FINANCIAL TARGETS SET IN ANNUAL REPORTS

A Study Including all Companies Listed on Nasdaq OMX Stockholm

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ABSTRACT

The annual report is one of the most important instruments for companies to communicate with its external stakeholders. There are no regulation forcing companies to state any financial targets in annual reports, yet many of them chose to state them. Even though there are several recent studies concerning the occurrence of voluntary disclosure, there are not that many dealing with financial targets specifically, making this a subject for further research. The benefit of this study is the large amount of companies included.

The purpose of this thesis is to examine the financial targets stated in the annual reports of the companies listed on Nasdaq OMX Stockholm. Furthermore, in this thesis we examine if there are differences in the financial target statements depending on industry or size. This is made by gathering data from the annual reports of all companies on Nasdaq OMX Stockholm. A Kruskal-Wallis test is conducted, enabling us to determine if there are differences in target setting in the two grouping variables *industry* and *size*. Based on previous research, we try to analyze what might influence patterns that appear.

Our conclusion is that the financial targets that are stated the most are those that are expressed as capital market measures. The results from the Kruskal-Wallis test illustrate differences in target setting in different industries. However, size did not have equally apparent differences. This might imply that there are differences in what managers in different industries want to communicate to the public, which means that they use impression management. The results could also imply that managers should think about not to deviate too much from targets used by their peers in order to maintain legitimacy. This is supported by institutional theory and legitimacy theory. Similarities might also be explained by benchmarking.

It would be interesting to further investigate characteristics that may affect target setting and examine if the financial targets are met. We also suggest studies on the impact on performance that financial targets might have.

Keywords: *financial targets, annual reports, voluntary disclosure, impression management, legitimacy theory, benchmarking, institutional theory, Kruskal-Wallis test.*

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TABLE OF CONTENTS

LIST OF EQUATIONS, TABLES AND FIGURES

1 INTRODUCTION

In this chapter, we begin with a short historical background where the presence of voluntary disclosure and financial targets is discussed. This is followed by a problem discussion, which results in our research questions. After identifying the research questions, the purpose of our thesis is established. Necessary delimitations are defined and finally, the disposition of the thesis is presented.

1.1 Background

According to Ax et al. (2005), one conception is that companies exist to fulfill targets. Still, the question remains which targets they attempt to fulfill. The answer to this question is difficult to define and there is no generally accepted view of what it might be. Ax et al. suggest several reasons for this, such as different contexts require different solutions, companies and their environment and conditions are continuously changing, targets can differ within a large company, and there are political, social and moral aspects of what a target ought to be. They state that there is no universal answer and hence, there are several theories on the matter.

Locke (2004) state that performance targets are used almost universally in business organizations and goal-setting theory, developed by Latham and Locke (2002), has been rated number one in importance among 73 management theories by organizational behavior scholars. Merchant and Van der Stede (2007) claim that management control systems are dependent on the knowledge of targets, and for any purposeful activity the target has to be clear. If no target is set, it would be impossible to measure how well an organization is performing. Even if there are no regulations stating that firms need to define financial targets, one can often read about them in companies' annual reports. Since targets are of such importance, we wonder what targets companies display.

To understand the purpose of targets in annual reports, sociological aspects on financial reporting, such as agency theory and stakeholder theory, must be added to the neoclassical theory of the firm. Behavioral theories recognize the fact that companies act in an environment where there are many different needs for information. Hopwood (2000) argues for further research that can provide insight into sociological and institutional impacts on financial accounting in order to understand the practice of it. According to him, these aspects are still relatively unexplored.

The trend towards an increasing degree of voluntary disclosure is recognized within research and there are many studies deliberating on the subject. Schuster and O'Connell (2006)

express that the importance of voluntary disclosure is growing in today's capital markets. They try to map what information is disclosed and in what way. Furthermore, they discuss problems and benefits of giving information when it is not required. Studies (e.g. Hendriksen & van Breda 1992) also argue that there are many levels of disclosure, and although some information is not necessary by law, it is common practice and companies indeed consider it to be compulsory. As Douglas (1986) discuss, this might be due to institutional theory, where the behavior of the institution is the "right" behavior.

Voluntary disclosure in the annual reports of Swedish companies has been studied by Cooke (1989). His study included 90 Swedish companies, both listed and unlisted, but he did not examine financial targets in particular. Also, the study was made quite some time ago. Therefore, a more recent study is justified.

Even though many studies explore voluntary disclosure, not many have explored financial targets specifically as a voluntary disclosure. However, Åkesson (2008) conducted a historical study of financial target disclosure in the annual reports of sixteen listed Swedish companies from 1965-2004. His purpose was to describe and explain the development over time. Hence, a smaller amount of companies is reasonable to investigate. But which financial targets are stated in the annual reports of today? In order to make general conclusions regarding financial targets stated in annual reports, a larger amount of companies should be examined.

1.2 Problem Discussion and Research Questions

Different stakeholders have different needs of information communicated. As target setting is essential for strategy implementation, it should be essential for investors. Furthermore, various types of companies have various types of priorities. A fast growing business may prioritize market share whilst a mature business focuses on profit (Smith 2006). Hence, disclosures focus on separate matters. That makes the design of the annual reports a subject for discussion. Also, Ogden and Clarke (2005) state that annual reports are the most comprehensive, publicly available, financial documents. It does not only present the statutory financial information, it is also a way to communicate with its external stakeholders and a window into what communication strategies companies use when doing so. Therefore, we find annual reports an appropriate and interesting document to examine in order to see patterns of financial targets.

As oppose to Cooke, we focus specifically on the financial targets expressed in annual reports. Also, unlike Åkesson, we will investigate only the present situation, i.e. how companies nowadays disclose information about their financial targets. Hence, the subject of our study is a larger sample of data from one year only. Since we have not encountered

previous research done on the financial targets stated in annual reports on a larger number of companies, we believe this study contributes to a part of the voluntary disclosure topic. We include all of the companies listed on Nasdaq OMX Stockholm, which are 255 companies. The first question of this thesis is:

- *Which financial targets are most often stated in the annual reports of companies listed on Nasdaq OMX Stockholm?*

Different types of company characteristics might affect the choice of what to communicate to the public. Meek et al. (1995) examined factors influencing voluntary disclosure. They found that characteristics like region/country, listing status, company size, and industry was the most important factors explaining voluntary disclosure. They refer to Foster (1986), who state that "the variable most consistently reported as significant in studies examining differences across firms in their disclosure policy is firm size." (p. 44). Large firms disclose more information due to several discussed factors, e.g. they have a wider owner base, which increases the need for information, and they have higher agency costs. Even though industry is not as important as size, it explains differences in disclosure to some extent. Meek et al. suggest that some industries are more sensitive about giving information to competitors. They also suggest, that the relevance of different information varies across industries.

Cooke (1989) also concludes that larger companies disclose more information than smaller ones. However, the primary explanation is the companies' listing status. He also finds that companies categorized as trading disclose less voluntary information than other categories.

As previous research shows, characteristics that affect disclosure are industry and size[1], and therefore, the following research questions are:

- *Are there differences in financial targets in annual reports in different industries?*
- *Are there differences in financial targets in annual reports in different sized companies?*

1.3 Purpose

The purpose of this study is to examine financial targets stated in annual reports. We intend to examine patterns in financial target setting amongst industries and different sized firms. Our intention is to contribute to a part of the voluntary disclosure topic in regards to financial targets, since there is a lack of comparable studies. If patterns are apparent, the study could implicate that there are common standards in financial target setting in different types of

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[1] Further studies concluding size as a characteristic that influences companies' decisions are made by Watts and Zimmerman (1978), Hagerman and Zmijewski (1979), and Trombley (1989).

firms, and managers should think about being systematic and careful when setting financial targets, not to deviate too much from these, in order to maintain legitimacy. It could also implicate that there are differences in what managers in different industries and different sized firms want to communicate to the public in terms of financial targets. Furthermore, if patterns are more apparent in either industry or size, it might indicate differences in benchmarking. If e.g. the result shows differences in financial target setting amongst different industries, it could imply that companies do not benchmark across industries.

1.4 Delimitations

Our study is limited to the stated financial targets in annual reports. Hence, it does not investigate the non-financial, more abstract or subjective targets that companies might have. Also, we do not investigate targets set on e.g. companies' websites or in other media, where companies may express their targets. We will not consider the reasonableness of the targets per se. Moreover, due to our classification of financial targets, we cannot consider how many financial targets within the same group of measures that are stated by a company.

1.5 Disposition

In addition to the introduction above, the thesis contains six chapters. In the second chapter we review previous research on conceptions about targets, the formation of annual reports, why companies choose to state financial targets in annual reports, and target setting in Swedish annual reports.

In chapter three we explain the methods used answering the research questions. The working process is discussed further and described in detail. Clarification and motivation of the classification of the financial targets, industries, and sizes are made, and the Kruskal-Wallis test is explained.

In chapter four we display the empirical results of the study, whilst chapter five contains an analysis of them. Finally, conclusions, where the research questions are answered, and further reflections are presented in chapter six. This chapter also contains suggestions for further research.

2 LITERATURE REVIEW

The following chapter will give an overview of previous research and theories relevant to our study. In this chapter we intend to enable an insight in the process of stating targets and form a basic foundation for further understanding of our thesis, by discussing conceptions about targets and the formation of annual reports.

2.1 Conceptions about Targets

According to Ax et al. (2005), the traditional view of why companies exist is based on a neoclassical view which assumes that the ultimate purpose of a company is to improve its efficiency in order to obtain maximum profit. They refer to this as *the neoclassical theory of the firm*. The neoclassical theory approach assumes that companies are rational entities which always act in accordance to maximizing profit. However, this assumption requires managers to have access to all relevant information in order to make profit maximization decisions. Ax et al. state that critics argue that this information only can be obtained *after* the decision is made and all consequences are visible, and therefore it is apparent that the neoclassical theory is not appropriate when trying to understand management accounting in practice.

