

Essays on

Financial Performance and Capital Structure

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Business Administration and Economics

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Abstract

This thesis consists of an introductory chapter and four self-contained essays on financial performance and capital structure.

Essay I assesses the strength of strategic inputs into profitability among firms within several sub-sectors within the industrial service sector in the U.S. and Sweden. In this study we employ an ordinary least square regression. The results, coupled with structural observations on production sectors, suggest that significant differences may indeed occur in both productivity and pricing in the two systems, i.e. the U.S. and Sweden.

Essay II estimates the impact of operating costs and cost of debt on revenue, profit generation and asset retention in public housing companies in Sweden. A general conclusion to draw from the empirical results is that expenditures on consolidated maintenance is not only associated with short-term rental revenues, but undoubtedly long-term viability as well. Further, first difference results suggested that negotiated rents produced operating profits that kept pace with revenues over the time period of study.

Essay III examines the impact of selected financial and contextual variables on managers' decisions to appropriate funds to tax allowances in small firms in Sweden. The motive for appropriating to the tax allocation reserve is twofold. First, the tax allocation reserve is intended to lower the tax levy on investments financed with internally generated income. Second, it creates a possibility for firms to smooth income over a number of years. The results, from the logistic regression, suggest that financial performance, financial position and prior appropriations do impact on managers' decision to appropriate.

Essay IV examines the association between the two sides of the balance sheet based on financial statement information from small firms in Sweden. The results of the multivariate canonical correlation analysis provides some support to the hypotheses that firms develop patterns, in their use of assets and their financing.

Key Words: Financial management, financial accounting, financial statements, financial performance, capital structure, tax allowances, income smoothing, comparative studies, strategy

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I have come to the conclusion that it is a privilege to be given the opportunity to undertake research work even though, as in sailing boats and flying sportsplanes, the final destination is not always easily discernible or readily accessible. Instead, a number of waypoints are passed in both misty and sunny weather. Throughout my work on this dissertation, family, friends and colleagues have patiently provided support and long, slow, distance running has finally brought me to the finishing line.

In the first phase of my research training, I was given the opportunity to conduct a large number of extensive interviews with managers employed in companies all over Sweden. The work was guided by my supervisor at that time Professor Carl Fredriksson and the cross-national project was lead by Professor Leif Lindmark. I would like to thank you both for taking me on to the project and guiding me through the first phase of academic and empirical orientation

The second phase was initialized when Professor Rolf A. Lundin included me in "The Project Group" where we studied various aspects of project management. This phase had some ties to my prior employment experience as an engineer and in the Swedish Airforce, since my part in the group mostly concerned management accounting (systems) and cost control within technically advanced R&D-projects. I want to thank Rolf for his always erudite and supportive attitude towards my research even after he moved to Jönköping International Business School. I also want to thank my keen-witted co-author at that time, Christina Sandström. This phase also emphasized the importance for success of bringing together crucial resources, maintaining, and following up work done.

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The third phase incorporates many of the ideas in project management, bringing resources together, setting targets, and finalizing the undertaking. This phase is probably best described in the words of my supervisor, Professor Lars G. Hassel, "*it's time to nail it together*", "*it*" of course being the dissertation. With Lars' help things started to come together at a steady pace and in a resolute fashion. If Lars has been important so has Professor Timothy L. Wilson. One cannot find better mentors, friends and co-authors than Lars and Tim. They have coached me

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Umeå, October 2003

Lars Lindbergh

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1 INTRODUCTION

1.1 Background

Finance, both in theory and in practice, has experienced a strong development over recent decades. Large firms in Sweden and elsewhere in the world have been receptive to the advancements made in modern financial theory and the increasing globalization of markets. Corporations already used to making decisions with regard to operating environment, corporate objectives, financial reporting objectives, and agency costs, as well as smaller firms and non-profit organizations, are recognizing the advantages to be gained from the new knowledge and are eager to adapt new techniques for their benefit.

Large firms are said to play an important role in the economy, but the significant economic role of smaller firms and non-profit organizations should not be overlooked. The importance of small firms is often discussed in terms of job creation (see e.g., Davidsson et al., 1994); technological renewal of traditional industries (see e.g., Roberts, 1991); innovation and creation of regional dynamics (see e.g., Davidsson et al., 1994); and development of economies (see e.g., Baldwin and Picot, 1995; Birch, 1979; Davidsson et al., 1994, 1996; Kirchhoff and Phillips, 1988; Storey, 1994).

Non-profit organizations also play an important role in the world economy. Allen (1994), for example, notes that only a small part of world economic activity can be accounted to the profit-seeking sector. According to Allen (1994), not-for-profit organizations constitute the majority of all economic activity in the U.K., in which the central government, representing over 40 per cent of gross domestic product is the largest element. General government expenditure in Sweden was approximately 65 percent in year 1999 and 54 percent in year 2000 as a percentage of GDP (Statistics Sweden, 2002).

Theories in finance have developed rapidly, due greatly to the assumption of “perfect capital markets”. However, scholars, practitioners, and policy-makers have become more and more aware of the realities in which they need to remember that capital markets are most often far from perfect. This notion is important since managers are being held more and more accountable for their actions, by the firm and by society as a whole. The increasing globalization of markets, including the influences of other cultures and effects of differences in economic and political situations, is also affecting both firms and managers at an increasing level.

Corporate financial management brings together the notion of perfect markets theory and the world of market imperfections and adapts continuously to the present contingencies. A purpose of corporate financial management is to provide managers with a valuable decision-making framework—one that takes

agency, control, and governance issues into account in the decision-making process.

Corporate financial management involves all functional areas within a business from market-related issues to operating issues within the business. Both marketing issues and operating issues regularly require financial resources, investments which in turn need to be financed. The broad concern of making sensible investment and finance decisions is the domain of financial managers. The decisions are by nature economic decisions, although managers may use as their information resource accounting information systems devised by accountants.

A number of external factors in the business environment affect managers' decisions and the firm: for example, financial markets, government rules and regulations, tax structure, competitors, general business conditions, world economy, etc. Management needs to consider these inputs in making decisions, for example, on types of products or services to offer, marketing and production systems, investment policies, amount of debt used, dividend policy, working capital policies, employee policies, and the like. The outcomes of these decisions are later filtered, translated, and presented in the financial statements of the firm; and the financial statements in turn constitute an important input for financial decisions among the users of those statements.

Smaller firms are often closely held and thus are most often private entities. Private firms, as opposed to exchange-quoted, publicly traded firms, include firms that do not appear on any stock market list. The size of private firms, in terms of number of employees, total capital, or total sales, ranges from very small with no employees and a minimum amount of total capital and total sales, to large firms with thousands of employees and a considerable amount of total capital and total sales. The majority of private firms are relatively small, ranging from newly established entrepreneurial firms to more established and mature firms.

Non-profit organizations are often divided into two groups, private and public. Private non-profit organizations may in turn be divided into two groups, those serving households and those serving profit-seeking organizations. The latter group is also often further subdivided into non-profit organizations serving financial corporations and non-profit organizations serving non-financial corporations (see e.g., Statistics Sweden, 1997 and 2001).

The second article in this treatise addresses one type of public non-profit organization, namely, non-profit organizations serving households, i.e., public housing companies (PHCs). Municipalities in Sweden are by law prohibited from earning any economic profits in their companies (Municipal tax law 1991:900, Chapter 2, §7). Thus, PHCs owned by municipalities are basically prohibited by law from earning a profit. We may therefore consider a PHC as being a non-profit organization. Compared to firms in other industries, PHCs have relatively few employees in relation to the capital they employ. PHCs are usually small in terms of

number of employees but generally invest more capital than other small comparable firms.

A number of features differentiate smaller firms and non-profit organizations from large entities, especially large public firms; these features include shareholder enhancement, corporate governance, corporate (organizational) objectives, and agency costs. Large firms often have a widespread ownership where financial reporting supports corporate governance. In closely-held smaller firms where management and ownership are integrated, financial reporting has a more modest role in governance and serves mainly tax purposes.

Shareholder enhancement in private firms and non-profit organizations is assumed to be quite different from that of large publicly-traded firms. The differences may be attributable, for example, to differences in corporate objectives; the context within which they operate; the firms' competences, culture, control or governance; and what possibilities the firms have to implement and evaluate adaptive changes.

In a large public corporation, decision making is delegated to the firm's management by its shareholders. The managers are assumed to maximize shareholders' value. In a small, private, and closely-held firm, however, the entrepreneur often takes on an almost completely different role in management. Here, ownership and management are not separated, so the entrepreneur is both owner and manager. Fama and Jensen (1983), among others, discuss the dependence between ownership and management. The obvious increase in alignment between owners and managers in small firms reduces the accountability problem that must otherwise be faced. Ang (1991) also notices that owners of small businesses often invest a significant part of their total capital, financial, and human capital in the firm. Thus, the objective of the entrepreneur instead becomes to maximize the value of the entrepreneur's interest in the venture. The term "interest" implies a wider definition of value in this context than in the context of large public firms.

