GÖTEBORGS UNIVERSITET
HANDELSHÖGSKOLAN

Family Firms and Disclosure Tone

- A quantitative study on the impact of family ownership on disclosure tone

FEG313 Bachelor Thesis in Business Administration, Accounting
Spring Semester 2015

Authors:
Jacob Carlsson 88
Karin Sörenson 90

University:
School of Business, Economics and Law at the University of Gothenburg

Supervisors:
Emmeli Runesson
Niuosha Samani

Acknowledgements

Thank You!

We would like to thank our supervisors for introducing us to the choice of subject in this thesis. Further, your time and input along the way have been invaluable to us.

We would also like to thank Mattias Sundén for his kind and always instant guidance on statistical matters.
Finally, we would like to direct a special thank you to Emilia Sörensson for always taking the time to support, listen and discuss the thesis and for her guidance in Microsoft Excel.

Gothenburg, May 2015

Jacob Carlsson

Karin Sörensson

Abstract

Thesis: A bachelor thesis within Business Administration at The School of Business, Economics and Law at the University of Gothenburg, the Department of Accounting, spring semester 2015.

Title: Family Firms and Disclosure Tone – *A quantitative study on the impact of family ownership on disclosure tone*

Authors: Jacob Carlsson and Karin Sörensson
Supervisors: Emmeli Runesson and Niuosha Samani

Background: Qualitative disclosures in annual reports, i.e. disclosure narratives, such as the CEO-letter, are important complements to the quantitative aspects of corporate disclosure. How readers perceive the narrative information, and thereby how they perceive the firm's performances and image, may influence investors' business decisions. Since there are few or no explicit rules as to what narrative disclosures should cover and how it should be written, firms have the possibility to influence the readers perception through *tone management*. If a family holds a high degree of voting shares in a firm, it can obtain and maintain considerable control and may thereby also have the ability to influence disclosure practises.

Purpose: The purpose of this study is to test whether there is a correlation between the degree of family ownership in terms of voting rights and the tone used in the disclosure narratives. Furthermore, the study seeks to test if having a family member as CEO and/or chairman of the board affects the tone used. By testing for these correlations, this thesis seeks to investigate if family ownership has an impact on the tone used in disclosure narratives and thereby tell if family firms are more or less inclined to use tone management.

Delimitations: The scope of this study focuses on the annual reports of 100 companies noted on the Swedish stock exchange, Nasdaq OMX Stockholm. This thesis concerns the narrative parts of the annual reports, more specifically the CEO-letter. The annual reports studied are from the year of 2013 and published in Swedish.

Methodology: This thesis takes on a quantitative approach. Tone in CEO-letters have been quantified through word counts based on positive and negative words occurring in a pre-set wordlist. The firms studied have been dichotomously segmented into family and non-family firms and further divided into two groups; (1) family firms where a member of the controlling family holds the position as CEO and/or chairman of the board, and (2) non-family firms or family firms without a family member as CEO and/or chairman.
The hypotheses have been tested through statistical tests of differences and correlation.

Findings and Conclusions: The empirical results indicate no statistically significant correlation between the degree of family ownership and tone in CEO-letters. However, the results suggest a tendency for firms that are considered family firms to present a slightly less positive tone than non-family firms do. Furthermore, when a member of a controlling family serves as CEO or chairman of the board, the tone used in the CEO-letter tends to decline further. Although the empirical evidence of the associations were not statically significant, a different definition of family firms or a larger sample may change the outcome of the tests and thus, further research is therefore necessary in order to make a general conclusion on the impact of family ownership on disclosure tone.

Keywords: Disclosure tone, family firms, tone management, disclosure narratives, entrenchment

Table of Content

1. Introduction

This section presents the background of this bachelor thesis.
The purpose of the thesis will be presented, followed by the delimitations of the study.
In addition, the relevance of the study will be accounted for and an outline of the thesis will be provided.

1.1 Background

Corporate disclosure is a fundamental part of decision making in all markets; analysts base most of their analysis, forecasts and recommendations on information provided directly by the firms themselves, hence making corporate disclosure essential to analysts and by extension the stakeholders and their reactions to the market (Lang & Lundholm, 1996).

In this thesis, we define corporate disclosure as companies sharing all relevant information that may influence stakeholders' view on the company's performance and, in extension, their decisions made based on the information given. Corporate disclosure comes in many forms; annual reports, interviews and press releases. What information is shared and how it is presented, hence the quality of the corporate disclosure, is of great importance for decisions such as whether investors should buy, hold or sell shares. Even though there are regulations to what minimum disclosure firms have to provide, there is little regulation on additional information and the narrative parts of annual reports (Lang & Lundholm 1996).

For the *financial reporting* to be of use, and making investing as fair as possible, the information must be in accordance with the fundamental qualitative characteristics; that is the information shared must be relevant and faithfully represented (Marton et. al, 2012).
In turn, for the *narrative disclosures* to be of use, it must faithfully represent the underlying quantitative information it is supposed to be a complement to.
Nevertheless, although disclosure regulations provide some rules on what is to be disclosed in narratives, the wording on the disclosure is arbitrary (Henry, 2008).

This brings us to the importance of *tone* in the information provided; as the old saying goes "it is not *what* you say it's *how* you say it". Tone regards the general affect perceived in communication, in other words the general feeling the reader perceives from the text, distinguished in positive or negative emotions (Henry, 2008).
Tone affects how the recipients respond to the information given; the same information can be interpreted and acted on differently depending on the tone the information was given in. Accordingly, *disclosure tone* can be used as a tool by firms to influence perceptions and reactions of investors (Huang et. al, 2014). Given the impact of tone on investors' reactions, firms may have incentives to use tone as a tool to either hype or depress the firm's performance and image; that is, using an abnormal positive or negative tone in the information shared. The phenomenon of firms using a tone in their qualitative disclosure that is unequal to their underlying quantitative information is referred to as *tone management* (Huang et. al, 2014). Tone management is a form of *impression management* and constitutes an important field of research given its potential negative impact on disclosure quality, leading to misallocations of resources (Brennan & Merkl-Davies, 2013).

Tone in disclosure may vary among firms, but for different or unknown reasons. It is not known to what extent the structure of ownership has an impact on the disclosure tone. Since family firms generate 70-90% of global GDP annually, the potential influence of family ownership on disclosure is of importance (Family Firm Institute 2008). Given families' impact on the economy, researchers may reach fallacious and/or insufficient conclusions by not accounting for the family dimension in accounting research (Prencipe et. al, 2014).

In Sweden, there is a high concentration and a long tradition of firms having a concentrated ownership structure. This ownership concentration is often a consequence of firms being to a high degree family owned (from here on referred to as family firms) (Cronqvist & Nilsson, 2003). An important aspect of this is that families can maintain control of a firm through owning dual class shares; holding a high degree of voting rights and a low degree of cash flow rights. Given their high degree of voting rights, families gain control and thus influence over the firm. Within family firms it is also common for family members to hold key positions such as CEO or chairman of the board, further enhancing the family's control over the firm. Due to the family's considerable influence, one can suppose that the family ownership might also have an impact on disclosure practises; what is disclosed and how it is presented (Samani, 2015; Cronqvist & Nilsson, 2003). These characteristics make the impact of family ownership an interesting and potentially important field of study.

Previous studies have suggested that family firms differ in characteristics from non-family firms. These differences have been explained differently in various studies; some studies suggest that family firms are exposed to different kind of agency problems whilst other studies argue that the differences of family firms are due to a more stewardship-like behaviour occurring in these firms (Prencipe et. al, 2014). Therefore, the impact of family ownership on disclosure can be examined through *agency theory* and *stewardship theory;* both presented in the literature review (see section 2.3 & 2.4).

In summary; families with a high degree of ownership in terms of voting rights can be assumed to enjoy a significant influence over the firm, which may be directed towards the firm's disclosure practises. The explanation for whether this potential influence is put into action, and reflected in disclosure through tone management, may differ depending on the theory (agency or stewardship) applied.

1.2 Research Purpose

As mentioned above, the potential influence of family ownership on corporate disclosure may be an important aspect to accounting research.

The purpose of this study is to test whether there is a ***correlation between the degree of family ownership in terms of voting rights and the tone used in the disclosure narratives.*** Furthermore, the study seeks to ***test if having a family member as CEO and/or chairman of the board affects the tone used.*** By testing for these correlations, this thesis seeks to investigate if family ownership has an impact on the tone used in disclosure narratives and thereby tell if family firms are more or less inclined to use tone management.

The thesis seeks to identify if there are differences in tone between firms with a high degree of family ownership and those with low, and furthermore, if having family members as CEO and/or chairman of the board affects the tone. If any differences exist, this thesis aims to provide possible explanations as to why this may be. By doing so, this thesis aims to create further awareness on the impact of family ownership on disclosure.

1.3 Delimitations

In order to make our study practicable, following delimitations have been decided:

* Due to the tradition and high concentration of firms being family owned in Sweden, we have decided to focus our study on firms noted on the Swedish stock exchange. This also provides a distinctive delimitation of firms.

* The sample size studied consists of 100 companies noted on the Swedish stock exchange, Nasdaq OMX Stockholm AB. The companies are listed on either the large or mid-cap list.

* The performance (e.g. earnings ratios) of the companies selected will not be taken into account in this study since this study does not intend to investigate all possible factors that may influence the tone used in narratives, only the potential impact of family ownership.

* Although firms disclose information through several channels (“vehicles”) such as press releases, interviews and quarterly statements, we have decided to study the *annual reports*.

* We have further narrowed our scope to study the *CEO-letter* within the annual reports since this is a descriptive narrative part where there might be incentives for the firm to influence the reader through linguistic choices.

* The companies selected must have an annual report of the year 2013 published in Swedish.

1.4 Relevance of the Study and Potential Contribution

Previous research has been performed in our field of study. All of the components essential to our thesis have been studied previously, however separately or in other combinations than applied in this thesis. *Impression management* as a phenomenon has been studied (e.g. Brennan & Merkl-Davies, 2013) as well as *tone* and the management thereof (e.g. Huang et. al, 2014). Although the field of family firms and the *impact of family ownership* is relatively young and emerging, it has been a research area of interest since the 1980’s (Prencipe et. al, 2014; Miller et. al, 2013).

Despite the research mentioned above, our scope of study is unique. We have found no previous research on the specific correlation between family ownership and the occurrence of impression management (in terms of tone) in narrative disclosures.
This makes our study a potentially important contribution to the aspect of family ownership impact.

1.5 Outline of Thesis

The ***introduction*** will present the background of this bachelor thesis. The purpose of the thesis will be presented, followed by the delimitations of the study. In addition, the relevance of the study will be accounted for and an outline of the thesis will be provided.

The ***literature review*** will present the existing theories, information and knowledge relevant to the scope of this thesis. First, the theory of impression management and its subordinate branch tone management is presented. Second, different approaches to define family firms are presented, followed by different theories and additional aspects relevant to explore family firms within our chosen scope. This section will provide a comprehensive view of the studied phenomenon and serve as basis for the subsequent analysis.

The section ***hypotheses development*** will present the hypotheses developed from the research questions posed based on the aforementioned literature review. The hypotheses represent the expected associations of variables in the empirical study and constitute the base on which the empirical tests will be executed.

The ***methodology*** will present the methods used throughout this thesis in order to fulfil its purpose. First, the research approach adopted is accounted for, followed by the research methods used to collect our sample, define family firms and family. Second, methods used to select a narrative and how to account for family members in key positions are presented. Finally, the method for quantifying tone and the statistical tests used for the empirical study are accounted for. The methods will be motivated and limitations will be accounted for. This section aims to provide a comprehensive view of how the research of this thesis has been executed and enable the reader to assess the validity and reliability of the study.

The section of ***empirical study and results*** will account for the statistical tests executed and the results derived from them. General descriptive statistics will be accounted for, and the results of tests conducted to determine differences and investigate correlations will be presented. The findings in this section will be used in the subsequent analysis.

The ***analysis and discussion*** will provide a discussion on the findings from the empirical study with regards to the research purpose. The results from the statistical tests will be put together with the existing information accounted for in the literature review in order to validate or reject the hypotheses set up for this study.

The section of ***concluding remarks*** will present the conclusions drawn from the empirical results and the analysis. Through the conclusions, the hypotheses will be validated or rejected and the research questions and purpose will be answered. Additionally, suggestions for further research will be presented. The suggestions are based on potential limitations of this study and potentially interesting areas within the field.

2. Literature Review

This section presents the existing theories, information and knowledge relevant to the scope of this thesis. First, the theory of impression management and its subordinate branch tone management is presented. Second, different approaches to define family firms are presented, followed by different theories and additional aspects relevant to explore family firms within our chosen scope. This section will provide a comprehensive view of the studied phenomenon and serve as a basis for the subsequent analysis.

2.1 Impression Management

According to the Oxford dictionary of media and communication *impression management* is defined as *"the various ways in which people seek to influence the impressions formed by others"*. Although widely used in psychological theories and studies on individuals, it can be interpreted into organisations (Oxford University Press, 2011). Put in a corporate context, impression management refers to organisations intentionally influencing their audience (stakeholders) through the construction of a certain impression in disclosure. The construction of impression may consist of firms either obfuscating negative news and performances by the firm in order to alter the reader's impression of it or, intensifying statements on positive outcomes in order to hype it. The impression constructed by the firm may lead stakeholders to fallacious decisions and misallocation of resources (Brennan & Merkl-Davies, 2013).

Impression management is carried out through different *"vehicles"* such as annual reports, press releases and conference calls. Accounting narratives are often the target of impression management since there are no explicit rules for how to word what is being disclosed, making the construction thereof easier to shape (Brennan & Merkl-Davies, 2013).

According to Brennan & Merkl-Davis (2013) impression management in the field of accounting research (thus in a corporate context) can be differentiated into 4 main perspectives:
(i) Economical, ***(ii) psychological***, ***(iii) sociological***, and ***(iv)critical***.
Although considered to be a rather narrow view of impression management, the economical and psychological perspective are dominating the field and are also the ones of greatest importance to this study. These two perspectives take in consideration a narrower scope of stakeholders influenced by the companies' impression management (Brennan & Merkl-Davis, 2013). The stakeholders considered (the organizational audiences) within these two prominent perspectives are investors, lenders and financial intermediaries. Whereas non-financial stakeholders and the socio-political contexts are ignored within the economical and psychological perspective, these wider social and political aspects are accounted for within the sociological and critical perspectives (Brennan & Merkl-Davies, 2013).