Herbert Simon[2] developed *the theory of bounded rationality*. His work implicates that managers use heuristic, not optimizing, models to deal with the complexity of real life situations. He argues that heuristic models are used because of the manager's inability to identify the most profitable option. Simon (1997) suggests that managers are objects of bounded rationality and consequently they are satisfied when their decisions generate profits at least at an expressed minimum level. He implies that managers simply cannot identify all possible alternatives and therefore they are happy choosing a good enough alternative.

Berle and Means (1947) argue that in the modern world, those who are legally the owners of a firm are no longer those who are in control of it. Their book explores the evolution of large companies and they claim that as early as in the 1930s, the ownership in many large companies was so small that no single owner was in control of the management, and hence the company. The traditional neoclassical approach does not consider any conflicts of interests that may occur when ownership and control are separated, which nowadays is almost always the case. Therefore, managerial theories of the firm have gained support. According to Eisenhardt (1989), *agency theory* describes the relationship between the principal (who delegates work to another, e.g. the owners) and the agent (who perform that work, e.g. the managers). She states that agency theory handles agency problems that arise

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[2] Herbert Simon received the Nobel Prize in 1978 for his research on the decision-making process within economic organizations.

when agents and principals have different goals, when the principal have limited information of what the agents are actually doing, and when the agent and the principal have different attitudes towards risk. Eisenhardt argues that agency theory indicates that the main target of a firm is to get the agents to do what the principals want, rather than to obtain maximum profit. Bearle and Means (1947) suggest that to succeed with this, the firm primarily need to increase owners' insight in the business through more and accessible information, and to develop incentive systems for managers that will coincide with ownership interests.

Mentioned theories are based on creating value for shareholders. However, Ax et al. state that a firm is not a closed, independent organization - it acts amongst different stakeholders, such as owners, managers, employees, clients, suppliers, creditors and the estate. According to Ax et al., one of the most recognized behavioral theories dealing with this is *stakeholder theory*. Not only does it consider behavioral aspects of the firm itself, but also aspects of stakeholders outside of the firm. Ax et al. express that stakeholder theory suggests that a firm should balance the interest of all stakeholders in order to create a solid relationship with them. Furthermore, they suggest that the firm and its stakeholders are dependent of one another and in order for the stakeholders to want to contribute to the firm, the firm needs to provide rewards exceeding costs in return.

2.1.1 Financial Targets

Donaldson has done some profound research on the subject of financial targets, how they are being set and for whom. According to Donaldson (1985) there has been a debate about whether financial targets actually do serve the best interest of a company or not. He states, in contrast to what the neoclassical theory suggests, that companies do not put maximum profit before all else. Targets are affected by both the external and internal environment of a company and are therefore relative, changeable and unstable. Donaldson discusses how the personal value and political philosophy of the person setting the targets play an important part in the target setting. Targets can become a personal issue for the CEO or whoever sets the targets. This was also confirmed by Courtis (1995), who concluded that management is not neutral when presenting information. A more recent study is made by Finkelstein et al. (2009). They conclude that in order to understand why a company act or perform in a certain way, the leaders must be observed. Their personal values, experiences, qualities and social connections affect their decisions that have consequences for the company.

An additional finding of Donaldson (1984) is four incentives the decision makers have when they set targets. They are *survival, independence, self-sufficiency* and *self-fulfillment or success*. He argues that survival is the most significant incentive and it implies that the management pursues the survival of the business. Independence means that they want to be able to make decisions unaffected by external parties and self-sufficiency that they do not

want to be dependent on others. Self-fulfillment and success are about the management's will to achieve something, both on a personal and professional level. Even if these four incentives cannot explain all target setting of a company, Donaldson argues that they are useful when trying to understand the behavior of the management when the pressure from the shareholders increases.

In another study, Donaldson and Lorsch (1983) address the difficulties in setting financial targets in a company. They manage to identify three primary parties that managers must consider when setting targets. These parties are; 1. the capital market, who wants to see targets like result per share, dividends and return on equity (ROE), 2. their own product market, that wants targets like market share and indexes of different kinds, and 3. their organization, that requires targets such as investment related targets, sales growth and ROE.

Aharony and Noy (2009) study aspects of corporate long-range quantitative targets. They examine published documents from Standard & Poor´s 500 largest publicly traded US firms and find that 285 of those had stated long-range quantitative targets. Aharony and Noy focus on profit and growth and investigate whether they are equally important. They find that the vast majority state at least growth as their long-range target, often in combination with profit targets. Furthermore, all profit targets and most growth targets are expressed in accounting figure terms. Most common are earnings per share (EPS), net profit, ROE, return on assets (ROA), gross margin, earnings before interest, tax, depreciation and amortization (EBITDA), growth in net profit, growth in EPS, and growth in sales. The most important finding of Aharony and Noy is that long-range quantitative growth targets are superior to long-range quantitative profit targets. They suggest that this supports arguments that firms focusing on growth targets are less likely to temporarily boost accounting results by augmenting costs.

2.2 The Formation of Annual Reports

2.2.1 Regulations

In Sweden, the content of annual reports is formally regulated by the Accounting Act[3] (Bokföringslagen, BFL) and the Act on the Annual Reports of Certain Companies[4] (Årsredovisningslagen, ÅRL). An annual report of a company acting on the stock market must contain a balance-sheet, an income statement, a cash-flow statement, notes, and an administration report[5] (FARs samlingsvolym 2010, p. 1483). However, when entering Nasdaq OMX Sockholm, companies are obligated to sign a contract where there are specific

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[3] The translation in English is from Cooke (1989, p. 172).
[4] The translation in English is from Cooke (1989, p. 172).
[5] In Swedish it is called förvaltningsberättelse.

regulations on declaring financial key figures. The Rulebook for Issuers Nasdaq OMX Stockholm 1 May 2010, states in the disclosure requirements paragraph that:

An announcement containing a financial statement release or a half year report shall commence with a summary stating the key figures, including, but not limited to, net turnover and information regarding forecasts, if a forecast is provided in the report.

§ 3.2.3.

Furthermore, the same paragraph in the Swedish version of the rulebook, states that at least net turnover and earnings per share, must be included. Hence, companies listed on Nasdaq OMX Stockholm are required to specify some financial key figures.

Another regulation important to mention, is the Basel II Framework. It was implemented in February 2007 in order to ensure stability in the financial banking system (www.fi.se). It was instigated by EU, in consultation with The Basil Committee, EU Commission, and representatives from the banks. The purpose of Basel II is to encourage banks to identify the risks they might face, and to improve their ability to manage those risk. It gives the banks more options on how to calculate the size of their capital base and a minimum standard for capital adequacy. (www.bis.org)

2.2.2 Recommendations

There are recommendations from Sveriges Finansanalytikers Förening (SFF) about what facts and information an annual report should contain. They state that the annual report primarily should reflect the company in a long-term perspective. Therefore, the annual report should hold information that is both historical and future orientated. SFF mentions a company's goals and strategies as future oriented information. They recommend companies to state their financial targets in their annual reports if they have any. This is to give the readers an image of the board's conception of the company, and a perception of future cash flows. They also recommend an annual report to hold information about e.g. changes in turnover, the market shares, margin development, liquidity, and investments.

The need for universal recommendations regarding accounting praxis has been acknowledged for quite a long time. In a debate in Edlund et al. (1982), the participants argue that even though they do not desire any more regulations by law, more recommendations are desirable in order to increase comparability and develop uniformity in regards to key financial performance measures and the structure of annual reports. Furthermore, they argue that an improvement of annual reports should include a vision of the future, more precisely a description of future targets and target achievement of return and equity ratio. They also

argue that annual reports to a greater extent will develop towards a future perspective and moreover, to an increase in additional voluntary information.

2.2.3 Voluntary Disclosure

Meek et al. (1995) examine factors influencing voluntary disclosure. They base their study on U.S., U.K., and continental Europe multinational corporations and examine three types of voluntary disclosure: strategic, non-financial and financial. They find that different characteristics affect the formation of voluntary disclosure. The most important factors are region/country, listing status, company size, and industry. They find that large firms disclose more information. Meek et al. suggest that some industries are more sensitive about giving information to competitors. Cooke (1989) examines the extent of voluntary disclosure of companies on the Stockholm Stock Exchange. He covers the annual reports of 90 companies and he also concludes that larger companies disclose more information than smaller ones. However, he states that the primary explanation is the companies' listing status. Furthermore, he finds that companies categorized as trading disclose less voluntary information than other categories.

Schuster and O'Connell (2006) discuss the trend towards voluntary corporate disclosure. They presume it is due to the companies' hopes that the extra disclosure will give them an extra edge on the capital market and attract buyers. They state that accounting standards have major deficiencies from a capital market point of view and that the shortcomings are becoming recognized. PricewaterhouseCoopers e.g., have developed a model for additional voluntary disclosure. Schuster and O'Connell conclude some implications that additional disclosure might have. Even though it may increase costs for preparation, production, and audition, they argue that it is likely to lower the cost of capital, since there is reduced uncertainty from an investor's point of view. Investors have more details to base decisions and asses their risks on. This would lead to better allocation in investor capital.

2.3 Why State Financial Targets in Annual Reports?

2.3.1 Making a Good Impression

Highhouse et al. (2009) discuss the importance of *corporate reputation*. Corporate reputation is intangible but can be a valuable asset to the company when it comes to attracting e.g. firm equity and investor awareness (Fombrun 1996; Roberts & Dowling 2002). Brown et al. (2006) express reputation as something that answers the question "What do stakeholders actually think of the organization?" (p. 101). Highhouse et al. mention two motives for the company to strive for a good reputation – desire for approval and desire for status. This is in line with the view of Dowling (2004) and MacMillan et al. (2005), who speaks about

admiration, respect, trust, and confidence, as well as stakeholder commitment and trust as motives for a good reputation.

