fully developed compliance committee since there was no requirement of having one. Regarding compliance before the year 2010, there was a lack of a structured working progress where employees with compliance oriented functions dealt with many different tasks.

As the new regulations were presented, “Person E” stated that there was a general confusion within “Bank 4” about what it really meant. In order to tackle the issue, “Bank 4” implemented a specific organ within the bank to handle these types of regulatory issues. This was, according to “Person E”, especially important since FSA only communicate through their regulations about how to interpret and implement their regulations.

The new demands from regulations and their consequences on board level, as identified by the compliance committee, will force the board to be more engaged in their business operations by working in a micro-management approach. The board needs to elaborate and work with internal rules since this is a demand from authorities. Furthermore, the board needs to work pro-active (frequent dialogues and discussions with CEO). “Person E” stated that it also is crucial that the board is competent in order to be able to question and challenge managers from top-management.
According to “Person E”, the current changes go towards an increased dialogue between board and top-management combined with an emphasized need of more comprehensive knowledge and experience within the board. This might imply a development of more committees, as well as increased number of board members. Though, “Person E” stated that nothing is yet decided within “Bank 4”.

The resources of a big bank are useful when coping with external demands. “Person E” stated that they have 40-60 people working with compliance, and it is easy to allocate and divide tasks within the compliance unit. Therefore, “Bank 4”, and big banks in general, are able to cope better with external pressure since they can attend the issues to a larger extent than smaller banks (e.g. saving banks and niche banks). “Person E” believes that it can be much tougher for smaller banks to succeed in the interpretation and implementation of all the regulations thus forcing them to make structural changes (M&A, shared/mutual administration with other banks, forming tax-groups).
5. Analysis

The authors want to stress two key findings from the empirical interviews which will be further analyzed in this part. One can see that the interviewed banks experienced demands from external authorities during the recession. This affected their working progress in mainly two major ways. Firstly, overall corporate governance (see 5.1) was affected due to the external demands. One can see that the external corporate governance (the relation between the banks and authorities) affected the internal corporate governance (particularly in the banks’ board and top-management). Secondly, the authors found disturbance in managerial attention (see 5.2), as a consequence of authority demands during recession, where focus clearly shifted from development towards control.

The authors will present the results from the empirical data linked and combined with theory in order to bring empirical evidence to existing theories.

5.1. External Stakeholders and Corporate Governance

As FSA and the primary empirical data suggest, the financial crisis of 2008 have come with regulatory changes aiming at creating a more transparent, united financial industry in Sweden. The regulation also aims at serving the public interests (Person A, B & C; FSA, 2014 and Gaffikin 2005).

Although the interviewed Swedish banks were able to handle the financial crisis better than in many other countries (Person A & C), there were still on-going discussions regarding new and tougher demands from authorities (From FSA via EBA) to improve the current structures of risk management, compliance and internal auditing. The regulations are implemented in order to avoid a system-crash (especially for the four big banks) (COM, 2013; Filatotchev & Nakajima, 2010). There is a mutual trust built up within the banking industry (domestic and foreign affairs) according to “Person D”. This further supports the statement from COM (2013) since a crash of a big bank comes with the risk of a system crash.

As COM (2013) suggested, corporate governance sets out the structure how to achieve the firm’s goals. It has been showed that this is the case since the interviewed executives have clearly stressed changes or disruptions in their respective banks working progress towards the organizational goals. As stressed by “Person D”, authority demand made “Bank 3” to split up the top-management into two teams to achieve the firm’s goals. There seems to be an
overall agreement that external demands obstructed the banks’ development agendas (Person A, B, C, D & E) where more focus were put on control.

The authors believe that there are clear changes in overall corporate governance during the recession since governmental bodies are trying to enforce regulations in order to keep a balance within the whole system. This has influenced the internal corporate governance in many ways in the banks, for instance, there are more focus put on control, new competence and board compositions.