Depending on the perspective adopted, the impression management manifests itself in different forms; *reporting bias, self-serving bias, symbolic management/decoupling* and *ideological bias* (Brennan & Merkl-Davies, 2013). Since only two of the four perspectives are essential to this study, only the characteristics of these two (economical and psychological) will be accounted for below:

(i) The Economical Perspective (reporting bias)
The economical perspective has an investment approach and is first and foremost concerned with managing *shareholders' perceptions* of the financial performance.
Impression management in an economical perspective is conceptualized through *reporting bias* arising from information asymmetries, thus being strongly linked with agency theory (see section 2.3) and its assumptions. Due to the agency related opportunistic behaviour, managers manipulate the impression given in disclosure through valence and tone; emphasising positive and obfuscating negative performances (Brennan & Merkl-Davies, 2013).
Godfrey et. al, (2003:96) define reporting bias as *"selecting the information to display and presenting that information in a manner that is intended to distort readers' perceptions of corporate achievements"*.

(ii) The Psychological Perspective (self-serving bias)
Unlike the economical perspective, the psychological perspective takes *social relations* into consideration in the view of managers. Managers are concerned with others' evaluation of their performance and therefor use *self-serving bias;* seeking to win awards and avoid sanctions for actions they have undertaken (Frink & Ferris, 1998). *Self-serving bias* manifests itself through managers claiming responsibility for good performances and denying it for bad, blaming failures on external factors, such as political circumstances, instead (Aerts & Cheng, 2011).

When adopting the economical and psychological perspective, there are several categories of analysis. Various *communication choices* may be used to manage impressions in narrative parts of corporate reports (Brennan & Merkl-Davies, 2013).
In disclosure narratives, such as the CEO-letter, this may be done by the use of tone.
Tone in disclosure narratives does not only refer to the words chosen (i.e. positive or negative) but also the content chosen (Henry, 2008).
However, tone is just one of several possible ways to practise impression management in narrative accounting. Merkl-Davies and Brennan (2007) list seven communication choices to implement impression management. Out of these seven, the *thematic manipulation* is the one of interest for this study, which is why the other six choices are only mentioned and not further explored below:

(1) *Thematic manipulation* refers to the understating of bad or overstating of good news in the disclosure narratives in terms of tone; themes emphasised and words chosen to describe it. The phenomenon of firms using a tone in their qualitative disclosure that does not faithfully represent their quantitative information is referred to as *tone management* (Huang et. al, 2014). Using tone to manage the impression of narratives is essential to this study and therefore presented further in section 2.1.1.

The other communication choices for implementing impression management are:
(2) *Reading ease manipulation*, (3) *Rhetorical manipulation*, (4) *Visual and structural manipulation*, (5) *Performance comparison*, (6) *Choice of earnings number (selectivity)* and (7) *Attribution*.

2.1.1 Tone Management and Disclosure Tone

One crucial tool to influence readers' impressions of narrative parts of annual reports is by the use of tone. Tone is classified as a form of *thematic manipulation* (see section 2.1; communication choice 1) in the field of impression management; making tone management a subordinate branch of impression management theory (Merkl-Davies & Brennan, 2007). *Tone* regards the general affect perceived in communication, in other words the general feeling the reader perceives from the text distinguished in positive or negative emotions (Henry, 2008). Accordingly, tone is essential to how a message is perceived by the readers and how they respond to it; "it's not what you say, it's how you say it" (Huang et. al, 2014). The narrative parts are supposed to function as a complement to the information disclosed in the quantitative parts of annual reports; thereby helping the reader to process and encode the information given, and possibly contributing with further information in order to paint the full picture. In order to get that picture to faithfully represent the underlying reality, it is important that the narrative disclosure actually is in congruence with the underlying fundamentals and does not seek to skew it in a positive nor negative direction.
When tone is used to make the qualitative disclosure unequal to the underlying quantitative information to which it refers, it is known as *tone management* (Huang et. al, 2014).

The nature of narrative disclosure can be seen as dual. It is *promotional* in the sense that the firm's perceived image can be influenced by the tone chosen, but can also be seen as *informational*, giving the managers an opportunity to improve the reader's understanding (Henry, 2008; Huang et. al 2014). The disclosure narratives constitute an unregulated window since there are no or few (depending on which narrative) explicit rules regarding what is to be disclosed and how. This poses an opportunity for the firm to affect readers through tone management, since words are much more elastic than numbers and harder to regulate (Huang et. al, 2014; Lang & Lundholm, 1996; Henry, 2008). Management of tone regards the words as well as the content chosen. By using positive words to describe a performance, as well as choosing to focus disclosure to performances with positive outcomes, an overall positive tone can be achieved (Henry, 2008).

As previously mentioned, the words chosen affect the tone and thereby the reader's impression of the text. Henry (2008) has made a classification of words frequently used in financial domains, denoting them as either positive or negative. These words have been put together in a wordlist (*see Appendix 1*) custom made for financial domains that is used as a tool to analyse if texts are excessively positive or negative. Positive wording can be used to hype the firm's performance and image whilst negative wording on the contrary can be used to depress it (Li, 2008). There are several positive/negative wordlists available for measuring tone in disclosure narratives for example Loughran & McDonald (2011). It should be noted, however, that these wordlists are all adapted to a financial context. In order to analyse the tone perceived by individuals in a non-financial context, general wordlists may be more suitable (Rogers et. al, 2011).

The occurrence of an optimistic tone in disclosure narratives have been proven to correlate with firm performance (Henry, 2008). Thus, the mere presence of positive words in accounting narratives does not necessarily indicate tone management. Based on this, it has been argued that research should distinguish normal positive tone from abnormal, in order to not jump to fallacious conclusions (Rogers et. al 2011).

It should be noted that tone to some extent is associated with *risk*, both in terms of litigation and credibility (Rogers et. al, 2011; Rahman, 2012). The results provided by Rogers et. al (2011) in the article *"Disclosure tone and shareholder litigation"* show that optimistic language is a greater target for litigation. They find that the statement quotes leading to shareholder litigation are the ones that are the most optimistic. Accordingly, they suggest that managers therefore can reduce litigation risk by dampening the tone through cutting back on the use of positive language and optimistic statements in disclosure narratives (Rogers et. al 2011). Furthermore, if tone management is applied in accounting narratives and stakeholders recognize that they have been misled, the firm's image and reputation can suffer severe damages (Rahman, 2012).

Due to the narrative disclosure being an easy target for tone management and subject to interpretation, there is an ongoing debate as to whether qualitative statements should be considered as a material statement of fact at all. Because of its very nature it has been questioned whether the narrative parts instead should be considered as fully promotional rather than informational (Rogers et. al, 2011).

2.2 Definition of Family Firms

Ever since the first article on family firms was published, various definitions of what constitutes a family firm have been argued. To this day, the debate continues and researchers have not yet settled on a "one best way" to define a family firm. The family's involvement in the firm has been a key factor in the search for the definition of family firms. Two main approaches to defining family firms have arisen from previous research; the *involvement approach* and the *essence approach* (Prencipe et. al, 2014).

The *involvement approach* stresses the family's involvement through their ability to impact the firm's direct goals, strategies and behaviours (Miller et. al, 2013).
To determine the family's involvement, proxies such as degree of family ownership, family involvement in management or family involvement in the governance of the firm are used (Deephouse & Jaskiewicz, 2013).

The alternative approach for identifying family firms is the *essence approach*, which is even further concerned with the impact family involvement has on shaping the firm. The approach recognizes family involvement as a requirement, but does not, unlike the involvement approach, find the mere presence of family involvement sufficient to distinguish family firms from non-family firms. Even if two firms have the same degree of family involvement, the effects from it may differ between them in terms of vision, culture, values, goals and behaviours (Deephouse & Jaskiewicz, 2013).

Up until now, it has been, and still is, common to distinguish family firms from non-family firms through the use of *dichotomous segmentations*.
With a dichotomous segmentation, a clear distinction is made to separate family firms from non-family firms based on a specific criteria or proxy (Prencipe et. al, 2014).

According to Prencipe et. al (2014) examples of these segmentation criteria may be the role of family in management/strategic control, family members involvement in every day operations or family ownership. Each of these examples are further conceptualized differently in different definitions of family firms. For instance, if *"family ownership"* serves as a criteria for dichotomous segmentation, this may be defined in several alternative ways; the family as the largest owner, a certain degree of family ownership over all, or the family owning the majority of voting shares.

However, it has been argued that a family doesn't need to own the majority of voting shares (>50%) in order to establish control over the company. Faccio and Lang (2002) argue that a family will enjoy sufficient control with a possession of 20% of the voting shares. Due to the fact that minority shareholders rarely all practise their voting rights simultaneously, a family with a 20% possession will gain and retain significant control over the company and its practises.

Although criticism has been directed towards dichotomous approaches; arguing that it is a segmentation based on far too many generalizations since family firms are very heterogeneous, dichotomous segmentations are still frequently used in empirical studies (Prencipe et. al, 2014). The alternative to the dichotomous segmentation of firms into family and non-family would be to determine their level of family influence according to a *continuous scale*. An example of this would be the "Family Power Experience Culture Scale" (F-PEC scale). The scale provides a score for each dimension, adding up to a measure of family influence (Astrachan et. al, 2002).

A further implication when defining family firms is what constitutes a "family" in this specific context. The definition provided by Faccio and Lang (2002) states that a family is: *"A family (including an individual) or a firm that is unlisted on any stock exchange."* They account for unlisted firms as family due to the fact that unlisted firms usually are closely held by a family, making it family control by extension (Faccio & Lang, 2002). This definition serves as a basis for the definition of family firms used in this thesis, but with a minor alteration (see section 4.2.2).

The impact family ownership has on disclosure can be examined through *agency theory* and *stewardship theory*. The characteristics of family firms differ from those in non-family firms due to the presence of interaction and integration between family life and business life. These conditions make it somewhat unclear as to which of the theoretical frameworks (agency or stewardship) should be applied when exploring the impact of family ownership (Habbershon & Williams, 1999).

2.3 Agency Theory

The *agency theory* was developed by Jensen & Meckling in 1976. The theory focuses on the relationships between principals and agents. They define the agency relationship as *"a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent"* (Jensen & Meckling, 1976, pp. 308).
An example of this kind of relationship is an employer-employee situation, where the employer is the principal, and the employee is the agent. The employee is thereby employed with the purpose of carrying out the goals set by the employer. Another example of this relationship is when a CEO is appointed by the board of directors to lead a company on behalf of the shareholders.

A fundamental point of view within agency theory is that *information asymmetry* exists between the principal and the agent (Eisenhardt, 1989). Listed companies today may have multiple owners who have contributed with capital when they have bought stock, and these owners might in turn own shares in several different companies. All of these companies have a CEO, who of course has more information than any external shareholder in respect of the company. Certainly, it is difficult for any external shareholder to amass the same amount of information that the CEO has about the company, thus leading to information asymmetry between the principal and the agent (Eisenhardt, 1989).

Agency theory argues an *individualistic organisational culture*, where both the principal and the agent are assumed to be acting with self-interest and seeking ways to maximize their own utilities, without any regards to personal relationships (Davis et. al, 1997; Triandis, 1995). When the self-interest causes the goal of the agent to differ from the goal set by the principal, an *agency conflict* arises. Accordingly, a prominent problem that the theory addresses is the incongruence of the principal's and the agent's goals (Eisenhardt, 1989). To mitigate the conflicts of interest, measures must be taken by the principal to motivate the agent to align its objectives with the principal's as much as possible. Agency theory argues that motivation is driven by *extrinsic factors* such as monetary and/or tangible rewards (Davis et. al, 1997).

There are two types of *agency conflicts* (also known as *agency problems*).
Type I is concerned with the *incongruence of goals* and interests between shareholders and managers and stems from the separation of ownership and management, causing *opportunistic behaviour* by the agent. This is referred to as the *alignment problem* (Prencipe et. al, 2014). The idea is further based on the presumption that the agents will act with self interest in the sense that they are presumed to be individualistic and opportunistic. Agents will act according to their own self-interest and towards their own goals instead of acting in the way which is intended, that is, in the direction and towards the goals that the principal actually hired the person for. Hence, the problem that arises is a goal incongruence between the principal and the agent (Eisenhardt, 1989).

Agency problems of *type II* refer to conflict of interest among owners; that is, a principal-principal agency problem arises (Prencipe et. al, 2014). The conflict of interest between shareholders arises because of the possibility for the controlling shareholders to take actions in a self-serving purpose, leaving the other shareholders' utility affected negatively (Gilson &

Gordon, 2003). This second type of agency problem is also known as *entrenchment* and refers to corporate resources being misallocated to benefit controlling shareholders at the expense of the minority shareholder (Morck et. al, 2005; Ali et. al, 2007).
The entrenchment effect arises from large shareholding (Claessens et. al, 2002).

Jensen & Meckling and Stulz argue two sides of the occurrence of entrenchment. According to Jensen & Meckling (1976), large shareholders have *less* incentive to take actions for private benefits of control, while Stulz (1988) states that the large shareholders have *more* incentive to take such actions, since they are the ones with the freedom to do so, due to their higher degree of control. Type of agency problems differ in family firms from those in non-family firms (Ali et. al 2007), which will be discussed further under section 2.5.

2.4 Stewardship Theory

Researchers in psychology and sociology have over the years directed criticism towards the underlying assumptions of man in the principal-agent theory. Researchers argue that the assumption of man as a self-serving, opportunistic and rational being, ultimately seeking to maximize individual utility, is an unrealistic simplification of the complex nature of man that doesn't take social aspects under consideration (Davis et. al, 1997). Accordingly, it has been argued that the principal-agent theory is somewhat limited in understanding the actions and behaviour of man (Jensen & Meckling 1994).

