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The Function of Financial Reporting in Family Firms

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Veronika Gillberg
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Authors:	Matilda Rolfsson Veronika Gillberg
Tutor:	Annika Yström
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Abstract

The objective of financial reporting has mainly been discussed in the accounting literature with reference to the stewardship/accountability and decision-usefulness perspective. The latter objective is emphasised by standard setters, but the accounting literature argues for a stronger emphasis on the stewardship/accountability perspective. The discussion surrounding the objective is largely conducted with large public companies as a foundation. Thus, the thesis aims to explore the function of financial reporting in small private family businesses as they account for a large amount of the existing corporations. The study relies on a qualitative method with semi-structured interviews and a document study on the financial reports to fulfil the purpose of the study. The study shows that the function of financial reporting is revolved around evaluating firm performance and using the financial report as a communication tool to external users. The findings indicate tendencies of the decision-usefulness, but the stewardship/accountability objective is more apparent. Also, the concept of socioemotional wealth appears to be related to the stewardship/accountability objective and the function of financial reporting.

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Veronika Gillberg

Matilda Rolfsson

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1 Introduction

The first chapter introduces the research study about the function of financial reporting in family firms. It starts with a background section where the objectives and users of financial reporting will be introduced as well as an overview of financial reporting within the family business context. It continues with the research problem that leads to the formulation of the purpose of the study. The chapter ends with a definition of family firms.

1.1 Background

1.1.1 Financial Reporting - Objectives and Users

Most companies are subjected to an obligation of providing a financial report which can be extensive for large corporations. The main purpose of financial reporting can be commonly expressed as being related to the disclosures of financial statements and to be able to observe how an organisation is performing. When objectives are discussed in the accounting literature, it is mainly with reference to two different perspectives, namely the decision-usefulness objective and stewardship/accountability objective (Mellemvik, Monsen & Olson, 1988). Overall, in the accounting literature, the objective of financial reporting is closely linked to the users and the authors do not often distinguish the objective from the users and their needs (Zeff, 2013; Young, 2006).

The modern accounting literature focuses on the provision of decision-useful information (Zeff, 2013) where the overall objective of financial reporting is to provide financial information that will be helpful to users in making future economic decisions (Mellemvik et al., 1988). According to regulators, the primary users of financial reporting are the investors, creditors and analysts (Georgiou, 2018; Young, 2006) and for these users to make investment or valuation decisions, it usually requires future-orientated information (Cascino et al., 2014). Therefore, one can say that decision-usefulness information should provide information to predict future cash flows (Whittington, 2008a).

The second perspective is viewed as an alternative objective to provide financial information on the management of resource use (Mellemvik et al., 1988). From this perspective, financial reporting is used to evaluate the performance of the managers who have been entrusted to take care of the shareholders' funds (Kuhner & Pelger, 2015). Therefore, the primary users of financial reporting, from a stewardship perspective, is the current shareholders (Whittington, 2008a).

The stewardship/accountability perspective of financial reporting is argued to be an equally important objective (Pelger, 2016), but the regulators' attention towards it has steadily declined in favour of the decision-usefulness objective (O'Connell, 2007). The decision-usefulness objective has been given a lot of space by accounting standard setters in the Conceptual Framework provided by the International Accounting Standards Board (IASB) and the

Financial Accounting Standards Board (FASB) (Young, 2006; Pelger, 2016). This has evolved into a discussion in the accounting literature, where the decision-usefulness perspective is set against the stewardship function (Gjesdal, 1981; Kuhner & Pelger, 2015). The standard setters emphasise that stewardship/accountability should not be viewed as an independent concern and a separate objective, but rather as an extension of the decision-usefulness objective (Pelger, 2019). The way standard setters have chosen to determine the objective of financial reporting has been criticised in the accounting literature. Empirical findings from the accounting research have identified conditions where the decision-usefulness objective is not consistent with the stewardship concerns (Kuhner & Pelger, 2015), and where the same accounting system does not necessarily satisfy the needs of both stewardship and decision-usefulness purposes (Gjesdal, 1981). The two objectives yield similar information and overlap in some circumstances but have also some distinct differences (Whittington, 2008a,b), which could indicate that stewardship/accountability should not be viewed as an extension but rather as a separate objective of financial reporting.

The discussion about the objective is mainly in relation to large and/or public corporations. However, Botosan et al. (2006) emphasise that there is a need for financial reporting based on stewardship regardless of whether the entity is privately held or publicly listed. In terms of small and privately held entities, Yström (2019) suggests that the accounting literature is inclined to concentrate on users' issues and their information needs instead of the objective of financial reporting.

1.1.2 Financial Reporting and Family Firms

Family firms are a significant economic force in the global economy (Gomez-Mejia, Haynes, Nuñez-Nickel, Jacobson & Moyano-Fuentes, 2007), and in most countries, they represent between 70 percent and 95 percent of all firms (European Family Businesses, 2012). In terms of economic power, family firms are the category of companies that contribute the most to the global GDP (Caputo, Marzi, Pellegrini & Rialti, 2018). In European countries, the contribution of family firms to the national GDP ranges from 20 percent to about 70 percent, depending on the definition used (European Commission, 2009). Moreover, approximately a third of Sweden's GDP is appreciated to stem from family firms (SCB, 2017). Previous research about family firms has focused on comparing family businesses with non-family businesses to find the differences between them, but family firms also differ among each other (Melin & Nordqvist, 2007). Family firms can vary in terms of size, age, industry, and can either be privately held or publicly listed (Ferramosca & Ghio, 2018). They also range from sole proprietors to international public entities (European Commission, 2009). Furthermore, family firms possess special behavioural characteristics that separate them from their non-family counterparts (cf. Gomez-Mejia, Cruz, Berrone & De Castro, 2011).

Most of the previous literature about financial reporting in family firms has focused on large and publicly listed companies. Many researchers have aimed to provide insight into different aspects of financial reporting, such as disclosures and the quality of the financial report. Issues related to management accounting is also frequently researched in the family business context

(Prencipe, Bar-Yosef & Dekker, 2014). However, a further discussion about the objective of financial reporting is limited in the literature. As previously mentioned, the Conceptual Framework by the IASB emphasises the decision-usefulness objective for large corporations. In an attempt to adapt the standards to small and medium-sized companies, the IASB published the International Financial Reporting Standard for SMEs (IFRS for SMEs) (IASB, 2009). This standard also emphasises a decision-usefulness perspective of financial reporting. The current approach used by standard setters is 'one size fits all' (Cordery & Narraway, 2008; Ferramosca & Ghio, 2018). Although there may be differences between small and medium sized firms and large corporations, these are not distinguished in the objective of financial reporting stated by regulators. Because family firms are well-represented around the world and the characteristics that separate them from other corporations, the question becomes what objective financial reporting fulfils in family businesses?

1.2 Research Problem

The discussion in the literature about financial reporting in family firms is primarily concentrated on different disclosures and quality of the financial reports (Prencipe et al., 2014). Regarding disclosures, the discussion is largely focused on the needs of the owning family and shareholders. The need for disclosures is based on an agency theory perspective discussion, such as family members and owners have access to both financial and non- financial information. Therefore, it is argued that there is less need for disclosure in the annual report (eg. Brown, Beekes & Verhoeven, 2011; Vural, 2018; Chau & Gray, 2010). However, research has also indicated that there are voluntary disclosures that publicly listed family businesses tend to make, for example earnings warnings (Ali, Chen & Radhkrishnan, 2007; Chen, Chen & Cheng, 2008).

Even though research has been conducted in the field of family business, there is a lot to be discovered. Songini, Gnan and Malmi (2013) advocate for further research in other areas than voluntary disclosures, quality issues and management accounting with other theoretical references than to the agency theory. While the empirical studies previously mentioned discuss financial reporting issues within publicly listed family companies, there is a shortcoming in studies exploring the objective of financial reporting and private businesses. In order to gain insight into the extent to which the financial reporting objectives are fulfilled in family firms, the practical function has to be explored. As suggested by Yström (2019), the term 'objective' is used in the accounting literature and by standard setters to express the intended function of financial reporting. Similarly, what is usually referred to as the objective of financial reporting, is in reality the function of it (Mathews & Perera, 1996). However, the function is not easily observed and, therefore, knowledge must be obtained by interpreting how actors talk, make decisions and act on financial information (Mellemvik et al., 1988). Therefore, this thesis intends to explore the function of financial reporting and contribute to the knowledge of what objective financial reporting can fulfil, with focus on small privately held family businesses.

1.3 Purpose

Considering the discussion provided above, the purpose of the study is to explore the function of financial reporting in private family firms. The research is designed with the intent to answer questions related to why the financial reporting in a smaller Swedish limited liability company is performed the way it is. The study addresses the urge for further research in the field of family corporations (Motylska-Kuzma, 2017). The authors intend to add empirical findings from the business managers' and shareholders' perspective to the existing accounting literature. Thus, offering a further insight into financial reporting in family firms and contribute to the discussion about the overall objective of financial reporting. The term financial reporting is referring to the statutory obligation to provide a financial/annual report set by the Swedish accounting regulations.

1.4 Definition of Family Firm

The literature offers a variety of definitions and descriptions of what is considered a family business, but previous research shows that there is not a widely accepted universal definition (Westhead & Cowling, 1998). Steiger, Duller and Hiebl (2015) conducted an extensive literature review of 238 articles but were not able to conclude on a single commonly accepted definition to describe a family corporation. Researches may also avoid using clear definitions and thereby maintain the practice that defining a family corporation is conducted on a case-to-case basis (Astrachan, Klein & Smyrnios, 2002). This indicates that the definition can serve a particular research purpose (Dean, 1992). However, it can also serve to differentiate family from non-family businesses (Klein, 2000). A contributing factor to the variations in the literature is the two different approaches, which have been named the essence approach and the component approach (Chua, Chrisman & Sharma, 1999). The essence approach is centred around behaviour and relationships whereas the component approach focuses on family influence through ownership and control (Zellweger, Eddleston & Kellermanns, 2010). Most research studies adopt a component approach when defining a family business, even though it raises issues of what is considered to be the threshold regarding the level of control. This is considered to be a contributing factor to the heterogeneity of the definitions (Ferramosca & Ghio, 2018).

One prominent definition provided in the literature, which this study relies on, is the definition suggested by Westhead and Cowling (1998). They have adopted the component approach (Ferramosca & Ghio, 2018) and state that a company is considered to be a family business if "more than 50 percent of ordinary voting shares are owned by members of the family group related by blood or marriage, the majority of the members of the board of directors are members of the owning family and the leading representative perceives the business to be a family firm" (Westhead & Cowling, 1998). This definition can be seen in other studies as well (e.g. Blanco-Mazagatos, De Quevedo-Puente & Castrillo, 2007; Naldi, Nordqvist, Sjöberg & Wiklund, 2007; Nordqvist, 2012).

2 Frame of Reference

The following chapter provides the theoretical insights that frame the rest of the study. It begins with a discussion about the objectives of financial reporting in general, from the existing literature and the perspective of standard setters. It leads to the formulation of a model. Then the focus will be directed toward the field of family firms, which is the focus of this study. It presents an overview of the previous research about financial reporting in SME as well as the concept of Socioemotional Wealth. The chapter also includes accounting regulations in Sweden to enable the reader with an insight into this matter.

2.1. The Objectives and Users of Financial Reporting

The objective of financial reporting has been discussed in the accounting literature from mainly two different perspectives, namely stewardship/accountability and decision-usefulness (Mellemvik et al., 1988). These two perspectives overlap in some circumstances (Whittington 2008a, b), but there are also some major differences between them. In the following two sections, the main points of the objectives, as well as the primary users and the qualitative characteristics associated with the perspectives will be described separately.

2.1.1 Stewardship/Accountability

The stewardship/accountability perspective is the oldest objective of financial reporting and stewardship accounting has been used since ancient times (O'Connell, 2007; Mathews & Perera, 1996). Stewardship accounting was formed during the time of the manorial accounting period when stewards needed to prove the credibility of their tenure to an often absent landlord (Mathews & Perera, 1996). The resources entrusted to the stewards at that time could be a flock of sheep or a piece of land, and a simple form of accounting in terms of documentation was enough to prove the trustworthiness of the steward (Birnberg, 1980). Additionally, stewardship is frequently linked to the development of double-entry bookkeeping (Williamson & Lipman, 1991; Murphy, O'Connel & Hógartaigh, 2013). Since the middle of the nineteenth century, as companies grew in size, the concept of stewardship in accounting has been referred to the separation of ownership and control (Mathews & Perera, 1996). Thus, the modern view of stewardship in accounting emphasises the relationship between the managers and the owners (i.e., the shareholders) and the function of financial reporting has evolved to demonstrate to the shareholders that the resources entrusted to management have been used properly (Mathews & Perera, 1996).

Stewardship in accounting has been subject to a variety of interpretations through the years and even though it has a long history, there still does not exist a commonly accepted definition of stewardship in the accounting literature (O'Connell, 2007; Zeff, 2013). However, some general tendencies about the definition can be traceable over time. The concept has evolved from originally referring to management's honesty in husbanding resources (Zeff, 2013) and safekeeping of resources (Pelger, 2016). In later periods, the efficiency in using the resources became more important and also to provide a suitable return to the shareholders (Zeff, 2013). O'Connell (2007) suggests that the concept of stewardship is closely linked to the accountability relationship between management and shareholders and that financial reporting

is used for evaluating past performance and controlling future actions. The concepts of stewardship and accountability are closely linked to each other in the accounting literature. For instance, Whittington (2008a) describes stewardship as the accountability to present shareholders. The accountability objective of financial reporting implies that management is obligated to provide shareholders with an account of what they have done with the resources entrusted to them (Lennard, 2007). Ijiri (1983) emphasises that the accountability objective is based on the relationship between the supplier of the accounting information (the accountor) and the user of accounting information (the acountee). The objective of financial reporting is to deliver a fair system of information flow between the supplier and the user of accounting information, where the former has a right to know and the latter has a right to protect (Ijiri, 1983). Whittington (2008a) points out that the stewardship/accountability perspective is sometimes as much about the integrity of management as it is about economic performance. Moreover, Ijiri (1983) states that the disclosure of more information is not considered to be better for the overall accountability relationship and subjective information can damage the interest of the supplier of accounting information.

The modern view of stewardship in accounting has also been viewed in a principal-agent setting. From an agency perspective, stewardship can be referred to as the need for shareholders to receive accounting information to control and monitor management's performance (O'Connell, 2007; Lennard, 2007). Similarly, Kuhner & Pelger (2015) emphasise that the modern view of stewardship in accounting is associated with evaluating the performance of management which has a responsibility to maximise shareholder value. Whittington (2008a) further states that, from an agent-principal perspective, the shareholders monitor the freedom given to management by using the information in the financial reports. Since shareholders want to enhance the performance of management, the financial reporting will be more involved in determining future cash flow than merely predicting them (Whittington, 2008a). However, Lennard (2007) argues that financial reporting should not be observed as a burden for management to prove their accountability towards shareholders. It is also a tool for management to prove their success or their actions in response to challenges and is therefore beneficial for both management and shareholders (Lennard, 2007). In modern terms, the stewardship role is more about maximising the present value of future cash flows which require information similar to decision-usefulness (Whittington, 2008b). Moreover, Whittington (2008a) emphasises that an appropriate assessment of stewardship would also include an estimation of future cash flows to evaluate the outcomes of management's past policies. Therefore, the accountability/stewardship objective is focused on monitoring the past and predicting the future (Whittington, 2008a).