The corporate objective of PHCs is obviously affected by the fact that PHCs are not allowed to generate excess profit. It basically means that their corporate objective cannot be to maximize shareholder value, at least not in economic terms. The law limits the economic profit to that of a going concern, and no more. The bottom line for a PHC is to provide housing at low cost-for-value and to increase the social welfare of the community.

A major intent of this treatise is to empirically study four areas of corporate financial management in small firms in Sweden. The areas are argued to be important to the firms in the study, and they address strategic inputs into profitability, cost control and revenue generation, utilization of tax allowances, and the association between investment and finance decisions. More specifically, the

intent of the study is to explore financial management decisions in different functional areas within the firm.

1.2 Aim of the study

Corporate financial management incorporates concepts and constructs from formal relations such as agency theory, corporate control theory, and corporate governance theories in the quest to seek favourable combinations of investment, finance, and dividend decisions to meet specific corporate objectives. As previously noted, corporate objectives and governance and the role of financial statement information differ between small and large firms. The corporate objective of small firms, especially when more closely held, tends to be stated more in the direction of wealth maximization for the entrepreneur, rather than the value-maximization aim of larger firms with more dispersed ownership. Restrictions may also be imposed on the management of the firm, as for example in special purpose entities and non-profit firms. Depending on the corporate objective, the emphasis in reporting may also differ between, for example, earning power and accountability. Large firms are often subject to study, while financial statement analysis of small firms and special purpose entities has more seldom been addressed in empirical studies. Thus, it is of interest to examine how corporate financial management create different patterns and structures in the financial statements of small firms in Sweden. The consequent general research problem is stated as follows: How do the outcomes of corporate financial management decisions—decisions related to market issues, operations, investments, and finance—translated into financial statements and reported by small firms in Sweden, relate to financial performance and capital structure?

The overall purpose of this treatise is to examine four management concerns. The separate but related essays each delve into one of the following areas:

- (i) profitability, productivity, and pricing;
- (ii) cost control and revenue generation;
- (iii) utilization of tax allowances; and
- (iv) balance sheet structure.

More specifically, the first individual objective is to perform a comparative cross-national study between Sweden and the United States, including several sub-sectors within the industrial service sector, to assess the strength of strategic inputs into profitability. The second objective is to estimate the impact of operating costs and cost of debt on revenue, profit generation, and asset retention in public housing companies in Sweden. In this second study we examine non-profit housing companies, thereby imposing an additional constraint—the constraint of running a business with “no” residual profit. The ownership structure is also different

compared to that of the firms examined in other studies. The third objective is to examine the impact of selected financial variables and contextual variables on managers' decisions, among small firms in Sweden, to appropriate funds to tax allowances. This third study examines the impact of variables characteristic to the firm and managers' choice to appropriate to the tax allocation reserve, a unique opportunity for Swedish managers to affect a firm's financial performance and financial position. The legal framework permitting the specific form of tax allowances recognizes two aspects of the deferring tax: a financing aspect and an income-smoothing aspect. This study also emphasizes the strong tie between accounting and tax reporting. The fourth objective is to examine the independence or dependence between the two sides of the balance sheet, based on financial statement information from small firms in Sweden. This fourth study seeks to examine managers' choice to relate or separate investment and finance decisions in small firms.

The primary significance of the treatise lies in its focus on the four concerns within financial management in small firms in a particular region of the world, Sweden, with its particular corporate environment. The research is expected to contribute, mainly on the empirical level, by giving further insight into the value drivers of financial performance and the dependence among value drivers in small firms in Sweden integrating theoretical constructs within financial decision making.

1.3 Organization of the dissertation

The dissertation is organized in two parts. The first part, this Introduction, is intended to be self-contained. It provides a background to the research area addressed in the dissertation, the aim of the study, an outline of the theoretical concepts and constructs in financial management and financial reporting used in the study, a discussion of the data used in the study, and a summary of the studies presented in the second part of the dissertation.

The second part comprises four separate but related studies, each serving a specific objective, as previously explained. The essays in order are entitled:

- (i) A Comparative Study of Industrial Services in the United States and Sweden: Profitability, Productivity and Pricing
- (ii) Cost Control and Revenue Generation: The Case of Public Housing Companies' Experience in Sweden
- (iii) An Assessment of the Impact of Financial and Contextual Variables on Managers' Decisions to Utilize Tax Allowances in Small Swedish Firms
- (iv) The Association between Investment and Finance Decisions – A Canonical Correlation Analysis

2 Financial management: financial decisions and financial statements

The broad concept of financial management incorporates basically all financial decisions within all functional areas of the firm. Corporate financial management decisions generally concern the acquisition, management, and financing of the resources that generate cash flows and affect the wealth of the firm. Overall, whether the decisions regard acquisition, management, or financing, they range from active to passive. The idea is to obtain the best long-term benefits from the allocation of the firm's scarce resources. In this sense the decisions are forward looking. At the same time, decisions, plans, and policies need to be followed up; so in this sense the decisions are more historically oriented. In sum, the idea is to ensure that financial objectives are pursued at all times. Also, corporate financial management draws basically upon two elements: the concepts of economics and an accounting information system devised by accountants.

2.1 Concepts, constructs and financial decisions in financial management

Financial decisions are often found to be set within a framework of organizational improvement initiatives, and a number of such initiatives are at hand. The value-based management approach and other organizational improvement initiatives extend over a wide range of theoretical constructs and practices. The two best-known value-based management frameworks are, according to Oxelheim and Wihlborg (2002), the shareholder value-added model developed by Rappaport (1986) and the economic value-added model developed by Stern Stewart (1990). Four other shareholder value management approaches commonly in use are the Balanced Scorecard (see, e.g., Kaplan and Norton, 1992), activity-based costing, cash value-added (see, e.g., Ottosson and Weissenrieder, 1996), and cash flow return on investment (see, e.g., Madden, 1999). Each of these approaches can be viewed as examples of organizational improvement initiatives, each with their specific framework and focus, all aiming at improving organizational performance. The various frameworks need not be seen as competing methods; in practice, they often prove complementary because of their respective focus. For example, according to Kaplan and Norton (2001), the shareholder value-added, residual income, economic value-added, activity-based costing frameworks, as well as the Balanced Scorecard have all emerged as a result of shortcomings in previous models and approaches.

As pointed out by Ittner and Larcker (2001), private firms and non-profit organizations do not have shareholder enhancement as an organizational objective as in large firms; furthermore, they may not adopt the concept of going concern, operate as a separate entity, have a restriction on earnings, or have dual interests. The organizational improvement initiatives we have cited frequently state the

primary objective in terms of economic value. In reviewing a number of prior studies, Ittner and Larcker (2001) did not find entirely convincing support that cash flows are preferable to accrual-based accounting as a basis for making financial decisions in firms.

Organization improvement initiatives may still serve as a guide for financial decisions within firms. These initiatives also resemble to a large extent earlier models such as the PIMS model (Profit Impact of Marketing Strategies) (see e.g., Buzzell and Gale, 1987) which commonly utilized accrual-based accounting values. Thus, for example, Rappaport's model (1998) may provide a framework for management decisions. The model consists of five levels. The corporate objective is separated into two valuation components: cash flow from operations and the cost of capital. Cash flow from operations is generated from three value drivers. The first value driver is *market* related and deals with the amount of growth rate and duration; the second value driver is related to *operations* and deals with parameters such as sales growth, profit margin, and income tax rate; and the third is related to *investment* issues in the firm, investment in working capital and fixed capital. Cost of capital is addressed by the fourth value driver, capital structure, thus *financing* issues. Finally, the input to the four management decisions is based on latent variables within each group.

The first three management decisions basically generate the cash flows from operations while the fourth deals with the cost of capital for financing the activities. Market-related decisions tend to deal with issues regarding how specific markets will develop and the implications on the firm's possibilities to generate returns. More specifically, management tries to estimate the period of time that investments can be expected to yield rates of return greater than the cost of capital. It is a question of estimating the duration of growth in value. Operating decisions often include decisions regarding product mix, pricing, promotion, advertising, distribution, and customer service level. These decisions are then translated into sales growth, operating profit margin, and income tax rate. Investment decisions involve both long-term and short-term investments. Investment decisions such as increasing inventory levels and capacity expansion are reflected in working capital investment and fixed capital investment. Financing decisions are most often associated with long-term financing decisions, especially in large listed firms. There is usually a concern to find a proper mix of debt and equity, amongst other things, with respect to the specific business risk. The composition of financing instruments and level of business risk are reflected in the cost of capital.