Stewardship theory, with roots in psychology and sociology, was developed to further explain human behaviour beyond the strict economic perspective the principal-agent theory offers (Davis et. al, 1997). Stewardship theory argues a *collectivistic organisational culture*, where managers (i.e. stewards) are viewed as collectively oriented beings first and foremost concerned with acting in the best interest of the organization and by doing so, in the best interest of the principal (Davis et. al, 1997; Donaldson & Davis, 1991). Stewards do not strive to achieve individual objectives to maximize personal utility; instead their *objectives are aligned with the principal's interest* and when these are fulfilled, so is the steward's personal utility. Accordingly, a corporate behaviour, and fulfilling the organisational objectives such as sales growth, is of greater utility to the steward than self-serving behaviours such as described in the principal-agent theory above (Davis et al 1997). The stewardship theory argues a *natural alignment* between the steward's and the principal's objectives due to the steward being motivated by higher-level *intrinsic factors*, such as organisational affiliation, autonomy, self-actualizing and feelings of purpose (Prencipe et. al 2014; Davis et. al, 1997). However, as committed to the organisation as the stewards may be, they do of course have a personal agenda in that they have personal needs that have to be met, like having an income. The essential difference from the principal-agent theory is in the way these needs are met; the steward believes that by working towards the organisational objectives and improving the performance of the same, their personal needs will be met and they don't have to engage in actions harmful to the principal to achieve utility of their own (Davis et al 1997).

Stewardship relationships tend to arise among parties that share a *social context*, such as a significant interdependence and interaction among each other, and similar *social networks* where stable relationships occur (Bourdieu, 1986; Nahapiet & Ghosal, 1998).

2.5 Agency and Stewardship Theory within Family Firms

In *family firms* there is a substantial presence of *non-economic factors,* such as emotional attachment, that does not exist in non-family firms. This strong attachment, for example through love and loyalty, tends to infuse the business and causes family members to identify themselves with the organisation and its objectives (Gomez-Mejia et. al, 2011).
Given the importance of emotions such as loyalty, caring and pride within the family, family members are highly *emotionally invested* in family firm matters (Klein et. al, 2005). Further, family members have a desire from birth to be recognized for their actions within the family firm, indicating a stronger emotional attachment compared to non-family members (Berrone et. al 2010). Regards for feelings and harmony within the group, as well as identifying with the organisation (which in some cases even bear the family name) are *collective characteristics*. This indicates that the *stewardship theory* would be a suitable framework when studying family firms. Furthermore, stewardship theory has been argued to suit family firms well given the traits of stable relationships, strong interaction and interdependence typically occurring in family firms (Bourdieu 1986; Nahapiet & Ghosal, 1998).

Continuity, community and *connection* are three main dimensions of stewardship within family firms identified by Miller et. al (2008). The dimension of *continuity* has to do with the non-economic strive to build and maintain long-term relationships, establish the company's development and survival, and ensure the possibility of passing it on to future generations (Miller et. al, 2008). The creation of a corporate culture characterized by collectivism is referred to as *community*. *Connection* is the aspect which refers to the tendency of family firms building strong, long term relationships with external stakeholders (Miller et. al, 2008).

Given the circumstances mentioned above, it would seem suitable to apply a stewardship approach to family firms. However, all family firms do not act the same; situational and psychological factors of the particular firm and the members thereof does not necessarily have to be in accordance with stewardship traits. Therefore, agency behaviour can still arise in family firms, making the *agency theory* more suitable (Davis et. al, 1997).
Agency problems within family firms, however, differ from those in non-family firms. Demsetz and Lehn (1985) argue that, due to the family firms' *increased ability to monitor* managers, agency problem of *type I* are evaded. However, although agency problems related to the separation of ownership and management may be less severe in family firms, agency problems of *type II* are all the more present (Ali et. al, 2007).

Ali et. al (2007) conclude that the differences in type and severity of agency problems, may give rise to differences in disclosure practices between family and non-family firms.
Factors argued to contribute to the mitigation of agency problem *type I* in family firms are first and foremost related to the fact that ownership and management is not separated to the same extent in family firms as in non-family firms. Families tend to hold a concentrated position of equity and *entrench* themselves by possessing controlling positions (Ali et el 2007). On this note, families have good knowledge and insight in the managerial and operational aspects of the firm, which increases control over management (Anderson & Reeb, 2003). Moreover, since family firms tend to have more severe conflict of interest between controlling and non-controlling shareholders (*type II)*, families may have incentives to reduce transparency and hence reduce disclosure when it comes to corporate governance practises.

The underlying motive is to simplify serving private benefits, such as getting family members in controlling positions, without the interference of small shareholder (Ali et. al, 2007).
Due to their extensive voting rights, families with a high degree of ownership may possess control over the company and use this to engage in seeking private benefits at the expense of minority shareholders' utility. This may be carried out by managerial *entrenchment* (Shleifer & Vishny, 1997) or *freezing out minority shareholders* (Gilson & Gordon, 2003).
If possessing a high degree of voting rights, families have an influence over the firm's assignments of key positions, such as CEO or chairman of the board. By putting their votes on family members or a person they know will act in accordance with the family's wishes, the family *entrenches* itself and further enhances its control.

Given their huge impact on who gets appointed for these positions, the family can be assumed to have a closer relationship to these positions than minority shareholders do. In accordance with that assumption, this *personal relationship* between shareholders and the people in key positions can be assumed to be absent in non-family firms.
In extension, if the family influences who holds the key positions, they may also influence the disclosure provided by these positions. For example, if the CEO is a family member, or a person strongly influenced by the family, the family's impact on tone in the CEO-letter is clear. Furthermore, if a family member is chairman of the board, the family is provided with a deeper insight in the firm. This reduces the information asymmetry that might otherwise exist between the family and the firm, providing the family with the upper hand compared to the other shareholders. The insight provided by a family member being chairman might also influence the work of the CEO, giving the family an opportunity to indirectly influence the tone in disclosures made by the CEO.

As presented in this section, both agency and stewardship theory can be successfully applied when studying family firms, depending on the circumstances. Prencipe et. al (2014) suggest that family firms may be better understood by using a combination of the two.

3. Hypotheses Development and Research Questions

This section will present the hypotheses developed from the research questions posed based on the aforementioned literature review. The hypotheses represent the expected associations of variables in the empirical study and constitute the base on which the empirical tests will be executed.

Based on the existing knowledge presented in the literature review, following research questions have been identified:

* Is there a difference in *tone* (words chosen and their frequency) used in the CEO-letters of annual reports by family firms versus non-family firms?
* If a family member holds the position of CEO or chairman of the board; does this influence the tone used?
* Can agency or stewardship theory provide possible explanations for these possible differences?

In order to answer these questions, and thereby achieve the purpose of the thesis, following hypotheses will be tested:

$\boldsymbol{H_1}$ There is a correlation between the *tone* used in CEO-letters and the degree of *family ownership* in the firm (family firms versus non-family firms).

$\boldsymbol{H_2}$ If a firm is considered a family firm, and has a *family member as CEO and/or chairman of the board*, they will present a *more positive tone* in the CEO-letter than non-family firms and family firms without family CEO and/or chairman of the board do.

The first hypothesis aims to test the potential difference in tone depending on whether the firm in question is considered a family or non-family firm.
The second hypothesis was developed to further investigate family's potential impact on tone. It seeks to establish whether entrenchment is carried out by appointing family members to controlling positions and further affect the tone used. Given entrenchment effects, controlling families have the freedom to use tone management and therefore, we expect the association between tone and family firms having a family member as CEO/chairman to be positive.

4. Methodology

This section presents the methods used throughout this thesis in order to fulfil its purpose. First, the research approach adopted is accounted for, followed by the research methods used to collect our sample, define family firms and family. Second, methods used to select a narrative and how to account for family members in key positions are presented. Finally, the method for quantifying tone and the statistical tests used for the empirical study are accounted for. The methods will be motivated and limitations will be accounted for. This section aims to provide a comprehensive view of how the research of this thesis has been executed and enable the reader to assess the validity and reliability of the study.

4.1 Research Approach

The purpose of this bachelor thesis is to investigate whether there are *correlations* between tone and different aspects family ownership. In order to achieve this purpose and establish these potential correlations, a *quantitative methodology* has been used.
Furthermore, this study takes on a *deductive approach* since the impact of family ownership on disclosures is investigated from a base of previous studies and theories in order to validate or reject our hypotheses.

4.2 Research Methods

This study was initialized with the retrieving and reading of articles within our chosen field. These articles provided us with key words which were used to find related articles and books. Some of the key words used were *tone management, tone, obfuscation, disclosure* and *family firm.* This literature review helped us grasp our chosen field of study and broadened our knowledge on the matter, before proceeding with the study in accordance with the following sections.

4.2.1 The Sample

The sample of this study consists of 100 companies noted on the Swedish stock exchange; *Nasdaq OMX Stockholm*. We wanted the sample to consist of as many *large cap noted* companies as possible. However, since the large cap list does not consist of 100 companies and not all of the companies noted on the large cap list have annual reports published in Swedish (which is one of the delimitations of this study), the sample also consists of *mid cap noted* companies in order to get a sufficient sample size. The companies selected from the mid cap list are those with the *highest turnover on stocks* on the day we collected our sample, which was in April 2015, and has an annual report published in Swedish. It should be noted that the turnover on stocks may vary from day to day. However, although their relative position may change, it is realistic to assume that the companies at the top of the list will not differ significantly in the near future. By selecting companies from the large cap list and the ones with the highest stock turnover from the mid cap list, the study focuses on the companies with the most significant stocks and hence, this thesis provides a *shareholder perspective*. In total, our sample consist of 61 companies noted on the large cap list and 39 companies noted on the mid cap list. The full sample is listed in *Appendix 4*.

In the sample list, *dual shares* have been excluded in order for each company to only be represented once in the sample.

The sample size of 100 companies was decided on because it was considered large enough to provide a significant result, but small enough to make the study practicable within our given timeframe. The annual reports studied have been retrieved from the companies' websites respectively.

Swedish companies were chosen because of the high concentration and long tradition of firms having a concentrated ownership structure in Sweden. This concentrated ownership is often attributable to families, making Swedish companies a particularly interesting population when studying the impact of family ownership.

4.2.2 Defining Family Firms

An essential variable for the study is the degree of family ownership; that is what constitutes a *family firm*. Prior studies have proposed various definitions.
For this particular thesis, a *dichotomous segmentation* was applied in order to create two clearly distinguished artificial groups of firms; *family firms* (group 1) and *non-family firms* (group 2). The degree of family *ownership in terms of voting rights* served as the criteria which divided the firms studied into the two groups. Based on an *involvement approach*, we made the assumption that with a higher degree of family ownership comes greater power over company actions, goals and strategies (Prencipe et. al, 2014).
Accordingly, with this power, families have the possibility to influence disclosure practises, making family ownership a suitable criteria for this study.

We decided to set our threshold to *20% of voting rights* since this, according to Faccio & Lang (2002), is sufficient to establish and retain control and hence have a possible impact on disclosure practices. Once this threshold was determined, we were able to define family firms through a dichotomous segmentation; those where a family is the largest shareholder and holds 20% or more of the voting shares are considered *family firms,* and those under a 20% family possession are considered *non-family firms*.
Thus, in this thesis, a ***family firm*** is defined as *a firm where a <u>family</u> (see definition in section 4.2.2.1 below) is the <u>largest owner</u> in terms of voting rights, and <u>holds 20% or more</u> of the voting rights.*

The degree of family ownership (% voting rights) was retrieved from the online stock broker Avanza Bank Holding AB (Avanza, 2015). The largest shareholder of each firm, and their voting shares, are presented in *Appendix 4*. Appendix 4 also accounts for which group each firm was assigned to.

4.2.2.1 Defining Family

When using *family ownership* as a segmentation criteria to define family firms, one must also define what constitutes a *family* in this context. In this thesis, ownership was considered to be within a family if it was held by an *individual, several members of the same family or a firm controlled by an individual or family*.
If a company was owned by another firm, an investment company or a foundation, it was still considered a family firm if a family was the largest owner and held at least 20% of the voting rights in that firm or foundation. A prominent example of this is *Assa Abloy* where the investment company *Latour* has 29,4% of the voting rights. In turn, since the family of Gustaf Douglas holds 79,7% of Latour, Assa Abloy is considered family owned.
Our definition of family is in accordance with the one provided by Faccio and Lang (2002) with the minor alteration that also *listed firms* can be considered family owners, if controlled by a family.

4.2.3 Selecting a Narrative Part of the Annual Reports

Out of this sample of 100 companies, the annual reports of 2013 were studied.
Since this thesis seeks to investigate *tone*, the parts of annual reports relevant to the scope are the *narrative parts*. Further, the narrative parts studied have been narrowed down to the *CEO-letter*. We chose to focus the scope on this section based on the assumption that this part is an easy target for impression management (i.e. tone management) due to the lack of explicit regulation on how it should be written. Further, in firms controlled by families the key positions, such as CEO, may be influenced by the family. The family has the power to appoint a family member as CEO or a CEO that will act in accordance with the family's wishes. This makes the CEO-letter a forum where family ownership impact might shine through. Even though the CEO-letter is known to serve a somewhat promotional purpose, it is an important communication channel to the shareholders where the CEO writes about the company's performance and situation. Although the letter is written in a very freely manner, it is based on the underlying reality that is covered in the rest of the annual report, making it an important reflection on the firm's actions and performance.

Not all annual reports presented a section referred to as CEO-letter, but all firms did have a narrative part written by the CEO where important events during the year and prospects were commented on, which we considered to be equivalent. Although there are no explicit rules for what the CEO-letter should disclose, it is written in a *comparable manner*; accounting for similar areas. The CEO-letter is also a suitable narrative for the scope of this thesis in regard to *length*.[1]

4.2.4 Family Members in Key Positions

As mentioned above, *key positions* may be influenced by the family. On that note, it was also of interest to investigate if there was a difference in tone between firms where there was a family member holding an active controlling position, and firms (both family and non-family firms) where there was not. In this thesis, key positions were defined as *CEO* or *chairman of the board*. This definition was motivated by the following:
The *CEO* is a given key position due to its extensive knowledge and control over the firm's actions and performances. Further, the CEO is the author of the CEO-letter and hence controls what is disclosed therein and in what tone it is presented.
The *chairman of the board* is the most influential person on the board given the power of the casting vote. This gives the chairman the final say on board matters, such as appointing the CEO. In extension, if the chairman is a family member, this also means that the family gets the final say. The chairman can be assumed to have insight in, and the ability to influence, firm matters and the work of the CEO, and thereby the possibility to influence what is disclosed in the CEO-letter. On that note, family members serving as board members, not holding the chairman position, were not deemed to hold the same power as the chairman, and was therefore not considered to hold key positions in this study.