Although stewardship/accountability has several meanings, there is a certain user in mind when the concept is described in the accounting literature. As described in the background section to this thesis, authors in the accounting literature do not often distinguish objectives from users and their needs (Zeff, 2013). Nevertheless, when the concept was described in the paragraph above, it also touched upon the users of financial reporting. As noted by Whittington (2008a, b), financial reports could have a wide range of users with similar information needs, but there are still the needs of present shareholders that are considered the most. Thus, the main users of

financial reporting, according to the stewardship/accountability perspective, is the current shareholder (Mathews & Perera, 1996). However, Lennard (2007) claims that the annual financial report rarely provides any new information to the shareholders since a regular dialogue usually takes place between the management and shareholders. Still, financial reports can provide an essential communication device between management and owners (Lennard, 2007).

In order to achieve the stewardship/accountability objective, financial reporting has to contain certain qualitative characteristics. As described by Ijiri (1983), it would be challenging for a supplier of financial reports to remain neutral when it includes performance measurements, since he or she most probably wants to present the best performance picture possible. For that reason, the concept of objectivity and verifiability becomes essential in financial reporting. In this context, the latter refers to verifying information at a later point in time, whereas the former concerns producing identical or very similar accounting information regardless of who prepares it (i.e. independence) (Ijiri, 1983). Objectivity and verifiability could protect the interest of both the user and the supplier of financial reporting. From the user's perspective, Ijiri (1983) emphasises that objectivity and verifiability affirm that the accounting information is free from subjective bias. Consequently, from the supplier's perspective, the objectivity and verifiability of financial reports certify that they will not be accused of being misleading or biased (Ijiri, 1983). The auditor then becomes a third party in order to assure that the information is provided in an objective and verifiable manner (Ijiri, 1983). Whittington (2008a) further suggests that reliability is an essential characteristic of financial reporting. Similar to what Ijiri (1983) described, Whittington (2008b) emphasises that management could have an incentive to misrepresent performance as a means to enhance rewards. According to Whittington (2008b), this circumstance can be described as the justification for prudence since it counteracts management's incentive to present an optimistic view. Moreover, prudence can enhance reliability in financial reporting and reduce any possible bias (Whittington, 2008a).

2.1.2 Decision-Usefulness

A more recent view of financial reporting that began to develop in the accounting literature in the 1950s, initially in the USA, is the provision of decision-useful information (Zeff, 2013). The development of an increasing capital market led to the emergence of the decision-usefulness objective (Pelger, 2016). According to this view, the primary objective of financial reporting is to provide information that is useful for making future economic decisions (Ijiri, 1983; Mellemvik et al., 1988). Usually, it involves around investment or valuation decisions and it therefore often requires future-oriented information (Cascino et al., 2014). As Whittington (2008a) described, financial information in the decision-usefulness perspective should reflect the future and not the past. However, information about management's past performance could be useful in predicting future cash flows (Whittington, 2008a). Moreover, the focus is mainly on the decision-maker, or the user of financial reporting (Ijiri, 1983), and financial reports are argued to exist primarily to support the users' information needs (Young, 2006). The user of financial reporting, according to this perspective, is designated to be current and prospective investors in capital markets as well as creditors (Whittington, 2008a; Young,

2006). In addition to these users, analysts could also be considered as a user of financial reporting (Georgiou, 2018). Ijiri (1983) states that more accounting information provided to the users is preferable to less, given that it is cost-effective. Therefore, subjective information is considered to be welcomed whenever it can be useful information to the decision-maker (Ijiri, 1983).

The decision-usefulness objective has gained more attention by the accounting standard-setters compared to the stewardship/accountability objective. For instance, since the beginning of FASB in 1973, and subsequently through its conceptual frameworks, the main focus of accounting standards has been on providing useful information for economic decisions (Young, 2006). Similarly, the first conceptual framework provided by the predecessor of IASB also emphasised a decision-usefulness objective (Pelger, 2016). In fact, through the development of the conceptual frameworks provided by both IASB and FASB the decision-usefulness objective has been the most apparent, even though the IASB has included stewardship in some circumstances (Pelger, 2016; Whittington, 2008a). The conceptual frameworks establish the principles that guide the formation of accounting standards (Sutton, Cordery & Van Zijl, 2015), which means that the conceptual frameworks contribute to determining accounting practices. In the IASB/FASB framework from 2010, the decision-usefulness was stated as the single objective of financial reporting (cf. Pelger, 2016). Furthermore, the revised conceptual framework issued in 2018 by IASB also included the stewardship/accountability perspective, in addition to decision-usefulness (IASB, 2018). However, Pelger (2019) argues that the introduction of the stewardship/accountability perspective in the latest framework has no substantial effect in the later chapters. In the IFRS for SMEs, it is stated that the objective of financial statements is to provide information about the entity that is useful for economic decision-making, with a stewardship approach included as a secondary purpose (IASB, 2015).

The qualitative characteristics required to fulfil the decision-usefulness objective are primarily described by the accounting standard setters. Ijiri (1983) state that the decision-usefulness perspective is more associated with relevance, useful and faithful representation toward the decision-maker. In the revised framework issued by IASB in 2018, relevant information and faithful representation are considered to be the fundamental qualitative characteristics. Information is considered to be relevant if it can influence the decisions made by users (IASB, 2018). Faithful representation of financial information should be, to the maximum extent possible, free from error, neutral and complete (IASB, 2018).

2.2 Summary of Stewardship/Accountability and Decision-Usefulness

The first part of this chapter provides a general discussion on the stewardship/accountability objective and the decision-usefulness objective as it is presented in the accounting literature and by standard setters, mainly with focus on large and/or public corporations. As been stated at the beginning of the chapter, the stewardship/accountability objective and the decision-usefulness objective have similarities but also some distinct differences. This section aims to provide a summary of the main differences and similarities between the two objectives, and the discussion provided is illustrated in Figure 1 below.

The main point of the stewardship/accountability perspective of financial reporting is the accountability relationship between management and owners. The objective of financial reporting has changed over time from being focused on safekeeping of resources (Pelger, 2016) to be more concerned about the efficiency of management in using the resources entrusted to them (Zeff, 2013). According to this view, there should be a fair system of information flow between management and shareholders (Ijiri, 1983) and financial reporting could be used as a communication tool between the two parties (Lennard, 2007). Furthermore, shareholders have a right to know what is happening in the company (Ijiri, 1983), although management has a right to protect its integrity (Whittington, 2008a). Therefore, more information in the financial reports is not necessarily better for the accountability relationship and subjective information can do more harm than good (Ijiri, 1983). The modern view of the stewardship/accountability perspective is also considered in a principal-agent setting, where the objective of financial reporting is focused on evaluating and monitoring the performance of management (O'Connell, 2007; Lennard, 2007; Kuhner & Pelger, 2015) and the freedom that is given to management is monitored through the financial reporting (Whittington, 2008a). In addition to this, the financial reports can be used by management to prove their success and therefore be useful for both management and shareholders (Lennard, 2007).

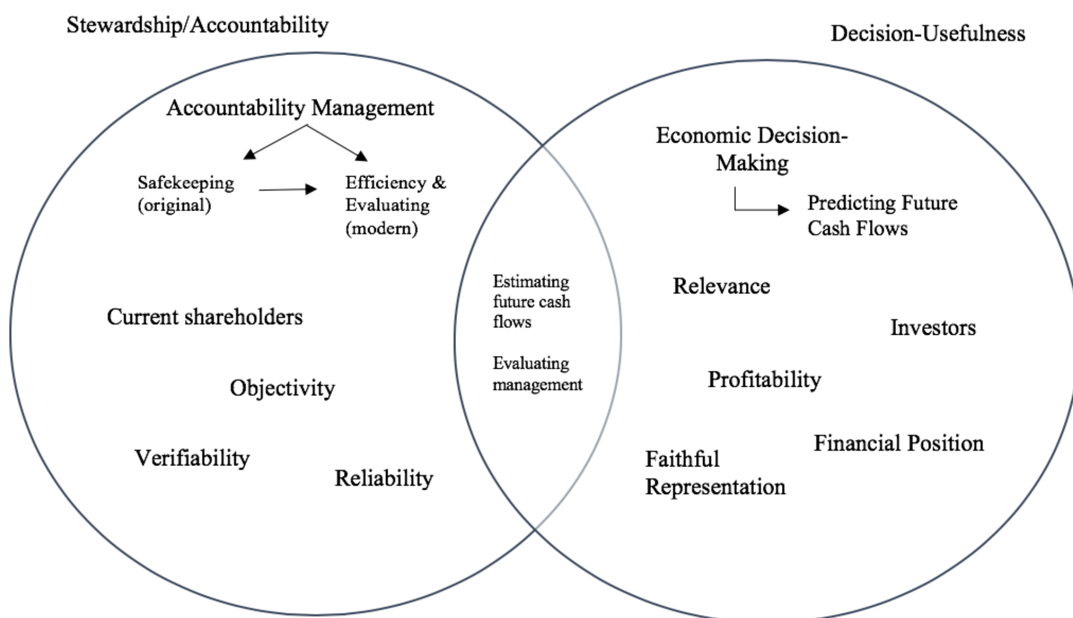
The main point of the decision-usefulness perspective of financial reporting is focused on the provision of financial information useful in economic decision-making (Ijiri, 1983). According to this view, the accounting information should reflect the future and not the past (Whittington, 2008a), and support the users' information needs (Young, 2006). Therefore, more accounting information is considered to be better than less, given that it is cost-effective, and subjective information can be used as long as it is useful information to the decision-maker (Ijiri, 1983).

The primary user according to the stewardship/accountability perspective is the current shareholders (Mathews & Perera, 1996), whereas the current and prospective investors and creditors are the primary user according to the decision-usefulness perspective (Whittington, 2008a; Young, 2006).

Moreover, the qualitative characteristics associated with the stewardship/accountability perspective is objectivity, verifiability (Ijiri, 1983) and reliability (Whittington, 2008a). On the contrary, the qualitative characteristics according to decision-usefulness are useful and relevant information and faithful representation (Ijiri, 1983; IASB, 2018).

The stewardship/accountability perspective and the decision-usefulness perspective tend to overlap in some circumstances. Even though the stewardship/accountability perspective is more concerned with information about past transactions and events, it could be useful to include an estimation on future prospects in order to evaluate management (Whittington, 2008a). The stewardship/accountability role of financial reporting is also about controlling the future actions taken by management (O'Connell, 2007) and maximising the present value of future cash flows (Whittington, 2008b). This requires information similar to the decision-usefulness perspective to predict the future outcomes. From the decision-usefulness perspective, information about the past could be useful for predicting future cash flows, which is the primary focus in this perspective (Whittington, 2008a). For instance, it could be useful to have information about management's past performance in order to predict future cash flows (Whittington, 2008a). In other words, evaluating management and estimating future cash flows may occur in both objectives.

Figure 1. Stewardship/Accountability and Decision-Usefulness



Note: The figure is based on the discussion provided in the sections above where the authors can be found.

2.3 Swedish Accounting Regulations

Bokföringsnämndens [Swedish Accounting Standards Board] work with formulating new reporting standards began in 2004 due to the complexity of the previous standards and concerns regarding comparability. The result was the K standards with four different categories depending on the size and form of the legal entity. All Swedish companies have to apply one of those four standards. The categories are the following:

K1: Sole proprietors and partnerships with a turnover of less than 3 million SEK
K2: Limited liability companies and cooperatives with less than 50 employees, a balance sheet total of less than 40 million SEK and a net-turnover of less than 80 million SEK for two consecutive financial years
K3: Larger non-public companies and cooperatives
K4: Entities obliged to prepare their consolidated statement according to IFRS and publicly listed entities
(BFN, 2017)

The distinction between the size of K2 and K3 companies is statutory regulated in *Årsredovisningslagen [Annual Accounts Act]* (SFS 2019:286). The K3 standard is the main standard for preparing a financial report and is based on the regulations in *Årsredovisningslagen.* Furthermore, influence came from IFRS for SMEs and the close relationship between accounting and taxation in Sweden.

The K2 standard is voluntary for smaller entities to apply and includes modifications and simplifications of the K3 standard. Companies can also choose to apply a higher category than they originally belong to. However, it is not allowed to apply a lower category if the entity's size and legal form prohibits it (BFN, 2017).

The K3 standard in Sweden states that the objective of the financial report is to provide information on the financial position, performance and cash flows of the reporting entity. The information should support the users' decisions on economic issues (BFNAR, 2012:1). Regarding the users, the standard does not provide any further specifications of who they might be. Although specific user groups are not highlighted, the standard mentions that the information in financial reports is often beneficial for external users, for example investors.

In the preparatory report for the K2 standard provided by *Bokföringsnämnden* and the Swedish Tax Authority, the users of financial reports are assumed to be creditors and the tax authority (BFN, 2005). The information needs of other users, such as employees and owners, are considered to be met through other channels than the financial reports. Although this discussion was presented, there is no mention of either users or the intended objectives of financial reporting in the final version of the standard (BFNAR, 2016:10). Also, there is no mention of stewardship in either of the K2 and K3 standards.

The standards also clarify what information is required to be included in the financial reports. K3 companies have to provide a statutory administration report, income statement, balance sheet, cash flow statement and notes. These statements have to show a true and fair image of the company. The statutory administration report is subjected to multiple specific regulations of what it has to include, for example a true overview of the company's development. This is referred to include a brief four-year summary about the turnover, earnings after interest and taxes and the company's equity ratio. Furthermore, a description of the business activity and significant events during the financial year have to be disclosed. This also holds for K2 companies. (BFNAR, 2012:1; BFNAR, 2016:10).

The K2 companies are exempted from the requirement of providing a cash flow statement but can voluntarily include one. The statutory administration report also includes the obligation to disclose any material happenings and other important information but is a simplification of the K3 rules (BFNAR, 2016:10). Even though both standards highlight the importance of disclosing material information and events that have happened during the year, they do not specify what is regarded as material. Therefore, the Swedish standards allow it to be a question of interpretation and the companies have some liberty when deciding what information to disclose. The firms can decide what is considered material and what information meets the needs of the users.

2.4 Family Business Research

Most of the family business research on financial reporting focuses on large publicly listed corporations and concentrates on different aspects of financial reporting. Such research is presented in this section. As previously stated in section 1.2, research exists about the family businesses disclosures and prior research indicate that there are voluntary disclosures family businesses tend to make. Publicly listed family businesses are more likely to issue earnings warnings and are more probable to publish quarterly forecasts when firm performance is declining (Ali et al., 2007; Chen et al., 2008). The earnings warnings may be due to concern of litigation or other consequences. Although more earnings warnings tend to be issued, earnings forecasts are less likely to be published, which is stated to be consistent with lower information asymmetry between the managers and owners (Chen et al., 2008).

Furthermore, publicly listed family businesses tend to have a higher earnings quality than their non-family counterparts (Wang, 2006; Ali et al.,2007). This is considered to be the case of an alignment effect, which means that family firms are less likely to engage in opportunistic behaviour because priority is placed on protecting the family's reputation and the long-term financial performance of the company (Wang, 2006). However, Bardhan et al. (2015) discover that family businesses display a greater deal of material weaknesses in the internal control over financial reporting, indicating a possible lower quality of the reporting. On the contrary, several studies conclude that the financial information and reporting is of a higher quality in publicly listed family firms in comparison to non-family businesses (e.g. Campopiano & De Massis, 2015; Costa Lourenco, Castelo Branco & Dias, 2018; Tong, 2008). In addition, older family businesses appear to be more incentivized to provide a high quality (Tomasetti, Macedo,

Antonio & Barile, 2019). Although, these studies address financial reporting quality in large family corporations, there is a shortcoming in discussing the reporting objective or function in the family business literature.