To express financial targets in annual reports might be a way for companies to strive for a specific image. Targets might give an image of an ambitious company with a belief in itself. This is important since research[6] has shown that performance is closely linked with company reputation. Financial performance especially has been shown to be one of the most important factors contributing to the reputation of the company (Fombrun & Shanley 1990). Lease et al. (2002) state that greater financial performance gives the image of industry dominance and prestige. A means managers utilize to control the impression of a company, is referred to as *impression management*[7] (Leary & Kowalski 1990). It is when the management carefully selects what information to expose and how to present it in order to make the information seem more in line with what the company wants to project (Neu 1991; Neu et al. 1998). According to Westphal and Graebner (2010) it has a bigger impact than board control and is a good instrument to use to attract investors and stakeholders.

In another study, made by Brennan et al. (2009), 21 UK annual result press releases are examined and analyzed in order to measure if a pattern of presentation of negative and positive information exists. Although their study does not examine annual reports, as we do in our study, the processes and thoughts behind are similar when making press releases as annual reports as they are both voluntary disclosure, and as confirmed by Brennan et al.: "Impression management predominantly occurs in less regulated narrative disclosures…" (p. 790). The authors summarize the seven impression management methods as *syntactical manipulation, rhetorical manipulation, attribution of organizational outcomes, thematic manipulation, selectivity, visual/presentation techniques*, and *performance comparisons*. They examine the four latter more closely and they discover that there exist notable differences in the ways that the companies display negative or positive information. Companies give more emphasis on information that they want to articulate by e.g. putting prominent information in a headline or first paragraph, while negative information is blended into the main body. This confirms what Bowen el al. (2005) conclude in their study.

Another discovery by Brennan et al. is that positive information, whether qualitative or quantitative, is repeated more often. This is misleading as it diverts attention from negative information to positive. Repeating information, whether positive or negative, can also be

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[6] See e.g. Cable and Graham (2000) or Fombrun and Shanley (1990).

[7] See further research by Schlenker (1980), Riess et al. (1981), Schneider (1981), Kipnis and Schmidt (1988), Kumar and Beyerlein (1991), or Schriesheim and Hinkin (1990).

misleading as it adds "noise" to the report. Skinner (1994) finds that positive information is more often presented in a quantitative format and negative more often in a qualitative.

In another study, Deegan el al. (2002) show that attention in media shapes stakeholder concerns. They examine the annual report of BHP Billiton of a 15-year period to see if BHP Billiton adapts their disclosures in response to media attention. They discover that the issues which get the most media attention also have the largest number of disclosure in the annual report. They also state that negative media attention result in positive information disclosure.

2.3.2 Creating Legitimacy

In order for impression management to be effective, the companies must be aware of the audience of annual reports. Initially companies made their annual reports primarily with the financial stakeholders in mind (Gray et al. 1995). Today, companies have more parties to consider. Parties mentioned by Magness (2006) that might find an interest in an annual report are suppliers, regulators, insurers, consumer associations, environmental groups and the media. She suggests that the requested information now includes information about the future cash flows and how to estimate the amount, timing, and uncertainty of it, and social interest. The diversity of interests of the different parties makes it more difficult for companies to meet all demands. To manage this stress, *legitimacy theory* can be used. As Magness expresses it: "Legitimacy theory was subsequently integrated into the accounting literature as a means of explaining what, why, when, and how certain items are addressed by corporate management in their communication with outside audiences." (p. 542).

Magness also states that legitimacy theory can be used as an instrument to manage stakeholders' impression. The theory says that companies have no inherent right to exist. To earn the right to exist it must fulfill its obligations to society and deliver satisfactory benefits, such as social, political and economic. It also demands that the company's management is aware of public interests, that they are able to identify the importance of different stakeholder groups, and tailor the content of the annual report accordingly. Legitimacy theory is based on perception and is therefore not effective in changing the image of the company if actions and measures are not publicized (Cormier & Gordon 2001).

In an article by Samkin and Schneider (2010) they state that "To achieve legitimacy, management makes use of impression management techniques within the annual report to portray the entity and its actions in the most favorable way possible to ensure the ongoing support of stakeholders." (p. 257). They state four strategies to use in the process of legitimating: 1. convincing stakeholders through education and informing of the appropriateness of the organization's actions rather than changing its actions, 2. using emotive symbols to manipulate stakeholders' perception, 3. changing external performance

expectations, and 4. educating and informing stakeholders about organizational changes made in response to performance shortcomings (p. 264).

Young (1996) discuss the reasons why accounting framework and the goals, purposes, and characteristics of accounting have not been changed much over the years. He suggests that it can be explained by *institutional theory*. Douglas (1986) describes that a group of individuals within a community forms an institution. Institutional theory says that the institution tends to develop similar knowledge and moral standards, and only decisions made within the institutional thinking are considered to be right. It limits people thoughts and ideas as it affect their conceptions. Douglas concludes that although it is a cheaper way of making decisions and it saves time, institutional thinking might "hide" certain important questions or issues, and therefore slow change down.

DiMaggio and Powell (1983) discuss institutional theory further in their article. They state that, to begin with, the institutions are more diversified, but as time goes, they become more and more similar. The authors refer to this process as *isomorphism*. The reason why companies become similar is that they strive for legitimacy. Therefore, they copy other companies they consider legitimate and successful. Another reason DiMaggio and Powell discuss is insecurity. When faced with a problem, companies will choose the best solution for the least cost. Copying someone else is a cheap solution. Other factors DiMaggio and Powell mention that might contribute to an increase of the imitation between companies are a limited number of consults to hire, employees that stay within the same industry, and educations being similar.

2.3.3 Comparing with Others

In the study of Brennan et al. (2009), they also find that companies compare themselves to other companies or prior results which would make their own information seem more positive. This is in line with a survey made in 580 US firms, which Merchant and Van der Stede (2007) mention in their book. The purpose of the survey is to examine how many of the companies that use benchmarking. Setting relative performance targets is a function of benchmarking. The result of the survey shows that 31% use benchmarking regularly and only 7% do not use it at all.

Benchmarking is used in order to make targets more flexible. Merchant and Van der Stede categorize benchmarking in two categories – best-in-industry and best-in-class. Best-in-industry involves a comparison with direct competitors and best-in-class a comparison with companies performing superior. As argued by Merchant and Van der Stede "…to become the best, performance should be compared with the best." (p. 335).

Benchmarking has contributed to changes in the design of annual reports. Competitions, rewarding companies with extraordinary good annual reports, have been developed to benefit the improvement of information in annual reports. What motivates companies to strive for the best annual report in these competitions might be the public recognition (Åkesson 2008). Other companies then compare and duplicate the best annual reports of their peer group. This kind of benchmarking is often referred to as *best practice benchmarking* and is used in purpose of performance improvement (Francis & Holloway 2007).

In Sweden one acknowledged competition of this kind is called *Best annual report*[8]. It is arranged by Nasdaq OMX Stockholm and is today divided into three divisions - Large, Middle and Small Cap. Nasdaq OMX Stockholm makes suggestions about what companies should consider when making annual reports in order to improve them. Among other things, they recommend setting targets in annual reports as a way of improvement. (Bästa redovisningen 2008)

2.4 Target Setting in Swedish Annual Reports

Mossberg made a study in 1977 where he examines the occurrence of key ratios and their purpose in eight large Swedish forest companies. His findings are that the most frequent stated financial targets are result and return targets. He also suggests that there are three possible ways to look at a company's goal structure. Those are: 1. companies' target is profit, 2. companies' long-term target is profit and in order to measure and achieve this, the companies state short-term profit or growth targets, and 3. in order to satisfy all the parties that exist in the internal and external environment, a company cannot have only one target, but must balance between several (p. 78).

Another Swedish study of target setting is made by Törnqvist (1997). It is based on interviews of representatives from six Swedish transnational companies. The purpose of her study is to develop suggestions for target setting and external information processes, but she also examines stated targets. She finds that five of the companies examined state financial long-term targets and that return on equity is the dominating one.

In a more recent study Åkesson (2008) examines financial measures and targets in annual reports of listed Swedish companies, and how the targets have changed over time. He examines annual reports from the years 1965-2004, and discovers that stated financial targets have increased over time. Åkesson also notices that the amount of companies that state financial targets have increased and so has the complexity of the targets stated. Changes that can be seen over time are an increase of return measures on behalf of result, and turnover

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[8] In Swedish it is called Bästa redovisningen.

targets and that debt to equity ratio and cash flow have resided. Profit margin and operating margin targets have increased the most.

3 METHOD

In this chapter we describe the methods used in our study. It first presents and motivates the choice of method. Second, the procedure of collecting data is described. Then the model is accounted for and the classifications of financial targets, industries and sizes are defined. Finally, the Kruskal-Wallis test is explained, since this is used to test the hypotheses of this study.

3.1 Choice of Method

In this thesis we attempt to examine the financial targets stated in annual reports. Therefore, all annual reports of the companies on Nasdaq OMX Stockholm (18 May, 2010) are examined. The process of collecting data is described further below. In order to conduct our study, it is necessary to establish the definitions of the different financial targets and quantify the data. This is done by classifying the variables. When gathering data from annual reports, either a missing (0) or a confirmed (1) value is allocated to each classification. This makes it possible to identify the types of financial targets that are most commonly used.

We also strive to identify patterns in financial target setting dependent on certain characteristics of the company. The characteristics chosen are *industry* and *size*. These are also defined and classified.

Any patterns are identified through the statistical test of Kruskal-Wallis. The Kruskal-Wallis test is a non parametric test of hypothesis (i.e. it does not require normally distributed populations), and is used to identify differences in groups when there are more than two different populations (Anderson et al. 2009, p. 740).

3.2 The Data

All data concerning financial targets used in our study is collected from the annual reports from 2008 (or 2007/2008). All of them are web-published and most of them as PDF-files. That made it possible to use the search function in Adobe Reader. In annual reports printed in Swedish, we searched for the words *mål* and *utdelning*. In those that are printed in English, we searched for the words *target, goal, objective* and *dividend*. This ensures that all annual reports are examined in a systematic and consistent way. Many annual reports have a paragraph regarding their targets, however, some targets are more difficult to find, such as dividend policies. Also, dividend policies are often expressed as a policy rather than a target. Even so, we consider it as a stated target and included dividend policy in the searching process.