Ittner and Larcker (2001) also suggest that the value-based framework ought to be interesting to apply in private and non-profit organizations. The present treatise does not explicitly adopt a value-based management approach. It is, however, possible to identify a number of similarities with the content of this treatise and how it is organized, for example, with respect to the decision-making

process and theoretical concepts and constructs. The next section presents a discussion of some additional distinguishing features of small and non-profit firms used as the research base for the study; the discussion is set out in terms of organizational form and, respectively, agency theory, corporate governance, and corporate objective.

The research base: organizational form and features that distinguish small and medium-sized enterprises and non-profit organizations. In Sweden as in most other countries, businesses may be established in a number of different organizational forms, e.g., proprietorships, partnerships, corporations, and mutuals. Each organizational form brings with it a set of advantages and disadvantages. This treatise deals primarily with limited liability companies. The selected companies are private, relatively small, and primarily self-governed. Two types of companies are examined: companies that operate on a for-profit basis, and public housing companies that to some extent can be defined as operating on a not-for-profit basis.

As noted earlier, non-profit firms may be categorized into several types. Three characteristics are often discussed in defining whether a firm is considered to be a non-profit organization or nonbusiness organization (see e.g., Belkaoui, 2000, page 137). First, it may depend on whether the purpose is to operate with a profit or not. Public housing companies are in this treatise considered to be a form of non-profit organization since law prohibits public housing companies from operating on a profit basis. The purpose of PHCs is to provide tenants with housing on a “going concern” basis. Second, in a more clear-cut case of nonbusiness organization, the resource providers do not expect to receive a proportionate repayment or economic benefit. However, in the case of PHCs, the providers are the tenants, and they do expect to receive a proportionate economic benefit in terms of housing. Third, no ownership interests exist that can be sold or otherwise transferred, making it also possible to transfer residual distribution in the case of liquidation. PHCs are usually set up as limited liability companies, but the ownership remains with the founder, the local municipality, and may not normally be transferred.

These two sets of companies are discussed further in the following sections with respect to organizational form and, respectively, agency costs, corporate governance, corporate objective, and financial statement objectives.

Organizational form and agency theory. Agency problems are to some extent dependent on organizational form and can amount to considerable sums of money. Agency costs due to equity arise basically when ownership is separated from management and the managers do not operate the business in accordance with the owners’ intentions. The effect of agency problems is usually dealt with by separating the corporate decision-making structure into two major functions, the management function and the control function, through a process of initiation, ratification, implementation, and monitoring of the firm’s activities. The separation

of ownership and management is especially evident in large public limited liability companies that are commonly widely-held. Small companies are most often private and closely-held, which reduces the agency problems since the difference between ownership and management is typically much less or even non-existent. In non-profit organizations such as PHCs, profit and residual claim is *per se* not an issue, so the separation of ownership and management becomes less important.

Organizational form and corporate governance. The possible agency problems caused by the separation of ownership and management are to some extent mitigated by a board of directors. Thus, the board of directors becomes a central element in the governance structure of a business. The directors are elected by the shareholders to guide and monitor the actions of the managers. In small firms, with a low degree of separation or no separation between shareholders and managers, the different functions become less clear and less functional. The board members of PHCs are politicians elected to represent the political mix of the specific community in which PHC is situated.

Organizational form and corporate objective. In modern corporate finance theory and practice, the corporate financial objective is often stated in terms of maximizing shareholder wealth or maximizing the value of the firm. An alternative view focuses on problem solving for customers (see e.g., Ellsworth, 2002). Maximizing shareholder wealth or firm value seems reasonable in the context of large profit-seeking firms, especially large public corporations. In small firms, where owners and managers often are the same, the corporate objective is typically to maximize the value of the financial claims and other benefits that the owner and manager alike can retain (see e.g., Smith and Smith, 2000). This is to some extent in conflict with the basic assumptions of perfect capital markets under which shareholders are amongst else assumed to only have a limited interest in a specific firm.

The corporate objective in public housing companies, as noted earlier, has one distinct feature compared to other smaller firms in that they are not allowed to operate with a profit since municipalities are not allowed by law to make any economic profits on their companies (Municipal tax law 1991:900, Chapter 2, §7).¹ However, the PHCs are still required by this law (Chapter 8, §2) to handle their money to get a fair return on it, which also means a reasonable return on equity of the company. The law provides no guidelines as to how big this return should be, but the maximum size of dividends is decided by the government (SOU 2001:27,

¹ Municipal tax law (1991:900, Chapter 2, §7), "Särskilt om näringsverksamhet m.m. 7§ Kommuner och landsting får driva näringsverksamhet, om den drivs utan vinstsyfte och går ut på att tillhandahålla allmännyttiga anläggningar eller tjänster åt medlemmarna i kommunen eller landstinget."

page 56). Recently this has caused problems because many PHCs have also made gains, especially in Sweden's capital city Stockholm, by selling houses at market prices to tenant-owners' associations. Some municipalities want to share these profits by increasing the dividends from the housing companies.

A general conclusion from the foregoing discussion is that general financial theory alone may poorly explain the financial decisions of smaller firms. Barton and Matthews (1989) point out that financial decisions would be better explained by studying the personal interests of managers. Several studies have been conducted in this area.

The outcomes of financial management decisions are filtered and translated via the accounting system and presented in the financial statements. Financial statements in turn constitute, at least to some extent, the basis for financial decisions. Financial reporting has its roots in accounting, and accounting theory and practices differ among countries—often even within a country—depending on the reporting unit. Thus, differences in accounting theory and practice lead to differences in financial reporting and may also affect financial decisions. Studying financial phenomena primarily on the basis of accounting data without reflecting on the differences in those data from one study to another may affect the outcomes of such studies. The link between accounting and corporate tax may also have a significant impact on financial reporting and thus financial decisions. The effect of taxation, both on a corporate and personal level, is especially evident in the ownership and operation of smaller firms. This is also acknowledged in several reports (see e.g., Swedish Government Report 1999/2000:1).

2.2 Financial reporting, financial statements and financial management

According to the first objective of financial statements in the Trueblood report² “the basic objective of financial statements is to provide information on which to base economic decisions”.³ The objective provides a direct link between accounting information and decision making, the process of efficiently allocating resources. In other words, the objective of financial statements is to filter and translate the activities of the firm and communicate that information to users to serve as input for their decisions. On the basis of financial statements, users make decisions, for example, on earning power and accountability. The objective of financial statements is said to be to provide users with financial statements that

² The Trueblood report refers to the American Institute of Certified Public Accountants (AICPA), Objectives of Financial Statements, Report of the Study Group on the Objectives of Financial Statements (Trueblood Committee), October 1973.

³ The objectives of financial statements in nonbusiness organizations are to some extent similar, see e.g., Belkaoui, 2000, 136–138.

present a true and fair view of the firm's financial performance and financial position. This is especially important for a large and widely-held firm. Shareholders with only a limited access to information rely upon the information in the financial statements provided by the firm and possibly analysed by other external parties. The information ought also to be transparent and to enhance comparability with other firms.

The objective of financial statements in smaller, more closely-held firms is more directed towards conservatism, income measurement, and determination of distributable income. The objective of financial statements in non-profit organizations has yet another focus, the accountability of management and the value for service provided to stakeholders and society as a whole. One important aspect of this lies in the efficiency of the cost structure and the governance of the firm. It is thus important to at least consider the impact of financial statements on those who use them.

The form and content of financial statements is affected by a number of issues, for example, context, qualitative characteristics, objectives of financial statements, accounting postulates, theoretical concepts of accounting, accounting principles, and accounting techniques. The information *content* of financial reporting and financial statements ranges widely.⁴ According to FASB Statement of Financial Accounting Concepts No. 5, Recognition and Measurement in Financial Statements of Business Enterprises (December 1984, page 5), five levels of information content may be identified: financial statements, notes to financial statements (including parenthetical disclosures), supplementary information, other means of financial reporting, and other information. The first level, financial statements, comprises the scope of recognition and measurement; this level includes the income statement, balance sheet, changes in financial position, and cash flow. The second level, the notes to financial statements and parenthetical disclosures, constitutes the basic financial statements according to AICPA Auditing Standards literature. The third level includes supplementary information, an area directly affected by existing FASB standards. Additional information provided is

⁴ The term "financial statements" is employed by many users and in many different contexts. Its meaning varies even among policy makers such as the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the European Union (EU), and the Swedish Financial Accounting Standards Council [Sw. Redovisningsrådet]. The Swedish Financial Accounting Standards Council has for example in its unofficial translation of IASB accounting standards (as quoted in FAR, 2002) translated financial statements as "finansiella rapporter" which in common usage would be translated back to English as "financial reports".

important but less standardized. The data available⁵ for this treatise are basically from the first level, i.e., financial statements including income statement and balance sheet with a few specifications specific to each firm in accordance with second and third level information. In addition to the firm-specific data, some notes on an aggregate level are available.