As mentioned in chapter 1, there are many family firms in Sweden and globally. While these corporations can vary in size, there are many family businesses that are SMEs (European Family Businesses, 2012). Due to the shortcoming in research about the objective of financial reporting in family firms, the next section discusses studies about SMEs and financial reporting.

2.5 Financial Reporting SME

Collis & Jarvis (2000) conducted a study in the UK with small companies that indicated that annual financial statements are not as useful as other information, for example management accounts, budgets, for management objectives. The management team is considered to be the primary user of small firm's financial statements. The use of the statements was regarded as a measure of confirmation and verification of the results and comparison of the company's performance across several periods. The study also signalled that the primary explanation for the reporting is meeting the statutory obligations. Nevertheless, there were also companies that indicated the importance of demonstrating the company's performance through the financial statements. Any limited disclosures were related to only disclosing the minimum requirements to keep information confidential.

Like Collis and Jarvis (2000) indicated in their previous study, annual financial reports may not be useful for distributing to the shareholders but serve a purpose for management (Collis & Jarvis, 2002). They also concluded that the management accounting information is typically prepared on a monthly or quarterly basis. This is to monitor the company's profitability, net assets and the cash flow. The study also indicated that a strong relationship with the bank is of great importance to small private companies to secure access to a line of credit and the possibility of decreasing the cost of capital.

Evans et al. (2005) provide a discussion regarding the main user groups and their information needs. They emphasise banks, employees and managers to be main users of the financial report for SMEs. Significance of the user needs is placed on profitability, solvency and the company's future but also accountability of management and how well they are performing. Evans et al. (2005) point out that the financial reports are useful for gaining information in smaller companies for managerial purposes. However, the usefulness diminishes once the company expands due to the development of other detailed information systems.

Furthermore, Botosan et al. (2006) state that is has been considered a beneficial possibility for SMEs for management's stewardship/accountability to be highlighted in the financial report. This is because the financial statements are more as an annual confirmation rather than to base any decisions regarding actions to sell or purchase shares. Botosan et al. (2006) further state

however that the stewardship/accountability objective is not considered to be an essential distinction for small private firms and their financial statements. Instead the existing standards with a decision-useful objective is considered to be adequate to meet the stewardship/accountability needs. Botosan et al. (2006) also discuss the users of the financial reports in SMEs, which is highlighted as banks. They appear to possess similar information needs as other users and decision makers that handle public firms' financial statements, thereby further emphasising the decision-usefulness objective.

The accounting literature has argued for the likelihood of private companies exhibiting a lower financial reporting quality (Hope & Vyas, 2017). However, that does not entail that accounting has any less significance in private enterprises. Also, these private companies tend to disclose less non-accounting information, which could indicate a greater significance on the financial information to external users in monitoring and evaluating management (Hope & Vyas, 2017). Bagnoli and Watts (2007) further state that if the financial reports contain good information, voluntary disclosures remain limited and vice versa. The probability of voluntary disclosures is also connected to the content of the financial reports. If the firm is performing close to market expectations, the voluntary disclosures are limited due to the restricted benefits of disclosing additional information (Bagnoli & Watts, 2007).

Yström (2019) states that the accounting literature about SMEs has a tendency to favour the discussion regarding user issues and information needs instead of the objective of financial reporting. Yström (2019) conducted a study on entrepreneurial SMEs in Sweden about the role of financial reporting, which highlighted the limitations of financial reporting when the task is to predict any future performance. This was related to the time delay of publishing the financial report and the historical perspective. There were other aspects that were considered important, such as communication and building trust. Hence, the accountability perspective of financial reporting was incorporated in the study. Although the financial reports may not be utilized for future-oriented decision, they were viewed as a confirmation, which the audit reinforced. This was also brought up by venture capitalists in their part as members of the board of directors. Banks, suppliers and customers were identified user groups in the study. Furthermore, the empirical findings indicated that additional reports, for example quarterly reports were produced during the financial year to enable to follow the company's performance and have a quicker response time to potential changes.

2.6 Socioemotional Wealth

Thus far, the chapter has discussed financial reporting, in general, and in terms of family firms and SME. However, it should be kept in mind that non-economic factors may play an important role in family firms. A growing body of research indicates that family firms are considerably different from their non-family counterparts (cf. Gomez-Mejia et al., 2011). This difference has been described through the concept of socioemotional wealth (SEW) that was formally introduced by Gomez-Mejia et al. (2007). SEW is associated as a key feature that separates family firms from other organisational forms (Berrone, Cruz & Gomez-Mejia, 2012) and it

aims to explain the behaviour of family firms based on how problems and actions are undertaken (Naldi, Cennamo, Corbetta & Gomez-Mejia, 2013)

The perspective of SEW is an extension of the Behavioral Agency Model, formulated by Wiseman and Gomez-Mejia (1998) and Gomez-Mejia, Welbourne and Wiseman (2000). The main premise of the Behavioral Agency Model is that key decision-makers in firms make their decisions based on their reference point. Thus, problems are framed by using a reference point to compare expected outcomes from different options, being either potential gains or losses (Berrone et al., 2012; Cennamo, Berrone, Cruz & Gomez-Mejia, 2012; Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2007). In case of a non-family firm, the model asserts that the reference point for decision-makers is either economic or financial concerns (Schulze & Kellermanns, 2015). On the contrary, the primary reference point for guiding managerial decisions in family firms is the potential gains or losses in SEW. Hence, family owners will formulate their decision-making with a desire to preserve and enhance SEW (Berrone et al., 2012; Gomez-Mejia et al., 2007). The model predicts that family owners are willing to make risky economic decisions if that would preserve or gain SEW (Berrone et al., 2012). At the same time, family owners will avoid risky decisions that could lead to a loss of SEW, even though it might increase economic wealth in the company (Gomez-Mejia, Cruz & Imperatore, 2014). However, as Berrone, Cruz, Gomez-Mejia & Larraza-Kintana (2010) emphasise, the concept of SEW does not imply that family firms will ignore financial issues or are more risk-averse than their non-family counterparts, as agency theory argues (Gomez-Mejia et al., 2007). The main point of SEW is that in firms with high family involvement, taking certain actions will be driven by a belief that the non-economic benefits rather than the potential financial gains will exceed the costs and risks associated with those actions (Berrone et al., 2010).

The concept of SEW has received a lot of interest in the field of family business literature (Schulze & Kellermanns, 2015), and empirical findings support the importance of socioemotional wealth to family firms. For instance, Gomez-Mejia et al. (2007) reported that family-owned Spanish olive mills were three times as likely to avoid joining cooperatives. The reason behind this strategic decision by family firms was supported by the associated loss of SEW, even though joining the cooperative offered financial benefits and a reduced risk of failure. By SEW, Gomez-Mejia et al. (2007) refer to the non-economic factors of the business that meet the family's emotional needs, such as identification with the business, perpetuation of the family dynasty and the ability to exercise family influence and control. Similarly, Astrachan and Jaskiewicz (2008) emphasise that the total value of a business is not only influenced by the financial worth of the company and the private benefits, but the total value is also affected by the emotional components associated with the business.

2.6.1. FIBER Model

As noted earlier, the SEW was developed to understand how actions and problems are undertaken in family firms. There are a variety of non-economic factors that influence managerial decision-making in family firms and the concept of SEW is therefore argued to be multidimensional (Berrone et al., 2012). In order to simplify the dimensions of SEW, Berrone et al. (2012) developed a model known as FIBER. The model constitutes of five dimensions of SEW which is stated in Figure 2 below.

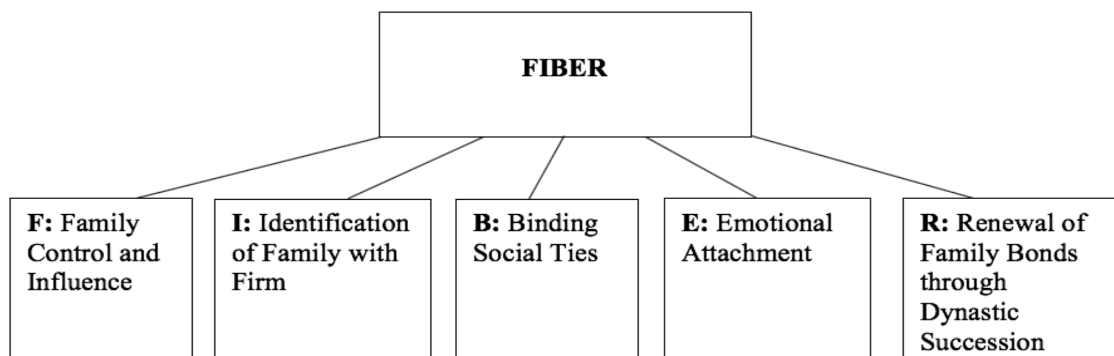


Figure 2. FIBER Model

Family Control and Influence

The first dimension of the FIBER model declares the control and influence that the family members have on the firm (Berrone et al., 2012). The family members are more inclined to perpetuate family owners' direct and indirect control over the company's activities to preserve and enhance SEW (Cennamo et al., 2012; Gomez-Mejia et al. 2007). The family can exert control by holding positions as CEO or chairman of the board (Berrone et al., 2012) and it is not uncommon that family members have multiple roles in the company in order to exert control (Mustakallio, Autio & Zahra, 2002). In the context of strategic decisions, family members exert considerable influence over the management of the business, and this also includes those family members without an ownership stake in the firm (Cennamo et al., 2012).

Identification of Family with Firm

The second dimension of the FIBER model refers to the identification of the family with the firm (Berrone et al., 2012). The family's identity tends to overlap with the organisational identity since the firm has an integral part in the family's biography, history and identity (Zellweger, Nason, Nordqvist & Brush, 2013; Dyer & Whetten, 2006). Usually, the family members feel a sense of membership and belonging in the firm that the family wants to preserve (Deephouse & Jaskiewicz, 2013). Furthermore, the family's name is usually a part of the firm's name (Berrone et al., 2012), which may lead to greater difficulty for the family to distance itself from the company (Dyer and Whetten, 2006). The result from this could be that the stakeholders observe the firm as an extension of the family itself rather than separate the family from the firm (Berrone et al., 2012; Cennamo et al., 2012).

Zellweger et al. (2013) state that unfavourable reputation spills over to the reputation and image of the family which therefore reduce the likelihood of selfish and financially oriented behaviour by family members. Therefore, family members are concerned to maintain a favourable reputation about the firm. Deephouse and Jaskiewicz (2013) also claim that family members are motivated to pursue a favourable reputation about the company when they feel a close identity with the firm. For instance, when the company carries the family's name, the family members may feel a responsibility to ensure that the company does not damage the family's reputation (Dyer & Whetten, 2006).

Moreover, Cennamo et al. (2012) state that the organisational identity influences how the firm interacts with its stakeholders since the firm's identity determines social values that guide its behaviour, it helps define the firm's perception of reality as well as what is considered to be important in the business environment. Additionally, the family owners try to communicate the family's values and norms to the employees by focusing on the long-term plans rather than short-term training (Gomez-Mejia et al., 2011). Thus, even those employees who are not family members could feel an identification with the firm because of the long-term orientation.

Binding Social Ties

The third FIBER dimension of SEW relates to the social relationships in family firms that develop social capital (Berrone et al., 2012; Cennamo et al., 2012). Social ties become a crucial part of SEW and the kinship ties in a family firm may further enhance relational trust, feelings of closeness as well as interpersonal solidarity (Berrone et al., 2012). Moreover, social bonds between family members are likely to be extended to outside the firm. The reciprocal and emotional ties in family firms may lead the businesses to pursue the welfare of those who surround them, even if there is no economic gain in doing so (Brickson, 2005, 2007).

Emotional Attachment

The fourth dimension of the FIBER model encompasses the role of emotions in the family firm (Berrone et al., 2012). A wide range of emotions are often apparent in family firms which can either be positive (happiness, love, tenderness) or negative (sadness, disappointment, anxiety), and the emotions constantly emerge and evolve in the business through situations like family conflicts, economic downturn, family loss, mergers, succession etc. (Berrone et al., 2012). Furthermore, relationship, business activities and events in family firms may be affected by emotional attachment due to a shared history, knowledge and experience of past events in the firm. (Berrone et al., 2012). Since the family members emotions may permeate the organisation, it could influence the decision-making process in the family business (Baron, 2008).

Renewal of family bonds through dynastic succession

The fifth and last FIBER dimension of SEW refers to how the company transfer the business to future generations (Berrone et al., 2012). According to Zellweger, Kellermanns, Chrisman & Chua (2012) succession tends to be a central aspect of SEW. The firm is not viewed as an

asset by the shareholders that can easily be sold because it symbolises the family's tradition and heritage (Cennamo et al., 2012). Consequently, the family may look at the firm as a long-term investment in order to preserve SEW to the next generation (Zellweger et al., 2012; Cennamo et al.,2012).

2.7 Implications for this Study

This chapter has discussed the theoretical framework that has been used in formulating the interview questions. The objectives of financial reporting were discussed at the beginning of the chapter and illustrated in Figure 1 in section 2.2. The figure illustrates the general discussion about the objectives in financial reporting in the accounting literature and by standard setters and has been in focus when formulating the interview questions to fulfil the purpose of the study. However, it should be kept in mind that the stewardship/accountability perspective and decision-usefulness perspective are more focused on companies with a separation of ownership and control, often it means larger companies. This study intends to explore the function of financial reporting in family firms that are smaller in size and privately held. However, as previously mentioned, literature about the objective of financial reporting in family firms is limited. Previous research about SMEs, a group of companies that includes a large share of family firms, suggests that corporations may produce monthly or quarterly reports to monitor the financial performance instead of fully relying on the annual report. Therefore, expectations of similar behaviour are placed on family firms. As banks are considered very important for SMEs as users of the financial report, similar statements could be a possibility in family firms. For SMEs, the company's financial performance as well as the management performance is of value, which could indicate an equal importance of stewardship/accountability and decision-useful information.

The chapter has also introduced the concept of SEW which can be used to describe the different characteristics that family firms possess (Berrone et al., 2012). SEW aims to explain the behaviour of family firms based on how problems and actions are undertaken (Naldi et al., 2013). In this study, SEW can be viewed as a complementary approach from the existing literature about family firms to explore possible connections to the financial reporting objective. The intention is to discuss the empirical findings with reference to the characteristics that family firms have according to SEW. To eliminate the risk of asking leading questions about SEW, the researchers intend to explore the concept of SEW by examining how the respondents reply to the questions about financial reporting in general.

3 Method

The chapter describes the methodological approach to the study. It explains the research process and the decisions made for the method. Furthermore, the chapter describes how the study was carried out and the thought process.