It has also been necessary to determine when we judge the financial targets as stated. Many annual reports display vague descriptions of their targets, such as "maintaining financially strong" (the annual report of H & M Hennes & Mauritz AB 2008). It is stated as a target by the company but we have made the judgment that the target is to abstract to be considered as stated. Thus, we do not refer to it as a target and *from now on we will use the word target only for stated such*. We base our judgment on what is confirmed in research and studies, e.g. by Locke and Latham (2006), that in order to fulfill its purpose a target ought to be specific. Merchant and Van der Stede (2007) also claim that for any purposeful activity the target has to be clear. Whether the targets in annual reports are stated to actually be aimed at, or e.g. just as an instrument in the use of impression management, the receiver of the information is more likely to accept and believe in the targets when seeming real. Consequently, a missing value is allocated to all targets that are not expressed in measurable figures. Data regarding industry and size is collected from the website of Nasdaq OMX.

3.3 The Model

The classification of variables makes it possible to quantify the data and enables the usage of statistical tests. The shaping of the model is based upon the purpose and research questions of our thesis. It is essential to define groups of related financial targets since companies express financial targets in a variety of ways, but they still refer to the same type of target. Furthermore, in order to conduct a statistical test, the number of groups should be limited in relation to the total number of observations (Løvås, 2006, p. 312). Since some of the targets were stated only a few times, and there were a large number of different targets, it was necessary for us to classify them in groups. The classifications of the financial targets are described further in 3.3.1. The company is assigned a 0 (zero) if any of the including measures is missing as a target in the annual report, and a 1 (one) if it is confirmed. It is also essential to define the different industries and the different sizes. Each company is allocated a number from 1 to 5 depending on what industry classification it belongs to, and 1 to 3 depending on what size classification it belongs to.

3.3.1 Classifications of the Financial Targets

To determine what type of financial targets annual reports display, a pilot study was first made. The annual reports of all 56 companies on the Large Cap list were investigated and the financial targets were collected to identify stated financial targets. This enabled the classification of financial targets. The classifications are based on the findings of the pilot study joined with the recommendations from Sveriges Finansanalytikers Förening (SFF), who are standard setting in regards to financial performance measures in Sweden. Certain adjustments are made due to results from the pilot study, where some companies displayed performance measures which are not included in the classifications of SFF. We named and

categorized the additional targets in line with the thesis by Åkesson (2008). Moreover, exclusions are made for financial targets that are included in SFF's recommendations but not in the annual reports included in the pilot study. The classifications of financial targets in our study are:

- Return measures:
  - Return on equity (ROE) – net income divided by average shareholder equity.
  - Return on capital employed (ROCE) – operating and interest income divided by capital employed.
  - Return on working capital (ROWC) – earnings before interest and tax (EBIT) divided by working capital.
  - Return on assets (ROA) – net income divided by average assets.
  - Return on investment (ROI) – net income divided by average owners' equity.
- Margin measures:
  - Pretax profit margin – earnings before taxes (EBT) divided by net sales.
  - Earnings before interest, tax, depreciations and amortizations payments (EBITDA) margin – EBITDA divided by net sales.
  - Operating margin – operating income after depreciations divided by net sales.
- Efficiency measures:
  - Asset turnover – net sales divided by assets.
  - Turnover growth.
- Leveraging measures:
  - Equity ratio – equity divided by assets.
  - Debt to equity ratio – interest-bearing debt divided by equity.
  - Interest coverage ratio – EBT divided by interest expenses.
  - Capital adequacy.
- Capital market measures:
  - Earnings per share (EPS) – earnings divided by number of shares.
  - Dividend.
  - Market return per share.
- Figures from financial statements:
  - Turnover.
  - Income (different levels e.g. net income, EBIT, operating income).
  - Cash flow.
  - Investments.

Table 1. Classifications of Financial Targets.

Measures	Classifications
Return Measures	RM
Margin Measures	MM
Efficiency Measures	EM
Leveraging Measures	LM
Capital Market Measures	CMM
Figures from Financial Statements	FFS

3.3.1 Classifications of Industries

The classifications of industries are based on the divisions on Nasdaq OMX. There are ten of them, however, due to no or few companies in some of the sectors, we have chosen to remove one sector (utilities) and to combine some similar sectors. The Kruskal-Wallis test requires a minimum of five observations in each group in order to approximate the distribution of W with the chi-square distribution (Andersson et al. 2009, p. 741). Since the energy sector only consists of four companies, we have to include it with another industry. We also make the judgment that materials (thirteen companies), consumer staples (eight companies), and telecom (six companies) are too small to be in separate groups. The combination of similar sectors limits the number of groups and therefore we limit the risk of making the wrong conclusions (Løvås 2006, p. 312). The sectors combined are the energy, materials and industrials sector; the consumer discretionary and consumer staples sector; and the telecom and IT sector. This results in the five classifications of industries in table 2.

Table 2. Classifications of Industries

Industries	Classifications
Energy, materials and industrials	1
Consumer discretionary and consumer staples	2
Health care	3
Finance	4
Telecom and IT	5

3.3.2 Classifications of Size

When classifying different sized companies, the three lists on Nasdaq OMX Stockholm are used. The Large Cap list contains companies with a market value of more than one billion Euros, the Middle Cap list contains companies with a market value between 150 million and one billion Euros and the Small Cap list contain companies with a market value of less than 150 million Euros. The three classifications of size are displayed in table 3.

Table 3. Classifications of Size

Lists	Market Value	Classifications
Large Cap	>1 billion €	1
Middle Cap	1 billion - 150 million €	2
Small Cap	<150 million €	3

3.4 Kruskal-Wallis Test

In order to examine whether there are differences in financial target statements in different industries and different sized companies, two tests of hypothesis are made. The first null hypothesis is:

H_0: Financial targets in annual reports are identical in different industries.

If the test displays significant results, we can reject this hypothesis and the alternative hypothesis is:

H_1: Financial targets in annual reports are *not* identical in different industries.

The second null and alternative hypotheses are:

H_0: Financial targets in annual reports are identical in different sized companies.
H_1: Financial targets in annual reports are *not* identical in different sized companies.

The test of hypothesis is conducted by the Kruskal-Wallis one-way test of variance. This is a non-parametric test and therefore used when the information about the distribution of the population is unknown, since this test does not require the assumption of normally distributed populations. Unlike the Mann-Whitney-Wilcoxon test, where you can only test two populations, it allows three or more populations (Anderson et al. 2009).

To compute the W statistic, which is used when deciding if the null hypothesis can be rejected or not, we apply the Kruskal-Wallis test formula shown in equation 1.

$$W = \left[\frac{12}{n_T(n_T + 1)} \sum_{i=1}^{k} \frac{R_i^2}{n_i} \right] - 3(n_T + 1)$$

Equation 1. Kruskal-Wallis test formula.

where

k = the number of populations

n_i = the number of items in sample i

$n_T = \sum n_i$ = total number of items in all samples

R_i = sum of the ranks for sample i

Anderson et al. 2009, p. 740.

The statistical software SPSS is used when conducting the test. The Kruskal-Wallis test ranks all of the observations. If there are several observations with the same rank, they are called ties. The ties are given a number of ranking that are summed up and then divided by the number of ties. In our case, there were 172 companies that did not state a return measure target and a 0 (zero) was allocated accordingly. Therefore we have 172 ties. When ranking them we need to give all observations a ranking number from 1 to 172, sum them up, and divide them by 172. When there are numerous ties it is necessary to divide the Kruskal-Wallis formula by equation 2 (Kruskal & Wallis 1952, pp. 586-587).

$$1 - \frac{\sum T}{n_T{}^3 - n_T}$$

Equation 2. Necessary when there are numerous ties.

where

$T = t^3 - t$

t = number of ties in the same group of ties

Kruskal & Wallis 1952, pp. 586-587.

To determine whether the null hypothesis can be rejected or not, the sampling distribution of W is approximated by the chi-squared distribution with k-1 degrees of freedom (df). Since

each of the sample sizes in the study is greater than five, this approximation is generally acceptable (Anderson et al. 2009, p. 741).

Through the chi-square distribution, the p-value for each financial target is determined. With a level of significance (α) of 0.05, we accept a five per cent risk of falsely rejecting the null hypothesis. An α of 0.05 is a common choice when conducting significance tests (Anderson et al. 2009, p. 294). Thus, H_0 can be rejected if the p-value is lower than 0.05.

4 EMPIRICAL RESULTS

In this chapter we announce the empirical results of this study. First, we display the frequency statistics for each grouping variable. Second, we display the distribution of financial targets for all of the companies listed on Nasdaq OMX Stockholm. Furthermore, we show the distribution of financial targets in the different industries and results from the Kruskal-Wallis test with industry belonging as grouping variable. Finally, we show the distribution of financial targets in the different sized companies and the results from the Kruskal-Wallis test with size as grouping variable.

4.1 Descriptive Grouping Statistics

The grouping statistics are described in tables 4, 5, 6, and 7. The number of companies in industry as grouping variable is displayed in table 4. Energy, materials and industrials is the largest industry group in our study. When comparing the numbers of different financial targets in each category of groups, which are displayed in figures 2 and 3, it is important to be aware of that the distribution of each category is not even. Thus, one can only compare number of different financial targets in one group separately. However, when performing the Kruskal-Wallis test, this is not a problem.

Table 4. Number and Percentage of Companies in each Industry.

	Number	%
Energy, materials and industrials	86	33.7
Consumer discretionary and consumer staples	42	16.5
Health care	30	11.8
Finance	45	17.6
Telecom and IT	52	20.4
Total	255	100

The number of companies in size as grouping variable is displayed in table 5. Small Cap is the largest size group. As mentioned earlier, we can only compare number of different financial targets in one group separately, since the distribution of each category is not even.

Table 5. Number and Percentage of Companies in each Size.

	Number	%
Large Cap	56	22.0
Middle Cap	72	28.2
Small Cap	127	49.8
Total	255	100

In table 6 and 7 the data of confirmed and missing targets in industry and size is demonstrated.

Table 6. Financial Targets in each Industry.