5.1.1. Authorities as an external stakeholder

The authors are confident that the authorities are highly relevant as an external stakeholder based on the primary empirical data, which suggests that governmental bodies clearly influence the work progress in board and top-management (Person, A, B, C, D & E). Also, even if the concept on what counts as a stakeholder has been discussed and challenged (Miles, 2012), there seems to be a shared agreement that governmental bodies are widely accepted as stakeholders due to their influence on the market (Person A, B, C, D & E; Miles, 2012; Fassin, 2009; Freeman, 1984; Gamble & Kelly, 2011; Frooman, 1999 & Kothari, 2011).

“Person A, B, D, E” stated that there has been a change towards attention on controlling and compliance, compared to before the recession. “Person A” stressed that FSA was more concerned with how the bank operated, not where the bank was heading in their business development. The concerns regarding how the bank was operating can be explained by the public interest that FSA wants to protect, from a political-economic perspective (Gaffikin, 2005). Miles (2012) stressed that the nature of the external stakeholder initiatives can come in form of regulations, legitimacy, moral issues, urgency and future thinking. This is coherent with the findings from FSA and the empirical data since these external stakeholder initiative forms the working progress in the firm's board and top-management (Person, A, B, C, D, E; FSA, 2014). These types of interactions from external stakeholder are outside the firms’ influence and cannot be controlled (Babatunde & Olaniran, 2009).

According to “Person A, B and C” the new regulations are seen as concerning since the regulations hinder the smaller niche banks to grow as well as every bank are put in the same position. As according to Baldwin and Cave (1999) there are people who are concerned about regulation. Instead, as according to
“Person C”, market forces should decide what is good banking or not, in order to have and maintain a market economy.

“Person A, B and D” stressed the issues with the high fixed costs that came with the regulations from FSA which have influenced the banks with higher overall operational costs (FSA, 2014). This has especially influenced the niche bank (Bank 1)(Person A & B) since their bank has less turnover compared to Sweden’s four big banks, thus meaning that the fixed cost have higher effect on their income statement. The four big banks in Sweden are more likely to be able to handle the implications connected to higher fixed costs (Person D & E). However, increases of the fixed costs influence other investment plans (such as internal development regarding IT) (Person D). The authors tend to agree with the interviewees regarding that higher fixed cost disables a competitive banking industry. Especially, since the smaller niche banks are not given a fair chance to compete with the big banks. The authors believe that the authorities might be too strict putting all the banks in the same position since the smaller niche banks are not systematically important for the society as the big four are considered to be.

5.1.2. Board composition and board competence

As proposed in the theoretical framework, the regulations from FSA and EBA-guidelines have had an effect on board composition (Person A, B, C, D & E; FSA 2014). “Person C, D and E” suggested that the change mainly occurred within the boards where the board members, in comparison with e.g. top-management, had less experience about traditional banking. Furthermore, “Person E” added that there might be a case of an increase of board members since the new demands on competence (FSA, 2014) will probably lead to that the boards wants to have specialists in every operational area. The regulations of GL44 and regulations from FSA (FSA, 2014) came with the limitation for members of the board to be in more than four boards in order to be able to focus on the organization. Though, this limitation is focused on the four big banks in Sweden whom FSA consider systematically important, thus not applicable for smaller/niche type of banks (The Swedish Ministry of Finance, 2014). This regulation has had the effect that the previous regarded prestigious role of being member of a banking board has started to lose its prestige. The legislations have made it more favorable to be member of a number of boards, rather than limiting the possibilities by adding a bank to one’s board assignments. (Person A & D)
The new regulations from FSA and EBA through GL44 have further come with demands on the competence of members of a board. The board members must have relevant experience about banking, or financial industry. (FSA, 2014) As stated by “Person C”, “Bank 2” has focused on keeping and/or installing more senior executives rather than promoting younger, less experienced, bankers. “Person C” stated that senior executives with more experience are more likely to identify and act accordingly to a crisis. “Person A and B” stated that in “Bank 1”, the board was more or less entirely replaced. New competent board members were added as a result of the changing demands from FSA. This has, according to “Person A and B”, led to a competent board which are more capable to run a bank better than their predecessors.