3.1 Philosophy of Science

As the study aims to explore the function of financial reporting in family firms with the perspective of business managers and owners, the researchers argue for the adoption of the interpretivism philosophy. The foundation of the interpretive research is to understand through interpretation (Crotty, 1998). The fundamental idea in social science is that people interpret occurrences and happenings around them and thereby construct their own realities. As a researcher, the objective is to attempt to comprehend those interpretations and meanings of the phenomena people have assigned it and aim to thereby understand the happening. The goal of this philosophy is not necessarily to be able to generalise an entire population but to be able to inform on other possible settings by examining the phenomena on a deeper level (Orlikowski & Baroudi, 1991), thereby creating rich comprehensions and interpretations of different contexts. In family business research, an interpretive philosophy can be beneficial to apply because of the complexities of family businesses (Nordqvist, Hall & Melin, 2009). Nordqvist et al. (2009) state that when family firms are researched, it also means researching the family and understanding the culture, the interactions and the influence on the enterprise. These aspects may not be easily worded and clearly stated. Therefore, interpretation is necessary when trying to understand others point of view.

A further nuance within the interpretivism philosophy is constructivism, which assumes that reality is socially constructed by individuals and the aim is to understand these constructions (Guba & Lincoln, 2000). Knowledge and truth are considered constructed and constructivists reject the notion of one unique real world. It is the human beings that invent concepts and models to comprehend a phenomenon, which is continuously changing (Schwandt, 1994). Furthermore, the research participants are regarded as part of constructing the reality together with the researchers. Therefore, the researchers are a part of the study and bring previous knowledge and experience with them to the study (Robson, 2011). This has implications throughout the entire research process, such as reviewing previous literature with the research purpose in mind, formulating the interview guide and interpreting and analysing the findings. The researchers are interested in exploring how business managers and owners view financial reporting and its function. Their beliefs and perspectives are their own construction and therefore enables the interpretivism philosophy, especially constructivism, to achieve the researchers' ambitions by gaining insight in the internal perspective of the research participants. By interpreting and analysing such perspectives, the researchers aim to provide knowledge and fulfil the purpose of the study.

3.2 Research Approach

Alvesson and Sköldberg (2018) provide a discussion regarding different approaches to research. Induction proceeds from observation to a general rule, whereas deduction begins with theory as a general rule and affirms it in a case. Both approaches are accompanied with certain risks and weaknesses. An inductive approach may face risking proclaiming a weak general rule that may not consider surrounding effects. Deduction is considered to be less venturous but fails to provide explanations of the situation and accepts the general rule as overbearing. An alternative research approach could be beneficial, which is the abductive approach. It can be considered a nuanced approach to theory-driven research in the sense of being creative and imaginative when conducting research to explore connections. Instead of displaying how something have to be a particular way, abduction shows how something could be. This means that the findings may or may not be explainable by the theoretical model used in the study and the findings that do not fit, can be analysed to stipulate new ideas (Meyer & Lunnay, 2013). An abductive approach has characteristics of both induction and deduction. However, it is not to be labelled as a mere mixture of the two approaches as it adds understanding as another important element. It stems from induction but does not disregard any previous theory, thereby it becomes closer to deduction (Alvesson & Sköldberg, 2018). This combination of approaches to research shows the constant movement between theory and observation and becomes flexible (Suddaby, 2006).

The abduction approach has been questioned for not being able to present likelihoods and probabilities (Plutynski, 2011). It can also be challenging to find an acceptable balance between theory and method and allowing for flexibility, as the relationship between the two is complicated (Van Maanen, Sørensen & Mitchell, 2007). However, the abductive approach is not only concerned with testing or confirming but also with the exploration and discovery of new ideas, like Meyer and Lunnay (2013) indicate, (Plutynski, 2011). Furthermore, the existing literature and analysis of empirical data can be an inspiration to examine possible new patterns to enlighten further understanding. With the movement between theory and observation, they are open to reinterpretation in the light of each other (Alvesson & Sköldberg, 2018). Therefore, the study relies on an abductive research approach as it aims to bring additional observations regarding the function of financial reporting from the business managers and owners in family businesses. This perspective can bring insight and ideas to the subject. The empirical findings may or may not be directly referable to the objectives of financial reporting described in the accounting literature. Therefore, the study can bring further discussion about the overall objective of financial reporting. The study does not disregard any previous literature and knowledge by basing the interview guide on the frame of reference in the previous chapter. Furthermore, the researchers move between theory and the empirical findings by trying to connect the findings to previous literature and possibly bring new ideas. Therefore, the researchers reinterpret the theory and findings considering each other.

3.3 Research Strategy

As previously mentioned, different aspects of financial reporting and disclosures in public family firms have been explored. Due to the shortcoming of studies on the function of financial reporting in private family firms, this study has an exploratory research purpose (Robson, 2011). A multi-method qualitative study is argued to be the most suitable approach to satisfy the purpose of the study. Qualitative methods for exploratory studies are beneficial due to the possibility of open-ended questions (Mack, Woodsong, McQueen, Guest & Namey, 2005) and are often centred around understanding a phenomenon in their natural environment (Gephart, 2004). A quantitative research strategy may allow for a sampling process from a larger population however questionnaires may not be the most suitable for exploratory studies as the possibility of large open-ended questions is limited. Questionnaires work best with standardised questions (Robson, 2011) rather than with open questions that aim to find meanings to the concepts in the study.

The main method is semi-structured interviews but is complemented with a study on financial reports. According to Lee (2012), when conducting a document study, researchers must be cautious about the nature of the documents. Documents provided by corporations are not originally created for research ambitions. They can also vary in quality and the data may not be presented in a consistent way. However, these aspects are not disadvantaging for the study. The financial reports in the study are standardised to an extent by accounting standards and regulations. Any variety in the presentation and content of such reports are considered beneficial for the study, as it may allow for further knowledge about what is important for the company to convey.

The semi-structured interviews allow for gathering rich data and a deep understanding of the research topic. The interviews provide the participants to reflect on the questions and the researcher can ask further questions if it is deemed to be necessary. Therefore, the opportunity of being flexible to probe for responses and for elaborations of the answers is offered (Mack et al., 2005). Conducting these interviews face-to-face grants several rewards, such as being able to engage in light conversation with the interviewee. The researcher’s humanity is more easily expressed and is thereby able to build rapport with the participant. Essentially, being able to establish a relationship and potentially trust. Furthermore, face-to-face interviews enable observations for any non-verbal actions and communications, such as body language and facial expressions (Irvine, Drew & Sainsbury, 2013)

In quantitative research, generalisability is a standard goal to be able to make references about the population. This ability may seem compromised with qualitative research as findings may come from a small sample size. However, qualitative research can provide generalisable explanations in other ways (Silverman, 2013), such as claims about a broader theoretical resonance (Mason, 2018). In this study, generality is not attempted by referring to a larger population but by reference to the existing accounting literature about financial reporting regarding SMEs and family businesses. Furthermore, generalisation is attempted by providing a broader discussion about the objective of financial reporting.

3.4 Data Collection

3.4.1 Criteria for sample

In order to delimit the study, there a few criteria for the sample of companies. Firstly, the study centres around Swedish family companies that are limited liability companies in Jönköping county. This is because any limited liability company must register the annual report at the Swedish Companies Registration Office [*Bolagsverket*] and the financial report thereby becomes public record (Bolagsverket, 2018). Businesses also tend to publish their annual reports on their websites and thereby facilitate gathering information. In cases where these reports were not accessible through the websites, they were located through the database Retriever Business.

Secondly, the research concentrates on small private limited liability companies. These would be considered K2 companies in Swedish terms, but in international terms for comparison the study includes entities that meet the EU definition of a small entity. This means companies that have less than 50 employees and a net-turnover or balance sheet total of less than ten million euro per year (2003/361/EG).

Thirdly, the intended participants in the study are specifically the family businesses and members of the family with governing responsibilities, such as being part of the management team or board of directors. They are considered both producers of the financial report but as they are owners of the company, they are regarded as users as well. Thus, they possess multiple roles and could thereby provide valuable information and a different perspective of the function of the financial report. Lastly, the family businesses in the study match the definition of a family firm provided in chapter one in section 1.4.

3.4.2 Selection of Companies

Finding possible family businesses for the study was initially slightly challenging as there is not a specific company registry or database for family enterprises. Thus, an initial online search with simple keywords, such as "Family firm + Jönköping county", was conducted to be able to establish an overview of possible companies to include in the study. Due to the simplicity of the keywords, the initial search was not as successful as it could have been. Therefore, further keywords were included to specify the search. These included specific places in the county, for example Gnosjö, Eksjö, Gränna, Nässjö etc. The search results included several different sources, as expected, and thus began the work of processing the results. Examples of sources in the search were newspaper articles, where a family business was mentioned or direct references to companies' websites. Before adding the companies to a preliminary list of possible enterprises for the study, their homepages were examined to see if it was a family business. Additionally, they were processed in the database Retriever Business to examine whether the CEO and board of directors shared the same last name to indicate any familiar relationship. However, it is important to note that family members do not have to possess the same surname. For instance, marriage can be a reason for different last names.

The disadvantage with this search process is the risk that some enterprises, that could be interesting to include in the study, are not found. Nonetheless, this was not considered to make the study any less reliable or valid. A further strategy to involve more companies in the study included contacting family and friends to initiate contact with possible family firms. This resulted in some suggestions and mentions of possible companies to contact for the study. However, the online search was the primary method in the selection of companies.

From the compiled list of family enterprises, a purposive sampling technique was applied to create the final sample of companies (Silverman, 2013). This included further research of the companies and careful consideration in the research team. These precautions were made to be certain the businesses matched the criteria described in the previous section and considered useful for the research purpose.

3.4.3 Conducting the Interviews

The selected companies were contacted and provided with a description of the study and examples of the interview questions. The interviewees were also informed about the intended voice recording and consent forms were signed prior to the interview. Anonymity was guaranteed to the participants in order to establish trust. The interviews were scheduled during March to April of 2020 and all were conducted with an interview guide, which can be seen in the Appendix. The interview guide was structured into different topics related to the function of financial reporting. The interview questions were formulated to cover the primary points of the financial reporting objectives presented in the frame of references. However, asking direct questions about the decision-usefulness objective and the stewardship/accountability objective could have been complicated and difficult to understand for the respondents. Therefore, the questions were simplified so it was understandable for the interviewees. The aim was to ask different questions that could indicate an application of the objectives.

The interview participants were initially asked about the company, their role and ownership structure to make the respondent feel comfortable and gain more knowledge about the corporation. The interview continued with questions relating to the function of financial reporting. The first question was asked to observe what the respondents believe is the function and to direct the conversation to the topic of financial reporting. The idea was to start with an open but direct question to generate a discussion about the function of financial reporting with the respondents. The other questions relating to the function of financial reporting contribute to discover which of the objective presented in the frame of reference that is most apparent in the companies. Since the main users of financial reporting differ between the stewardship/accountability objective and the decision-usefulness objective, questions were asked to explore who the users are according to the respondents. Also, depending on who the users are or what objective that is present, the information provided in the annual report could perhaps be different. It also correlates with how important the annual report is for the companies. The respondents were also asked about the internal use of financial reporting. These questions were related to if and how the companies utilise the financial report and if it is possible to make connections to stewardship/accountability and/or decision-

usefulness. Questions regarding the decision-making and budgeting based on the financial report were asked to see if the financial report is used in a future perspective for decision-making, which would coincide with decision-usefulness. Furthermore, stewardship/accountability emphasises the evaluation of management, which is why the respondents were asked about an evaluation of management based on the financial report. In relation to that, a question about potential bonus plans was incorporated to see if a bonus would be used or considered as an evaluation of management performance. Questions about the Swedish accounting regulations were asked to investigate if the companies provide a financial report because of the statutory obligation, or if they believe it has a value for them. It was also a tactical decision from the researchers if the respondents would initially have said that the financial report has no function for the company. Therefore, the aim of these questions was to create a discussion about the matter and in this way investigate what the function of financial reporting is for the companies. The qualitative characteristics are also relevant when discussing financial reporting. However, asking questions directly about them is challenging without posing leading questions. Therefore, the respondents were asked if the audit contributes anything and if it is considered essential for the financial reporting. The idea was to explore if and what qualitative characteristics of financial reporting would potentially be highlighted through the audit, for example reliability and faithful representation, to make connections to the objective of financial reporting. As previously mentioned, the concept of SEW was not included in the interview guide to avoid posing leading questions. In formulating the questions, it was important to consider including specific questions that could be related to the function of financial reporting, depending on the answers from the interviewee and thereby open for further discussion. This was also relevant from an interpretivist research approach to still be able to interpret and understand the respondents' answers in relation to the function of financial reporting.

As previously stated, the main objective was to conduct the interviews in person. The researchers met the companies at their offices for the first half of the interviews. However, due to the spread of Covid-19, the research strategy had to be altered which resulted in half of the interviews being conducted over the phone. This in order to protect both the interview participants and the research team. While face-to-face interviews are very beneficial for several reasons, as discussed in section 3.3, practising social distancing was necessary and a prerequisite to be able to complete the interviews. Due to the indication of the companies experiencing tension ascribable to Covid-19, the decision was made to conduct the interviews over the phone instead of handling possible technical issues accompanying a video conversation. This could lead to difficulties when establishing trust and rapport because it is not possible to see the other person. Nevertheless, it did not appear to be an issue because the interview participants were provided with descriptions about the study and the researchers, both written before the interview and verbally on the phone. They stated to be comfortable with answering the questions to the best of their abilities and were curious about the study. With having conducted half of the interviews in person, the researchers did not experience any considerable differences in the interviewees' expressions when the interviews were conducted over the phone. The average duration of the interviews was thirty minutes. Any potential follow-up interview was arranged over the phone as well.

3.5 Data Analysis

The interviews were transcribed word for word in order to organise the data before analysis. The companies were given letters of the alphabet to keep the analysis objective. One important aspect to consider is that the analysis demonstrates a test on the data but also the researchers, as it challenges the mental abilities, such as critical thinking and being openminded to different perspectives, to process the data (Robson, 2011).

To analyse the transcripts, a thematic coding analysis was adopted to identify any possible patterns, similar views, themes and linking these to previous existing knowledge regarding research and expressed objectives of financial reporting. It is a beneficial method when examining realities and meanings (Robson, 2011). This method is not only applicable to the interview transcripts but can also be applied to analyse the documents collected. It was possible to identify what companies put more emphasis on in the financial reports.

The process began with getting acquainted with the data by reading the transcripts multiple times. Different techniques were embraced, such as literal and interpretive readings. With literal reading, the interest is placed on words and language used and the literal content, for example using terms such as financial stability, performance, trustworthiness etc. Interpretive reading is focused on understanding what has been said, the participants view of the phenomena and their interpretations (Mason, 2018). Combining these reading techniques allows for analysis from multiple perspectives. Additionally, discussing the transcripts within the research team alleviated the analysis process and contributed to further critical thinking.

After the process of initial coding of words or phrases, the objective was to identify themes in the transcripts by searching for repetitions and similarities (Robson, 2011). With the themes identified, such as function/objective, users, qualitative characteristics and SEW, connections were made and the process of interpreting the findings was initiated. Once again, discussing the empirical findings and the themes was essential to produce an analysis. The researchers carefully considered potential meanings, connections to research in the accounting literature and practical implications.

3.6 Research Ethics

There are always ethical concerns when conducting research. As the study is based on family corporations, that entails asking questions about the family which could be deemed sensitive. Therefore, the study was conducted with caution to not inflict any harm, in any way, to the research participants. This is visible during the entire study, from formulating interview questions to collecting and handling the data.