	Confirmed:		Missing:	
	Number	%	Number	%
Energy, materials and industrials	70	81.4	16	18.6
Consumer discretionary and consumer staples	39	92.9	3	7.1
Health care	16	53.3	14	46.7
Finance	39	86.7	6	13.3
Telecom and IT	41	78.8	11	21.2
Total	205	80.4	50	19.6

Table 7. Financial Targets in each Size.

	Confirmed:		Missing:	
	Number	%	Number	%
Large Cap	48	85.7	8	14.3
Middle Cap	60	83.3	12	16.7
Small Cap	97	76.4	30	23.6
Total	205	80.4	50	19.6

4.2 Stated Financial Targets

The distribution of the financial target statements are displayed in figure 1. 205 of the 255 companies examined, state financial targets. We can see that return measures, margin measures, efficiency measures, leverage measures, and capital market measures are evenly distributed. However, the dominant type of financial targets is capital market measures, which include targets such as dividend policy and earnings per share. Return measures are a

little less frequent. We can also see that targets included in figures from financial statements are not that common.

There are 50 companies that do not state any financial targets at all. Consumer staples and consumer discretionary had the highest percentage of companies stating financial targets and health care the lowest. There are no substantial differences when comparing number of financial targets in different sizes.
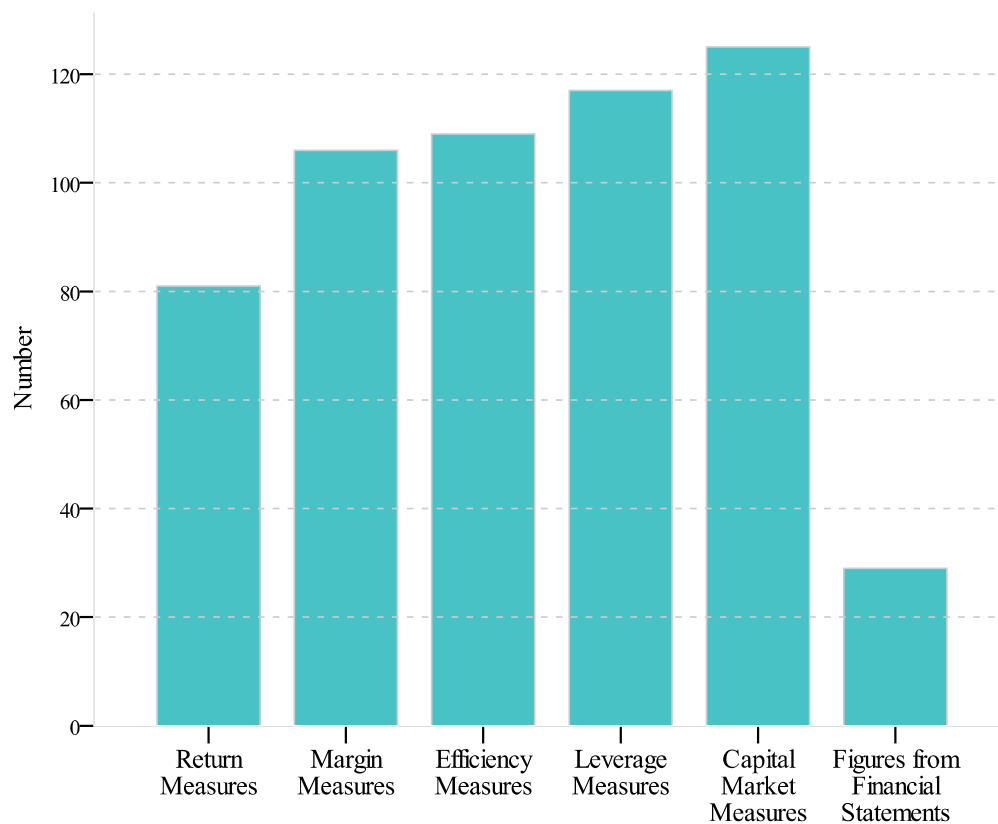

Figure 1. Number of companies stating each target measure.

There are 81 companies that state return measures, 106 state margin measures, 109 state efficiency measures, 117 state leverage measures, 125 state capital market measures and 29 companies state figures from financial statements.

4.3 Financial Targets and Industry

Figure 2 displays the distribution of financial targets stated in annual reports in the different industries and in order to compare the different groups of industries we have calculated the

percentage of each measure in relation to number of companies in each industry. The results are presented in table 8.

The distribution of financial targets in energy, materials and industrials is similar to the distribution in figure 1. This can be explained by the large sample size of this group. Since this group stands for about one third of all the companies, the result of this group has a greater impact on the result of the entire population. However, leverage measures still exceed capital market measure slightly.

Consumer discretionary and consumer staples displays few return measures in comparison to the entire population. Capital market measures are the dominant measure. Furthermore, margin measures are frequently used in this industry.

Health care stands out as an industry lacking financial targets. 14 companies out of 30 do not state financial targets. Of those companies that do state financial targets, few of them state return measures. The most frequently used target groups are margin and efficiency measures.

Even though all financial target types occur in all of the industries, finance shows a lack of margin measures. Also, they have relatively few efficiency measures. Furthermore, return measures are more frequently used than in other industries. Leverage measures are used the most. However, in the telecom and IT industry, both return and leverage measures are less common while margin measures are used the most. Efficiency and capital market measures are also quite frequent.
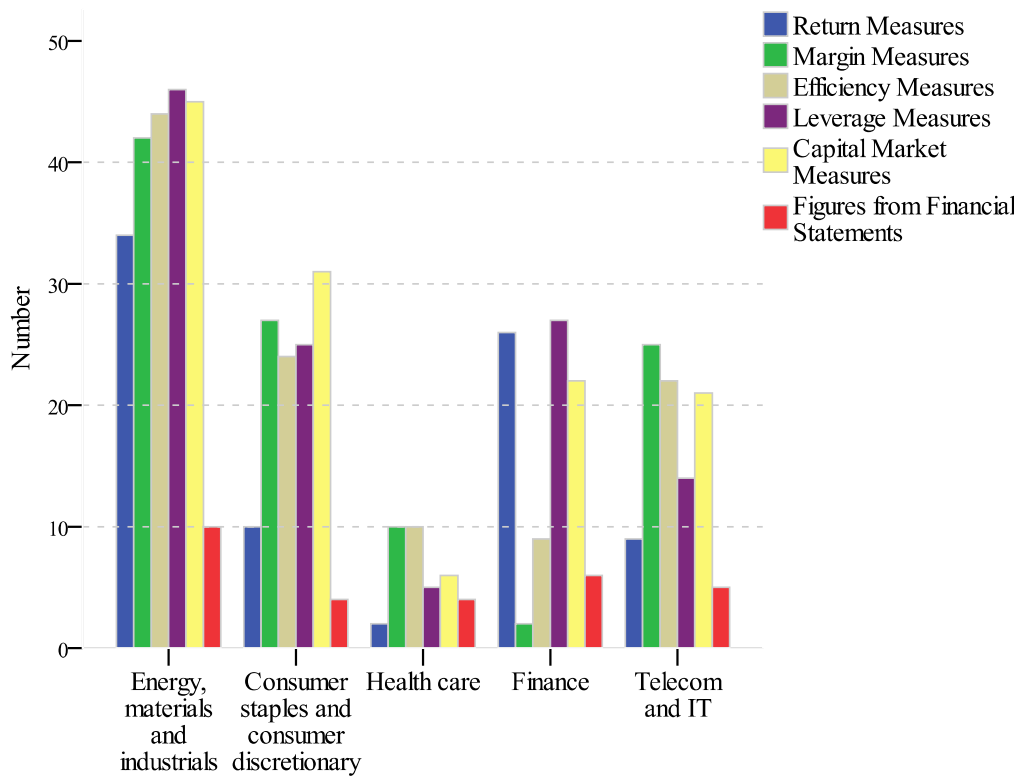
Figure 2. Number of financial targets with industries as grouping variable.

Table 8. Percentage of Measures in each Industry.

Industry	RM	MM	EM	LM	CMM	FFS
Energy, materials and industrials	39.5	48.8	51.1	53.5	52.3	11.6
Consumer discretionary and consumer staples	23.8	64.3	57.1	59.5	73.8	9.5
Health care	6.7	33.3	33.3	16.7	20.0	13.3
Finance	57.8	4.4	20.0	60.0	48.9	13.3
Telecom and IT	17.3	48.1	42.3	26.9	40.4	9.6

Table 9 announces the results from the Kruskal-Wallis test with industry as grouping variable. With resulting W and df of four, it shows significant p-values (marked in bold) for all financial target measures except for figures from financial statements. This means that the first null hypothesis can be rejected for return measures, margin measures, efficiency measures, leverage measures and capital market measures, i.e. financial target statements in annual reports are not identical. All of these measures, apart from efficiency measures, even have a p-value of 0.000, which gives an answer with a very high level of certainty. The p-value of efficiency measures shows a lower level of certainty but is still within our level of significance. However, with a p-value of 0.964, we cannot reject the null hypothesis when it comes to figures from financial statements, i.e. we cannot exclude the possibility that different industries are identical when it comes to setting targets expressed as figures from

26

financial statements. Nevertheless, we can conclude that there are some differences in financial target statements in annual reports in different industries.

Table 9. Statistics from Kruskal-Wallis Test with Industry Belonging as Grouping Variable.