The *context*, Sweden, implies that accounting practice reflects the economic, cultural, and social environment in Sweden. Accounting practice and the implementation of accounting theory in Sweden differ to some extent from the situation in other countries. Nobes (1998, page 163), for example, lists 17 reasons previously proposed for international accounting differences⁶ reported by Choi and Mueller (1992), Radebaugh and Gray (1993), and Nobes and Parker (1995). Although the Swedish economy includes a substantial number of small firms, accounting practice has recently been based on the needs of large publicly-traded corporations. Also, companies within a country may adopt different accounting practices. This is very much the case in Sweden, where large companies need to meet extensive disclosure requirements in their financial reporting, while SMEs need to meet tax purposes in their financial reporting. A relative few large public companies also frequently adopt U.S. rules or International Accounting Standards (IAS). While the requirements for financial reporting differ, the extent of auditing is basically the same for all limited liability companies in Sweden. Nobes (1998, page 165, footnote 3) notes that "... small enterprises would not be publishing any financial reports in most countries." In Sweden, by contrast, SMEs do need to publish financial reports—mainly because of the tight link between accounting and taxation in Sweden.

The classification of financial reporting practices in terms of measurement and valuation depends on a number of factors, for example, what period of time is considered and what labels are chosen for categories. Sweden is often categorized as being a macro-uniform, government-driven, and tax-dominated system, and not within the "continental group" (see e.g., Nobes, 1989). In 1973, that is prior to Nobes study, Nair and Frank (1980 page 429) categorized Sweden as belonging to the continental group. With Sweden's entry into the European Union, Sweden drew closer to the continental group, which some took as meaning a return to an earlier abandoned system.

⁵ The data utilized in the following essays are discussed in more detail in section 3 - Financial statements and financial data.

⁶ Differences reported by Nobes (1998, page 163) are nature of business ownership and financing system, colonial inheritance, invasions, taxation, inflation, level of education, age and size of accountancy profession, stage of economic development, legal systems, culture, history, geography, language, influence of theory, political systems, social climate, religion, and accidents.

Traditional approaches to the formulation of accounting theory are often divided into informal approaches (see e.g., Fremgen, 1967; Mueller, 1967) and theoretical approaches. Regarding the approach to the formulation of accounting theory, Sweden is often cited as an example of following an economic approach (see e.g., Belkaoui, 2000, page 73; Mueller, 1967; Zeff, 1978) which is also considered to be a more theoretical approach. Other theoretical approaches are characterized as deductive or inductive (see e.g., Demski, 1973; Langenderfer, 1973), ethical (see e.g., Scott, 1941), sociological (see e.g., Estes, 1972; Mobley, 1970) or eclectic.

An additional feature seems to be of importance for this study with respect to financial reporting in Sweden in an international perspective: it is the financing system and its relation to financial reporting systems. For example, Nobes (1998, page 166) develops Zysman's (1983) classification and sorts financing systems into four groups, depending on whether a financing system is considered to be strongly credit-oriented or equity-oriented and whether insiders or outsiders⁷ are considered dominant in financing firms. Nobes (1998, page 167) suggests that it is the Category IV financing, i.e., strong equity and outsider dominant, that is the key issue for financial reporting. At the same time Nobes (1998, page 167) notes that "... small companies are unlikely to be financed by Category IV financing". A number of implications become apparent. For example, if too high requirements on financial reporting are set to meet outsiders' demand on information, the overload problem will become even more apparent (see e.g., Belkaoui, 2000, page 45–47, 102; Schroeder et al., 2001, page 12; and Bushong, 1995).

Objectives of accounting and financial statements. In addition to the first objective of financial statements, the second level of objectives designates the different users⁸ and uses⁹ of financial statements; general users in the second objective, uses

⁷ The idea of insiders and outsiders is developed further in, for example, Nobes, 1988.

⁸ According to Belkaoui (2000, page 90), for example, users can be divided into direct users and indirect users. Direct users include the owners of the corporation and its shareholders, the creditors and suppliers, the management of the firm, the taxing authorities, the staff of the organization, and its customers. Indirect users include; financial analysts and advisors, the stock exchanges, lawyers, regulatory or registration authorities, the financial press and reporting agencies, trade associations, labour unions, competitors, the general public, and other government departments (see also e.g., Jenkins Committee, 1994; SATTA, 1977; Corporate Report, 1975).

in the third objective, organizations in the eleventh objective, and society in the twelfth objective. The second objective states that “An objective of financial statements is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about the enterprise’s activity.” In small firms, management and shareholders often constitute the same individuals and thus these shareholders stand a far better chance of receiving information from the firm than shareholders in large, widely-held firms. Both short- and long-term creditors, on the other hand, probably have to rely on financial statements to a much larger extent. The latter also holds true for creditors of public housing companies. In addition, public housing companies have at least one fairly unique group of users—the tenants.

Tenants in public housing companies use financial statements from the PHC in which they reside in the negotiation of rents with the (PHC) landlords. The eleventh objective addresses the information content of financial statements for governmental and not-for profit organizations. It states that “An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization’s goals that are primarily nonmonetary. Performance measures should be expressed in terms of the not-for-profit organization’s goals”. Two parts may be distinguished: one is the information the board needs to evaluate the performance of management in the PHC, and the other is the information the tenants need in their negotiation with the management. The latter is a negotiation on setting the rents for the next period. By law, all fees should reflect all costs for services given to the residents of the municipalities, following a full-cost principle (Kommunalskattelagen, 1991:900, Chapter 8, §3b). This principle does not include rents, however (SOU 2001:27, page 57), but the municipal housing companies are not allowed to make any economic profits, as noted earlier. Negotiations take place between tenants’ organizations and the landlords almost every year. The housing costs are then scrutinized and discussed as a base for an agreement. The tenants’ organizations are opposed to market rents and also have political support for that position in the present government, which means that the rents are below market prices in towns with a shortage of flats

⁹ Normally users need information to assess performance, assess management quality, estimate future prospects, assess financial strength and stability, assess solvency, assess liquidity, assess risk and uncertainty, aid resource allocation, make comparisons, make valuation decisions, assess adaptability, determine compliance with the law or regulations, and assess contributions to society (see e.g., Canadian Institute of Chartered Accountants, “Stamp Report”, 1980).

(apartments). The result is a black market of renting contracts. Rents might also be too high where there are vacant flats.

The twelfth objective addresses the interaction between the private goals of the firm and its social goals. It states, “An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the enterprise in its social environment.” The goals of public housing companies are partly stated in terms of a socioeconomic dimension in that the companies are supposed to provide housing to individuals at full cost level and not more.

The third level, fourth and fifth objective, delves into the information needed. The fourth objective states, “An objective of financial statements is to provide users with information for predicting, comparing and evaluating enterprise earning power”, and the fifth objective states, “An objective of financial statements is to supply information useful in judging management’s ability to utilize enterprise resources effectively in achieving the primary enterprise goal.”

The fourth level, the sixth objective of financial statements, regards the nature of the information. The sixth objective adds a dimension of information to prior objectives and states, “An objective of financial statements is to provide factual and interpretative information about transactions and other events that is useful for predicting comparing and evaluating enterprise earning power. Basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction or estimation should be disclosed.” It is understood that “factual” means accounting data, while “interpretative information” is considered to be more subjective information.

The fifth level includes the seventh, eighth, ninth, and tenth objectives of financial statements; this refers to the concept of the balance sheet or statement of position, profit-and-loss statement or statement of periodic earnings, funds statement or statement of financial activities, and the importance of predicting and forecasting the economic decision-making process. Finally, the sixth level adds recommendations to the objective reported on the fifth level.

The postulates of accounting. The postulates—the entity postulate, the going-concern postulate, the unit-of-measure postulate, and the accounting-period postulate—all reflect the economic, political, sociological, and legal environment in which accounting appears (see e.g., Belkaoui, 2000, pages 163–166). The entity postulate implies that each firm is a separate accounting unit and that owners constitute a separate unit from the firm. In small businesses, the owner often also constitutes the management of the firm, which makes it easier to balance individual interests with firm interests, compared to more widely-held firms. Thus, in small businesses, the difference in an economic sense is probably less than in an accounting perspective. The going-concern postulate assumes that firms will continue to operate far into the future. This implies that assets should be valued on

a nonliquidation basis. However, small firms generally operate with a higher risk and are thus more probable of being liquidated or going bankrupt. The unit-of-measure postulate is important in order to measure and be able to compare various transactions of firms. However, it is not impossible that the close relationship between management and owners in small firms and other external parties might permit this to a larger extent than in widely-held firms' transactions valued on an alternative basis. Finally, the accounting-period postulate implies that firms need to report on a continuous basis even though they are assumed to operate indefinitely according to the going-concern postulate. This is also the case for small firms; small firms are generally required to report on an annual basis but not submit interim reports.