In order to determine if a family member held a key position in this study, the CEO and chairman of the board for each of the firms previously defined as family firms were looked up. Two artificial groups were constructed; (1) *firms where the CEO or chairman of the board*

[1] The alternative choice of disclosure narrative was the Swedish equivalent to the MD&A (förvaltningsberättelse). Its extensiveness would have made it difficult to ascertain the contextual correctness of the words used, making it less suitable for our scope. The MD&As were also assessed less comparable due to the difference in content between firms; it was difficult to find sections equivalent to each other. Further, the MD&As tend to be written in very different forms; some firms present the content in short paragraphs rather than a narrative text, making it difficult to establish and compare tone.

is related to the controlling family and (2) *firms where there is no controlling family or where the CEO/chairman is not related to the controlling family*.

First, firms were distinguished to either have a controlling family (being a family firm) or not. Second, if there was a controlling family present, it was established whether the CEO or chairman of the board was related to that family. In order to establish whether they were related or not, *family names* were used. If the CEO and/or the chairman of the board shared the same family name as the family who was the largest owner and held at least 20% of the voting rights, they were considered to be related.

The family names of the CEO and the chairman of the board were retrieved from the annual reports studied. Whether there was a controlling family and the name of that family was, as previously stated, retrieved from Avanza Bank Holding AB (Avanza, 2015).
In cases where the largest owner was a company and the owners of that company were not available on Avanza, each company's ownership structure was further examined through their websites in order to establish if it was to be considered a family firm and if so, the name of the controlling family. Whether a firm had a family member as CEO/chairman is presented in *Appendix 4*.

It should be noted that the CEO or chairman of course can be related to the controlling family without sharing the same name, e.g. through marriage without a shared family name. However, this has not been taken under consideration in this specific study due the complexity of further family investigations.

4.2.5 Quantifying Tone

In order to find a correlation between tone in the narrative disclosure and the degree of family ownership, the tone must be quantified. To establish the general tone of the narrative disclosure studied, we *extracted positive and negative words* from the CEO-letters.
What constitutes positive and negative words was decided from the words occurring in the *wordlist* of Elaine Henry (2008). This wordlist was developed specifically for texts in a financial context, making it suitable for this field of study. By using a pre-set wordlist developed specifically for this context, reliability was enhanced.

Since the narratives studied are written in Swedish, the wordlist was *translated* into Swedish. The translation may pose a potential weakness, which we are aware of.
Some English words have several possible Swedish translations. By taking this into account, and making sure that the Swedish words have the equivalent meaning in Swedish as the English word has in English, we argue that although the issue has not been fully mitigated, the limitation has been minimized to a certain extent.[2]
Furthermore, we have implemented some *alterations to the wordlist*:

- Some Swedish words frequently occurring in the Swedish CEO-letters simply lack an English equivalent in the wordlist of Henry (2008). Since we assess these words to be essential for capturing the tone more accurately, some words were *added* (words added are marked **green** in the wordlists). This was essential to capture a tone more representative of the underlying text, and thereby adding them improved validity.

[2] For example, the English word **"unsettled"** has some Swedish translations that does not reflect the meaning of the English word, such as "hemlös", "öde" and "obebyggd" whereas more correct translations in this context would be "ouppklarad", "olöst" or "tveksam".

- In order for words that could occur as a part of other words (e.g. success is a part of successful) not to be counted several times, we shortened the words to the *least common denominator* where suitable. Furthermore, by doing so several forms of words were captured through the use of one, making the wordlist easier to use.

- Words that have been classified as positive or negative by Henry (2008) but were more frequently used in a *neutral context* than not in the texts studied, were eliminated. This includes the Swedish words for "over" and "under" (i.e. "över" and "under").

The translated wordlists used in the word counts are presented below. See *Appendix 1 & 2* for the full original English wordlist and the translation.

Negativity wordlist in Swedish
avmatta avmattning avslå avslagit avslog avta avtog bestraffa bestraffning besviken besvikelse besvära besvärlig böter dala dämpa fara farlig faror fall falla fallande faller fallera fallit föll förlora förlust förvärra försvaga försämra försämring förvärring hopplös hot hotar hotfull hinder hindra instabil kostnadsökning kris krympa krymper krympt låg lågt låga lågkonjunktur lägre lägst matta motig motvind mindre minska minst minus minskning misslycka missnöjd missnöje missgynna missgynnsam missräkning nedanför nedgång nedgående nedslående nedsjunka nedåt negativ ner nere obestämd obestämt ofördelaktig olöst ostadig osäker ouppklarad oviss problem
risk risker riskabel riskfylld riskfull sjunka sjunker sjönk sjunkit straff svacka svackor svag svika sviker svår tappa tillbakagång tuff tveka tveksam understiga understiger underträffa utmana utmaning vansklig vite värre värst åtstramning ödesdiger ödesdigra

Positivity wordlist in Swedish
attraktiv avgjord banbrytande briljera briljans briljant bedrift belöna belöning besegra bestämd bestämt bra bärig bättra bättre bäst definitiv engagera engagemang entusiasm entusiastisk effekt excellent expandera expansion fantastisk flexibel flexibla framgång framkant framsteg framskrider främja fungera förbättra förbättring fördel förträfflig förstärka förstärkt förstärks förstärkning gedigen god gynna gynnsam hopp hoppfull hållbar hög högre högst imponera innovation innovativ inspirera kraft konkurrenskraft kostnadsminskning kvalitet kvalitativ leda leder leverera lovande lycka lönsam mer mest möjlighet njut njöt nytta nöjd optimism optimistisk positiv potential potentiell prestation prestera record seger segra solid stabil stadig stark stiga stiger steg stigit styrka styrkor stärka stärker stor större störst succé sund säker tillfredsställd tillförsikt tillväxt upp uppåt uppmuntra uppnå utmärkt utomordentlig utveckla utveckling vinna vinner vital välmående välrenommérad välrenommérat värde växa växer växte vuxit åstadkom åtnjut åtnjöt öka överträffa överstiga överstiger översteg

It should be noted that the general tone in the narratives may be perceived differently by readers not involved in a financial context, making it more appropriate to use a wordlist based on a regular dictionary when studying impressions on non-financial readers (Rogers et. al, 2011). However, throughout this thesis it has been assumed that the reader addressed is within a financial context, with at least some financial experience, which makes the wordlist of Henry (2008) suitable. Within a financial context, there are several wordlists available besides the one of Henry, the most prominent of which being the wordlist of Loughran & McDonald (2011). This wordlist is more extensive and may be more suitable for a larger scope.

4.2.5.1 Word Count

In order to quantify tone, the occurrence and frequency of positive and negative words in the narratives studied must be observed, i.e. *counted*. In accordance with the method applied by Henry (2008), *tone* is calculated as *"the count of positive words minus the count of negative words, divided by the sum of positive and negative word counts"*.

In this thesis, the *word count* was executed through the use of Microsoft Excel.
Each of the positive and the negative words were set in the Excel sheet. When counting the words in excel, excel needs to be informed whether the word should be able to have a prefix or an ending. This was done through the use of "space" adjacent to the word in question, either before the word, after or both. However, when doing so, we found that excel did not count words followed by punctuation which is why words that are followed by punctuation have been specified.[3]

Thereafter, each of the CEO-letters studied were copied into the sheet where the occurrence and frequency of the set words were counted in order to establish tone by the use of a formula expressing:
Tone = (positive words – negative words) / (positive words + negative words)
The count takes on a value ranging from -1 to +1. A completely positive tone would be +1 and, in contrary, a completely negative tone would be -1 (Henry, 2008).

It should be noted that term frequency count metrics (word counts) are not without flaw. While some words are unambiguously *positive* (e.g. excellent) or *negative* (e.g. disappointing) other words (e.g. increase and decrease) are *potentially ambiguous* and can have different meanings in different contexts. This is known as *polysemy* and is an important aspect of potential ambiguity to keep in mind when quantifying tone (Henry, 2008). In order for the count to reflect the actual tone used, *the context* must be taken into consideration. Each of the positive and negative words counted were looked up in the CEO-letters respectively in order to ensure that they were used in the way they were counted, i.e. positive or negative. If not, the word counts were manually adjusted. Accounting for the context in which the word is being used is essential to attain a more just quantification of tone, and hence, checking for context improves validity of the study. However, since the contexts were assessed manually, the method is, to a certain extent, subject to the researchers' subjectivity.

4.2.6 Statistical Approach

Since this thesis seek to make conclusions about a population based on our sample, *inferential statistics* were used (Collis & Hussey, 2009). The statistical tests conducted are *non-parametric* since the dependent variable was not assumed to be normally distributed (UCLA Idre, 2015). The variables in this study are *dichotomous* and of *interval level*. Since the study seeks to investigate the potential associations of these variables, a *bivariate analysis* was conducted (Bryman & Bell, 2013). The tests used for the bivariate analysis were:

- ***Mann-Whitney U Test:*** The Mann-Whitney U Test is a non-parametric test used to determine if the two groups are different or not. The test was used to establish whether there

[3] For example, since the word "bra" only should be counted as a standalone, and not within other words, space was used in front of and after the word in order to lock it. Because the word was locked for endings, it did not count the word if followed by punctuation. Accordingly, "bra" was also specified as "bra," and "bra." in the word count.

was a ***difference*** in tone between the two independent groups of firms; family and non-family firms. The test was applied to determine whether there was a difference in tone between firms where a family member of a controlling family holds the position of CEO and/or chairman of the board and firms where they do not.

- ***Spearman's Rank Order Correlation Test***: The test was used to establish the strength and direction (positive or negative) of ***association*** between the *degree of family ownership* and *tone* used in CEO-letter; that is, the correlation between tone and firms being family or non-family firms.
This test was also conducted to investigate if there was a correlation between the *tone* in the CEO-letter and a *member of a controlling family holding the position as CEO or chairman of the board*. Since there were only two groups, and the number of companies in each group differed quite a lot, the Spearman's test of correlation is not optimal. However, this is the only test applicable for analysing the association of dichotomous and interval level variables.

The *correlations* take on a value between -1, representing a perfect negative correlation, and +1, representing a perfect positive correlation between the variables. It should be noted that even if a correlation is established, this does not mean that *causality* exist. The correlation may be explained by several other variables (Collis & Hussey, 2009).

5. Empirical Study and Results

This section will account for the statistical tests executed and the results derived from them. General descriptive statistics will be accounted for, and the results of the tests conducted to determine differences and investigate correlations will be presented. The findings in this section will be used in the subsequent analysis.

The purpose of this study is to test whether there is a correlation between the degree of family ownership in terms of voting rights and the tone used in the disclosure narratives. Furthermore, the study seeks to test if having a family member as CEO and/or chairman of the board affects the tone used. By testing for these correlations, this thesis seeks to investigate if family ownership has an impact on the tone used in disclosure narratives and thereby tell if family firms are more or less inclined to use tone management. To achieve this purpose, the following hypotheses have been developed:

$\boldsymbol{H_1}$ There is a correlation between the *tone* used in CEO-letters and the degree of *family ownership* in the firm (family firms versus non-family firms).

$\boldsymbol{H_2}$ If a firm is considered a family firm, and has a *family member as CEO and/or chairman of the board*, they will *present a more positive tone* in the CEO-letter than non-family firms and family firms without family CEO and/or chairman of the board do.

5.1 General Descriptive Statistics

Out of the sample of 100 companies, 49 firms were classified as *family firms*, and 51 as *non-family firms*. Further, out of the 49 family firms, 24 were considered to have a member of the controlling family as CEO and/or chairman of the board. A full table of the firms, the segmentations, largest shareholder in terms of voting rights and tone scores are available in *Appendix 4*.

5.2 Tests of Hypothesis 1

The first set of tests was conducted to test hypothesis 1 (H1).

5.2.1 Descriptive Statistics for Hypothesis 1

This table shows the descriptive values for tone within the two groups; *family* and *non-family firms*.

	Number	Mean	Median	Minimum	Maximum
Family firms	49	0,802	0,810	0,409	1,000
Non-family firms	51	0,807	0,840	0,359	1,000
Sample total	100	0.805	0,824	0,359	1,000

Table 1 – Descriptive Statistics

The test showed a *median* tone-score of 0,810 for family firms, and 0,840 for non-family firms while the median for the entire sample was 0,824. Both groups had companies with the highest possible tone score of 1,000 indicating a perfectly positive tone. The lowest score in the sample was found in the non-family firms group with a score of 0,359, whereas the minimum in the family firms group was a score of 0,409. The *mean and median* values for the non-family-firms group are slightly higher compared to those of the family firms, indicating that this group has a marginally more positive tone.

5.2.2 Test of Differences for Hypothesis 1

The two groups, *family* and *non-family firms*, were compared using the Mann–Whitney two-sample rank sum test. The sample size of the test was 100 companies, whereof 49 companies were assigned to the group of family firms, and 51 companies were assigned to the group of the non-family firms.

	Number	Mean rank	Sum of ranks
Family firms	49	49,26	2415,00
Non-family firms	51	51,67	2635,00

Mann-Whitney U	**1190,000**
Wilcoxon W	2415,000
Z	-0,410
Asymp. Sig. (2-tailed)	0,682

Table 2 – The Mann-Whitney U Test

The *U-value* of the test was 1190 with a *z-score* of -0,410 and a *significance level* of 0,682. The results tell us that that the null hypothesis of the test, that is, that the sample from the two groups came from the same population, cannot be rejected, and that the two groups are not statistically different.

5.2.3 Test of Correlation for Hypothesis 1

Spearman's Rank Correlation	
Correlation Coefficient	0,041
Sig. (2-tailed)	0,684

Table 3 – Spearman's Rank Correlation

A Spearman's rank correlation test was run to see if there was any *correlation* between the two variables. The test gave a *correlation coefficient of 0,041*, showing a very weak correlation of the disclosure tone growing as the firm-variable changes from family-firms to non-family firms. This is supported by the mean value and median for tone being slightly higher in the group of non-family firms compared to the group of family-firms. However, the low correlation coefficient of 0,041 obtained from the Spearman's test, where a coefficient of 0 is the weakest possible, indicates that there is an unmentionable correlation between the tone and the family- and non-family –firm variable. Further, the test *p-value of 0,684* indicates that the small correlation found is *not statistically significant*.

5.3 Tests of Hypothesis 2

The second set of tests was conducted to test hypothesis 2 (H2).

5.3.1 Descriptive Statistics for Hypothesis 2

This table shows the descriptive values for tone within the two groups; *firms with a family CEO/chairman* and *firms without a family CEO/chairman*.