As previously stated, the honor of being a member of the board within a bank has lost some of its previous prestige (Person A & D). “Person B” in “Bank 1”, further stated that the new legislations from FSA, addressed that individual members of the board of financial institutes (e.g. banks) can be fined individually up to € 5 million due to faulty decision, which hampers the installment of new board members. There is a risk that this will result in a negative effect regarding the ability to implement a strong and experienced board. Furthermore, in line with Ocasio (1997), the board members might become distracted from their main task with such a comprehensive potential fine, directly connected to their actions. The heavy fines and strict regulation approach by FSA can be linked to regulatory strategies stressed by Gaffikin (2005). The authors think that the strategy approach from FSA, through EBA, seems to be closely related to Gaffikin (2005) “command and control” strategy where overly strict rules can be applied in order for authorities to have control. As according to all the interviewees there have been more discussion within respective banks regarding regulations which have in turn made them schedule more appointments than before, which goes in line with Gaffikin (2005). However, the authors have found that the interviewees seem to prefer compliance since no one has mentioned deterrence in order to approach the new regulations. The authors believe that this might be of cultural differences since deterrence was mostly used in the U.S. according to Gaffikin (2005).

The authors believe that the overly strict rules might come as a consequence of a remittance problem (The World Bank, 2010). Another indicator can be found by “Person E” who stressed that FSA only communicated with “Bank 4” through published decisions. The underlying factor might be problems of
the interpretations, adjustments and implementations by FSA of the regulations from EBA.

The overall regulations from authorities have been found to influence the working progress at the banks. Therefore, managerial attention (see 5.2), will be further discussed and compared with the empirics in order to analyze closer in what effect regulation had on executives.

5.2. Managerial Attention

The attention-based view can be applied on the empirical data since the attention on tasks have been disrupted, neglected or temporally focused in order to match the demands and other pressure-related issues as a consequence of the recession. The previous parts, which treated external influences, lead down to the internal consequences in form of disturbed attention.

Daily and Dalton (1994) stressed that attention is shifting during a financial crisis since more focus is set on controlling factors such as centralization, higher level of formalization and resistance to change. The demanding factors of control in this case came from external authorities (Person A, B, C, D & E; FSA, 2013:2014). This leads the study to the theory of disturbed attention, which is a part of Ocasio’s (1997) article on managerial attention.

5.2.1. Focus of Attention

The focus of attention has been evident in some of the interviewed banks. “Person C” stressed that experienced bankers can identify a risk to a better degree than an inexperienced. The experienced banker knows the environment and can thereby work accordingly. This can be connected to a manager's repertoire of issues and answers (Ocasio, 1997). An experienced manager makes sense of the environment (issues) and can address the problems the manager encounter by taking action (answers), as proposed by Ocasio, 1997. According to “Person C” an experienced manager is better suited than an inexperienced candidate because an experienced manager can cope with the consequences of attentional engagement (time, effort and energy). Further, the experienced managers cognitive ability can make sense of the environment, which shapes the firm’s ability to take action and adapt (Ocasio 2011).

Moreover, from the perspective of the controlled attentional processing (Shiffrin and Schneider, 1977), managers’ base their actions on the set of issues
and answers they are aware and mindful of, hence, being selective what to attend. This can be linked to the fact why an inexperienced manager might not be suitable to be promoted during a crisis. The inexperienced manager’s repertoire of issues and answers might be too narrow thus cannot attend relevant, crisis-related tasks, which might lead to a maladaptive behavior for the bank (D’Aveni & MacMillan, 1990). The experienced manager on the other hand, linked to automatic processing (Shiffrin & Schneider, 1997), acts routinized and habitual. This makes the experienced manager act reflexively, triggered from the environmental stimuli. Thus, the experienced manager automatically responds and attends relevant tasks during a crisis.