	Return Measures	Margin Measures	Efficiency Measures	Leverage Measures	Capital Market Measures	Figures from Financial Statements
W	31.280	37.923	16.584	26.499	22.278	.591
df	4	4	4	4	4	4
p-value	**.000**	**.000**	**.002**	**.000**	**.000**	.964

4.4 Financial Targets and Size

The distribution of financial targets stated in annual reports of the different sized companies is displayed in figure 3. In order to compare the different groups of sizes we have calculated the percentage of each measure in relation to number of companies in each industry. The results are presented in table 10. In Large Cap the measures most used are leverage measures. Thus, it is the only group where capital market measures are not the dominating measures. Furthermore, Large Cap is the only group where return measures exceed margin measures. The distribution of Middle Cap is comparable to the distribution of the whole population. Margin measures are more frequently used in Small Cap than in the other groups. It exceeds return measures substantially.
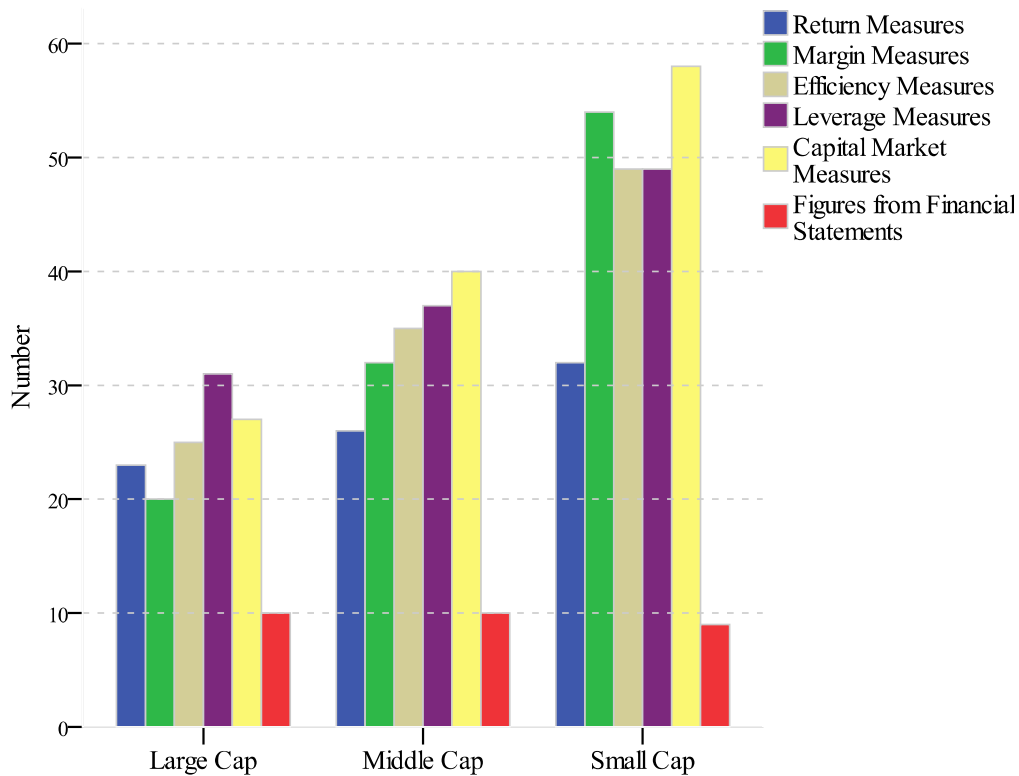
Figure 3. Number of financial targets with size as grouping variable.

Table 10. Percentage of Measures in each Size.

Size	RM	MM	EM	LM	CMM	FFS
Large Cap	41.0	35.7	44.6	55.4	48.2	17.9
Middle Cap	36.11	44.4	48.6	51.4	55.6	13.9
Small Cap	25.2	42.5	38.6	38.6	45.7	7.1

Table 11 announces the results from the Kruskal-Wallis test with size as grouping variable. With resulting W and df of two, it shows no significant p-values for any of the financial measures. This means that the first null hypothesis cannot be rejected, i.e. we cannot exclude that financial target statements in annual reports are identical in different sized companies. Hence, with an α of 0.05 we cannot conclude whether there are differences or not in financial target statements in annual reports in different sized companies. However, it displays p-values close to our level of significance for return measures, leverage measures and figures from financial statements (marked in bold in table 11). This means that these measures show less similarity than margin measures, efficiency measures and capital market measures when comparing different sizes. Therefore, if we accept a somewhat less secure result, e.g. α = 0.10, we can reject the null hypothesis for these financial target types. The conclusion will then be that there are differences in financial target setting in different sized companies. Still,

since we have chosen a level of significance of 0.05, we will not consider the p-values as significant.

Table 11. Statistics from Kruskal-Wallis Test with Company Size as Grouping Variable.

	Return Measures	Margin Measures	Efficiency Measures	Leverage Measures	Capital Market Measures	Figures from Financial Statements
W	5.372	1.078	1.986	5.607	1.809	5.083
df	2	2	2	2	2	2
p-value	**.068**	.583	.370	**.061**	.405	**.079**

5 ANALYSIS

In this chapter we analyze the results of the study further. The results are compared to previous research, and explanations of the findings are considered. First, the occurrence of financial targets is analyzed. Second, differences in industries are reflected on. Finally, the relationship between size and financial targets is evaluated.

Our study illustrates that the vast majority (80.4%) of the companies listed on Nasdaq OMX Stockholm state financial targets in their annual report. Stating financial targets are in line with the neoclassical theory. By doing so, companies strive to maximize profit. However, as Simon argues (1997), managers are subject to bounded rationality. Therefore, they cannot identify the optimal target for value maximization, and have to settle for targets they believe are most favorable. Also, more owner insight, as recognized by Bearle and Means (1947), is a way to address the agency problem. Financial targets allow owners to gain insight in what the company management strives to achieve.

The high percentage of companies stating financial targets could derive from the trend towards voluntary disclosure as Schuster and O'Connell (2006) discuss in their article. Even thought it costs money to develop voluntary disclosure, they argue that companies may benefit from it by a lower cost of capital. Åkesson (2008) also concludes a trend towards an increased use of financial targets stated in annual reports. It could also derive from an increasing awareness of corporate reputation and impression management. Companies want to state targets as a way of influencing the impression of themselves and gain legitimacy. Furthermore, Nasdaq OMX Stockholm requires that announcements containing a financial statement, such as an annual report, should state key figures. This might facilitate target setting in these ratios, since they need to be calculated and published nonetheless. Another explanation could be that, as Breda (1992) suggests, there can be targets that are considered compulsory even though not stated by law. We can presume that the dated debate in Edlund et al. (1982), about the need for more future oriented statements in annual reports, has gained acceptance.

An additional explanation why so many companies voluntarily state financial targets could be best practice benchmarking and the competition Best annual report. Many companies observe recognized annual reports and use them as a benchmark for improving their own. Due to this, many annual reports are similar. As institutional theory suggests, groups of individuals within the same institution tends to form similar standards. In our case, companies represent individuals and industries represent institutions.

There are still companies that do *not* state any financial targets (19.6%). This could be due to our exclusion of abstract financial targets. A motive for stating vague targets could be that if failing to reach them, the failure becomes less apparent. When examining the distribution of those companies that were lacking financial targets, health care were distinguished with its 46.7%. One reason might be that they are subject to intangible assets, such as R&D, and therefore have a different financial structure. This makes it difficult to measure key figures based on book values. Instead, companies in the health care sector might set other, more qualitative targets. Perhaps this is a way for them by impression management to appear as if they are social responsible rather than profit seeking. It could also be explained by stakeholder theory.

One of the discoveries we made in our study was that not many companies express figures from financial statements in their annual report. This could be due to that these are not mentioned in the FFA's classifications of financial key ratios. However, we think this is surprising, since all companies are required by law to account for these figures. Hence, it would require little effort for companies to target them.

As stated in the literature review, Mossberg (1977) concludes that return targets are one of the dominating targets. Törnqvist (1997) also found return on equity to be the dominating target. However, when we examine a larger amount of companies, return measures are not distinguished from the other measures.

The most frequent financial measures are capital market measures. The reason for this could be that dividend policy is included in this classification and as Donaldson and Lorsch (1983) conclude, the capital market, e.g. the shareholders, wants to see dividend as a target. Since the companies examined are all listed, shareholders are an important stakeholder. Therefore, companies want to act in the best interest of the shareholders, or at least project themselves by impression management as if they would. A reason for the high percentage of leverage measures in finance might be the regulations in Basel II that banks have to follow.

Since there are more targets than companies, we can conclude that some companies state more than one target. This could be explained by stakeholder theory. Some stakeholders require more or other financial targets than others. That companies have different stakeholders to consider is also suggested by Donaldson and Lorsch (1983). Also, Donaldson (1984, 1985) argues that managers have their own personal interest in consideration when deciding what targets to set. Therefore, targets addressed to the market may be combined with targets benefiting the managers.

The lack of significant differences when it comes to financial targets in different sized companies, and the occurrence of differences in different industries, could be explained by

benchmarking. This might indicate that companies compare themselves across sizes, but not across industries to the same extent. The explanation why companies do not seem to benchmark across industries might be that different industries are influenced by different stakeholders and therefore state different targets.

The conclusion of our study is contrary to the study conducted by Meek et al. (1995), who found that size was more significant than industry when examining voluntary disclosure. Although targets are voluntary disclosure, they are only a small portion of them. Therefore, our result is not completely comparable with the result of Meek et al. The same applies for the study by Cooke (1989).

6 CONCLUSIONS AND REFLECTIONS

In this chapter, the answers to the research questions are concisely presented in the conclusion and further reflections are discussed. Finally, the chapter contains suggestions for further research.

6.1 In Conclusion

The financial targets most stated in annual reports are capital market measures (EPS, dividend, and market return per share). However, leverage measures (equity ratio, debt to equity ratio, interest coverage ratio, and capital adequacy), efficiency measures (asset turnover and turnover growth), margin measures (pretax profit margin, EBITDA margin, and operating margin), and return measures (ROE, ROCE, ROWC, ROA, and ROI) are not far behind.

There are differences in financial targets in annual reports in different industries. Significant results are noted in five (return measures, margin measures, efficiency measures, leverage measures, and capital market measures) out of six target measures.

With a significance level of 0.05, we cannot answer whether there are differences or not in financial targets in annual reports in different sized companies.

6.2 Further Reflections

Since we do not consider in which way the targets are presented, we cannot presume that companies chose different ways of presentation. However, when examining the annual reports, we noticed a difference. In resemblance to the findings of Brennan et al. (2009), some companies articulated them distinctively which made them easy for us to find. Others did not articulate them as obvious and we had to search through all chapters in the annual report to find out if they had stated any targets, e.g. in one annual report the target was stated in one of their notes. We also notices that some annual reports repeated their targets and that some emphasized them more than others. Some expressed targets in a more abstract manner, such as "above industry average". This makes it more difficult to later evaluate whether the targets are met or not, which might be a way to avoid negative outcomes.