To ensure security and comfort, the companies were informed of the subject and purpose of the study when first contact was initiated and presented once again when meeting for the interview, both verbally and in writing. As the study was mainly based on the interviews, consent forms were signed before the interview took place in order to attain voice recordings

of the interviews. The participants were assured anonymity and were guaranteed confidentiality of the collected data. Furthermore, the interviewees were made aware of the possibility to withdraw from participation of the study at any time. Additionally, all of the participants were assured a copy of the final report. After the interviews, the recordings and transcripts were safely stored with only the researchers having access to it.

3.7 Research Quality

Discussing reliability and validity can be challenging in qualitative studies, because of their more prominent establishment in quantitative research. Researchers have therefore discussed trustworthiness as a criterion for assessing quality in qualitative studies (eg. Guba & Lincoln, 2000). Criteria for trustworthiness are credibility, transferability, dependability and confirmability (Guba, 1981).

Credibility is concerned with the issue of the research to be truthful (Guba, 1981). One way of ensuring credibility is to spend a longer period of time with the research participants to enhance the empirical findings. However, it is also considered a threat to the credibility if the relationship between the researcher and participants becomes too close (Krefting, 1991). Therefore, it is not considered to be a disadvantage to the study that more time was not spent with the research participants. Another way of strengthening credibility is through triangulation (Guba, 1981). This study has embraced triangulation by including several perspectives, such as the document study and interview participants being business managers and owners in different industries.

Transferability relates to aspects of the study being applicable in other contexts (Guba, 1981). Lincoln and Guba (1985) emphasise that the responsibility of transferability lies heavier on the reader of the study when trying applicate the findings to another setting than the researchers. The argument is that the researchers cannot know in what way transferability is desired. Therefore, the best way to approach the issue is for the researchers to provide sufficient descriptive data in order to make similarity references (Lincoln & Guba, 1985). In this study, it relates to the clear descriptions of the entire research process, for example the representative selection of research participants, the selection process and how the empirical findings are presented (Krefting, 1991).

Furthermore, dependability is also referred to as consistency and is concerned with whether repeated studies would generate consistent empirical findings (Guba, 1981). In order to protect the dependability, transparency of the steps taken in the study is essential. Thus, the thesis includes detailed descriptions of how the research was conducted to reach the conclusions.

Lastly, confirmability is aspired to be achieved by showing that the findings and interpretations of the study are reliable and confirmable (Guba, 1981). This is obtained by clearly illustrating that the empirical findings and interpretations are well-grounded in the data collected (Krefting, 1991). Also, confirmability is aspired to be achieved by avoiding leading questions in the interviews. One approach to accomplish it was the structure of the interview guide, for example

not including questions about SEW and begin with open questions, as previously mentioned. A neutral tone was kept during the interviews to avoid directing the interviewee in any way. Furthermore, as the study has been conducted by a team of researchers, it increases the confirmability of the research because the analysis of the findings has been conducted through discussion (Krefting, 1991). Thus, minimizing the subjectivity of the researchers as individuals.

4 Empirical findings

This chapter presents the empirical findings to base the analysis on. It entails company descriptions and the findings from the interviews and document study. The findings are presented by the themes identified in the data analysis to allow for better understanding.

The researchers contacted 30 family corporations in the Jönköping county and 10 were interested in participating in the study. Many companies declined a participation due to Covid-19 affecting their businesses and there was not enough time to be interviewed. The interviews were conducted in person and over the phone throughout the months of March and April of 2020. The interview participants held different positions in the company but mostly the CEO of the company participated in the interview. Often, due to the structure in the company, multiple work assignments were held by the same person. All, except for one, interview participants were member of the owning family, shareholders and members of the board of directors. The following table illustrate an overview of the conducted interviews.

Company	Position	Family Member & Owner	Generation	Industry	Equity Ratio (%)
A	CFO	Yes	5	Agriculture and food	31.00
B	CEO	Yes	3	Production	54.70
C	CEO	Yes	2	Wholesale	30.00
D	CEO	Yes	3	Retail	30.00
E	CEO	Yes	2	Manufacturing	50.40
F	CEO	Yes	2	Manufacturing	41.00
G	CEO	Yes	5	Manufacturing	48.00
H	CEO	Yes	2	Electrical	69.00
I	CEO	No	3	Manufacturing	36.00
J	CEO and CFO (2 participants in the interview)	Yes	3 and 4	Manufacturing	38.00

Table 1. Overview Interviews
Source: Information from the latest financial report, homepage & Retriever Business

4.1 Company Descriptions

All companies in the study are relatively similar in size in terms of turnover, balance sheet total and the number of employees. The following statistics are averages from the past five years. The companies have a turnover between 20 and 70 million SEK, a balance sheet total between 15 and 35 million SEK and a number of employees between 10 and 30. Four of these companies carry the family name in the firm name.

Company A is an established enterprise that is a part of the agriculture and food industry. It was founded in the 1940s but became a limited liability company in the 1990s. The firm has many different business activities directed both at other businesses and the private consumer. It is an ever-evolving company with the aim of expanding its operations in the local community and be an active part of the surrounding area. The business has continued over several generations and is working towards a transfer of property to the younger generation. Still, the majority of the family members are active in the firm. All shareholders are family members and active in the conduct of the business, in addition to holding top management positions. The family business is driven by a desire of constantly developing the business operations and not by any specific financial goals, apart from remaining profitable.

Company B is also a well-established business in Jönköping county. Although it was not originally the current owning family who started the company in the 1950s, the family has been involved in the company for 20-30 years and is now driven by the third generation since the 1990s. The company operates in the production industry with business activities directed at other enterprises. Most of the shareholders are active in the company and have management positions. However, there is also a silent partner that is a family member but is not involved in the management of the business. Company B is the only company in the sample that follows the K3 standard for financial reporting. Still, the company is considered to be a K2 company since the requirements for applying K3 is not fulfilled regarding the size of the company. The company is striving to increase sales in foreign markets. Yet, no specific financial goals were mentioned by the respondent.

Company C operates with wholesale and distributing goods to other enterprises. The owning family has driven the company since it was founded in the 1970s and is currently in the second generation. All the family members are shareholders and active in the company with multiple job responsibilities. The main objective of the company is to be an established part of the community and provide the clients with good service. It is important for the firm to have a stable turnover and a continuous and even financial growth.

Company D works with retail trade with a primary focus on private consumers since it was started the 1960s. The firm has expanded its business operations over the years and entered markets abroad. The company has partially conducted a transfer of property to the third generation and is working toward shifting the ownership of the shares further to the third generation for total operational control in the future. Currently, all the shareholders are active in the company but with the third generation having a more central role in running the company. The vision for the firm is to strengthen their market position and continue to be a profitable enterprise. The company has a clear long-term perspective with potential expansions into other markets and aims to keep the business within the family.

Company E was founded in the early 1950s and is a manufacturing company primarily aimed at other businesses. The second generation is currently the owners of the company and a part of the management team and active in the daily operations of the business. However, the current shareholders intend to involve the third generation for a future transfer of ownership. The

company is continuously working on being more and more efficient, produce products of high quality and having a strong connection with their clients. In connection with that, it is important for the company to keep being profitable.

Another company in the manufacturing industry is company F with business-to-business activities. Like company E, the second generation is currently running the company and was founded in the 1960s. There is one shareholder that is a silent partner and therefore not active in the conduct of the business. Still, the silent partner is a family member. The corporation has experienced changes in their business activities over the years in order to meet the needs of customers. One of the key aspects for the company has been to conduct business with many clients in several different industries. This has ensured stability during crises, for example the financial crisis in 2008. The company's target is to remain a competitive supplier of products to its customers, in addition to be a profitable company.

Company G is also in the manufacturing industry with customers mostly in the construction industry. The company has been a standing member of the community but has experienced several different ownership structures since the start in the 1960s. The fifth generation is the owners, and all shareholders are active in the management of the business. The company strives to evolve, adapt to the changes in the community and be an active part in those changes. Although there are no specific financial goals, the aim is to always be profitable and keep the profit margins stable.

Company H operates in the electrical industry with most construction companies as customers. The company was founded in the 1950s and has had different owners over the years. The family that owns the company today has run the company since the mid-2000s, and the second generation is involved in the company as an owner and part of the management team. Thus, all shareholders are active in the business. The company's goal is to continue to expand in terms of turnover and number of employees.

Company I is in the manufacturing industry and provides the Swedish manufacturing industry with equipment. It was founded in the 1930s, and the third generation owns and runs the corporation today. There is currently a single shareholder who owns 100 % of the company's shares and is also involved in business activities. The company's goal is to continuously provide quality deliveries and assist in customers growth. In addition, the company's target is to increase turnover and number of employees.

Company J was founded in the early 1900s and is also a part of the manufacturing industry. It is currently owned and driven by the third and fourth generation. All shareholders are active in the conduct of the business besides one shareholder who is only active as Chairman of the Board. The business has developed over time to adapt to society's needs and circumstances but has kept the main business idea. The company has a variety of customers in different fields in the manufacturing industry. The ambition is to remain in the market for several generations, be a part of society and a desirable employer. Furthermore, the company has no specific financial goals even though the company is continuously striving to increase turnover and earnings. The

interview was conducted with two respondents from the company at the same time. The reason is that the CEO was newly appointed and wanted support from the CFO.

4.2 The Function of Financial Reporting

When asked about the function of financial reporting, the respondents put forward different opinions. The respondents from Company A and B emphasise that the financial report has not much function for them in their role as managers. It is not something that they watch closely. The respondent from Company A states: *"The annual report is too compressed, so it does not really tell us anything"*. The respondent further expresses that the shareholders are involved in the business activities, and already have a feeling about the company's development and performance. Therefore, the respondent believes that the financial report is *"a product that arrives a little too late"*. Similarly, the respondent from Company C has a sense about in what direction the company is going but believes the annual report could be a tool for confirming that intuition. The respondent also considers the annual report like a measurement of the company's operations and uses the annual reports to review the development of the company. The respondent from Company D elaborates a bit more about the annual report as an annual reconciliation for the owners and points out: *"Since we are entirely privately held, we do not see much use of it externally"*. The respondent further reflects: *"We want to show that we are a well-managed company financially and of course there is an interest in showing it. However, since we finance ourselves most of the times, there is no enormous need of that"*. Both respondents from Company H and I emphasise that the financial report is useful as an annual reconciliation of the company's operations and well-being, and the respondent from Company H put forward the ability to review the company's expenditures for multiple years. The respondent from Company G state that the financial report is a tool to summarise the year and review the firm's performance and is important for the owners of the company. With the report, the company is able to evaluate different options to lower their costs. The respondent from Company E cannot determine any purpose of the financial report for the company. Still, the respondent reflects: *"It is essential to present the company's finances. It is relevant for customers and suppliers. It is important to show the well-being of the company"*. The respondent further states the importance of showing stability in the company in the annual report. In Company J, the annual report is used to convey stability and give a true and fair view of the business to the company's suppliers and customers. Similarly, the respondent from Company F stresses the importance of showing that the company is profitable but states that the managers do not use the annual report since they continuously monitor the development of the company.

In the role as a shareholder, most of the respondents put forward a similar discussion about the function of financial reporting. For instance, the respondent from Company E and C state that the financial report has no additional function from a shareholder perspective compared to a managerial perspective but emphasise the importance to monitor the company's financials. The respondent from Company C also reflects: *"It brings a sense of security to have a company that generates profits. It gives a sense of security also in your private life"*. In Company A, information is provided to the shareholders regularly since the shareholders meet once a week

and discuss the current state of the company. The respondent states that the company monitors business activities visually by, for example, looking at the numbers of deliveries each day. In the role as a shareholder, the respondent from Company D emphasises the importance to have an auditor that put forward questions that the shareholders may not have considered. The respondent reflects: "*As a shareholder, it is very beneficial to do that since it is the basis of how we should run the business, become more profitable and increase turnover*". The respondent from Company B, H and J state that the financial report is useful in the role as a shareholder in order to monitor the performance of the business. Similarly, the respondent from Company I states that the annual report is important for the company's shareholder in order to get an annual reconciliation and review the company's performance. The respondent further emphasises that it is also important in the role as a manager to inform the shareholder about decisions that could affect the income statement or the balance sheet. However, the respondent also put forward that the shareholder is well-aware about the company's financials before the annual report is provided.

4.2.1 The Financial Reporting and Financial Control

When asked about the internal use of financial reporting, most of the respondents replied that the annual report is provided too late for being useful in making decisions. In Company A, the respondent emphasises that the annual report has no merit internally because decisions need to be taken sooner and faster. Company A replied the following when asked if any decisions are being made based on the annual report: *"No, usually the decisions have already been made"*. Similarly, the respondent from Company E states that the annual report is not actively used to make decisions and instead the overall financial situation determines what actions to take. Additionally, the respondent from Company I discusses that more emphasis is put on the monthly reports to be able to make decisions faster. Monthly reports are produced in the other companies as well. Company A produces these in order to more quickly obtain and follow the progress of the company and make decisions accordingly. In Company B, quarterly reports are being used in the corporation to track the development and performance and the respondent states that these reports are superior to the annual report. Company C produces monthly reports to track the current state of the company and also to compare the profitability of the current month with the same month a year ago. The respondent from Company C indicates that it is easier to follow shorter periods but believes the annual report is more valuable because of the overview of the year. Company D, E, F, G and H also produce monthly reports. The respondent from Company D emphasises that the reason behind this is to prevent a surprise at the end of the year and to keep track of the result and development of the company. Company H means that the monthly reports are more important for the corporation in the sense of being able to adjust the business operations faster and there is an issue with the time delay of the annual report.

Company A works with a sales budget based on the sales from previous year broken down per month rather than to utilise the financial report as a foundation for a budget. Company B does not work with budgets but rather use gross margin for evaluation purposes. The respondent indicates that these calculations are followed up on several occasions during the year. The gross

margin is also used proactively before a new product is launched in order to make sure the investment is profitable. The respondent from Company F states that budgeting for the upcoming year is partly based on the annual report but also on prognoses from customers. The respondent from Company C, D, E, H, G and J emphasise that they do not work with budgeting and therefore do not use the annual report in this context. The reason put forward by most of the respondents is that the organisation is small in size and has short decision paths, which enable the companies to plan future activities person-to-person instead of using budgets. In addition to this, the respondent from Company I states that the annual budget, the annual report and the monthly records interrelate with each other and is reviewed simultaneously throughout the year in order to monitor the expenses and manage the business.

The respondent from Company C points out that the financial report is crucial when financing investments with the bank. The respondent reflects: *"If you have red numbers, then you will not have an easy time discussing investments"*. The respondent from Company D indicates that the opportunity for investments is dependent on the financial results. The respondent also reflects: *"If we had a good year in terms of profit, then we can feel that there is room for investments"*. The respondent emphasises the opposite when the company is facing a year when performance is lower and describes it with an example: *"If we see after a year that the turnover in Norway is low when we have been in there for two years, then we may choose to wait to expand to Finland because we must get started properly in Norway first. Those kinds of decisions are made based on the annual report"*. Company G and J also refer to the financial report being useful when deciding to invest in further assets. The respondent from Company F puts forward that the financial solidity is only reviewed once a year when producing the annual report. However, the respondent points out that a limited amount of decisions in the company is based on the financial solidity. Rather, investments are based more on what the company needs for improving operations than what the annual report shows. The owners and managers know the company's financial status and is not dependent on the annual report when making investment decisions. The respondent also highlights the short-decision paths that exist in the company and exemplifies that investment decisions could be made during a coffee-break, as long as the owners agree and feel that they have the money to do it. In Company H, the financial report is also used by the shareholders to formulate financial goals to expand the operations.