The theoretical concepts of accounting. Several concepts of accounting are at hand (see e.g., Belkaoui, 2000, page 167; Schroeder et al., 2001, page 445). The proprietary theory, focusing on the proprietor's net, is generally associated with closely-held firms such as smaller firms. However, this treatise examines primarily limited liability companies, and thus the entity theory may be argued to be most suitable since the business is at centre. A third alternative is the fund theory. The fund theory is particularly suitable in examining the non-profit public housing companies addressed in the second essay. The fund theory is typically "asset-centred" with the primary focus on the administration and use of assets. This coincides with the owners' (renters') and tenants' intentions in managing public housing companies.

The principles of accounting. The principles of accounting differ in a cross-national comparison. For example, Radebaugh and Gray (2002) and Ernst & Young (2000) report a number of differences in comparing accounting principles in Sweden, the United States, and nine other countries. Since the first essay in this treatise is a cross-national comparison between Sweden and the United States, these differences in principles of accounting become interesting. Most of what Radebaugh and Gray (2002) reports is still valid except for that construction contracts used to be accounted for in Sweden usually according to the completed-contract method, and in the United States according to the percentage-of-completion method. However, now (since 1 January 2001, earlier adoption was encouraged) RR10 (Recommendation No. 10 from the Swedish Financial Accounting Standards Council) recommends the percentage-of-completion method. Also, research and development costs could previously be capitalized in Sweden and expensed immediately in the United States. But RR15, which came into effect 1 January 2001, recommends that research costs be expensed and that development costs can still be capitalized.

Financial statements and auditing. An important aspect of financial statements is their quality. Quality is at least to some extent dependent on the audit requirements for the specific unit and submitted reports. In an international perspective, smaller

firms usually need to meet fewer reporting. In Sweden this difference between reporting requirements for large and small firms is somewhat less than in many other countries. The audit function include accounting issues such as which firms are to be audited, election of auditors, object of audit, sources of auditing standards, ethical standards, enforcement, legal liability, responsibility for detection of fraud, audit reports, and reporting requirements (see e.g., Needles, 2000; Radebaugh and Gray, 2002). Radebaugh and Gray (2002) discuss these issues and make comparisons between amongst else the U.S. and Sweden.

For a review of the accounting and business economics traditions in Sweden, see e.g., Jönsson (1985 and 1996) and Holmquist et al. (1984, ch. 1 and 2). Nilsson (2002) provides a more up-to-date and in-depth overview of Swedish and international accounting practice and policy-makers. Heurlin and Petersohn (2001), Artsberg (1996), Östmann and Schuster (1995), Rundfelt (1995) also present different aspects of accounting in Sweden and in an international perspective. Also, prior studies discuss institutional and political aspect of Swedish policy-makers (see e.g., Törnqvist, Lumsden and Marton, 2000), the regulation of financial reporting in Sweden (see e.g., Jönsson and Marton, 1994), and the understandability of narratives in annual reports in Sweden (see e.g., Nilsson, 1997). Other studies also compare aspects of accounting and reporting in Sweden with other those of other countries. For example, Hellman (1993) performs a comparative analysis between Swedish practice and U.S. GAAP of the impact of accounting differences on profits and return on equity, Lagerström (1997) addresses the relative conservatism of alternative accounting regimes in Swedish practice and U.S. GAAP between 1982 and 1994, McLeay and Neal (1999) address international standardisation and harmonisation in terms of a new measurement technique, Weetman and Gray (1991) compare the impact of accounting principles on profits in the United States versus the United Kingdom, Sweden, and the Netherlands, and Nilsson (2000) examines the difference in profit reported according to American and Swedish norms in Swedish public corporations listed on the U.S. stock market.

3 Financial statements and financial data

As noted in the first objective of the Trueblood report, the primary aim of financial statements is to provide users with information necessary to make economic decisions. The FASB provides in its Statements of Financial Accounting Concepts No. 2 (CON 2) some guidelines as to what qualitative characteristics the financial statement should have in order to fulfil the first objective of financial statements. CON 2 emphasises the usefulness of decision making as the most important informational quality (see e.g., FASB, 1991/92, page 712). The usefulness of financial statements for decision making is presented as dependent on relevance and reliability. Relevance is in turn presented as dependent on the predictive value, feedback value, and timeliness while reliability is presented as dependent on

verifiability, representational faithfulness, and neutrality. Comparability, including consistency, is presented as a secondary and interactive quality in determining decision usefulness. The following sections discuss several of these inputs into decision usefulness with respect to the two databases used in this study: financial statements of limited liability companies (section 3.1) and financial statements of public housing companies (section 3.2).

3.1 Financial statements on limited liability companies

Background and purpose. The data used in the first essay—A Comparative Study of Industrial Services in the United States and Sweden: Profitability, Productivity and Pricing, the third essay—An Assessment of the Impact of Financial and Contextual Variables on Managers' Decisions to Utilize Tax Allowances in Small Swedish Firms, and in the fourth essay—The Association between Investment and Finance Decisions, were gathered directly from Statistics Sweden (SCB). The data were gathered directly since Statistics Sweden does not normally publish data in such detail, for reasons of confidentiality. An aggregated version of the data may be found annually in “Statistical Reports – Financial accounts for enterprises”¹⁰ published by Statistics Sweden. The first essay considers data from the financial status at the year-end of 1994, and the third and fourth essays consider the financial status at the end of 1996. Since all data describe the companies at one point in time, we do not need to inquire in any depth about any possible changes from one accounting period to another. But we do need to discuss some aspects and qualities of the data. We will therefore, next define and discuss issues such as the statistical and research unit, scope, population and sample, selected changes and comparability, industrial classification, legal form, variables, accounting period, and data quality.

Swedish firms are compelled to supply certain public organizations with specified information. The amount and content of financial information to be supplied is primarily specified in the Companies Act and Accounting Act. The information gathered via Statistics Sweden are primarily data from the firms' annual reports but also other data such as investment activities, number of employees, salary, cost of labour, value added, and some detailed specifications of the profit and loss statement and balance sheet.

Statistical and research unit. Individual companies and groups of companies are two central units that need to be discussed further before any meaningful comparisons are possible. A group of companies often refers to a parent company and a number of daughter companies. Statistics Sweden does have, to some extent, data that specifies the status for each and every company with respect to ownership

¹⁰ The author's translation of *Statistiska meddelanden - Ekonomisk redogörelse för företagen*.

and control. However this information does not include data describing the financial status of the companies; furthermore, it does not include data regarding possible foreign ownership in the companies. The financial register does describe the financial status of the companies but does not provide an overall picture of the relations between the companies. However, one variable does specify the majority holder in the company. In the present study we will be using the financial register; thus, the results will be affected by the fact that the register does include a number of transactions that normally are eliminated when using data on a group of company-level. This issue is not unique to this study. The same issue is valid in all studies that are based on data from the financial register from Statistics Sweden. The statistical unit is in this study defined as the reporting unit, the legal or balance sheet unit.

Accounting period. In Sweden it is common for firms to begin their financial year on 1 January and end it on 31 December. Other common starting dates are 1 April or 1 August. Other starting dates are possible but not common. The financial year included in the database is the financial year ending latest before 1 January 1995 and 1997. If firms have changed accounting period, resulting in a shorter or longer period, the accounting period has been recalculated to correspond to a twelve-month period.

Legal form. The database includes in its original form several types of legal forms: joint-stock companies, cooperatives, partnerships, limited liability firms, associations, and foundations. As noted earlier, the focus in this treatise is primarily on limited liability companies.

Industrial classification. In 1994, Sweden adopted the industrial classification used by all other member states in the European Community. The Swedish Standard Industrial Classification (SNI92) and the Nomenclature Générale des Activités Economique dans les Communautés Européens (NACE Rev.1) are similar to the fourth digit level. The Swedish Standard Industrial Classification has added a fifth, more detailed level. SNI92 replaced the former industrial classification SNI69. For a detailed description of the industrial classification see e.g., Statistics Sweden, 1992:4; 1992:5; and 1992:6. In 1998, Sweden and other member states adopted a new industrial classification, but that occurred after the collection of data used in this treatise.