Based on the study by Aharony and Noy (2009), we believe that in the long run it is favorable for companies to focus more on growth oriented than profit oriented targets. One conjecture we make, based on previous research we have accoutered during this study, is that financial target setting is more based upon conveying external stakeholders a particular image of the company rather than actually setting the targets in purpose of striving towards them.

6.3 Suggested Further Research

For further research, we suggest studies on whether the financial targets are met or not. One can examine which targets that are most commonly achieved, and what reasons that might be due to.

As Aharony and Noy (2009) state, research is very limited when it comes to studying the impact on performance that the quantification of financial targets might have. If results from such research were to show an apparent outcome effect, this would be significant to managers in the strategic planning process.

As Meek et al. (1995) argue, companies with a wider owner base have a greater need for communicating information. Moreover, companies with a narrower owner base may not have the same need. Studies could examine if there are any differences in target setting between firms with different ownership structures.

We also suggest studies that examine in what way companies state their targets. Perhaps companies who perform better emphasize their targets to a greater extent. Research (Freedman & Jaggi, 1988; Neu et al., 1998; Cormier & Magnan, 1999) shows that large companies making either poor or good financial performance make more disclosures. However, these studies focuses on environmental disclosures, and it would be interesting to see if this result is universal and valid for financial disclosures as well.

Finally, it would be interesting to examine fewer companies in a more qualitative survey in order to gain deeper understanding of what factors influence the process of setting targets. Do managers use impression management, benchmarking and other theories mentioned, and if so, how?

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APPENDIX

Table 12. Rank of Industry Belonging.

	Industry Belonging	N	Mean Rank
Return Measures	Energy, materials and industrials	86	137.91
	Consumer discretionary and consumer staples	42	117.86
	Health care	30	96.00
	Finance	45	161.17
	Telecom and IT	52	109.57
	Total	255	
Margin Measures	Energy, materials and industrials	86	137.27
	Consumer discretionary and consumer staples	42	156.96
	Health care	30	117.50
	Finance	45	80.67
	Telecom and IT	52	136.30
	Total	255	
Efficiency Measures	Energy, materials and industrials	86	138.73
	Consumer discretionary and consumer staples	42	146.36
	Health care	30	116.00
	Finance	45	99.00
	Telecom and IT	52	127.44
	Total	255	
Leverage Measures	Energy, materials and industrials	86	137.70
	Consumer discretionary and consumer staples	42	145.39
	Health care	30	90.75
	Finance	45	146.00
	Telecom and IT	52	103.83
	Total	255	
Capital Market Measures	Energy, materials and industrials	86	132.22
	Consumer discretionary and consumer staples	42	159.61
	Health care	30	91.00
	Finance	45	127.83
	Telecom and IT	52	116.99
	Total	255	
Figures from Financial Statements	Energy, materials and industrials	86	128.33
	Consumer discretionary and consumer staples	42	125.64
	Health care	30	130.50
	Finance	45	130.50
	Telecom and IT	52	125.76
	Total	255	

Table 13. Rank of Size.

	Size of the Company	N	Mean Rank
Return Measures	Large Cap	56	139.87
	Middle Cap	72	133.54
	Small Cap	127	119.63
	Total	255	
Margin Measures	Large Cap	56	120.54
	Middle Cap	72	131.67
	Small Cap	127	129.21
	Total	255	
Efficiency Measures	Large Cap	56	130.42
	Middle Cap	72	135.48
	Small Cap	127	122.69
	Total	255	
Leverage Measures	Large Cap	56	140.08
	Middle Cap	72	135.02
	Small Cap	127	118.69
	Total	255	
Capital Market Measures	Large Cap	56	126.97
	Middle Cap	72	136.33
	Small Cap	127	123.73
	Total	255	
Figures from Financial Statements	Large Cap	56	136.27
	Middle Cap	72	131.21
	Small Cap	127	122.54
	Total	255	

Table 14. The Collected Data.

Company	Industry	Size	RM	MM	EM	LM	CMM	FFS
AarhusKarlshamn AB	2	2	1	0	1	1	1	0
AB Electrolux	1	2	0	1	0	0	1	0
AB Fagerhult	2	1	0	0	0	0	1	0
AB Geveko	3	1	1	1	0	1	1	0
AB Industrivärden	1	4	0	0	0	0	0	0
AB Novestra	3	4	0	0	0	1	0	0
AB Sagax	3	4	1	0	0	1	1	1
AB SKF	1	1	1	1	1	1	0	1
AB Traction	3	4	1	0	0	0	0	0
AB Volvo	1	1	0	1	1	1	0	0
ABB Ltd	1	1	0	0	0	0	0	0
AcadeMedia AB	3	2	0	0	0	1	0	0
Acando AB	3	5	0	0	0	0	1	0
ACAP Invest	3	1	1	0	0	0	0	0
A-Com	3	2	0	1	0	1	0	1
Active Biotech AB	2	3	0	0	0	0	0	0
Addnode AB	3	5	0	1	0	0	1	0
Addtech AB	2	1	1	0	1	0	1	0
Aerocrine AB	3	3	0	0	0	0	0	0
ÅF AB	2	1	0	1	0	1	0	1
Affärsstrategerna AB	3	4	1	0	0	0	1	0
Alfa Laval AB	1	1	1	1	1	1	1	1
Alliance Oil Company Ltd	1	1	0	0	0	0	0	0
AllTele Allmänna Svenska Telefonaktiebolaget (publ)	3	5	0	1	0	0	1	1
Anoto Group AB	3	5	0	0	0	0	0	0
Artimplant AB	3	3	0	0	0	0	0	0
Aspiro AB	3	5	0	1	1	0	0	0
ASSA ABLOY AB	1	1	0	1	1	1	0	0
AstraZeneca AB	1	3	0	0	0	0	0	1
Atlas Copco AB	1	1	0	1	1	0	0	0
Atrium Ljungberg AB	2	4	0	0	0	1	1	1
Autoliv Inc.	1	2	0	0	0	1	0	1
Avanza Bank	2	4	0	0	1	0	0	0
Axfood AB	1	2	0	1	0	1	1	0
Axis AB	2	5	0	1	1	1	0	0
B&B TOOLS AB	2	1	1	0	0	0	0	0

BE Group AB	2	1	1	1	1	1	0	0
Beijer Alma AB	2	1	0	0	0	0	1	0
Beijer Electronics AB (publ)	3	5	1	1	1	0	0	0
Bergs Timber AB	3	1	0	0	0	1	0	0
Betsson AB	2	2	0	0	0	1	0	0
Bilia AB	3	2	1	1	0	0	1	0
Billerud AB	2	1	1	1	1	1	1	0
BioGaia AB	3	3	0	1	0	0	0	0
BioInvent International AB	2	3	0	0	0	0	0	0
Biolin Scientific AB	3	3	0	1	1	0	0	0
BioPhausia AB	3	3	0	1	1	0	0	0
Biotage AB	3	3	0	1	0	0	0	0
Biovitrum AB (publ)	2	3	0	0	0	0	0	0
Björn Borg AB	2	2	0	1	1	1	1	0
Black Earth Farming Ltd	2	2	0	0	0	0	0	0
Boliden AB	1	1	1	0	0	1	1	0
Bong Ljungdahl AB	3	1	0	1	1	1	1	0
Borås Wäfveri AB	3	2	0	0	0	0	0	0
Brinova Fastigheter AB	2	4	1	0	0	1	1	0
BTS Group AB	3	1	0	1	1	1	1	0
Bure Equity AB	2	4	1	0	1	0	0	0
Cardo AB	2	1	1	1	1	0	1	0
Castellum AB	1	4	0	0	1	1	0	0
Catena AB	3	4	1	0	0	1	1	0
Cision AB	3	1	0	1	1	0	0	0
Clas Ohlson AB	2	2	0	1	1	0	1	0
Cloetta AB (publ)	3	2	0	0	0	1	1	0
Concordia Maritime AB	3	1	1	0	1	1	1	0
Connecta AB	3	5	0	1	1	1	0	0
Consilium AB	3	1	0	1	0	0	1	0
Corem Property Group	3	4	1	0	0	1	1	0
CTT Systems AB	3	1	0	0	0	0	0	0
Cybercom Group Europe AB	3	5	0	1	1	0	0	0
Dagon AB	3	4	1	0	0	1	1	0
DGC One AB	3	5	0	1	1	1	1	0
Diamyd Medical AB	3	3	0	0	0	0	0	0
Digital Vision AB	3	5	0	1	0	1	1	0
Din Bostad Sverige AB	3	4	1	0	0	1	1	0
Diös Fastigheter AB	3	4	1	0	0	1	1	0

Doro AB	3	5	0	1	0	1	0	0
Duni AB	2	2	0	1	1	0	1	0
Duroc AB	3	1	0	0	0	0	0	0
East Capital Explorer AB	2	4	0	0	0	1	0	0
Elanders AB	3	2	1	1	1	1	1	0
Electra Gruppen AB (publ)	3	2	0	1	1	1	1	0
Elekta AB	1	3	1	0	1	1	1	0
ElektronikGruppen BK AB	3	5	1	0	1	1	0	0
Elos AB	3	3	1	0	1	1	1	0
Enea AB	3	3	0	1	1	0	0	0
Eniro AB	2	2	0	1	1	1	1	0
EpiCept Corporation	3	3	0	0	0	0	0	0
Fabege AB	1	4	0	0	0	1	0	0
Fastighets AB Balder	3	4	1	0	0	1	0	0
FastPartner AB	2	4	1	0	0	1	1	1
Feelgood Svenska AB	3	3	0	0	0	0	1	0
Fenix Outdoor AB	3	2	0	1	1	0	0	0
Fingerprint Cards AB	3	5	0	0	0	0	0	1
G & L Beijer AB	2	1	1	0	1	1	1	0
Getinge AB	1	3	0	1	1	0	0	1
Global Health Partner	3	3	0	1	1	0	0	0
Gunnebo AB	2	1	1	1	1	1	1	0
H & M Hennes & Mauritz AB	1	2	0	0	1	0	1	0
Hakon Invest AB	1	2	1	0	0	1	1	0
Haldex AB	2	1	1	1	1	0	0	0
Handelsbanken	1	3	0	0	0	1	0	0
Havsfrun Investment AB	3	4	0	0	0	0	0	0
HEBA Fastighets AB (publ)	2	4	0	0	0	1	1	0
Hemtex AB	2	2	0	1	1	1	1	0
Hexagon AB	1	1	1	1	1	1	0	0
HEXPOL AB	2	1	0	1	1	0	1	0
HiQ International	2	5	0	1	1	0	1	0
HL Display AB	3	1	0	1	1	0	1	0
HMS Networks AB (publ)	3	5	0	1	1	0	1	0
Höganäs AB	2	1	1	1	1	0	0	0
Holmen AB	1	1	0	0	0	1	1	0
HQ AB	2	4	0	1	1	1	1	0
Hufvudstaden AB	1	4	0	0	0	1	1	0
Husqvarna AB	1	2	0	1	1	0	1	0