According to the respondent from Company A, the time delay of the financial report was also a reason for not using it to evaluate the management team in the business. At first, the respondent states that management does not evaluate themselves since the management team and the owners are the same people. The respondent emphasises that the management team has the overall responsibility but believes it is difficult to measure themselves. However, the respondent later discusses that the owners are observing how well certain investments are performing. One example that the respondent brought up was an investment the company did for a new business activity a few years ago where they evaluate if it was a good or bad investment. In Company B, the annual report is not used to evaluate management in any way. The respondent states that they conduct their own evaluation of themselves and are therefore not dependent on the financial report. When asked about how the evaluation was performed the respondent put forward the difficulty of assessing one's own performance and thereby

rejects the notion of conducting a self-assessment. The respondents from Company C, E and G indicate that they do not use the annual report to evaluate management and the respondents from Company C and G reflect that they are too small in that sense. On the contrary, the respondent from Company D, F and H state that they evaluate the management team based on the annual report in terms of cost allocation, and how profitable the company is. The respondent from Company D states: *"Well, the management team is also the family and the owners but of course, it is used to evaluate how we manage the business".* In Company J, the annual report is the foundation for evaluating management performance. In addition to this, the respondent from Company I stresses: *"The annual report is like an acknowledgement on what decisions the management, me and my management team, have made".*

When asked if any potential bonus plans are connected to the financial report, some respondents stated that bonus plans are applied in the companies. Company C pays a bonus together with the December salary to both employees and owners. This bonus scheme is based on the net profit of the year. In Company I, bonus plans are not applied every year. Some years the bonus has been directed to only employees and sometimes only to the management team. The bonus has been based on the net profit of the year. Similarly, Company E has a bonus scheme for the employees that is based on the net profit of the year. The respondent emphasises that the bonus scheme is applicable each year the company is facing a good year financially. In addition to this, the respondent from Company H state that a bonus is paid to employees once a year and is based on the monthly report for November and not the annual report. The respondents from Company A and D state that bonus schemes are not used in the company but rather a potential dividend is distributed to the shareholders. Similarly, the respondents from Company G, H and I emphasise that the annual report, or the process of providing one, is the basis for decisions about dividends and retained earnings.

4.2.2 Statutory Obligation of Financial Reporting

The trust is placed on the auditor to ensure compliance with the current regulations and the companies conduct the bookkeeping during the year. In addition, several of the respondents (Companies A, B, F and J) emphasise that the provision of the financial report is due to the statutory obligation. The question raised was what the companies would do if the statutory obligation did not exist.

When discussing a hypothetical situation with Company A, the respondent indicates that if the company was not statutory obliged to provide a financial report, the firm would most likely not issue one in the same way because the actual document is not deemed necessary. This is due to the time delay with the financial report and other financial progress reports can be produced in a faster way. However, the content of the financial reports is still important to have for the company to follow the firm's financial development. The respondent also points out that it is important to calculate the net profits to be able to determine the taxes. However, the respondent states that the financial report is more a document for potential investors. The respondent from Company D also stresses the financial report of being a formality to produce. The respondent

states that the content of the report is more important for the company, such as the income statement and balance sheet.

The respondent for Company B states to be uncertain what the company would do if they were not obliged to provide a financial report. Even if the regulations were different, the content of the financial report is still important to be able to oversee the firm's performance in terms of what generates revenue. The respondent was also asked about the decision to follow the K3 standard without being obliged to. The respondent indicates unfamiliarity with the term and did not provide a specific reason behind the decision.

Company C also indicates an uncertainty of what the firm would do if it was not statutory obliged to produce a financial report. The hypothetical scenario had not been reflected on. The respondent states to never have been uncomfortable with producing a financial report and states that it is important to be able to have a report to show the bank and potential suppliers. The respondent answered with questions "*what would I bring to the bank if I wanted to borrow money? What would I show a new supplier and what would they put a credit limit on? Empty numbers? I could talk about numbers how much I want but if they are not reviewed, what are they supposed to believe?".* Without such a report, there would be no evidence to support the company´s claims.

Similar to Companies B and C, the respondent from Company H signals that the company would still provide a financial report. However, there is an uncertainty whether it would continue to be annual reports or focus more on monthly or quarterly reports. The respondent continues the discussion with a focus on the monthly financial reports. Since the corporation works more with monthly reports than the annual report, the respondent indicates that emphasis would continue to be on the monthly financial reports.

Company E clearly states that the firm would continue to produce financial statements even if they were not obliged to since it is important to illustrate the performance to external parties, such as the bank. The respondent also mentions that there would perhaps be changed in the layout of the report, but it would probably remain very similar to the report the company issues today. The respondent from Company F discusses the question in a similar way, such as the company would still provide a financial report but and continues to say that it would be for comparison purposes. The interviewee further discusses the benefit of having an auditor and assistance from an accounting office. In particular, the long-term relationship with the external accountant is important for Company F because they know the business too and can assist in providing graphs and tables to illustrate the development of the company and to learn from it.

The respondent from Company G stresses the internal supervision rather than producing a financial report if they were not obliged to and would therefore not continue to provide a financial report. However, the respondent further discusses whether internal control would be sufficient or not. Also, the discussion became more centred around human beings' desire to minimise their efforts when they are under no obligation to do something.

The respondent from Company I states to be hesitant that there would no regulations to provide a financial report. The interviewee means that the Swedish system would be in jeopardy and the control of the companies. There would still be a need for reporting and a compilation of the corporation's accounting records and it is important with a summary at the end of the year.

Company J refers to the statement of wanting to portray the company as healthy and thus, the structure and/or content of the financial report would remain the same. Thereby inferring that the company would still provide a financial report even though the statutory obligation would not exist.

4.3 Users of Financial Reporting

The respondent from Company B indicates a lack of function of the financial report internally but emphasises the importance of providing one for the bank, and possibly to the suppliers, in order to convey stability. All respondents put forward that the bank is a user of the annual report, apart from Company A and G. The respondent from Company A emphasises that the company has a close dialogue with their banker throughout the year and therefore requires information that is more accurate in time. The respondent from Company G states that the bank is not currently a user of the company's financial report since the company has no bank loans at the moment. In Company C and E, a meeting with a representative from the bank is arranged at least once a year, where the annual report is being discussed as well as the future prospective and the past accomplishments. The meeting with a banker is valuable for the respondent from Company C and states: *"Can you discuss and sit down and talk over a cup of coffee once a year, and you do not need any money or anything, and see how the development has been and what you think about the future, that is valuable".* The respondents from Company C, E and I emphasise that the bank may ask for more recent information, in terms of a monthly balance sheet and income statement, if the company asks for a loan and half of the year has passed since the annual accounts. The respondents from Company D, H, I and J state to have a close dialogue with the bank. In Company J, balance sheet and income statements are provided to the bank every month. The respondent from Company D mentions: *"I have a close dialogue with our banker that I meet, or we talk, once or every other month and update how the situation is".* The respondent from Company D adds: "*In this way, they gain more insight into the ongoing operations than the annual report shows".* Likewise, the respondent from Company F emphasises that the financial report could be an efficient way to convey information to the bank and other stakeholders (for instance suppliers) in order to support the company's statements. On the contrary, the respondent from Company H states that no additional information aside from the annual report is provided to the bank during the year. However, the bank may ask questions about the current state of the company to monitor the progress. In addition to providing the bank with information, the respondent from Company I and J stress the importance to have a good relationship with the bank. The respondent from Company I states that the company gains trust from the bank by showing in the annual report that actions are undertaken by the company to sustain profitable, which in turn can lead to the increased ability to borrow money.

Another topic discussed was potential external investors and financial reporting. The respondent from Company A stresses that the family is currently not interested in bringing in investors other than family. However, in such a situation, the respondent discusses that *"it would be relevant to put more emphasis on the annual report"*. Similarly, the respondent from Company D discusses situations where the annual report could become more important than it is today. The respondent reflects: *"If the family would sell the company, or bring in an external partner, then the annual report becomes more important"*. However, the respondent emphasises that the owners have no plans for that at the moment. Likewise, the respondent from Company B indicates that potential investors are not a current concern for the company, although having a stable financial history and show a continuation of the same principles bring a sense of security. The respondent further states: *"It is probably not that difficult to do due diligence here"*. Furthermore, the respondent from Company C emphasises that the owning family has discussed the alternative of selling the company several times but has concluded that they want to continue. The respondent further describes that an external valuation of the company is not of interest, and states: *"I know what the value is to me and because they (the next generation of the family) are interested in continuing, so I mean, then no outsiders need to know"*. In Company E and G, it is not relevant to bring in external investors in the future and later in the interview, the respondent for Company E emphasises: *"We have no intention of having any external owners"*. On the contrary, the respondent from Company F, H and J state that external investors could be of interest in the future but cannot see how that would change the way they do their reporting. Additionally, the respondent from Company I points out that outside investors are not of any interest at the moment, but the discussion has occurred in the firm. The respondent reflects that the annual report plays an important role in the valuation of the company and states: *"An investor that is interested in a company starts by looking at the annual report"*. The respondent further reflects that the information provided in the annual report would still be the same because the annual report is for the company and not for any specific users. The respondent from Company H also believes the annual report is most useful for the company itself.

The respondent from Company A indicates that the annual report could be beneficial for the company when assessing potential clients in order to evaluate financial risks and explore potential business opportunities. However, once again, the respondent stresses the point that the financial report does not say much about a corporation since information can be excluded. The respondent from Company B states that they are reviewing the annual report from potential and current customers before sending any business proposal. Similarly, the respondent from Company H states that if the company feels unsure about the creditworthiness of a new customer, they review the annual report before conducting business with them. The respondent from Company G mentions the importance of presenting a stable financial report in order to negotiate contracts with potential clients, such as larger corporations. Showing a good report could facilitate the process. In addition to this, the respondent from Company B discusses that the company's suppliers may look at the annual report as well, instead of requiring bank guarantees or advance payment when delivering goods. Both respondents from Company C and I state that suppliers to the company may look at the annual report frequently. The

respondent from Company C also reviews competitors' annual reports, to follow their development and to compare fluctuations in sales and profits.

4.4 Disclosures in the Financial Report

The interview participants were asked about their disclosures in the financial report and whether the companies wished to convey or exclude specific information. The results from the document study on the companies' annual reports from the last five financial years indicate that the companies do not provide more information than they are obliged to. However, Company E includes a cash flow statement in their financial report even though this is not required. Similarly, Company G included a cash flow statement in the report in 2014. In the statutory administration report, all companies include a brief four-year summary about the turnover, earnings after interest and taxes and the company's equity ratio. Company B also lists the balance sheet total and earnings in relation to the turnover. Furthermore, the company includes a brief description of the company's future plans. It is described that no significant changes in the business operations, sales or investments are planned by the management team. The company does not mention any risks regarding the business. Companies A, B, C, H and I provide additional information about significant events during the fiscal year. The significant events are referred to being purchases of shares in a subsidiary, expansion of the company's property, new business deals with suppliers, sales of fixed assets and investments.

The respondent from Company A discusses the choice of not disclosing more information than they are obliged to. The reason behind the purposeful action being the desire of not disclosing too much information to their competitors. According to the respondent, it could be beneficial to show the financials in some cases, however, it can also be used against the company in negotiations. Furthermore, the respondent emphasises that the financial report is not viewed as being representative of the company. Due to the slight liberty in disclosing information, companies can decide what they wish to portray: *"It is more about, 'do they pay taxes, or do they not pay taxes?' You can adjust so many things today"*, the respondent reflects. The respondent from Company B also indicates that the family business does not disclose more information than they are obliged to. The respondents from Company C and F state that they have not considered what kind of information they want to disclose in their annual report. According to the respondent from Company D, the company is quite transparent in their annual report, and they do not need to hide any information in the financial report except for how much they sell in each market. Similarly, both company E and I state that the annual report has an overall focus where information about clients or suppliers is not disclosed. Apart from this aspect, the respondents emphasise no need to hide any other information in the annual report. Company J also argues for transparency in their financial report and that the employees also have insight. A similar statement is provided from the respondent in Company G, such as the company has no agenda in excluding information from the financial report and simply wish to show the stability of the company. In addition to this, the respondent from Company H emphasises the difficulty of hiding information in the annual report and states that the information provided in the annual report solely represents the company's performance.

The respondent from Company B points out that the company does not make any specific year-end adjustments in order to explicitly reduce taxes. The respondent reflects: *“We want an acknowledgement of our achievements. We want financial reporting to give a true and fair view of what we have accomplished”*. Similar reasoning is conducted in the other companies as well, for example Company E. The respondents emphasise that the main message of the financial report is to show the companies’ financial stability and the well-being of the firm. The respondent from Companies D, F, G, I and J continue the discussion and further state that the income statement and balance sheet are important tools of communicating financial strength and the health of the company. The respondent from Company I clarifies that the balance sheet is a way to show how the firm has progressed over time with respect to the outstanding debt the corporation may have. Furthermore, the administration report is described as only being an overview and is not the main priority of the financial report.

4.5 The Role of the Audit

Another topic discussed was the purpose of the audit and auditor and its importance for financial reporting due to the possible connection to the qualitative characteristics of financial reporting described in the frame of reference. In Company A, the auditor is used for guidance in preparing the financial report and ensuring that it is correct and trustworthy. The respondent from Company A states: *“You are dependent, I would say, on your auditor in such a small company, because you do not have the opportunity to hold all the functions within the company which a big company can do”*. Moreover, it is important for Company A to have someone to help depict a true and fair view of the corporation. The auditor can also, although not the main objective, be a guide for the business: *“It is to ensure that the management is making efforts in the right and intended direction”* the respondent reflects.

The respondent from Company B discusses the value of the audit as well. The respondent states: *“It is important for us to have an auditor so that the numbers are reliable”*. However, the audit is not seen as a confirmation of the company or management performance since the managers are confident in managing the business. The respondent reflects: *“It is more just a matter of trustworthiness externally, and mainly towards the bank”*. Company C trusts the auditors and emphasises that the auditing makes it possible to rely on the annual report since any wrongdoings in the bookkeeping observed by the auditor will be adjusted. It is considered a reflection on management performance. Moreover, Company D has a close dialogue with their auditor throughout the year where the auditor also is an advisor for the company. The respondent reflects: *“For us, the auditor works slightly like a sounding board”*. The respondent puts forward that the auditor could assist in tax issues and suggests and discusses different alternatives on how to manage the business. The respondent from Company E also believes the audit is beneficial. Even though the company handles the year-end procedures by themselves, the respondent emphasises: *"I think it feels like a sense of assurance that they are reviewing it (the financial report)"*. Similarly, the respondent from Company F emphasises the importance of having an independent external auditor that examines and questions the company’s accounting records. Company G indicates similar benefits of having an auditor and mentions the assistance of the auditor when for example deciding on placements of money and retirement

savings. Furthermore, Company I emphasises the benefits of the audit for quality assurance. The respondent finds it necessary for a third party to review the company's financials to ensure good quality of the firm's accounting. As the financial report is a summary of the events occurred during the year; it is considered important that the outcome in the report is correct. Furthermore, the interviewee stresses the safeness of someone else inspecting the numbers, especially in the role of an external CEO in a smaller company. Company J also stresses the importance of the audit. It is seen as a confirmation of the management's performance in terms of bookkeeping during the fiscal year. Moreover, the company has a close dialogue with the auditor during the year if the company has any questions. On the contrary, Company H does not find the auditing beneficial for the financial report, which the interviewee clearly states. The audit is considered an unnecessary cost.