Survey population and size-group classification. The data from Statistics Sweden include data for all non-financial limited liability firms within the corporate sector except firms in real estate management (SNI 70). Years prior to 1996, firms were excluded if they met one or more of the following criteria: no employees, turnover

less than 50,000 SEK¹¹, companies in the real estate sector or part of the Samhallgruppen.¹² The total number of companies surveyed then was approximately 15,900. In other words, all industrial companies with more than 20 employees were surveyed along with companies in other sectors which employed more than 50 persons. Other groups of companies were surveyed by a random sample every year. In 1996, Statistics Sweden added these companies surveyed at random by including them via administrative sources such as the tax authorities. The number of included firms has consequently risen to approximately 265,800 firms.

Data quality. Statistics Sweden invests considerable resources in improving the quality of the data. Nevertheless, problems still exist in collecting and presenting data. Several types of errors may be identified, for example, drop-out error, measurement error, process error, and sampling error.

A company is accounted as a drop-out if it is regarded as a part of the population and is selected in the sample, but for some reason there are no data for the specific object. Statistics Sweden has chosen to deal with this problem, first, by using last year's data and, second, by using the average value (imputation) of the sample for respective variable. This procedure may result in values that differ from the true values, especially if the average is based on relatively few companies. The database includes firms that are in severe financial distress and even firms that have filed for bankruptcy during the accounting year. Other firms that have ceased to exist during the accounting period are also included, assuming that they have presented annual statements.

The firms in the database may be divided into two groups with respect to the level of measurement error, since more resources are spent on checking the accounting data presented by firms with more than 50 employees than firms with fewer employees. However, the quality of the accounting data from all firms must be considered to be of high standard. Several hundreds of checks are performed in order to confirm the quality of the data (see e.g., Statistics Sweden, 1996).

A vast amount of literature and documents has been processed which are not reported among the references in this treatise, since they are considered to be internal reports of SCB. In connection with this process, we have had a continuous discussion with several departments and experts working at Statistics Sweden. The literature, documents, and discussion have dealt with issues such as how to handle SRU-data, help programs or administrative programs, special cases, definitions of

¹¹ 50,000 SEK (Swedish kroner) equals approximately 6,500 USD in 1997.

¹² Samhallgruppen is a community service company.

¹³ SRU-data is an abbreviation for *Statens räkenskapsunderlag* [government accounts].

legal entities and owners equity, determination of the relative placement of variables in working files, code registers, how complementary information has been gathered (e.g., by questionnaires), how to determine principal activity for enterprises in the Swedish business register, classification of algorithms, VAT-calculations and definitions, correspondence between current and old files, borderlines for confidentiality, and imputing methods. Several additional publications¹⁴ have also been useful in managing the data.

General comments on data utilized in essays. The available data can be categorized into four groups: basic data describing the firm, variables describing the income statement, variables describing the balance sheet, and specifications that provide additional information to the variables in the income statement and the balance sheet (see Appendix 1-3).

The basic data contain information on number of employees, salaries, wages and other compensation, labour costs, and value added. Number of employees is basically calculated by dividing the total number of working hours disclosed by the firm by an assumed figure representing a full-time employment, which results in an average figure of number of employees in the firm over the accounting year. A firm stating that it does not have any employees means that the firm is run only by the owner. Salaries, wages, and other compensation includes a broad range of forms of compensation defined by the fiscal authorities in Sweden. However, salaries constitute the bulk of all forms of compensation, for time worked and not worked and costs for payments.

All income statement and balance sheet variables are derived from disclosures from each individual firm's audited financial report and, where necessary, additional information from other sources. Sweden Statistics, for the purpose of this database, has aggregated disclosures to enhance comparability between firms and industries.

In the income statement, income is defined as positive and cost as negative. A close examination of the database indicates, for example, that a few firms disclose negative income; this is possible though rare but needs to be considered when including the data into models later. In the balance sheet, assets, liabilities and equity are all defined as being positive. Assets disclosed as being negative are in fact some form of liability for the firm. Liabilities and equity noted as negative are in fact assets held by the firm.

The balance sheet follows a conventional disposition and has not been changed significantly the last couple of years. The few changes that have taken

¹⁴ Nordberg, L. (1989) and Statistics Sweden (1989, 1992:4, 1992:5, 1992:6, 1993, 1994a, 1994b, 1995, 1996)

place include the uniting of accounts receivables and trade note receivables, accounts payable, and bills payable along with the establishment of tax equalization reserves in 1990. The data reflecting the balance sheet are presented in the form of “decreasing liquidity order”, i.e., assets and liabilities generally considered to be most liquid are presented first, followed by less liquid items.

3.2 Financial statements on public housing companies

The data utilized for the second essay, Cost Control and Revenue Generation: The Case of Public Housing Companies’ Experiences in Sweden was collected manually from the annual reports of the included companies. The data were extracted from the annual reports and in some cases standardized in a comparable format. The format was standardized according to practice in the industry and the laws that regulate allowable formats.

Background and purpose. The data were not originally collected for the purpose of this essay. The data had been collected by an investigator and colleagues who had many years of experience of the industry and use of the data. The data have primarily been used and still is used in negotiations concerning setting rents for large groups of tenants. The number of years, use of data, and comments to the data, beside the routine checks of data, guarantee the quality of this database.

Legal form, statistical and research unit. According to SABO approximately 89 per cent of the public housing companies associated with SABO are organized in the form of limited liability companies, and the remaining 9 per cent are foundations. It is probable that the proportions are approximately the same for companies not associated with SABO. It is possible for PHCs to own other companies, public housing companies, or companies in other industries within the limits permitted by the law. Thus, it is also possible for PHCs to be owned by another company. For the purpose of this treatise, we only include PHCs entirely or at least those predominately self-governed.

Accounting period. We currently have access to accounting data for 1997 through 2000. In cases where a PHC has adopted a split financial year, i.e., closing the books during a calendar year, it is nevertheless assumed to have closed its books by the end of the calendar year.

Population and sample. By the end of 2001, there were approximately 340 public housing companies in Sweden. A large portion (305 firms) of these firms were associated with SABO. More than 1.5 million Swedes live in a flat (apartment) managed by a public housing company, i.e., more than one sixth of the population. The PHCs included in this study are fairly evenly distributed over Sweden, at least when considering the location of the Swedish population. The sample is also fairly evenly distributed in terms of PHC size measured in managed square metres and total turnover. If there is a tendency towards a bias, it might be geographically, slightly towards the south-west of Sweden.

We had access to 62 public housing companies, but one company was discarded since it was considered to be a parent company to other included companies. The final sample consists of 61 PHCs, 59 limited liability companies, and two foundations. A total of 183 observations, 61 firms over a three-year period, account for the first phase in the essay. In the second phase, we first study differences and thus lose one-third of the observations. Included PHCs are presented in the Appendix. In order to increase the understanding of the included variables, they are presented in relation to other disclosures in the profit and loss account and balance sheet. The variables are presented both in English and Swedish (see Appendix 4 and 5).

4 Summary

The over all aim of this dissertation has been to assess how do the outcomes of corporate financial management decisions—decisions related to market issues, operations, investments, and finance—translated into financial statements and reported by small firms in Sweden, relate to financial performance and capital structure? And, the over all purpose of this treatise has been to examine four management concerns. The separate but related essays have each looked into one of the following areas: *(i)* profitability, productivity and pricing, *(ii)* cost control and revenue generation, *(iii)* utilization of tax allowances, and *(iv)* balance sheet structure. More specifically, the objectives have been: *(i)* to perform a comparative cross-national study between Sweden and the U.S., within the industrial service sector, to assess the strength of strategic inputs into profitability, *(ii)* to estimate the impact of operating costs and cost of debt on revenue, profit generation and asset retention in public housing companies in Sweden, *(iii)* to examine the impact of selected financial variables and contextual variables on managers' decisions to use tax allowances in small Swedish firms, and *(iv)* to examine the interdependence between investment and finance decisions in small Swedish firms.

The point of departure in this treatise was the concepts, constructs and financial decisions within financial management. It was argued that small firms and nonprofit firms differ in financial management compared to large firms because of differences in for example corporate objectives and agency costs. The discussion on financial reporting, financial statements and financial data on limited liability companies and public housing companies has provided the setting in which the studies have been carried out.

4.1 Profitability, productivity and pricing

In the first essay - A Comparative Study of Industrial Services in the U.S. and Sweden: Profitability, Productivity, and Pricing, we argue that the dependence of industrialized countries on their service sectors is well documented and upwards of

80 percent of employment now comes in this sector (Europa, 1999). The study (Europa, 1999) also reports on a graph that portrays decreases in manufacturing and agricultural sectors while service employment is increasing and it has also become a standard in both marketing and service management texts (see e.g., Czinkota and Ronkainen, 1995, 530; Fitzsimmons and Fitzsimmons, 1994). Rather surprisingly, much of the literature on managing service businesses has come only over the past twenty years. Shostack (1977), of course, was the initiator of the movement when she recognized a need to "break free from product marketing." Major contributions subsequently came in the form of models that recognized the manner in which consumers judge quality in service provision (Grönroos, 1983; Parasuraman et al., 1985). Consequently, there has been a growing body of literature on how service businesses might be conducted to provide consumer satisfaction.