In general, “Person A, B, C, D & E” implied that during a financial crisis, focus of attention make crisis-related tasks rise in priority (e.g. compliance, control, regulations etcetera), meanwhile, other tasks might be ignored or postponed. The new installed board members’ repertoire of issues and answers matches the banks current focus of attention. During and after the recession of 2008, the focus on internal control has been evident, since compliance has been more or less introduced within the banks. (Person A, B, D and E) The new members of the board and members of top-management during the financial crisis, was therefore selected to deal with certain tasks (especially within the board and compliance). The selected board members’ focus of attention can thereby be of a selective kind since they attend the tasks suitable for their knowledge (Person E & D; Ocasio, 1997; Nadkarni & Barr, 2008). As Cho and Hambrick (2006) stressed, managers are limited in their actions thus cannot attend and be fully dedicated to all sectors (issues) at one time. This is coherent with “Person D’s” experiences where “Bank 3” divided the executives in two teams, the control and the development team, since the managers is not capable of dealing with everything a recession entails.

5.2.2. Situated Attention

Regarding situated attention, which in this study concerns that the demands from external stakeholders in form of authorities have had an impact on the work within board and top-management in the banks (Person A, B, C, D & E). This in turn affects managers’ focus on attention whereas situational context affects the decision-making process (Ocasio, 1997). As stressed by “Person B” in “Bank 1”, 80% of the board meetings during the financial crisis focused on compliance, which led to difficulties to treat business development tasks. The focus within the board shifted towards control rather than
development (Person B). D’Aveni and MacMillan (1990) stressed the fact that the focus of attention can get diverted during a crisis (as a result of external factors), which can lead managers into focusing their attention only on current issues, thus ignoring other relevant tasks. This can be seen in “Bank 1” and “Bank 3” whereas “Person A and B’s” workload regarding controlling issues increased significantly, meanwhile “Person D” stated that “Bank 3” decided to split the management up in teams to cope with specific crisis-related tasks.

As Ocasio (1997) stated, situated attention focus on the fact that a manager’s decision is formed by the surroundings and presence, meaning that the focus of attention depends on the manager’s current situation. The external demands from FSA has influenced the decision-making in the respective banks since managers focus of attention has shifted, from development to control, due to the recession (Person A, B, D and E). As “Person E” stressed, there has never been as much discussion regarding compliance, risk management and internal audit before, which proves the point regarding an attentional shift among managers and board members. This also proves that a manager’s awareness and actions during a financial crisis shifts towards control. As proposed by Ocasio (1997), the managers are affected by their situational context, not only of the individual characteristics.

Hambrick (1982) discussed environmental scanning, which is regarded a key success factor for a firm. A firm will scan their environment in order to reduce any risks that might result in a maladaptive behavior. After interviewing the banks, it is obvious that the roles of CRO and Compliance have been more developed than before (Person A, B, D & E). For instance, the Compliance unit of a bank works in line with regulators in order to make the banks adapt to the changing environments (Person B & E). "Person B and E" also added that their respective banks (“Bank 1 & Bank 4”) have built up a new compliance setting (20 to 60 employees) in their banks to cope with external demands. As mentioned above, a maladaptive behavior can occur if there is a lack of environmental scanning, leading to an inefficient firm (D’Aveni & MacMillan, 1990).

Also to be noted, the banking industry differs from others. The cross-industry situational contexts influences a firm's’ behavior (Nadkami & Barr, 2008). Furthermore, Nadkami and Barr (2008) shine a light on managerial attention by introducing a cross-industry differences point-of-view, downplaying the role of cognition. In this case, banks are highly regulated by authorities (Person A, B, C, D & E; FSA, 2013:2014) making the operations of the banks
tougher and stricter than in other industries. For instance, the demands from GL44 on board composition and competence (FSA, 2013) shows that industry characteristic, in combination with Ocasio’s discussion regarding cognition, are critical in explaining managers’ strategic actions.

5.2.3. Structural Distribution of Attention

The section of structural distribution is not widely discussed in the theory section, yet it is important to highlight some aspects, which can be linked to the empirical data. It has become evident that banks encounter problems related to the recession and demands from authorities thus installing, not only new members/manager, but also committees. “Person E” stressed that the new board members, specialized in certain areas, forms committees where they are responsible for certain tasks. Committees (such as compliance for instance) might be focused on their own specific issues. However, Ocasio (1997) called for a distribution of the allocation of issues, answers and communication between committees. This aims at having a distribution of a mutual cognition and information processing within the different committees in order to bring a coordinate holistic organizational decision in the end. In the case of the interviewed banks, the work between the board and compliance has increased significantly (Person A, B, D & E) making it important to have a shared social cognition where decisions from compliance can be agreed on board level in order to run their respective banks smoother.