5 Analysis

The following chapter will combine the empirical findings with the theoretical framework. The chapter aims is to provide an insightful analysis of the function of financial reporting in family firms. The analysis is structured in different themes identified in the empirical findings.

All companies in the study show similarities in terms of turnover, balance sheet total and the number of employees. Additionally, the companies also show similarities in ownership structure and financial goals. Most of the respondents emphasise that the company's goal is to improve and expand its business operations. It is visible that financial goals are not the primary focus for these companies. All companies in the study are also well-established in the market, which indicates that these companies have a long-term perspective on business operations. In terms of equity ratio, there is a slight difference between the companies. Referring to Table 1, the equity ratio in the companies arranges from approximately 30 % to 60 %. The lowest percentage is shown in Company C and D, whereas the highest is visible in Company H. Even though the study includes companies in different industries, the findings indicate many similar patterns. In all companies, the ownership is concentrated on a few shareholders and they are solely family members. All shareholders are active in the management and the conduct of the business, except from in two companies where one of the shareholders is a silent partner. The CEO is a shareholder in all companies besides from Company I, which has an external CEO who is not part of the family.

5.1 Objective Stewardship/Accountability - Decision-Usefulness

The discussion about the stewardship/accountability and the decision-usefulness in the accounting literature is more focused on companies with a separation of ownership and control, usually that means larger companies. The findings in this study indicate that some of the components put forward by the two objectives may not be equally as visible in smaller family firms. This study shows that the financial reporting may not be seen as a tool for management to prove their success to shareholders, as discussed by Lennard (2007), since there is no separation of ownership and control. The use of the financial report is more directed to comparisons with previous years to review the expenditures and an annual reconciliation of the companies' financial status. However, the aim is also to convey financial stability and a strong financial performance to external users. Thus, proving the success externally and to themselves. This may also be related to the discussion of the statutory obligation, where most respondents indicate to continue providing a financial report even if they were not obliged to. Therefore, the financial report can be a tool to communicate the companies' success and progress.

The findings show that financial reporting in private family firms may not have a primary function for monitoring or controlling the actions taken by the management, like the principal-agent view of the stewardship/accountability objective suggests (O'Connell, 2007; Lennard, 2007; Whittington, 2008a). The reasoning is that when the shareholders possess top management positions, there is no need for the shareholders to monitor and control actions taken by themselves in their role as manager, i.e. there is no separation of ownership and

control. Furthermore, the findings may imply that there is no need for shareholders to control other shareholders in their role as managers since a close dialogue is held between them and all shareholders are active in the business. Neither in Company B nor F is the shareholders' need to monitor and control the management through the financial reports apparent, even though one of the shareholders is a silent partner and therefore is not active in the conduct of the business. However, the silent partner in each of these companies is part of the family, which could affect that individual's relation to the company and possibly how the shareholder receives information. The same pattern is observed in Company I, even though this company has an external CEO who is not a family member. In this case, the owner is active in the business, which could indicate that the family exerts influence over management continuously and not only through financial reporting. However, the respondents state that the shareholders monitor the business performance through the financial report, which can indicate a nuance of the monitoring aspect shareholders have in the stewardship/accountability perspective.

The findings also indicate that the annual report is used to some extent to evaluate the actions taken by management by reviewing the financial report at the end of the fiscal year. Therefore, monitoring and controlling actions may also become an evaluation process. For instance, the respondent from Company I states that the annual report is an acknowledgement of decisions made by management. However, even those shareholders that possess management positions may use the annual report as a self-assessment by reviewing the profitability in the business operations. This finding correlates with the stewardship/accountability objective of financial reporting in terms of evaluating the performance of management (Kuhner & Pelger, 2015), and the efficiency of management in using the company's resources (Zeff, 2013). Since information about the past and evaluating the management's performance is also applicable in the decision-usefulness objective (Whittington, 2008a), the findings could indicate an overlap between the two objectives. The respondents indicate that the annual report is used to evaluate the past performance but not for the purpose of predicting future cash flows, which contradicts the decision-usefulness objective (Whittington, 2008a). Thus, it can be argued that the accountability/stewardship objective is more apparent in this sense. On the other hand, the findings also imply an additional aspect that the companies may be too small for the purpose of evaluating the management through the annual report.

Only a few companies in this study use bonus schemes and it is mostly for the employees and not management. It was only in Company C and I that management was included in the bonus scheme, which was based on the net profit of the year. The reasoning to have an interview question about bonus schemes was to observe if the annual report was used in this way to evaluate the management, who has a responsibility to maximise shareholder value (Kuhner & Pelger, 2015). The findings do not indicate this based on the use of bonus schemes except for the Company I that some years issue a bonus to management only. Instead of a bonus, dividends are based on the financial performance of the company, which could indicate a reward for managing the company's resources efficiently.

According to the stewardship/accountability perspective, the relationship between management and shareholders is a central part. However, the findings in this study indicate that

this may not be apparent in smaller private family firms when the separation of ownership and control is not present. In smaller companies, when shareholders are active in the business and in management, information is exchanged on a regular basis, and shareholders may have more insight into the business. Thus, less emphasis is needed on the annual report since the shareholders have access to the information provided in the annual report before it is released. This finding correlates with Lennard (2007) who argues that financial reports rarely provide any new information to the shareholders since a regular dialogue usually takes place between the two parties. Still, this finding may contradict the stewardship/accountability objective in terms of using the financial report as a communication tool between shareholders and managers (Lennard, 2007) and provides a fair system of information flow (Ijiri, 1983).

The objective of financial reporting according to the decision-usefulness perspective is to provide information that is useful for making future economic decisions (Ijiri, 1983; Mellemvik et al., 1988). If this objective of financial reporting is applicable, decisions about the future should be made based on the information provided in the annual report. In order to determine if this objective is apparent in family firms, questions were asked about the foundation of decision-making and more precisely investment decisions and budgeting. The empirical findings indicate that the annual report could be used for making future economic decisions even though the findings are ambiguous. Some of the respondents put forward that the annual report is provided too late for being useful in economic decision-making. All companies in this study produce either monthly or quarterly financial reports to track the current state of the company. This could indicate that the companies do not have to wait for the annual report to make decisions. Rather, decisions can be made at any time as long as all shareholders agree.

In terms of investment decisions, some of the respondents put forward that the annual report is useful and could influence how investment decisions are made, which could indicate a decision-usefulness objective. Still, the empirical findings do not indicate any predictions about future cash flows in those cases when decisions are based on the annual report, contradictory to the decision-usefulness objective (Cascino et al., 2014). The argument put forward from those respondents that do not find the financial reporting useful for investment decisions is that the owners have an understanding of the company's financial status and therefore do not have to rely upon or wait for the annual report in order to make decisions. The companies indicate to partially base decisions with a feeling of doing what is right and appropriate for the business with short decision paths.

In terms of budgeting, most of the respondents emphasise that the annual report is not used for budgeting purposes. In many companies in this study, budgets are not made for the next year. Once again, the reasoning provided by the respondents is that business planning does not need to be as formal conducted as in larger corporations since all shareholders have a good insight into the business. This may not indicate a decision-usefulness objective to financial reporting since the managers do not use the annual report to predict future cash flows (Whittington, 2008a).

The purpose of investigating what the companies choose to disclose in the financial reports is because it could identify what information they want to portray to the users of financial reporting. Depending on which objective of financial reporting that is valid, the information disclosed may be different. The document study indicates that the information provided in the companies' annual reports is information that is legally required with a limited amount of voluntary disclosure. The results of the interviews share a similar view. Besides not including sensitive information about the business operation, for instance, specific customers, suppliers and earnings per market, many of the respondents put forward that the annual report should show the business operations transparently. It can be argued that the companies are using a "less is more" mentality for financial reporting, where the focus is on providing a trustworthy overview of the business. The fact that the companies only disclose what is legally required is inconsistent with the decision-usefulness perspective, where more information in the annual report is preferable than less if it is cost-effective (Ijiri, 1983). However, the reasoning is adopted in the context of large public corporations and may not hold true in smaller private firms. Only disclosing information that is legally required may not be related to withholding information but rather disclosing the information the companies have available. Still, it may not simply mean that a stewardship/accountability objective is present. The limited amount of voluntary disclosures shown in the findings could coincide with previous research on SMEs and family business research. Since most of the respondents emphasise that there is no need to hide any information, it could be connected to Bagnoli and Watts (2007), who argue that voluntary disclosure is limited if the financial reports contain good information. Furthermore, Wang (2006) discusses the alignment effect in larger family firms, which means that family firms are less likely to engage in opportunistic behaviour because the priority is placed on protecting the family's reputation and the long-term financial performance of the company. The findings in this study indicate a similar pattern. For instance, Company B does not make any specific year-end adjustments in order to affect the profit since the company wants to provide a true and fair view of what they have accomplished. Similar statements can be recognised in the other companies.

In addition, the document study and the interviews indicate that these private companies tend to disclose less non-accounting information in the annual report, in accordance with previous suggestions by Hope and Vyas (2017) for SMEs. The study shows that the income statement and balance sheet are essential tools in the annual report, which could be the reasoning why the statutory administration report is brief. Additionally, the fact that less emphasis is put on the statutory administration report could also confirm that the user of the annual report receives additional information throughout the year, and thus do not require a comprehensive financial report.

The findings in this study also show that the companies look at potential customers' financial reports. The purpose is to get an indication of how well-managed the company is before conducting business with them. In this sense, the interviewed companies become users of financial reporting. It can be argued that the interviewed companies utilise the annual report to predict the future performance of customers to know if it is safe to start a business relationship, which could indicate the decision-usefulness objective in terms of economic decision-making

(Ijiri, 1983; Mellemvik et al., 1988). When observing financial reports provided by other companies, the decision-usefulness objective may be more apparent as it involves a valuation process and future-oriented information (Cascino et al.,2014). However, when the companies compile their own financial report, the stewardship/accountability objective may be more apparent due to the internal focus of management's accountability to shareholders and evaluating performance (e.g. Kuhner & Pelger, 2015; Whittington, 2008a). Thus, the objective of financial reporting may change depending on what role actors may take.

5.2 Users of Financial Reporting

The discussion regarding the users of the financial reports is provided from the business managers' and shareholders' perspective. The users of financial reporting are closely related to the overall objective, which is why this question was raised (Zeff, 2013; Young, 2006). From the respondents' point of view, the bank is considered one of the important users of their financial report, which coincides with research on SMEs (ex. Evans et al., 2005; Botosan et al., 2006 and Yström, 2019). The banks are described as having an interest in the financial report the companies provide, which could be linked to an evaluation of the financial performance for decision-making. Prior research indicates that the banks possess similar information needs as other decision-makers, for example investors, when processing financial reports (Botosan et al., 2006). This could indicate an emphasis on the decision-usefulness objective of financial reporting since banks are named as one of the primary users in the objective (Whittington, 2008a; Young, 2006).

Several companies express the provision of further information besides the financial report to the bank during the financial year to monitor and discuss the companies' performance. Therefore, the bank may take on a role as a business partner to the family firm, which could indicate a stewardship/accountability objective of financial reporting as the bank is interested in following the companies' performance and discuss current and future plans (O'Connell, 2007; Lennard, 2007; Kuhner & Pelger, 2015). The companies can use the financial report, and the additional financial statements they provide during the year, as a communication tool to show their performance, like Lennard (2007) states. Thus, the banks could be considered a user of financial reporting in the stewardship/accountability perspective, as well as in the decision-usefulness perspective, due to the discussions regarding business operations and potentially the use of the firms' resources (Zeff, 2013). The findings indicate an accountability relationship with the bank in the sense of evaluating how well-managed the firm is and reviewing what the company has used the resources from the bank for. As stated in chapter two, stewardship and accountability are closely linked in the literature, where stewardship is described as the accountability to present shareholders (Whittington, 2008a). However, when there is no separation of ownership and control, the perspective alters. Therefore, the accountability relationship with the bank could be seen as an extension of the stewardship/accountability objective.

The family companies state the importance of having a close dialogue and relationship with the bank. Some companies state that it is related to establishing trust with the bank to facilitate

the process of being granted a loan in the future, which the research by Collies and Jarvis (2001) also indicate. On the other hand, the relationship with the bank could also be essential for other reasons, such as the bank being an advisor. Although the companies may not need financing from the bank, inferring that the bank currently may not require decision-making information, the bank is considered a primary user and the relationship with the bank is very valuable to discuss the progress in the firm. Thus, the emphasis may be on building a long-term trusting relationship and social ties.

As previously mentioned, Collis and Jarvis (2000) suggest that management is considered a primary user in SMEs. In this aspect, the empirical findings are conflicting due to the lack of clear internal use of the financial report, discussed in the previous section. The respondents indicate that monthly and quarterly reports are more focused on to monitor the firm's performance. Therefore, there is a need for further research on a greater number of family businesses. In this study, it is not possible to draw any conclusions of whether management is a user of the financial report in the family firms researched.

The shareholders are considered a primary user in the stewardship/accountability objective. The empirical findings also suggest that the financial report is beneficial for the shareholders to monitor the company's performance. Thus, the shareholders can be considered users, which supports the named objective. However, due to the non-existent separation of ownership and control, the role where the respondents act as a shareholder or manager may be difficult to differentiate between the two. That might explain why the respondents do not mention themselves in the role of a shareholder when asked about who the financial report is directed to but focus on external users instead, except for Company I's external CEO that mentions the shareholder. This might question whether the role as a shareholder can be considered a user of the financial report in these family firms. To monitor the company's performance may or may not generate a decision-making process as a shareholder, however the interest in evaluating the firm's progress and management indirectly can indicate the shareholder being a user of the financial report. Therefore, the shareholders in this study may partially be considered as users and not the primary user.

Investors are not mentioned as users nor is the financial report directed towards them. The statement from the companies does not support the decision-usefulness objective as investors are considered a primary user (Young, 2006). Instead, the companies express the desire to keep the business within the family. However, a few companies indicate to be open to the possibility of selling a share of the company to an external investor although it would not result in changes in their reporting.

5.3 The Role of the Audit for Qualitative Characteristics

The auditor may possess a larger role in smaller companies than only reviewing the accounting records as they were referred to as a guide or advisor by some firms. However, since such a discussion is not related to the purpose of the study, further analysis is not conducted. It could be a question for further research regarding smaller family firms.

The findings indicate that the audit is very much valued to assure quality and reliability of the accounting information. Thus, there are indications of a relationship to the qualitative characteristics of financial reporting in the stewardship/accountability perspective. The responses from the interviews can be related to the concepts of objectivity and verifiability, meaning that from the users' perspective the accounting information is free from subjective bias. For the companies, it can be a certification that the information is not misleading (Ijiri, 1983). This may suggest that the companies are aware and protective of their own accountability. On that account, the accountability could be related to the firm's awareness of its reputations, like SEW indicates (Zellweger et al., 2013). It is important that the accounting records are correct and trustworthy to protect the reputation.