At the same time, an industrial service sector has been growing that is larger than the consumer sector that has received much of the research attention. It has been estimated in the U.S., for instance, that this sector had been the single largest element in the service economy in the decade leading into the most recent census (Wilson and Smith, 1996). Continued growth in this sector would appear certain; major companies not only outsource staff work that previously had been done internally, but they also now have found external capabilities strategically useful (Ozanne, 1997). Perhaps as a consequence of the research oversight, industry history and economic potential, a recent issue of an international service journal was dedicated to industrial services. In that journal, papers were dedicated to international activities (Björkman and Koch, 1997), value (Lapierre, 1997; Patterson and Spreng, 1997), profitability (Wilson, 1997), contracts (Paulin et al., 1997), and technological change (Andersson and Mölleryd, 1997).

Missing in current literature, not only in industrial services but services in general, are results of comparative cross-national studies. Indeed it has been suggested that there should be a search for marketing universals in general that apply around the world irrespective of their economic, political or cultural organizations (Kaynak and Savitt, 1984). Such results are important for two reasons. First, opportunities exist to learn from empirical observations. The practice of making inter-industry comparisons in domestic sectors is quite common. That is, judgments can be made on a firm's operation by comparing it with industry standards. Essentially, a comparative cross-national study extends those comparisons across national boundaries. It would be expected that if significant differences were observed in financial ratios, for instance, some suggestions for strategy would be forthcoming on one side or the other. Second, there is applicability of theory. Presently, it is implicitly assumed that application is acultural. That is, theory developed for, or in, one cultural can be transposed to another. This assumption is rather tenuous; the cultural nature of service

satisfaction is rather well known (Terpstra and David, 1991). Thus, it would be enlightening to determine if apparent strategies of operation, in terms of strategic inputs into profitability, were indeed different across national boundaries. The purpose of this essay is thus to perform a comparative cross-national study between Sweden and the U.S., including several sub-sectors within the industrial service sector, to assess the strength of strategic inputs into profitability. The four strategic factors are; relative market share, revenue/employee, investment intensity, and segment growth rate. In this study we employ an ordinary least square regression (OLS).

Model 1. A Comparative Study of Industrial Services in the U.S. and Sweden: Profitability, Productivity and Pricing.

$$PROF = \alpha + \beta_1 RELMSH + \beta_2 INVI + \beta_3 IGRTHR + \beta_4 REVEMP + \varepsilon \quad (1)$$

Dependent variable: PROF - Return on Investment. *Independent variables:* RELMSH - Relative market share, INVI - Investment Intensity, IGRTHR - Industry Growth rate, REVEMP - Revenue per employee.

Both market share and revenue/employee were statistically significant in U.S. performance. Swedish results suggested that market share was not a significant contributor to a profitable strategy. Investment intensity and revenue/ employee, however, were significant contributions to profitability. These results, coupled with structural observations on production sectors, suggest that significant differences may indeed occur in both productivity and pricing in the two systems.

4.2 Cost control and revenue generation

The second essay - Cost Control and Revenue Generation: The Case of Municipal Housing Companies' Experiences in Sweden addresses efficiency and effectiveness with a restriction – 'not' to operate with a profit.

Two considerations appear important at the policy level when it comes to public housing. First, a housing program is an important element upon which development policy is built. Without proper housing, other elements in development are difficult, if not impossible, to obtain. That is, inefficiencies in the housing market potentially provide constraints upon labour availability and mobility, thereby having an important bearing on regional and local economic viability (Adair, Berry and McGreal, 1996). Secondly, it is also evident that changes are occurring in governments' contributions to public housing - generally in a direction of less support. Turner and Whitehead (2002) suggest that much of the pressure for policy change comes from concern as a means for reducing public expenditures in a way that generates the least political tension. Thus, increased competition in the provision of public sector housing, stock privatisation and attempts to introduce more tenant-centred and effective housing management services are trends seen in social housing throughout the European Union (c.f.

Redmond and Walker, 1995). Further, studies have been done that compare programs worldwide (Arimah, 2000), in Europe (Andrusz, 1999; Priemus and Boelhouwer, 1999; Priemus and Dieleman, 1999), or analyse changes in single countries (see, for instance, Adair et al., 1996; Bengtsson, 1999; Boyne and Walker, 1999; Forest and Murie, 1994; Henrekson et al., 1996; Murphy, 2000; Pawson and Bramley, 2000; Reilly and Witt, 1994; Tewdwr-Jones et al., 1998; Turner, 1999; Turner and Whitehead, 2002).

Despite the interest in these programs, there has tended to be little analysis of housing management in terms of its role, function or performance (Redmond and Walker, 1995) and such information would be useful, of course, both on a specific and general basis (Gittell and Kaufman, 1996; Markusen, 1999). In this regard, the case of Swedish public housing may be of special interest. That is, it has a significant position in overall housing stock (Priemus and Boelhouwer, 1999), a fifty-year history of relative success (Bengtsson, 1999), yet functions on a basis that is “different” from other European systems (Turner, 1999). Thus, it has been suggested that the combination of “social credibility, professional efficiency and solid finances” of co-op organizations have been associated with the success of the Swedish system (Bengtsson, 1999).¹⁵ The purpose of this paper is to give some quantitative analyses of that system with special regard to the costs incurred in running it. Correspondingly, these operational cost “investments” are associated with the system's revenue generation capabilities, the ability to remain profitable, and the retention of asset values. One area of interest is whether rents appear to be determined according to a full cost principle or if there are some other principles. Further, are there any connections between different costs (or value drivers) and rents, profits and the book value of public owned houses? These results should be interesting to policy makers in general, but should be especially relevant to the interests of local governments, who tend to place some premium on maintaining residential quality (Arimah, 2000).

An OLS analysis of the Swedish system has been made with special regard to the system's revenue generation capabilities, the ability to remain profitable, and the retention of asset values. The analysis is done in two steps. The first step employs original data and the second step first difference data. The cost structure is defined by six forms of cost, the independent variables; computed property upkeep expense, pass-along housing expense, property insurance, site-lease rent, central cost, and cost of debt. The dependent variables are defined as; total rental revenue,

¹⁵ This characterization seems to capture the sense of public housing in Sweden. It was repeated verbatim by Ozuekren (2000) in his review of the book (Andrusz, 1999) in which Bengtsson's chapter appeared.

operating profit, gross, excluding items affecting comparability, and book value of property.

Model 2. Cost control and revenue generation.

$$DVAR = \alpha + \beta_1 CPUE + \beta_2 PHE + \beta_3 PINS + \beta_4 SLR + \beta_5 CCOST + \beta_6 COD + \varepsilon \quad (2.1)$$

$$\Delta DVAR = \alpha + \beta_1 \Delta CPUE + \beta_2 \Delta PHE + \beta_3 \Delta PINS + \beta_4 \Delta SLR + \beta_5 \Delta CCOST + \beta_6 \Delta COD + \varepsilon \quad (2.2)$$

Dependent variables (DVAR) represent three different specifications; (1) REV - Total Rental Revenue, (2) PROF - Operating Profit, gross, excluding items affecting comparability and (3) PROP - Book value of property. *Independent variables*; CPUE - Computed Property Upkeep Expense, PHE - Pass along Housing Expense, PINS - Property Insurance, SLR - Site lease rent, CCOST - Central Costs and COD - Cost of debt. Δ indicates change in each respective variable between fiscal years.

Initially the variables were measured in absolute values i.e. the absolute amount in Swedish Crowns (SEK). However, the practice in the industry is to state the measure per managed square meters. This reduces the size effect in the measure. If one general lesson might be drawn from the empirical results it would be that expenditures on consolidated maintenance is not only associated with short-term rental revenues, but undoubtedly long-term viability as well. Further, first difference results suggested that negotiated rents produced operating profits that kept pace with revenues over that time period of study. These results should be especially relevant to the interests of a wide range of local governments where public housing is of concern. In particular, those individuals who are bearing greater responsibility for running self-sufficient systems and also policy makers who are interested in running efficient, effective systems should be interested in these observations.

4.3 Managers' utilization of tax allowances

In the third essay - The Impact of Financial and Contextual Variables on Managers' Decision to Utilize Tax Allowances, we make use of the strong relationship between accounting and taxation in Sweden (see e.g., Swedish Government Proposition 1995/96:10).¹⁶ It is a strong relationship that still exists even after Sweden's entry into the European Union and the adoption of the True and Fair View (see e.g., SFS 1995:1554, Ch. 2, 3§).¹⁷

¹⁶ Swedish Government Proposition (Prop. 1995/96:10), *Ärs- och koncernredovisning* [Swedish Annual and Group Accounting].