	Number	Mean	Median	Minimum	Maximum
Family CEO/Chairman	24	0,767	0,761	0,409	0,957
Non-family CEO/Chairman	76	0,817	0,841	0,359	1,000
Sample total	100	0,805	0,824	0,359	1,000

Table 4 – Descriptive Statistics

The test showed a *median* tone-score of 0,761 for family firms where a family member holds the position of CEO and/or chairman of the board. The median tone-score for firms that do not have a controlling family or do not have a family member in key positions was 0,841. The median for the entire sample was 0,824. In this test, none of the firms with a family member as CEO and/or chairman of the board had a completely positive tone, the highest tone found in this group was 0,957. Two firms in the group of non-family CEO/chairman had a completely positive tone. The *mean and median* values for the group of non-family CEO/chairman are slightly higher compared to those of the group with a family CEO/chairman, indicating that this group presents a slightly more positive tone. It should be noted that the mean and median of family firms sunk when the element of family CEO/chairman was present.

5.3.2 Test of Differences for Hypothesis 2

The two groups were compared using the Mann–Whitney two-sample rank sum test. Out of the 100 firms, 24 firms were *family firms with a family member as CEO and/or chairman*, and 76 firms were either *non-family firms or family firms without a family member as CEO and/or chairman*.

	Number	Mean rank	Sum of ranks
Family CEO/Chairman	24	42,50	1020,00
Non-family CEO/Chairman	76	53,03	4030,00

Mann-Whitney U	**720,000**
Wilcoxon W	1020,000
Z	-1,550
Asymp. Sig. (2-tailed)	0,121

Table 5 – The Mann-Whitney U Test

The *U-value* of this test was 720 with a *z-score* of -1,550 and a *significance level* of 0,121. Also in this test, the two groups cannot be established to come from different populations and hence, the groups are not statistically different.

5.3.3 Test of Correlation for Hypothesis 2

Spearman's Rank Correlation	
Correlation Coeffifient	0,156
Sig. (2-tailed)	0,122

Table 6 – Spearman's Rank Correlation

A Spearman's rank correlation test was run to see if tone was affected by the firm having a family member as CEO and/or chairman of the board. The test gave a *correlation coefficient of 0,156*, indicating a weak correlation of the disclosure tone increasing as the variable of family CEO/chairman changes from present to absent. This is in accordance with the mean value and median for tone being higher for firms that do not have a family member as CEO and/or chairman of the board. Although the correlation between the variables in this test is weak, it is stronger than the correlation found in the previous test of correlation. However, the *p-value of 0,122* indicates that the test results are *not statistically significant*.

6. Analysis and Discussion

This section will provide a discussion on the findings from the empirical study with regards to the research purpose. The results from the statistical tests will be put together with the existing information accounted for in the literature review in order to validate or reject the hypotheses set up for this study.

6.1 The Definition of Family Firms

In order to see whether the tone used in the CEO-letter differed between firms that were considered family firms and those that were not, the firms studied had to be segmented. To divide the firms into *family* and *non-family firms*, a *dichotomous segmentation* with a threshold of 20% voting rights was used, which compared to several previous studies is a relatively high threshold. The segmentation of the sample generated 49 family firms and 51 non-family firms. This distribution confirms that Sweden actually does have a considerable concentration of family ownership in firms, which emphasises the importance of taking aspects of family influence into consideration in accounting research. In this thesis, it has been assumed that if a family possesses 20% of the voting rights, they will also exercise these rights and thereby obtain the control of the company as argued by Faccio and Lang (2002). On that note, the family's ownership in terms of voting rights has been considered a representative proxy for the family's actual involvement and influence, defined as the *involvement approach* to identify family firms (Miller et. al, 2013).

However, this proxy does not necessarily constitute a true reflection of the actual conditions in all cases. Deephouse and Jaskiewicz (2013) suggest that the mere presence of family involvement (in this case holding 20% of voting rights) might <u>not</u> be sufficient to identify family firms. In other words; just because a family has the possibility to practise a certain amount of voting rights, does not necessarily mean that it will. The *essence approach* suggests that firms should be segmented based on the *impact* of the family involvement, rather than the mere presence of it (Deephouse and Jaskiewicz, 2013). The essence approach may provide a segmentation of firms more representative to reality. Nonetheless, the actual impact of the family might be more difficult to quantify and measure, whereas a set threshold is relatively easy to objectively identify. The number of firms identified as family firms, as well as the results, may have turned out different, had a different threshold or the essence approach been used.

6.2 Correlation between Tone and Degree of Family Ownership

The first set of tests was conducted to test if there is a *correlation between the tone used in CEO-letters and the degree of family ownership* in the firm (H1). In the tests of hypothesis 1, the mean value and the median for tone in family firms were lower than in non-family firms. This indicates that *family firms present a slightly less positive tone* than non-family firms, which may be interpreted as *family firms engaging in less tone management* than non-family firms do.

However, both groups presented over all high values, and cases of completely positive tone (score 1,00) were found in both groups. None of the groups presented any cases of neutral or negative tone. This fact could further strengthen the suggestion that narrative disclosures, being easy targets for tone management and interpretation, should be considered fully promotional and maybe not be considered as a material statement of fact at all (Rogers et. al, 2011). On the other hand, even if the CEO-letter has promotional traits and the general tone perceived from it may be managed to a certain extent, one might argue that there is still an underlying reality which can be modified, but not completely ignored by the author in the CEO-letter.

The *test of differences* showed a slightly more positive tone occurring in the non-family firms, which is in line with the group of non-family firms presenting a higher mean value and median. Furthermore, a *correlation* of disclosure tone, although weak, was found as the firm-variable changed from family-firms to non-family firms. All empirical results unanimously indicate that *non-family firms use a more positive tone* in their CEO-letters, and might therefore be assumed to engage in *tone management* to a higher extent than family firms.

In non-family firms there is a *separation of ownership and management* to a greater extent than in family firms. This may give rise to *information asymmetries* and *goal incongruence* between shareholders and CEO; which is a prominent feature within *agency theory* (Eisenhardt, 1989). If the results of this study are explored with an agency point of view, a possible explanation as to why non-family firms would engage more in tone management may therefore be the CEO's tendency to act more *opportunistic and self-serving* in his/her role as an agent, making it an agency problem of *type I* (Prencipe et. al, 2014). The CEO is the author of the CEO-letter, providing him with control over a part that is suitable for tone management (i.e. a "vehicle"). Since there are no explicit rules for what to disclose and how to word it, the construction of it is easier to shape to the authors' liking than e.g. presentation of figures (Brennan & Merkl-Davies, 2013). Therefore, the CEO-letter can be assumed to be shaped to the CEO's subjective liking. This is more likely to be a problem in non-family firms due to the goal incongruence and the fact that it is more difficult for the shareholders in non-family firms to monitor the CEO (Demsetz & Lehn, 1985)

The more positive tone occurring in the CEO-letter of non-family firms might be evidence of an *economical* and *psychological perspective* of impression management being adopted, manifesting itself through *reporting and self-serving bias* (Brennan & Merkl-Davies, 2013). *Reporting bias* would be the CEO manipulating the readers' perceptions through valence and tone; emphasising positive and obfuscating negative performances. This is related to the opportunistic behaviour of agency theory, leading to a more positive tone score (Brennan & Merkl-Davies, 2013). *Self-serving bias* might also contribute to the more positive tone of non-family firms, using a positive tone when seeking to claim responsibility for good performances (Aerts & Cheng, 2011). Their use of a more positive tone might indicate that they carry out these biases through *thematic manipulation*; using tone to emphasise good news and performances in the CEO-letter (Merkl-Davies & Brennan, 2007).

On the contrary, the less positive tone presented in the CEO-letters of family firms may be explained by family firms having an increased ability to monitor and control the CEO, and thereby evading agency problems of *type I* (Demsetz & Lehn, 1985).
The absence of *type I* agency problems in family firms might be further explained by family firms being more prone to *stewardship-like behaviours*. If so, the opportunistic behaviours of the agent are eliminated and the incentive to engage in tone management because of that

behaviour is minimized. A possible explanation as to why family firms could be more prone to adopt stewardship behaviours is that families naturally share a *social context*. The very nature of family can be argued to be characterised by the members' interdependence and interaction, and it is under circumstances like these that stewardship relationships are known to arise (Bourdieu, 1986; Nahapiet & Ghosal, 1998). The presence of *non-economic factors* such as emotional attachment, loyalty and concerns of the firm's longevity in family firms might also be contributing to stewardship behaviours evolving in family firms (Gomez-Mejia et. al, 2011).

Presenting a less positive tone in the CEO-letter may indicate that family firms are permeated by a *collectivistic organizational culture*. If the results of the study is explored with a stewardship theory point of view, both the family and the CEO can be assumed to act without self-serving interests. If the family as well as the CEO can be viewed as collectively oriented beings, first and foremost concerned with acting in the best interest of the group and organization, it may lead them to disclose more honestly and *not* use tone management to create an excessively positive tone (Davis et. al, 1997; Donaldson & Davis, 1991).
This could possibly contribute to family firms' tone scores being lower than those of non-family firms.

However, although the tests of differences and correlation of the first hypothesis showed that *family firms present a less positive tone* in their CEO-letters, indicating that there are differences in tone depending on the degree of family ownership, none of the results were statistically significant. The p-values of the Mann-Whitney U Test and the Spearman's Rank Correlation was 0,682 and 0,684, indicating that there is no statistical significance to the results. Accordingly, *since no statistically significant correlation between tone and degree of family ownership could be established,* ***hypothesis 1 must be rejected****.*

6.3 Correlation between tone and Family Members in Key Positions

The second set of tests was conducted in order to test *if family firms with a family member as CEO and/or chairman of the board would present a more positive tone* in the CEO-letter (H2). This hypothesis was developed in order investigate whether possible *entrenchment effects* would reflect themselves in the CEO-letter trough the tone used. In order to test this, the segmentation of the firms had to be altered. In the second set of tests, the groups studied were (1) *family firms where a family member holds the position of CEO and/or chairman of the board*, and (2) *non-family firms or family firms where a family member does not hold such a position.*

In the tests of hypothesis 2, the mean value and median of family firms declined further when a family member served as CEO and/or chairman of the board. Before the firms were further segmented, family firms presented a mean value of 0,802 and a median of 0,810. When the aspect of family members in key positions were added, the mean value sunk to 0,767 and the median to 0,761. Furthermore, after adding this aspect to the segmentation, this group no longer presented any firm with a completely positive tone. These results indicate that *when family firms have a family member as CEO and/or chairman, it causes the tone in the CEO-letter to be even less positive*. Accordingly, family firms with a family member as CEO and/or chairman of the board could be *assumed to engage in less tone management* than non-family

firms or family firms without a family CEO/chairman do.
Although the mean and median tone score have sunk for one group in this test, the overall tone is still very positive and unchanged from the previous tests, since the same sample is used.

The *test of differences* showed a less positive tone occurring in the group of family firms where a family member holds the position of CEO and/or chairman of the board.
When testing for association of the variables, a *correlation coefficient of 0,156* was found. This indicates a relatively weak correlation, where the *disclosure tone decreases as the variable of family CEO/chairman goes from absent to present*. These results are supported by the lower mean value and median of this group. Although the correlation of 0,156 is relatively weak, the correlation is stronger than in the previous tests (0,041) when the aspect of family CEO/chairman had not yet been added. The empirical results indicate that *having a family member as CEO or chairman of the board might further reduce the positivity of tone* in the CEO-letter. Furthermore, it suggests that having a family member in a key position causes family firms to engage *even less in tone management*.

As found in the previous section (6.2), a possible explanation for the *higher tone found in non-family firms* might be the presence of *opportunistic agency behaviour*, causing agency problem *type I* to arise (Prencipe et. al, 2014). This explanation could also be applied to firms considered to be family firms, but where a family member does <u>not</u> serve as CEO and/or chairman of the board. The empirical results suggest that *family firms where a member of the controlling family serves as CEO and/or chairman of the board presents a less positive tone* than family firms without family CEO/chairman and non-family firms.
The further reduction of positive tone found when the family member aspect is added, suggests that when a family member holds a key position, agency problems of *type I* are further reduced or even eliminated.

The reduction or elimination of opportunistic behaviour (agency problems of *type I*) could indicate that family firms where a family member serves as CEO and/or chairman are characterized by a more *collective* rather than a individualistic corporate culture, implying *stewardship relationships* within these firms. The more dampened tone used by family firms where a family member serves as CEO/chairman could be an expression for the family's, and thereby the CEO's, strive to disclose more honestly (Davis et. al, 1997; Donaldson & Davis, 1991). The incentive to do so may stem from dimensions of stewardship theory referred to as *Continuity, community* and *connection;* which concerns the family's *non-economic strive* for long-term relationships (internally and externally) and passing the firm on to future generations (Miller et. al, 2008). The family's strive for the firm's longevity may serve as incentive to reduce the amount of *risk* to which the firm is exposed to. Since an excessively positive tone has been proven to associate with risk, both in terms of litigation and credibility, the family might seek to dampen the tone in order to avoid litigation and damage to the firm's image and reputation Rogers et. al, 2011; Rahman, 2012).

However, if this strive and long-term objectives of the family are incongruent with the objectives of minority shareholders, dampening the tone might also be seen as an *entrenchment effect* (agency problem *type II*) carried out by the family from the minority shareholders’ point of view. The minority shareholders might not have the same long-term objectives as the family and/or be more prone to risk than the family, and hence, not consider the family’s dampening of the tone to work in their favour. Since the family has entrenched itself further with a family member as CEO/chairman, the minority shareholder has a restricted ability to change and affect the tone used. If there is an incongruence between the tone used by majority shareholders (family) and the tone desired by the minority shareholders, the family is taking actions to serve their own utility at the expense of minority shareholders’. On that note, the dampened tone could be considered an *entrenchment effect* and hence, indicate that agency problems of *type II* are present (Gilson & Gordon, 2003; Morck et. al, 2005; Ali et. al, 2002). Even though it might be difficult to gather evidence of entrenchment through analysing the tone, agency problems of *type II* could still be present and manifest itself in other forums. That is, entrenchment effects could, but does not necessarily have to, reflect in the tone used.