Industrial and Financial Systems, IFS AB	2	5	1	1	0	0	1	1
Indutrade AB	2	1	1	1	1	1	1	0
Intellecta AB	3	1	0	0	0	0	0	0
Intoi AB (publ)	3	5	0	0	0	0	1	0
Intrum Justitia AB	2	1	1	0	1	1	0	0
Investment AB Kinnevik	1	4	1	0	0	0	0	0
Investment AB Latour	1	4	1	1	1	0	0	0
Investment AB Öresund	2	4	0	0	0	0	0	0
Investor AB	1	4	1	0	0	0	1	0
ITAB Shop Concept	2	1	1	0	1	1	1	0
Jeeves Information Systems AB	3	5	0	1	1	0	0	0
JM AB	2	2	0	1	0	1	1	0
Kabe AB	3	2	0	1	1	0	1	0
KappAhl AB	2	2	0	1	0	1	1	0
Karo Bio AB	3	3	0	0	0	0	0	0
Klövern AB	2	4	1	0	1	1	1	0
Know IT AB	3	5	0	1	1	0	0	0
Kungsleden AB	2	4	1	0	0	1	0	0
Lagercrantz Group AB	3	5	1	0	1	0	1	0
Lammhults Design Group AB	3	1	1	1	1	1	1	0
LBI International AB	2	5	0	1	0	0	0	1
L E Lundbergföretagen AB (publ)	1	4	0	0	0	0	0	0
Ledstiernan AB	3	4	1	0	0	0	0	0
Lindab International AB	1	1	0	1	1	1	1	0
LinkMed AB	3	4	1	0	0	0	0	0
Loomis AB	2	1	0	1	0	0	1	1
Lundin Mining Corporation	1	1	0	0	0	0	0	0
Lundin Petroleum AB	1	1	0	0	0	0	0	0
Luxonen S.A.	3	4	0	0	0	0	0	0
Malmbergs Elektriska AB (publ)	3	1	0	0	0	0	1	0
Meda AB	1	3	0	1	0	0	0	0
Medivir AB	3	3	0	0	0	0	0	0
Mekonomen AB	2	2	0	0	1	0	0	0
Melker Schörling AB	1	4	0	0	0	1	1	0
Metro International S.A.	3	2	0	0	0	0	0	0
Micronic Mydata AB (publ)	3	5	0	1	0	1	0	0
Midelfart Sonesson AB	3	2	0	0	1	1	1	0
Midway Holding AB	3	1	0	0	0	1	0	0
Millicom International Cellular S.A.	1	5	1	1	0	0	0	0

Mobyson AB	3	5	0	0	0	0	0	0
Modern Times Group MTG AB	1	2	1	1	1	0	0	1
Modul 1 Data AB	3	5	0	0	1	0	0	0
Morphic Technologies AB	3	1	0	0	0	0	0	1
MSC Konsult AB	3	5	0	0	0	0	0	0
MultiQ International AB	3	5	0	0	0	0	0	1
Munters AB	2	1	0	1	1	0	1	0
NCC AB	1	1	1	0	0	1	1	1
Nederman Holding AB	3	1	0	1	1	1	1	0
Neonet	2	4	0	0	0	0	0	1
Net Entertainment NE AB	3	5	0	1	1	0	1	0
Net Insight AB	2	5	0	0	0	0	0	0
NetOnNet AB	3	2	1	1	1	0	1	0
New Wave Group AB	2	2	0	1	1	1	1	0
Nibe Industrier AB	2	1	1	1	1	1	1	1
Niscayah Group AB	2	1	0	0	0	0	0	0
Nobia AB	2	2	0	1	1	1	1	0
Nolato AB	3	5	1	1	1	1	1	0
Nordea Bank AB	1	4	1	0	0	1	1	1
Nordic Mines AB (publ)	3	1	0	0	0	0	0	0
Nordic Service Partners Holding AB (publ)	3	2	0	1	1	1	0	0
Nordnet AB	2	4	0	0	1	0	0	1
NOTE AB	3	5	1	0	0	1	1	0
Novacast Technologies AB	3	1	0	0	0	0	0	0
Novotek AB	3	5	0	1	1	0	1	0
OEM International AB	3	1	1	0	1	1	0	0
OPCON AB	3	1	0	0	1	0	0	1
Orc Software AB	2	5	0	0	0	0	1	0
Orexo AB	3	3	0	0	0	0	0	0
Oriflame	1	2	0	0	1	0	1	0
Orvitus AB	3	3	0	0	0	0	0	0
OXiGENE, Inc.	3	3	0	0	0	0	0	0
PA Resources AB	2	1	0	0	0	0	0	0
PartnerTech AB	3	5	1	1	1	1	0	0
Peab AB	2	1	1	0	0	1	1	0
Phonera AB	3	5	1	1	1	1	1	0
Poolia AB	3	1	0	0	0	0	1	0
Precise Biometrics AB	3	5	0	0	0	0	0	0
Prevas AB	3	5	0	0	0	0	1	0

Pricer AB	3	5	0	0	0	0	0	0
Proact IT Group AB	3	5	0	0	0	0	1	0
Probi AB	3	3	0	1	1	0	1	1
Proffice	3	1	0	1	0	0	1	0
ProfilGruppen AB	3	1	1	1	0	1	0	0
PSI Group	3	5	0	1	1	0	0	0
Q-Med AB	2	3	0	0	0	0	0	0
Ratos AB	1	4	1	0	0	0	0	0
Raysearch Laboratories AB	3	3	0	0	0	0	0	0
ReadSoft AB	3	5	0	0	1	0	0	0
Rederi AB TransAtlantic	3	1	1	0	1	1	1	0
Rejlerkoncernen AB	3	1	0	1	1	1	1	0
Rezidor Hotel Group	2	2	0	1	0	0	1	0
RNB RETAIL AND BRANDS AB	3	2	0	1	1	1	1	0
Rörvik Timber AB	3	1	1	1	1	1	1	0
Rottneros AB	3	1	0	0	0	0	1	0
Saab AB	1	1	1	1	1	1	1	0
SäkI AB	2	4	1	0	1	1	0	0
Sandvik AB	1	1	1	0	1	1	1	0
SAS AB	2	1	0	1	0	1	0	0
Scania AB	1	1	0	0	0	0	0	0
SEB	1	4	1	0	0	1	1	0
Seco Tools AB	1	1	1	1	1	1	1	0
Sectra AB	2	3	0	1	1	1	1	0
Securitas AB	1	1	0	0	1	0	1	1
Semcon AB	3	1	0	1	0	1	1	0
Sensys Traffic AB	3	5	0	0	0	0	0	0
Sigma AB	3	5	0	0	0	1	0	0
SinterCast AB	3	1	0	0	0	0	0	0
Skanska AB	1	1	1	1	1	0	0	0
SkiStar AB	2	2	1	1	1	1	1	0
Softronic AB	3	5	0	0	0	0	1	0
SSAB AB	1	1	1	0	0	1	1	0
Stora Enso Oyj	1	1	0	0	0	1	0	0
Studsvik AB	3	1	0	1	1	1	1	0
Svedbergs i Dalstorp AB	3	1	0	0	0	0	0	0
Svenska Cellulosa Aktiebolaget, SCA	1	1	1	0	1	1	1	0
Svolder AB	3	4	0	0	0	1	1	0
SWECO AB (publ)	2	1	0	1	0	0	0	0

Swedbank	1	4	1	0	1	1	1	0
Swedish Match AB	1	2	0	0	0	1	1	0
Swedol AB	3	2	1	1	1	1	1	0
Systemair	2	1	0	1	1	1	1	0
Technology Nexus AB	3	5	0	0	0	0	0	0
Tele2 AB	1	5	0	0	0	0	0	0
Telefonaktiebolaget LM Ericsson	1	5	0	0	1	1	0	0
TeliaSonera AB	1	5	0	0	0	0	1	0
Ticket Travel Group AB	3	2	1	1	1	0	1	0
Tieto	1	5	0	1	1	1	1	0
Tilgin AB	3	5	0	0	0	0	0	0
TradeDoubler AB (publ)	2	5	0	0	0	0	0	0
Transcom WorldWide S.A.	2	1	0	0	0	0	0	0
Trelleborg AB	1	1	1	1	1	1	0	1
Tricorona AB	3	1	0	0	0	0	0	0
Unibet Group Plc	2	2	1	0	0	1	1	1
Uniflex AB	3	1	0	1	1	1	1	0
VBG GROUP AB	2	1	0	0	1	1	0	0
Venue Retail Group AB	3	2	0	1	0	1	1	0
Vitrolife AB	3	3	0	0	1	1	1	1
Vostok Nafta Investment Ltd	2	4	0	0	0	0	0	0
Wallenstam AB (publ)	2	4	1	0	0	1	1	0
Wihlborgs Fastigheter AB	2	4	1	0	0	1	1	0
XANO Industri AB	3	1	0	1	0	1	1	0