The authors are confident that the above three disturbance principles can explain the affect regulation had on executives. The authors want to put emphasize on situated attention since it regards external factors affecting executive attention. This principle in general can be closer linked to stakeholder theory since the authorities affected the banks’ operations.
6. Discussion

The authors believe that a combination of stakeholder theory, with the external perspective, together with managerial attention is applicable to the problem based from the gathered empirical data. Regarding stakeholder theory, there seems to be a lack of discussion concerning what consequences external stakeholder has on corporate governance during time of recession. The discussion of stakeholder theory has instead put more focus on the definition of a unified concept of stakeholder theory (Miles, 2012). The authors linked and streamlined the external stakeholder theory towards managerial attention in order to investigate deeper into an external stakeholder’s influence on management issues within the interviewed banks. Based on the empirical data it has become evident that the work progress in regard of developing a bank’s operations is disrupted (i.e. disturbed attention) by external governmental demands during a financial crisis. However, it is important to be critical and not see everything from one side of the coin. Regulations might slow down a bank’s development progress in a short-term perspective, but the regulations are implemented in order to protect societies from a system crash (Gaffikin, 2005). Thus, regulations are set out to be beneficial in the long-run perspective. Furthermore, this study treats the personal experience from board members and top-management managers. It is outside the scope of this study to weigh in perspectives from other counterparts. Especially, since FSA (external authority perspective) did not want to participate in an interview. Not surprisingly, the interviewed executives emphasized the negative aspects on the external demands which has led this study towards the question of control and development in time of recession. The interviewees stressed that attentional focus on development was, to a different extent, diverted. As mentioned above, during the authors literature review, it was found that stakeholder theory was not fully treating the impacts on management during time of recession. Therefore, the authors looked to extend the stakeholder theory by adding the theory of managerial attention. A streamline from external stakeholder to disturbed attention (managerial attention) has been made, which has been applied to address the problem based on the empirical data.
6.1. Conclusion

To get back and answer the research question stipulated in 1.2 as follows:

“In what way have authority demand affected executives attention on how business is conducted within Swedish banks?”

The regulatory changes implemented by EBA, and in turn FSA has come with a comprehensive change within the role of board members and top-management within Swedish banks. The authors conclude that the authority demands affected the work in board and top-management in two major ways. Firstly, the board composition, by installing new board members and committees as a result of demands on competence and internal control. Secondly, this has put focus on the control of the operations where attentional focus has shifted or been diverted in times of recession. Thus, it is obvious that the new regulations have had an impact on both which the members of the board are, as well as how they are working.

The authors can further conclude from the findings that there has been a shift in focus within the different banks. To name a few examples, within “Bank 1”, up to 80% of the board meetings were now spent on compliance, “Bank 2” has been able to continue their focus of business as before, “Bank 3” divided the management into two teams to ensure that focus on development was not entirely lost. In “Bank 4”, it was evident that the management discussed compliance to a higher degree than before, though the interviewee was not versed in the question of board attention. The changes in focus of attention have thus moved from business development to business control. The larger banks have the possibility to divert management, as seen in “Bank 3”, and thus focus on both business development as well as business control. For smaller banks, such as “Bank 1”, the high level of fixed costs combined with a limited organization regarding human capital and turnover, becomes an issue.