The tests of differences and correlation provided indications that family firms where a family member serves as CEO and/or chairman of the board presented a less positive tone than non-family firms or family firms without a family CEO/chairman, indicating that *having a family member in a key position might further reduce tone management*. This association is contradictory to the expected association expressed in the second hypothesis, where we expected family firms with a family member as CEO and/or chairman of the board to present a more positive tone.
Moreover, with a p-value of 0,121 in the Mann Whitney U Test and 0,122 in the Spearman’s Rank Correlation, the results are not statistically significant. Accordingly, ***the second hypothesis must be rejected*** in two aspects. First, *the association found was reverse to the expected one and second, the results of the tests were not statistically significant.*

7. Concluding Remarks

This section will present the conclusions drawn from the empirical results and the analysis. Through the conclusions, the hypotheses will be validated or rejected and the research questions and purpose will be answered. Additionally, suggestions for further research will be presented. The suggestions are based on potential limitations of this study and potentially interesting areas within the field.

7.1 Concluding Remarks

The purpose of this study is to test whether there is a correlation between the degree of family ownership in terms of voting rights and the tone used in the disclosure narratives. Furthermore, the study seeks to test if having a family member as CEO and/or chairman of the board affects the tone used. By testing for these correlations, this thesis seeks to investigate if family ownership have an impact on the tone used in disclosure narratives and thereby tell if family firms are more or less inclined to use tone management.

In order to achieve the purpose, following hypotheses were developed:
$\boldsymbol{H_1}$ There is a correlation between the *tone* used in CEO-letters and the degree of *family ownership* in the firm (family firms versus non-family firms).

$\boldsymbol{H_2}$ If a firm is considered a family firm, and has *a family member as CEO and/or chairman of the board*, they will present a *more positive tone* in the CEO-letter than non-family firms and family firms without family CEO and/or chairman of the board do.

In this study, *no statistically significant evidence* that there would be a correlation between the degree of family ownership and tone used in disclosure narratives with the CEO-letter serving as proxy was found. This led to the ***rejection of hypothesis 1.***
However, all of the empirical results gathered unanimously suggest that *family firms present a tendency to use a slightly less positive tone* in the CEO-letter than non-family firms do.
A possible explanation for this tendency is that family firms face *less severe agency problems of type I* than non-family firms, due to the family having a greater possibility to monitor the CEO and/or the chairman of the board. Thereby, the family is able to ensure that these "agents" no longer act like opportunistic agents, but in accordance with the family's wishes and hence, eliminating goal incongruence between the principal and the agent.

An alternative explanation for the lower tone score of family firms is the occurrence of *stewardship behaviours* within family firms. *Non-economic factors* and intrinsic motivations, such as loyalty, longevity of the firm and self-actualization, causes the CEO to act in a less self-serving and opportunistic manner and thereby be more honest in disclosure.

When testing for families' potential further impact on tone through having family members in key positions, *no statistically significant evidence of correlation was found*.
Nonetheless, the results implies that *increased family involvement, through family members serving as CEO and/or chairman of the board, may further reduce the positivity in the tone* used. This phenomenon might be explained by the more *risk averse nature of families*, given their strive to secure the firm's longevity and long-term oriented objectives and thereby being

able to pass the firm on to future generations. Along with this, family firms are concerned with maintaining an undamaged reputation and keeping up long-term relationships. These non-economic factors indicate *stewardship behaviours* in family firms.

The family *entrenches itself* by appointing family members to key positions, such as CEO or chairman. Whether this entrenchment reflects itself in the tone used in narratives is hard to establish. Although the empirical results indicated a *decrease in tone when a family member holds a key position*, this study has not been able to establish whether this is related to entrenchment effects.
The results found suggested an association opposite to the expected one expressed in the second hypothesis, where family firms with a family member as CEO and/or chairman of the board were expected to present a more positive tone. This, in combination with the absence of statistically significance, led to the ***rejection of hypothesis 2***.

The thesis aimed to answer the following research questions:
**** Is there a difference in tone (words chosen and their frequency) used in the CEO-letters of annual reports by family firms versus non-family firms?***
No statistically significant evidence for correlation between tone and the degree of family ownership was found. However, the results indicated a tendency for family firms to present a less positive tone.

**** If a family member holds the position of CEO and/or chairman of the board; does this influence the tone used?***
No statistically significant evidence for correlation between tone and whether firms have a family member as CEO and/or chairman of the board was found. However, the results indicated a tendency for firms where a family member serves as CEO/chairman to use a less positive tone. The less positive tone already found in family firms, was further reduced when a family member served as CEO and/or chairman of the board.

**** Can agency or stewardship theory provide possible explanations for these possible differences?***
As elaborated in the analysis and the conclusion above, aspects from both *agency* and *stewardship theory* can be used to explain the differences found between family and non-family firms in this study. This has led us to conclude that, in accordance with Prencipe et. al (2014), both theories can and should be used as a complement to one another to better understand family firms.

To conclude, the overall tone found in the CEO-letters was very positive, indicating an overall promotional nature of this narrative vehicle. The empirical results of this study were not statistically significant, which caused us to reject both of the hypotheses in this thesis. However, despite the rejection of the hypotheses, there might still be correlations and causalities between the tone used in narrative disclosures and the degree of family ownership, as well as having a family member in a key position. The results might have been different with a larger sample. Thus, further research is needed in order to make any general conclusions about the impact of family ownership on disclosure tone and whether family firms are more or less inclined to use tone management.

7.2 Suggestions for Further Research

Throughout the process of conducting this study and writing up the thesis, ideas for possible further research has emerged. There are aspects to this field of study that this particular thesis does not cover, but could be of interest and further contribute to the field.
On that note, we would like to express some of our suggestions for further research:

First of all, it would be interesting to conduct a study similar to this one, but test the hypotheses with a few alterations. The tone used in disclosure narratives might be affected by several other factors important to establish *causality* in the study; correlation does not automatically establish causality between the variables.
As previously described, the mere presence of positive or negative tone should not be assumed to be evidence of impression management; a certain amount of positive tone is only natural if the firm is performing well, and vice versa (Henry, 2008; Rogers et. al, 2011). Therefore, the associations of this study could be tested with *firm performance* taken into account through including e.g. *earnings ratios*, which was a limitation in this thesis.
Moreover, since the overall tone found in the CEO-letters was very positive, indicating an overall promotional nature of this narrative vehicle, it might be suitable to conduct further research on other narratives.
Furthermore, as mentioned in our analysis, the results may have turned out different, should another method to define family firms be applied. If, as in this study, a *dichotomous segmentation with an involvement approach* is used to identify family firms, it would be interesting to see the effects of *lowering the threshold to 10% of voting rights*. A threshold of 10% has been used to define family firms in other studies previous to ours. This would possibly increase the number of firms considered to be family firms, and potentially make an impact on the results of differences and association.
Another possible alteration to the identification of family firms would be to use an *essence approach* instead of involvement approach, and thereby consider the *actual effects* caused by family ownership, rather than using the mere degree of family ownership as a proxy to reflect the family's involvement. Moreover, instead of a dichotomous segmentation, which has been argued to be a much too big generalization of firms, the study could be conducted with a *continuous scale*, such as the F-PEC scale mentioned in the literature review, to evaluate the family's influence and define family firms.
All of the alterations mentioned above could have a potential impact on the results derived from the tests and lead to a different conclusion regarding the hypotheses.

Second, as described in section 2.1, *thematic manipulation (tone management)* is only one out of seven possible ways to carry out impression management in the narrative parts of annual reports. We find that it could be interesting to investigate the use of *reading ease manipulation* in disclosure narratives; that is, whether firms seek to influence the recipient's impression of the narrative information by making it more or less difficult to read.
The underlying general assumptions of *readability* are that the longer the texts are, the more words per sentence and the more complex words per sentence used, the lower the readability. Since low readability provides lower quality of disclosure to the reader, it would be interesting to see whether firms use readability to obfuscate bad news or performances.
This could be explored through the use of computational linguistics such as the FOG-index in

correlation to e.g. different earnings ratios. Furthermore, it could be of interest to compare the use of reading ease manipulation in narratives between family firms and non-family firms.

Finally, another potential area for further research could be to investigate if there are any *differences in tone between countries or industries*. This comparison could also be applied to the aspect of readability. Are some countries or industries more inclined to engage in impression management than others and if so, what possible explanations are there?

8. List of References

Aerts, W. & Cheng, P. (2011) “Casual disclosures on earnings and earnings management in an IPO setting”, *Journal of Accounting and Public Policy,* vol. 30:5, pp. 431 – 459.

Ali, A., Chen, T. & Radhakrishnan, S. (2007), “Corporate disclosures by family firms”, *Journal of Accounting and Economics,* vol. 44, no. 1/2 , pp. 238-286.

Anderson, R.C., & Reeb, D.M. (2003) “Founding-family ownership and firm performance: Evidence from S&P 500”, *Journal of Finance,* vol. 58(3), pp. 1301 – 1328.

Astrachan, J., Klein, S.B. & Smyrnios, K.X. (2002) “The F-PEC Scale of family influence: A proposal for solving family business definition problem”, *Family Business Review,* vol. 16:3, pp. 207 – 213.

Avanza Holding Bank AB (2015)
Retrieved from https://www.avanza.se/start (2015-04-23)

Berrone, P., Cruz, C., Gomex-Mejia, L.R. & Larraza-Kintana, M. (2010) “Socioemotional wealth and corporate responses to institutional pressures: do family-controlled firms pollute less?”, *Administrative Science Quarterly,* vol. 55, pp. 82 – 113.

Bourdieu, P. (1986) “The forms of capital” in J. Richardson (Ed.), ***Handbook of theory and research for sociology of education***, pp. 241 – 258. New York: Greenwood.

Brennan, N. M. & Merkl-Davies, D.M. (2013) “Accounting Narratives and Impression Management” in L. Jack et. al (Ed.) ***The routledge companion to communication in accounting***. Chapter 8, pp. 109-132, London: Routledge.

Bryman, A. & Bell, E. (2013) ***Företagsekonomiska Forskningsmetoder***,
2a uppl., Stockholm: Liber.
Chandler, D. & Munday, R. (2011) ***A Dictionary of Media and Communication***
Oxford: Oxford University Press

Claessens, S., & Djankov, S. (2002) “Disentangling the incentive and entrenchment effects of large shareholdings”, *The Journal of Finance,* vol. 57, no. 6, pp. 2741 – 2771.

Collis, J., & Hussey, R. (2009) ***Business Research – A practical guide for undergraduate & postgraduate students*** (3rd edition). Bassingstoke: Palgrave Macmillan.

Cronqvist, H., & Nilsson, M. (2003). “Agency cost of controlling minority shareholders”, *Journal of financial and quantitative analysis,* 38:4 pp. 695-720.

Davis, J.H., Schoorman, F.D. & Donaldson, L. (1997) “Toward a Stewardship Theory of Management”, *The Academy of Management Review,* vol. 22, no. 1, pp. 20-47.

Deephouse, D.L. & Jaskiewicz, P. (2013) “Do family firms have better reputations than non-family firms? An intergration of socioemotional wealth and social identity theories”, *Journal of Management Studies,* vol. 50:3, pp. 337 – 360.

Demsetz, H. & Lehn, K. (1985) “The structure of corporate ownership: Theory and consequences”, *Journal of Political Economics,* vol. 93, pp. 11-55.

Donaldson, L. C& Davis, J.H. (1991) “Stewardship theory or agency theory: CEO governance and shareholder returns”, *Australian Journal of Management,* vol. 16 pp. 49 – 64.

Eisenhardt, K. M. (1989) “Agency Theory: An Assessment and Review”, *Academy of Management,* vol. 14, no. 1, pp. 57-74.

Faccio, M., Lang, L. H. (2002). “The ultimate ownership of Western European corporations”, *Journal of Financial Economics,* vol. 65:3, pp. 365 – 395.

Family Firm Institute (2008). *Global Data Points.*
Retrieved from http://www.ffi.org/?page=GlobalDataPoints (2015-04-03)

Frink, D.D. & Ferris, G.R. (1998) “Accountability, impression management, and goal setting in the performance evaluation process”, *Human Relations,* vol. 51:10, pp. 1259 – 1283.

Gilson, R.J. & Gordon, J.M (2003) “Controlling controlling shareholders”, *University of Pennsylvania Law Review,* vol. 152, pp. 785 – 843.

Godfrey, J., Maher, P. & Ramsey, A. (2003) “Earnings and impression management in financial reports: The case of CEO changes”, *Abacus,* vol. 39, pp. 95 – 123.

Gomez-Mejia, L.R., Cruz, C., Berrone, P., & De Castro, J. (2011) “The bind that ties: Socioemotional wealth preservation in family firms”, *Academy of Management Annals,* vol. 5(1), pp. 653 – 707.

Habbershon, T.G., & Williams, M.L. (1999) “A resource-based framework for assessing the strategic advantages of family firms”, *Family Business Review,* vol. 12(1), pp. 1 – 22.

Henry, E. (2008) “Are investors influenced by how earnings press releases are written?”, *Journal of business communication* 45:363 pp. 363 – 407.

Huang, X., Teoh, S.H., Zhang, Y. (2014) “Tone management”, *The accounting review* vol. 89:3, pp.1083 – 1113.

Jensen, M.C. & Meckling, W.H. (1976) “Theory of the firm: Managerial behaviour, agency costs and ownership structure”, *Journal of Financial Economics,* vol. 3, no. 4, pp. 305 -360.

Jensen, M.C. & Meckling, W.H. (1994) “The nature of man”, *Journal of Applied Corporate Finance,* vol. 7(2), pp. 4-19.

Klein, S.B., Astrachan, J.H. & Smyrnios, K.X. (2005) “The F-PEC scale of family influence:

construction, validation, and further implication for theory”, *Entrepreneurship Theory and Practice*, vol. 29, pp. 321 – 339.

Lang, M.H. & Lundholm R.J., (1996) “Corporate disclosure and policy and analyst behaviour”, *The accounting review* 71:4 p. 467 – 492.

Li, F. (2008) “Annual report readability, current earning and earnings persistence”, *Journal of Accounting and Economics* 45, p. 221-247.

Loughran, T. & McDonald, B. (2011) ”When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks”, *Journal of Finance,* vol. 66:1, pp. 35 – 65.

Marton, J., Lumsden, M., Lundqvist, P., Pettersson A. (2012) ***IFRS – I teori och praktik.*** 3. Uppl., Stockholm: Sanoma Utbildning AB.