One could also argue for the qualitative characteristics ascribed to the decision-usefulness objective. The companies stress the importance that the accounting information being correct, which could be affiliated to the faithful representation of financial reporting, described by the IASB (2018). As previously mentioned, Ijiri (1983) state that the decision-usefulness objective is associated with qualitative characteristics, such as relevance, usefulness and faithful representation, towards the decision-maker. It is important for the information to be relevant for the users of financial reports. The banks and other stakeholders, such as suppliers, are important for the companies and may be in need for decision-useful information, which makes faithful representation essential and the audit can assist in that way. However, the way the respondents discuss the subject of the audit, indicates that the quality assurance is primarily for the company itself rather than an external user. Consequently, there may be a greater emphasis on the stewardship/accountability function of financial reporting rather than decision-usefulness. However, aspects of the latter objective are still present.

Some of the respondents also mentioned the audit being a confirmation of management performance in terms of managing the bookkeeping during the year and ensuring it was executed correctly. The audit becomes a judgement of the credibility of the accounting information the companies provide. This would also indicate that management is aware of their accountability, which could also provide further emphasis on the stewardship/accountability perspective. However, it could also indicate tendencies of decision-usefulness characteristics, such as relevance and faithful representation towards external users.

5.4 Socioemotional Wealth

The companies in this study show many similar characteristics that could be connected to the concept of SEW. The shareholders are all family members and are in most cases active in the conduct of the business. The fact that most of the shareholders have several work assignments correlate with Mustakallio et al. (2002), who argue that this is not uncommon in family firms in order to exert control. Furthermore, the CEO is a family member in all companies besides in Company I. However, in Company I the shareholder are active in the business and most probably have a close dialogue with management. The fact that the family exerts influence over management is also depicted as a characteristic of SEW (Cennamo et al., 2012).

The businesses have continued over several generations which indicate that the company is part of the family's history, biography and identity (Zellweger et al., 2013; Dyer & Whetten, 2006). Some of the companies carry the family name which could indicate a close identification with the firm and greater difficulty for the family to distance itself from the company (Dyer and Whetten, 2006). Most of the respondents also state that external investors are not a current concern for the companies which can be seen as protecting their identity as a family and their heritage (Cennamo et al., 2012). Moreover, all companies have a close dialogue and relationship with the bank. This pattern could relate to protecting the firm's reputation and image towards the bank (ex. Zellweger et al., 2013). Furthermore, protecting the reputation and image can also be related to the respondents' discussion about illustrating financial stability and well-being of the company. Due to the identification of the family with the firm, the reputation of the firm can reflect on the family's reputation.

The close dialogue and relationship with the bank could indicate a connection to the concept SEW. Social bonds are important in family firms, both between the members but can also be extended to non-family members (Brickson, 2005, 2007). The relationship with the bank could indicate a strong social connection and a sense of closeness. Moreover, as described in section 5.1, there is no need for shareholders to monitor and control the actions taken by other shareholders in their role as managers. This could be explained by the social ties between the shareholders and the relational trust that exist in a family business when all shareholders are family members (Berrone et al., 2012).

The emotional attachment may affect and shape relationship, business activities and events in family firms (Berrone et al., 2012). The findings are inconclusive regarding the emotional effect on the company's business operations. Still, the emotional attachment could influence the decision-making in the companies regarding investments since the managers are not controlled by others than themselves (Baron, 2008). The findings indicate that management has a strong feeling regarding the company's overall status. With the financial report as a foundation, the company can determine whether to invest based on the emotional feeling of what is right for the business and what they want to do. This dimension of the FIBER model is most visible in the discussion regarding external investors. The fact that investors are not relevant could also be explained by the families' aim to protect the shared history, knowledge and experience of past events in the firm. Thereby, preserve the emotional attachment to the firm. Furthermore, the desire to keep the business within the family coincides with the fifth dimension of the FIBER model namely that succession is one of the most central aspects of SEW (Zellweger et al., 2012).

These characteristics of SEW could influence what family firms believe is the function of financial reporting. The companies are not primarily driven by financial goals which could indicate that they are more concerned with long-term financial performance and keep the business within the family. Protecting SEW does not imply to only focus on non-economic benefits but financial issues are important as well (Berrone et al., 2010). Thus, the family firms in this study may evaluate and monitor the business performance to preserve SEW and the non-

economic benefits surrounded the firm, for example exerting control and influence and determining the future of the company. The financial reporting can be also be seen as a communication tool to external users in order to protect SEW in terms of protecting the firm's reputation and image. Also, as the family members may feel a close connection to the firm, both in terms of identity and emotions, they may feel a greater incentive to convey financial stability in the financial report.

The concept of SEW could also be related to the stewardship/accountability objective of financial reporting. The evaluation component appears to be visible in the stewardship/accountability objective and the concept of SEW. The financial report can also be a communication tool in an accountability relationship to external users but also to protect SEW. The connection between SEW and the decision-usefulness objective is inconclusive in this study. The decision-usefulness objective has an external perspective with a focus on the users' information needs (Young, 2006). SEW focuses on the internal emotions and perspectives of the family businesses. Therefore, the correlation between the concepts is not clearly visible. SEW may be more correlated with the stewardship/accountability objective. The function of financial reporting in the family firms in this study could indicate components of both the stewardship/accountability objective and SEW. In the family business context, it is visible that these three components interrelate as shown in figure 3.

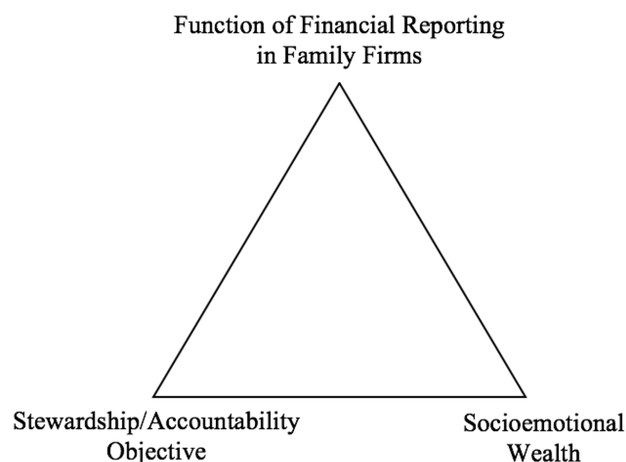


Figure 3. Relation function of financial reporting in family firms, stewardship/accountability objective and socioemotional wealth

6 Conclusion

The last chapter presents the conclusions based on the empirical findings and analysis and aim to show how the purpose of the study is accomplished. Furthermore, it demonstrates the contribution to practical implications. The section concludes with discussions about the study's limitations, strengths and suggestions for further research.

The purpose of this study was to explore the function of financial reporting in private family firms. More specifically, the study aimed to answer questions related to why the financial reporting in a smaller Swedish limited liability company is performed the way it is to offer insight about the financial reporting in family firms. Additionally, contributing to the discussion of the overall objective of financial reporting.

This study shows that the function of financial reporting in the family business context is related to an evaluation aspect of the fiscal year for the company. The financial report can be used as a communication tool for external users to demonstrate financial stability and show reliable and trustworthy accounts. The financial report is not a tool for internal decision making and budgeting. The function does not appear to differ even if the companies operate in different industries.

When objectives of financial reporting are discussed in the accounting literature and by standard setters, it is mainly with reference to the decision-usefulness objective and stewardship/accountability objective (Mellemvik et al., 1988). There are tendencies of both objectives in different aspects of financial reporting in the family business context. The bank was identified as the main user of the financial report, which is associated with the decision-usefulness objective. Also, that the accounting information is faithfully represented and that to some extent investment decisions are based on the financial report would also indicate the presence of the decision-usefulness objective. When the family firms discuss evaluating management performance and monitoring the progress, it suggests that the stewardship/accountability objective is more present. Furthermore, there appears to be an accountability relationship with external users. There is also an emphasis on the accounting information being reliable and verifiable, which also points to the stewardship/accountability objective.

The function of financial reporting in family firms identifies more with the stewardship/accountability objective. The study also shows that socioemotional wealth influences the function of financial reporting in terms of exerting control and influence as well as reputation and image. Thereby, there is a relation between socioemotional wealth and stewardship/accountability.

6.1 Contributions to Theory and Practice

Firstly, the study contributes with a different view on the objectives of financial reporting by observing them on a spectrum rather than pinning the objectives against each other. Both objectives can be present in one company, perhaps depending on the size of the corporation. As the accounting literature suggests, the stewardship/accountability perspective should be viewed as a separate concern (e.g. Kuhner & Pelger, 2015; Gjesdal, 1981; Whittington, 2008a,b). However, both objectives can coexist. Consequently, the study also contributes with the idea that the objective of financial reporting can change depending on which role actors may take. This also shows that both objectives can be equally present.

In addition, the researchers included the concept of socioemotional wealth in the study to observe if socioemotional wealth could influence what family firms believe is the function of financial reporting. In this aspect, the researchers contribute to theory by identifying a relationship with socioemotional wealth and the stewardship/accountability objective.

One practical implication the study has shown is the complexity of defining the overall objective of financial reporting and the researchers have questioned the standard setters' approach to determining what the objective is. The study also illustrates practical concerns regarding financial reporting that may impact the approach to determining the overall objective, such as the discussion regarding whom financial reporting is aimed at.

The study also contributes with perspectives of business managers and shareholders in family corporations to add to the practical view of financial reporting. Thereby, contributing to the overall discussion about the objective of financial reporting but also to financial reporting in family firms.

Both the stewardship/accountability objective and the decision- usefulness objective is focused and centred around scattered ownership. The findings provided in this study indicate that some of the characteristics associated with the two objectives appear to be different when the ownership is concentrated and there is no separation of ownership and control. This may lead to contributing to that a distinction between large public companies and small private corporations in regard to financial reporting could be made.

6.2 Limitations and Strengths

The study could have benefited from including more family firms to conduct a larger number of interviews to perhaps gain more perspective on the subject and to further strengthen the conclusions. The study could also have benefited from including more perspectives from external parties, such as the bank, silent partners in the firms and auditors. Furthermore, the researchers applied a narrow definition of what constitutes a family firm and specifically a small firm, which led to the exclusion of many companies. It can be argued that the definition

was too narrow, and it could be beneficial to apply a slightly broader definition. However, it did bring clarity in which corporations would be included in the study.

Although there are limitations to the study, there are also strengths. The researchers have thoroughly weighed options and alternatives against each other when conducting the research. The current Covid-19 situation challenged the ability to conduct interviews and alternatives plans were formulated. However, the researchers continued to search for companies willing to participate in the study in order to complete the original research strategy. The study also benefited from the methodology in the sense of applying an interpretive philosophy and semi-structured interviews. Furthermore, the thesis is created with a thought-out structure to facilitate the reading and overview of the study.

6.3 Suggestions for further Research

The researchers suggest further research on the subject and explore potential differences between family firms and their non-family counterparts. This study showed that there are silent partners in some family corporations. Therefore, there is another perspective to include and valuable to the discussion about the objective of financial reporting. In addition, as the audit and auditor were described as valuable, there could be potential to explore the auditor's perspective as well and their role in small family businesses.

The study also included one family company with an external CEO, which emphasised the relationship between management and shareholder. The researchers suggest further research on similar companies to explore potential differences or similarities in the discussion regarding the objective of financial reporting. This company is the most similar to larger corporations with a separation of ownership and control. The research may be conducted with a case study instead of semi-structured interviews to gain deeper insight and continue the discussion about the stewardship/accountability and decision-usefulness objective. Additionally, the researchers also suggest further research on larger and public family corporations to explore potential differences or similarities regarding the objective of financial reporting. This to gather further practical knowledge and what the objective of financial reporting appears to be.

Finally, the researchers suggest further research on the possible connection between socioemotional wealth and the objectives of financial reporting. The study indicates a relation between socioemotional wealth and stewardship/accountability. Further research could benefit from conducting a case study to gain more insight into the owning family and their personal thoughts and also include the perspective of multiple family members. That research could lead to a more visible correlation between socioemotional wealth and the objectives of financial reporting.

7 Discussion

The following chapter contains further discussions regarding the objectives of financial reporting.

Generally, the objectives of financial reporting are often set against each other in the accounting literature (Gjesdal, 1981; Kuhner & Pelger, 2015) but there are some overlaps (Whittington (2008a,b). Instead of discussing an overlap of the objectives, like Whittington (2008a,b) suggests, the objectives could be viewed as a part of a spectrum of a financial reporting objective. Observing the objectives on a spectrum would still show the differences between them but also opens for the possibility that there are tendencies of both objectives. That may be more relevant in large public corporations with many shareholders rather than small private firms. However, the same logic can be applied.

As mentioned in section 5.1, the objective of financial reporting may change whether the companies act as a provider or user of the financial report. This leads to the discussion to whom the financial report is aimed at. This consideration may have to be taken into account when discussing the objective of financial reporting. Consequently, the discussion of whether the "one size fits all" perspective adopted by the standard setters is still relevant (Cordery & Narraway, 2008; Ferramosca & Ghio, 2018). Since the accounting regulations for smaller companies are simplified, the question becomes whether the same overall objective and intended users of financial reporting are still relevant? It may be beneficial to differentiate between the objectives of large public and small private corporation as there may be differences between those companies, for example how they operate. However, are the possible differences substantial enough to warrant such a distinction? These are questions this thesis cannot provide an answer to but warrants further discussion.

Furthermore, the standard setters have shifted the attention to the decision-usefulness objective and list the stewardship/accountability objective as a secondary purpose. The empirical findings in this study indicate that the objectives may not be able to be set against each other but to embrace both. That warrants the discussion as to why not an equal emphasis is placed on both objectives. Pelger (2019) claims that the stewardship/accountability objective has no substantial effect in the later chapters of the Conceptual Framework. This may indicate that the objective is not prioritised by the standard setters like the decision-usefulness objective is. In large public corporations where the separation of ownership and control is very visible, management's accountability is important as resources are entrusted to them by the shareholders. One could argue that the stewardship/accountability objective is highly relevant for corporations with dispersed ownership, which raises the question as to why the stewardship/accountability objective may not be as acknowledged as decision-usefulness. It is an issue the regulators ought to review and the accounting literature could benefit from further research on the subject. Furthermore, the subject has continued effect since the Swedish accounting standards are influenced by IFRS for SMEs. The regulations in Sweden may be influenced by an international determined objective of financial reporting, which may not hold true for smaller Swedish limited liability companies. It may be seen as a generally accepted

objective but may practically, to some extent, misrepresent the approach to financial reporting and to whom the financial report is aimed at.

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Appendix

Interview Guide

Can you please tell us a bit about the company? When was it founded?
Which generation owns the company today?
What is the ownership structure?
Are all the shareholders active in the company?
What is your position in the company?
Are you a shareholder?

The function of financial reporting:
What is the function of the financial report?
To whom does the company address the financial report?
What is important for the company to convey in the financial report?
Is there anything the company would like to keep out of the financial report?
Do users of the financial report receive additional information beyond the financial report?
What is the function of the financial report in your role as a shareholder?
Do you consider the financial report being beneficial for the company, if so in what way?

The internal use of financial reporting
Does the company use the financial report internally?
Does the company use the financial report to make decisions?
Does the company base the budgeting on the financial report?
Does the company utilize the financial report to evaluate the management teams use of the company's resources?
Are any potential bonus plans connected to the financial report?

The use of accounting regulations
If it was not statutory obligated to provide a financial report, would you provide one?
What information would the company disclose?
Does the company find the current regulations helpful/effective to satisfy your information needs?

The role of auditing
Does the company consider the audit essential for the financial report?
Does the audit contribute anything?