In terms of contribution, the authors believe that the empirical findings can provide background to link the classic theory of managerial attention to stakeholder theory. The findings indicate, much like stakeholder theory suggest, that there is a clear connection between external stakeholders and firm performance. To elaborate, within the financial industry, it lies within both regulators and public interests to secure a stable and sound development of the economy. Further, due to the impact banks have on the domestic economy as a whole, there are clear incentives to regulate the industry.
Regarding stakeholder theory and its link to firm performance, the authors have incorporated managerial attention to pinpoint the authorities effect on the banks internal corporate governance in terms of the working progress among the executives. For instance, with the new regulations being backed up by potential sanctions to both the banks as well as individual board members, the issue of managerial attention becomes palpable. The limitations of human cognition to focus on both business development and business control when faulty decisions can result in heavy sanctions, thus strengthening the connection to managerial attention within this study. Much like the metaphor of Shiffrin and Schneider (1997) with the inexperienced and experienced driver, even the most experienced driver makes mistakes when finding themselves in a stressful situation. Even though the executive is experienced with a high level of knowledge, there is always a risk when putting high potential sanctions connected to their actions and at the same time increase the overall regulations.

6.2. The Study's Trustworthiness

It is essential to critically examine the results that the authors have been able to conclude to within this study. The study has a low number of interviewees, thus lowering the possibility to draw in-depth conclusions. However, the interviewees represent three out of four big banks, thus strengthening the trustworthiness of the study. Further, FSA was not available for an interview, thus meaning that the study is based on the executives’ experiences of the financial crisis of 2008 and the changes in authority demand. The regulators’ point of view would have enriched the analysis and conclusion and strengthened the study’s overall validity. Nevertheless, the authors believe that the data collected through the conducted interviews were fruitful, strong and sufficient enough to be able to make the previous stated conclusion.

The authors have chosen to trust the interviewees, though are still aware that some details might have been omitted to protect themselves, as well as the companies in which the interviewees were employed.

6.3. Recommendations for Further Studies

There are a large number of niche banks, out of which, the authors have interviewed one. The scope of the study could be extended by conducting more interviews in the niche bank segment. As mentioned before, an interview with FSA would enrich the study with a regulator’s point-of-view.
This study can also work as a base for further comparative analysis with banking industries in other countries.

The scope of the study can be further broadened by performing interviews with banks in other phases of economic cycles in order to see if stakeholder theory has the same consequences as during a recession.
**Reference list**

**Articles**


Books


Publications


Press releases


Websites


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Interviews


Person B, Chairman of Bank 1, Stockholm, March 27, 2014, Personal Interview.


Person D, Vice President of Bank 3, Stockholm, May 12, 2014, Personal Interview.

Appendixes

Appendix I – Interview scheme

Förfrågor
- År i banken?

1) Finanskris

1.0 Hur påverkade finanskrisen arbetsprocessen i styrelsen?

1.1 Skedde någon förskjutning av hantering utav frågor? Ex. Frågor som förr behandles på lägre nivå i organisationen.

1.2 På vilket sätt påverkades aktivitetsflödet mellan Dig och VD:n?

1.3 Var det svårare att ha kontroll med feedback/uppföljning över ledningsgruppen?

1.4 Hur påverkade finanskrisen övriga styrelseledamöter?

1.5 Valde man inte andra styrelseledamöter under finanskrisen för att få annan kompetens?

1.6 Hur förändrades Din roll under finanskrisen?

2) Risk

2.0 Till vilken grad ändrades kraven från ägarna?

2.1 Hur påverkade detta det dagliga styrelsearbete?

2.2 Kände ni att målen blev mer kortsiktiga än lånsiktiga? På vilket sätt?

2.3 Hur jobbade ni för att sammanväva “allas” viljor/mål på bästa sätt?

3) Strategiska förändringar

3.1 På vilket sätt ändrades det strategiska arbetet med tanke på eventuella måländringar?

3.2 Kände ni att kraven från ägarna var grundade på individuella mål?

3.3 Påverkade finanskrisen arbetet med att jobba mot bankens huvudsakliga mål? - Till vilken grad?
4) Stress

4.0. Hur förändrades arbetsbörjan under finanskrisen?

4.1 Hur arbetade ni för att klara av en ev. ökad av arbetsbörjan?

4.2 Påverkade det nya intensiva arbetet aktivitetsgraden i styrelsen i allmänhet? Vad i synnerhet?
Appendix II – Freeman (1984) map of stakeholders

Key
- Stakeholders’ environment expectations
- Firms’ new environmental behavior
- Firms’ old environmental behavior
- Stakeholders’ new environment expectations