Merkl-Davies, D.M. & Brennan, N.M (2007) “Discretionary disclosure strategies in corporate narratives: incremental information or impression management?”, *Journal of Accounting Literature*, vol. 26, pp. 116-196.

Miller, D., Le Breton-Miller, I., & Scholnick, B. (2008) “Stewardship vs. stagnation: An empirical comparison of small family and non-family business”, *Journal of Management Studies,* vol. 45:1, pp. 50 – 78.

Miller, D., Le-Breton-Miller, I & Lester, R.H. (2013) “Family firm governance, strategic conformity and performance: institutional versus strategic perspectives”, *Organization Science,* vol. 24, pp. 189 – 209.

Morck, R., Wolfenzon, D. & Yeung, B. (2005) “Corporate governance, economic entrenchment, and growth”, *Journal of Economic Litterature*, vol. 43, no. 3, pp. 655 – 720.

Nahapiet, J. & Ghoshal, S. (1998) “Social capital, intellectual capital and the organizational advantage”, *Academy of Management Review,* vol. 23:2, pp. 242 – 246.

Prencipe, A., Bar-Yosef, S., Dekker, H.C. (2014) “Accounting research in family firms: Theoretical and Empirical Challenges”, *European Accounting Review* 23:3, pp. 361 – 385.

Rahman, S. (2012) “Impression Management Motivations, Strategies and Disclosure Credibility of Corporate Narratives”, *Journal of Management Research,* vol. 4:3, pp. 1 – 14.

Rogers, J.L., Van Buskirk, A. & Zechman, S.L.C. (2011), “Disclosure tone and shareholder litigation”, *The accounting review* 86:6 p. 2155-2183.

Samani, K. N., (2015) ***Financial Reporting and Corporate Governance – Essays on the Contracting Role of Accounting and the Effects of Monitoring Mechanisms.***
Diss., School of Business, Economics and Law, University of Gothenburg.
Gothenburg: BAS Publisher.

Shleifer, A., & Vishny, R. (1997) “A survey of corporate governance”, *Journal of Finance,* vol. 52, pp. 737 – 783.

Stulz, R. (1988) “On takeover resistance, managerial discretion and shareholder wealth”, *Journal of Financial Economics*, vol. 20:1-2, pp. 25 – 54.

Triandis, H.C. (1995) ***Individualism and collectivism,*** Boulder, CO: Westview.

UCLA Idre (2015) “*What statistical analysis should I use?”*
Retrieved from http://www.ats.ucla.edu/stat/stata/whatstat/whatstat.htm (2015-05-14)

9. Appendix

Appendix 1: Original Wordlists by Henry (2008)

NEGATIVITY wordlist:
negative negatives fail fails failing failure weak weakness weaknesses difficult difficulty hurdle hurdles obstacle obstacles slump slumps slumping slumped uncertain uncertainty unsettled unfavourable downturn depressed disappoint disappoints disappointing disappointed disappointment risk risks risky threat threats penalty penalties down decrease decreases decreasing decreased decline declines declining declined fall falls falling fell fallen drop drops dropping dropped deteriorate deteriorates deteriorating deteriorated worsen worsens worsening weaken weakens weakening weakened worse worst low lower lowest less least smaller smallest shrink shrinks shrinking shrunk below under challenge challenges challenging challenged

POSITIVITY wordlist:
positive positives success successes successful succeed succeeds succeeding succeeded accomplish accomplishes accomplishing accomplished accomplishment accomplishments strong strength strengths certain certainty definite solid excellent good leading achieve achieves achieved achieving achievement achievements progress progressing deliver delivers delivered delivering leader leading pleased reward rewards rewarding rewarded opportunity opportunities enjoy enjoys enjoying enjoyed encouraged encouraging up increase increases increasing increased rise rises rising rose risen improve improves improving improved improvement improvements strengthen strengthens strengthening strengthened stronger strongest better best more most above record high higher highest greater greatest larger largest grow grows growing grew grown growth expand expands expanding expanded expansion exceed exceeds exceeded exceeding beat beats beating

Appendix 2: Translation of Wordlists

The following wordlists are the Swedish translations of the English wordlists by Henry (2008). The Swedish words in **bold** (to some extent the least common denominator of the words) are the ones used in the word counts in this study.

Negativity:

English	Swedish
Negative, negatives	**negativ** -t, -a, -itet, -iteter
Fail, fails, failing, failiure	**misslycka** -s, -t, -d, -ande, -anden; **fallera** -r, -t
Weak, weakness, weaknesses	**svag** -het, -heter, -t, -a
Difficult, difficulty	**svår** -t, -a, -ighet, igheter; **besvärlig** -t, -a, -het, -heter; **tuff** -t, -a; **problem** -en -atisk
Hurdle, hurdles, obsacle, obstacles	**hinder**
Slumps, slumps, slumping, slumped	**svacka** -r, -n; **svackor** -na; **nedsjunka**; **tillbakagång** -ar, -en, **kris** -er, -en
Uncertain, uncertainty	**osäker** -t, -het; **oviss** -t, -a, -het; **ostadig** -t, -a; **tveksam** -t, -ma; **tveka** -n; **obestämd** -a; **obestämt**
Unsettled	**olöst** -a; **ouppklarad** -e; **tveksam** -t, -ma
Unfavorable	**missgynnsam** -t, -ma; **ofördelaktig** -t, -a
Downturn	**nedgång** -ar, -en, -arna; **försämring** -ar,-en, -arna; **förvärring** -ar, -en, -arna
Depressed	**minska -t,** -d, -nde, -de
Disappoint, disappoints, disappointing, disappointed, disappointment	**svika**; **sviker**; **nedslående**; **besviken**; **besvikelse** -n, -er, -erna; **missräkning** -en, -er
Risk, risks, risky	**risk** -era -en ; **risker** -na; **riskabel** -t, **riskfylld** -a; **riskfull** -a; **vansklig** -a, -t
Threat, threats	**hot** -a, -as; **hotar**; **fara** -n; **faror** -na; **farlig** -t, -a
Penalty, penalties	**straff** -en, et, -as, -at; **vite** -n; **bestraffa** -r, -s, -t; **bestraffning** -ar; **böter**
Down	**ner**; **nere**; **nedåt** -gående
Decrease, decreases, decreasing, decreased	**minska** -d, -nde, -de; **minskning** -en, -ar, -arna; **avta** -r, -gande; **avtog**
Decline, declines, declining, declined	**nedgång** -ar, -en, -arna; **nedgående**; **avta -r,** -gande; **avtog**; **tillbakagång** -ar, -en; **avslå** -s; **avslog** -s; **avslagit**-s
Fall, falls, falling, fell, fallen	**fall**; **falla**; **faller**; **fallit**; **föll**; **fallande**; **dala** -t, -t; **sjunka**; **sjunker**; **sjönk**; **sjunkit**
Drop, drops, dropping, dropped	**tappa** -r, -t, -de; **fall**; **faller**; **fallit**; **föll**; **fallande**; **dala** -t, -t; **sjunka**; **sjunker**; **sjönk**; **sjunkit**
Deteriorate, deteriorates, deteriorating, deteriorated	**förvärra** -r, -s, -de, -nde, -t, -ts; **försämra** -r, -s, -t, -ts, -nde
Worse, worst, worsen, worsens, worsening	**värre**; **värst** -a; **förvärra** -r, -s, -de , -t, -ts, -ande; **försämra** -r, -s, -de, -nde, -t, -ts
Weaken, weakens, weakening, weakened	**försvaga** -r, -t, -nde, -ning; **avmatta** -r, -s, -ts; **avmattning** -en, -ar; **matta** -r, -s, -ts
Low, lower, lowest	**låg**; **låga**; **lågt**; **lägre**; **lägst** -a
Less, least	**mindre**; **minus**; **minst** -a
Smaller, smallest	**mindre**; **minst** -a
Shrink, shrinks, shrinking, shrunk	**krympa** -s, -nde; **krymper**; **krympt** -e
Below, under	**nedanför**; **understiga** -nde; **understiger**
Challenge, challenges, challenging, challenged	**utmaning** -ar, -arna; **utmana** -r, -t, -ande, -s, -ts
Other added Negative Swedish Words	
Besvära -s, -t, -ts, -de, -des	
Dämpa -s, -t, -ts, -de, -des	
Förlust -er, -en, -erna, -bringande	
Förlora -r, -s, -ts, -des	
Hindra -r, -s, -t, -de, -des	
Hotfull -t, -a	
Hopplös -t, -a	
Instabil -t, -a	
Kostnadsökning -ar, -en- arna	
Lågkonjunktur	
Missgynna -r, -t, -de, -des	
Missnöje -t	
Missnöjd -a	
Motig -t, -a	
Motvind -ar, -arna, -en	
Underträffa -r, -s, -t, -ts	
Åtstramning -ar, -en, -arna	
Öderdiger -t; **ödesdigra**	

Positivity:

English	Swedish
Positive, positives	**positiv** -t, -a, -itet; **attraktiv**-t, -a
Success, successes, successful	**framgång**-en, -ar, -srik; **succé** -er
Succeed, succeeds, succeeding, succeeded	**lycka**-s, -d, -des; **succé** -er
Accomplish, accomplishes, accomplishing, accomplishment(-s)	**åstadkom** -ma, -mer, -mande(n), -mit; **prestation** -er
Strong	**stark** -a, -ast; **bärig** -a; **kraft** -full
Strength, strengths	**styrka**; **styrkor**; **kraft**
Certain, certainty	**säker** -het; **stabil** -t, -a
Definite	**bestämd; bestämt**; **definitiv** -t; **avgjord**
Solid	**solid**-a, itet; **stadig**-a, -t, **gedigen**
Excellent	**excellent**-a; **utmärkt** -a; **utomordentlig** -t, -a; **förträfflig** -a, -t
Good	**bra**; **god** -a
Leading, leader	**leda** -nde, -re; **leder**
Achieve, achieves, achieved, achieving	**uppnå** -r, -s , -tt, -de, -else; **åstadkom** -ma, -mer, -mit; **prestera** -t, -r, -de
Achievement, achievements	**uppnå**- else, elser; **åstadkom** -mande, -manden, **bedrift** -er, -en; **prestation** -er, -en
Progress, progressing	**framsteg** -en; **utveckla** -s, -t, -de; **utveckling** -en, -ar; **framskrider**
Deliver, delivers, delivered, delivering	**leverera** -r, -s, -t
Pleased	**nöjd** -a; **tillfredsställd**
Reward, rewards, rewarding, rewarded	**belöning** -ar, -en; **belöna** -r, -s, -t, -ts, -nde; **lönsam** -t, -ma
Opportunity, opportunities	**möjlighet** -er, -en, -erna
Enjoy, enjoys, enjoying, enjoyed	**åtnjut** -a, er, -it; **njut** -a, -er, -it; **njöt**; **åtnjöt**
Encourage, encouraging	**uppmuntra** -r, -s, -ande; **främja** -r, -s, -nde
Up	**upp; uppåt** -gående
Increase, increases, increasing, increased	**öka** -r, -s, -de, -nde
Rise, rises, rising, rose, risen	**stiga** -nde; **stiger**; **steg**; **stigit**
Improve, improves, improving, improved, improvement(s)	**förbättra** -r, -s, -de, -des; **förbättring** -en, -ar, -arna; **bättra** -r, -s, -de, -des
Strenghten, strengthens, strengthening, strenghthened	**förstärka** -s; **förstärks, förstärkt** -a, -es; **förstärkning** -ar, -arna; **stärka**; **stärker**
Stronger, strongest	**stark**-are, -ast, -aste
Better	**bättre**
Best	**bäst** -a
More, most	**mer** -a; **mest** -a
Above	**överstiga; överstiger**
Record	**rekord**
High, higher, highest	**hög; högre; högst** -a
Greater, gratest, larger, largest	**större; störst -a**
Grow, grows, growing, grew, grown, growth	**växa** -nde; **växer**; **växte**; **vuxit**; **tillväxt** -en
Expand, expands, expanding, expanded, expansion	**expandera** -r, -s, -t, -ts, -nde**; expansion** -er, -en, -ena
Exceed, exceeds, exceeded, exceeding	**överträffa** -r , -t, -nde, -de; **överstiga** -s, -nde; **översteg; överstiger**
Beat, beats, beating	**besegra** -s, -r, -nde; **vinna** -s, -nde, -re; **vinner**; **segra** -r, -nde
Other added Positive Swedish words	
Banbrytande	
Briljera; **briljant**; **briljans**	
Effekt -iv, -ivitet, -ivisera, -iviserat, -iviseras	
Engagera -d, -de; **engagemang**	
Entusiasm -en; **entusiastisk** -a	
Fantastisk -t, -a	
Flexibel -t; **flexibla**	
Framkant -en	
Fungera -r, -t , -nde	
Fördel-ar,-aktig,-ar,-arna,-en	
Gynna -r, -s, -t, -ande; **gynnsam** -t, -a	
Hopp -as; **hoppfull** -t, -a	
Hållbar -t, -a, -het	
Innovation -er,-erna, -en; **innovativ** -itet, -t	
Imponera -r, -nde, -t, -s	
Inspirera -r, -t, -ts, -nde	
Kostnadsminkning -en, -ar, -arna	
Kvalitet -en; **kvalitativ** -a	
Konkurrenskraft -ig, -iga, -en	
Lovande	
Nytta	
Optimism- en; **optimistisk** -t, -a	
Potential -en; **potentiell** -a, -t	
Sund -a	
Seger	
Tillförsikt	
Vital -a, -t, -itet	
Välmående	
Välrenommérad; **välrenommérat**	
Värde -t, -n, -full, -fullt,-fulla	
Stor -t, -a	

Appendix 3: Word Count

Firm	Positive	Negative	Adjust. Pos.	Adjust. Neg.	Positive Tot.	Negative Tot.	Tone	Family Firm
ABB	140	14	-1	-2	139	12	0,841	No
Addtech	93	5	-11	0	82	5	0,885	No
Alfa Laval	114	9	2	-2	116	7	0,886	No
Assa Abloy	217	30	5	-9	222	21	0,827	Yes
AstraZeneca	63	25	-10	0	53	25	0,359	No
Atlas Copco	110	10	3	-3	113	7	0,883	Yes
Atrium Ljungberg	54	7	-3	-1	51	6	0,789	No
Avanza Bank Holding	95	22	9	-16	104	6	0,891	No
Axfood	88	5	3	-1	91	4	0,916	Yes
Axis	72	5	-1	-4	71	1	0,972	No
Beijer Alma	41	10	-3	-1	38	9	0,617	Yes
Beijer ref	62	17	-1	0	61	17	0,564	No
Betsson	50	1	-1	0	49	1	0,960	No
BillerudKorsnäs	101	17	-7	-6	94	11	0,790	No
Biogaia	50	8	-7	-1	43	7	0,720	Yes
Boliden	88	21	-16	-3	72	18	0,600	No
Byggmax	52	12	-3	-7	49	5	0,815	No
Castellum	58	14	-1	-7	57	7	0,781	No
Clas Ohlson	80	5	-11	1	69	6	0,840	No
Cloetta	57	6	2	-6	59	0	1,000	Yes
Concentic	67	18	-2	-1	65	17	0,585	No
Diös fastigheter	43	1	-8	3	35	4	0,795	No
Duni	77	1	-15	1	62	2	0,938	Yes
Electrolux	95	18	1	-5	96	13	0,761	Yes
Elekta	82	3	-1	-2	81	1	0,976	Yes
Ericsson	93	10	-4	-1	89	9	0,816	Yes
Fabege	74	4	-4	-3	70	1	0,972	No
Fast Partner	92	34	-30	-8	62	26	0,409	Yes
Fast. Balder	30	1	-8	2	22	3	0,760	Yes
Fingerprint cards	30	1	-1	-1	29	0	1,000	No
Getinge	92	18	-13	1	79	19	0,612	Yes
Gränges	103	17	1	-7	104	10	0,825	No
Haldex	78	11	-14	0	64	11	0,707	No
Handelsbanken	107	17	-8	-11	99	6	0,886	No
Heba	66	9	-1	-7	65	2	0,940	No
Hemfosa Fastigheter	21	3	-1	-2	20	1	0,905	No
Hennes & Mauritz	79	3	-12	0	67	3	0,914	Yes
Hexagon	58	11	-5	1	53	12	0,631	Yes
Hexpol	112	8	-3	-3	109	5	0,912	Yes
HiQ International	44	2	-4	-1	40	1	0,951	No
Hoist Finance	51	2	-5	0	46	2	0,917	Yes
Holmen	82	15	-5	-4	77	11	0,750	Yes
Hufvudstaden	91	15	-6	-3	85	12	0,753	Yes
Husqvarna	98	14	-11	-3	87	11	0,776	Yes
ICA Gruppen	95	6	-9	-2	86	4	0,911	No
Industrial & Financial Sys.	39	4	-1	0	38	4	0,810	Yes
Industrivärlden	173	22	-41	-1	132	21	0,725	No
Indutrade	42	20	-8	-6	34	14	0,417	Yes
Intrum Justitia	75	4	-7	0	68	4	0,889	No
Investor	139	12	2	-8	141	4	0,945	Yes
JM	80	11	-6	-5	74	6	0,850	No
Kinnevik	73	5	-1	-1	72	4	0,895	Yes
Klövern	51	13	-5	-4	46	9	0,673	No
Kungsleden	78	3	-7	-1	71	2	0,945	No
Latour	91	13	-6	-3	85	10	0,789	Yes
Lindab International	60	5	-1	-4	59	1	0,967	No
Loomis	179	21	-32	-2	147	19	0,771	Yes
Lundbergföretagen	183	32	-19	-8	164	24	0,745	Yes
Lundin Petroleum	65	4	-10	-2	55	2	0,930	Yes
Meda	73	2	-4	1	69	3	0,917	Yes
Mekonomen	69	11	-9	3	60	14	0,622	Yes
Melker Schörling	47	3	-1	-1	46	2	0,917	Yes
Modern Times Group	94	2	-7	-1	87	1	0,977	Yes
Mycronic	62	8	-4	2	58	10	0,706	No
NCC	93	18	-5	-3	88	15	0,709	Yes
Net Entertainment	95	6	-2	-3	93	3	0,938	No
NIBE Industrier	94	6	-1	-2	93	4	0,918	Yes
Nobia	55	10	-6	0	49	10	0,661	Yes
Nordea	78	25	-6	0	72	25	0,485	No
Nordnet	52	4	-6	-3	46	1	0,957	Yes
Opus Group	54	3	1	-1	55	2	0,930	No
Peab	65	5	-10	-2	55	3	0,897	Yes
Ratos	75	21	-1	-4	74	17	0,626	Yes
Rezidor Hotel Group	63	5	-5	0	58	5	0,841	Yes
SAAB	83	15	-2	-3	81	12	0,742	Yes
Sagax	88	23	-8	-8	80	15	0,684	Yes
Sandvik	65	10	-1	-1	64	9	0,753	No
SAS	74	18	2	-8	76	10	0,767	No
SCA	104	9	-3	-4	101	5	0,906	No
SEB	46	7	-3	-2	43	5	0,792	Yes
Securitas	92	13	-8	-1	84	12	0,750	Yes
Skanska	84	12	-7	-3	77	9	0,791	No
SKF	81	18	2	-13	83	5	0,886	Yes
SSAB	67	22	-9	0	58	22	0,450	No
Sweco	42	2	0	-1	42	1	0,953	Yes
Swedbank	49	3	-1	0	48	3	0,882	No
Swedish Match	90	24	-4	-7	86	17	0,670	No
Swedish Orphan Biovitrum	58	3	-11	0	47	3	0,880	Yes
Systemair	43	8	-1	-3	42	5	0,787	Yes
Tele2	79	14	-1	-6	78	8	0,814	Yes
TeliaSonera	90	11	-8	-2	82	9	0,802	No
Tethys oil	53	3	-6	0	47	3	0,880	No
Thule Group	67	11	4	-8	71	3	0,919	No
Transmode	75	9	0	-2	75	7	0,829	No
Trelleborg	116	12	-3	-1	113	11	0,823	No
Unibet	80	5	-6	1	74	6	0,850	No
Wallenstam	91	15	-1	-5	90	10	0,800	Yes
Wihlborgs	56	8	-11	-2	45	6	0,765	No
Volvo	42	7	-7	1	35	8	0,628	No
ÅF	82	7	-5	-3	77	4	0,901	No

Appendix 4: Full Descriptive List of the Sample

Firm name	Largest shareholder	Voting rights %	Family firm	Tone	Family CEO/Chairman
ABB	Investor	7,8	No	0,841	No
Addtech	Börjesson Anders	15,4	No	0,885	No
Alfa Laval	Tetra Laval BV	26,1	No	0,886	No
Assa Abloy	Latour (Gustaf Douglas)	29,4	Yes	0,827	No
AstraZeneca	BlackRock, inc	7,9	No	0,359	No
Atlas Copco	Wallenberg	22,3	Yes	0,883	No
Atrium Ljungberg	Konsumentföreningen Stockholm	27,6	No	0,789	No
Avanza Bank Holding	Creades AB	10,1	No	0,891	No
Axfood	Axel Johnson AB	50,1	Yes	0,916	No
Axis	Canon Inc	76,1	No	0,972	No
Beijer Alma	Wall Anders och bolag	34,6	Yes	0,617	Yes
Beijer ref	Carrier	33,3	No	0,564	No
Betsson	Per Hamberg o fam/bol (Hamberg Förvaltning AB)	17,9	No	0,960	No
BillerudKorsnäs	Frapag Beteiligung Holding AG	15,0	No	0,790	No
Biogaia	Annwall & Rotschild Investments AB	34,1	Yes	0,720	Yes
Boliden	Norges Bank Investment Management	5,5	No	0,600	No
Byggmax	Nordea Fonder (Nordea Funds AB)	10,2	No	0,815	No
Castellum	BlackRock, inc	5,0	No	0,781	No
Clas Ohlson	Tidstrand Helena	16,9	No	0,840	No
Cloetta	Hjalmar Svenfelts stiftelse (Malfors Promotor AB)	39,5	Yes	1,000	No
Concentic	Nordea Fonder (Nordea Funds AB)	11,4	No	0,585	No
Diös fastigheter	Persson Invest AB	15,4	No	0,795	No
Duni	Rune Andersson (Mellby Gård Investerings AB)	30,0	Yes	0,938	No
Electrolux	Investor	30,0	Yes	0,761	Yes
Elekta	Leksell Laurent familj och bolag	29,7	Yes	0,976	No
Ericsson	Investor	21,5	Yes	0,816	No
Fabege	Erik Paulsson via bol (Brinova AB m.fl)	15,1	No	0,972	No
Fast Partner	Johansson Sven-Olof (Compactor Fastigheter AB)	70,9	Yes	0,409	Yes
Fast. Balder	Selin Erik bolag	53,2	Yes	0,760	Yes
Fingerprint cards	Sunfloro AB (Carlström)	17,8	No	1,000	No
Getinge	Bennet Carl Bolag	48,9	Yes	0,612	Yes
Gränges	Orkla Industriinvesteringar AB	31,0	No	0,825	No
Haldex	SEB Private Bank SA	6,0	No	0,707	No
Handelsbanken	Industrivärlden	10,4	No	0,886	No
Heba	Birgitta Härnblad	19,3	No	0,940	No
Hemfosa Fastigheter	Länsförsäkringar Fonder	10,0	No	0,905	No
Hennes & Mauritz	Persson Stefan familj och bolag	69,7	Yes	0,914	Yes
Hexagon	Melker Schörling AB	47,1	Yes	0,631	Yes
Hexpol	Melker Schörling AB	46,8	Yes	0,912	Yes
HiQ International	Swedbank Robur Fonder	9,7	No	0,951	No
Hoist Finance	Mikael Wirén(Beagle Investments SA)	29,3	Yes	0,917	No
Holmen	Lundbergs	61,6	Yes	0,750	Yes
Hufvudstaden	Lundbergs	87,6	Yes	0,753	Yes
Husqvarna	Investor	31,0	Yes	0,776	No
ICA Gruppen	ICA-handlarnas Förbund	10,5	No	0,911	No
Industrial & Financial Sys.	Gustaf Douglas fam o bol (Förvaltnings AB Wasatornet)	20,2	Yes	0,810	No
Industrivärlden	Lundbergs	18,6	No	0,725	No
Indutrade	Lundbergs	25,6	Yes	0,417	Yes
Intrum Justitia	SEB Investment Management	5,9	No	0,889	No
Investor	Wallenberg-stiftelser	42,0	Yes	0,945	Yes
JM	AMF Pension Fonder/Försäkring	9,9	No	0,850	No
Kinnevik	Stenbeck (Verdere S.a.r.l)	44,8	Yes	0,895	Yes
Klövern	Arnhult (Corem Property Group AB)	19,1	No	0,673	No
Kungsleden	Gösta Welandson o bol.	13,4	No	0,945	No
Latour	Douglassfären	79,7	Yes	0,789	No
Lindab International	Creades AB	10,0	No	0,967	No
Loomis	Latour (Gustaf Douglas)	28,5	Yes	0,771	No
Lundbergföretagen	Lundberg Fredrik Familj och Bolag	71,0	Yes	0,745	Yes
Lundin Petroleum	Lundin (Lorito Holdings)	24,5	Yes	0,930	Yes
Meda	Stena-koncernen	20,7	Yes	0,917	No
Mekonomen	Antonia Ax:son Johnson bol	26,5	Yes	0,622	No
Melker Schörling	Melker Schörling	84,6	Yes	0,917	Yes
Modern Times Group	Kinnevik	47,6	Yes	0,977	No
Mycronic	Bure Equity AB	38,0	No	0,706	No
NCC	Nordstjernan AB (Ax:son Johnson)	65,1	Yes	0,709	No
Net Entertainment	Per Hamberg o fam/bol (Hamberg Förvaltning AB)	19,7	No	0,938	No
NIBE Industrier	Melker Schörling	20,1	Yes	0,918	No
Nobia	Nordstjernan AB	20,8	Yes	0,661	No
Nordea	Sampo plc	21,2	No	0,485	No
Nordnet	E Öhman J:or AB	30,2	Yes	0,957	Yes
Opus Group	Kommandoran AB (Greko/Hentschel)	14,8	No	0,930	No
Peab	Paulsson Mats och bolag	28,6	Yes	0,897	No
Ratos	Fam Söderberg o bol	43,9	Yes	0,626	No
Rezidor Hotel Group	Carlson Companies Inc.	50,2	Yes	0,841	No
SAAB	Investor (Wallenberg)	39,5	Yes	0,742	Yes
Sagax	David Mindus med bolag	25,9	Yes	0,684	Yes
Sandvik	Industrivärlden AB	11,7	No	0,753	No
Sas	Svenska Staten	21,4	No	0,767	No
SCA	Industrivärlden AB	29,2	No	0,906	No
SEB	Investor	20,8	Yes	0,792	Yes
Securitas	Latour (Gustaf Douglas)	29,6	Yes	0,750	No
Skanska	Industrivärlden AB	24,4	No	0,791	No
SKF	Foundation Asset Management (Wallenberg)	29,5	Yes	0,886	No
SSAB	Industrivärlden AB	17,7	No	0,450	No
Sweco	Nordström (Skirner Förvaltning AB)	33,9	Yes	0,953	Yes
Swedbank	Folksam fonder	9,3	No	0,882	No
Swedish Match	Morgan Stanley Investment Management	5,0	No	0,670	No
Swedish Orphan Biovitrum	Investor (Wallenberg)	39,8	Yes	0,880	No
Systemair	Engström Gerald (Färna Invest AB)	42,3	Yes	0,787	Yes
Tele2	Kinnevik	47,8	Yes	0,814	No
TeliaSonera	Svenska Staten	37,3	No	0,802	No
Tethys oil	UBS AG kundkonto	7,6	No	0,880	No
Thule Group	Nordic Capital VI ltd / Nordic Capital VII Ltd	64,3	No	0,919	No
Transmode	Pod Investment AB (Roos/Douglas/Nyman)	33,2	No	0,829	No
Trelleborg	Dunkerstiftelserna	54,0	No	0,823	No
Unibet	Anders Ström	10,1	No	0,850	No
Volvo	Industrivärlden AB	21,1	No	0,628	No
Wallenstam	Wallenstan Hans Famil och Bolag	59,9	Yes	0,800	Yes
Wihlborgs	Paulsson (Brinova Inter AB)	10,1	No	0,765	No
ÅF	ÅF forskningsstiftelse	37,1	No	0,901	No