¹⁷ Swedish Code of Statutes (SFS 1995:1554) *Ärsredovisningslag* [Swedish Annual Accounts Act].

Along with new legislation in 1990, firms in Sweden gained a new perspective on the tasks of corporate taxation (see e.g., SOU 1989:34).¹⁸ Before the changes in 1990, corporate taxation was notable for its high tax rates in combination with relatively liberal opportunities to build up untaxed reserves in a company. These practices contributed, as noted by Lodin et al. (1992), to big differences between statutory and effective taxation. The tax reform also brought with it radical changes in nominal corporate tax rates. The tax rate for corporations dropped from 52% to 30% in 1991 and to 28% in 1994 (see e.g., SOU 1989:34; Lodin et al., 2001). This reduction was intended to be combined with fewer opportunities for building up untaxed reserves in a company. The only remaining options to build reserves after 1990 were excess depreciation and appropriations¹⁹ to the new tax equalization reserve. Appropriations to the tax equalization reserve were technically very complicated, and relatively few companies were able to use this opportunity in a proper way (see e.g., SOU 1992:67:113-14²⁰; Karlsson, 1992; Forsling, 1998). Therefore, it was decided to remove this form of untaxed reserve. The tax equalization reserve was replaced in 1994 by the tax allocation reserve (in Swedish, *Periodiseringsfond*, hereafter TAR). Currently the bulk of untaxed reserves are in the form of the accumulated excess depreciation reserves and TARs.

Each form of untaxed reserve has its specific aim and features. The accumulated excess depreciation reserve is widely considered to be an important tool to smooth income and create investment incentives, but it is primarily of interest for firms with a significant part of fixed assets. However, the bulk of newly established firms are defined as service-oriented, often requiring fewer fixed assets that constitute the basis for depreciations. The long-term use of accumulated excess depreciation has led managers and academics to gain a thorough understanding of its effects on, for example, income smoothing (see e.g., Kinnunen, 1989). By appropriating funds to the fairly new form of untaxed reserve, the TAR, firms in Sweden can benefit from several advantages when compared to other tax allowances and income smoothing techniques.

¹⁸ Swedish Government Official Reports (SOU 1989:34), *Reformerad beskattning: Betänkande av utredningen för reformerad företagsbeskattning* [Corporate Tax Commission].

¹⁹ For the purpose of this study we use the term “appropriation” (to untaxed reserves). The term is often used in an international context (see e.g., Alexander et al., *European Accounting Guide*, 2nd ed., 1995).

²⁰ Swedish Government Official Reports (SOU 1992:67), *Fortsatt reformering av företagsbeskattningen* [Continued Reform of Corporate Taxation].

According to Proposition 1999/2000:1²¹ the TAR has two primary aims. First, it is intended to lower the tax levy on investments financed with internally generated income. Second, it creates a possibility for firms to appropriate funds during prosperous years which may be used to cover losses in poor years. In other words, the purpose of the TAR is twofold: first, the financing effect of TAR through the tax credit it creates, and second, the income smoothing effect that these reserves also produce. The proposition argues that the TAR is considered to be an important source of financing, especially for small, less capital-intensive, and newly established firms.

Governments throughout Europe and other areas in the world invest into and promote small businesses, amongst other reasons, for their creation of jobs (see, e.g., Davidsson et al. 1994; Reynolds and Storey, 1993). Governments provide such stimulus in several ways, such as by subsidies, grants, tax incentives, and opportunities to smooth income. Creating the possibility of utilizing allowances such as the TAR can be seen as being in line with such efforts. At the present time, policy makers intend to make the TAR even more attractive by increasing the maximum period of time between appropriation and dissolution, and increasing the maximum amount of appropriation.

Several studies report on the difficulty of small businesses in raising capital (see e.g., SOU 1989:34; Prop. 1999/2000:1). As noted previously, the TAR is intended to work as a source of funds for investments; yet Proposition 1999/2000:1 reports that the TAR is not fully utilized. Furthermore, it reports that small firms tend to use the appropriation option to a lesser extent than large firms, even though the TAR should be of greater value for small firms in view of the difficulty they have in raising capital on capital markets.

Taking into account the advantages of the TAR compared to other forms of debt and equity, rational managers ought to utilize the possibility of appropriating funds to the TAR and untaxed reserves in general to a greater extent than observations suggested, for example, in Forsling (1998), Proposition 1999/2000:1, and the SOU (1989:34). This standpoint is also emphasized in a text from the Swedish Institute of Authorized Public Accountants (1999), "...Companies are under no obligation to make appropriations to untaxed reserves of the maximum amounts possible. However, it would be rather unusual not to appropriate the maximum possible and thus pay tax earlier than necessary...". Thus, the main purpose of this study is to examine under what circumstances in terms of financial

²¹ Swedish Government (Prop 1999/2000:1) Uo 1-8, B 1, 8.3.2 *Utvidgade reserveringsmöjligheter* [Extended possibilities for appropriations], Appendix *Skattebelastning m.m. för företag av olika storlek* [Tax levy, etc. on firms of different sizes].

position, financial performance, and contextual variables managers decide to appropriate to the TAR.

We have examined the problem with a logistic regression on a large database on small limited liability companies in Sweden. Firms are defined as appropriators or non-appropriators depending on whether they appropriate funds or not to the TAR in the particular year.

Model 3. Managers' utilization of tax allowances.

$$[ATAR] = \alpha + \beta_1 NPM + \beta_2 QR + \beta_3 DE + \beta_4 ROA + \beta_5 ROE + \beta_6 COD + \beta_7 NINV + \beta_8 TAR + \beta_9 AAEDR + \beta_{10} SIZE + \beta_{11} AGE + \beta_{12} IND + \beta_{13} CI \quad (3)$$

A symbolic presentation of the variables in the logistic regression. *Dependent variable:* ATAR - Appropriation to the Tax allocation Reserve. *Independent variables:* NPM - net profit margin, QR - quick ratio, DE - Debt-to-equity, ROA - Return on Assets, RE - Return on Equity, COD - Cost of Debt, NINV - Net Investments, TAR - Prior appropriation to the Tax allocation reserve, AAEDR - Appropriation to the Accumulated Excess Depreciation Reserve, SIZE - Firm size, AGE - Firm age, IND - Industry, and CI - Capital Intensity.

The results indicate that the purpose of introducing the opportunity to voluntarily appropriate funds to the TAR, as a possibility for the financing of firms, is met under certain conditions. It seems to be more probable for firms which meet one or more of the following *financial criteria: higher net profit margin, higher return on equity, lower cost of debt, do not invest, and/or are less capital-intensive*, compared to reference group firms. This description basically fits a profitable and financially stable firm. It also seems as if it is more probable for firms to appropriate to the TAR if a firm may be categorized according to one or more of the following *contextual criteria: micro firm rather single firm, newly established rather than established, and operating in the wholesale and retail trade industry*. An additional point might be made especially in connection with the second aim of the TAR. That is, the *firms that generally smooth income, in terms of prior appropriations to the TAR or appropriations to the accumulated excess depreciation reserve, are those that also appropriate to the TAR*.

4.4 Balance sheet structure

In the fourth and final essay - The Association Between Investment and Finance Decisions: A Canonical Correlation Analysis on Swedish data, it is argued that financial theory often considers financial decisions separately from investment decisions as if there is a low correlation between decisions regarding assets and liabilities in the balance sheet (see e.g., Tobin, 1958; Modigliani and Miller, 1958). By dealing with the different types of decisions separately, it simplifies the otherwise complex set of variables that do in fact affect the final overall balance sheet structure of the firms. However, business executives and investors frequently use rules of thumb such as liquidity ratios, working capital ratios, and debt-to-equity ratios. The notion indicates that there is at least some relationship between different types of assets, between different types of liabilities, and between assets

and liabilities in a firm's balance sheet. Thus, the underlying assumption of this study is that managerial decisions concerning assets and liabilities create systematic relationships between individual items of the two sides of the balance sheet.

The dependence between investment (or asset) decisions and financing (or capital structure) decisions has been examined for large industrial firms (see e.g., Stowe, et al., 1980), insurance companies (see e.g., Adams, 1995), firms in certain geographical areas such as Korea (see e.g., Van Auken and Doran, 1993) and Mexico (see e.g., Carter and Van Auken, 1993), and small private and large public firms (see e.g., Van Auken and Holman, 1995). To the author's knowledge no study has so far examined the degree of dependence between investment and finance decisions in small (micro) limited liability firms in Sweden. This should prove interesting for at least two reasons.

First, Carter and Van Auken (1990) found that the association between investment and finance decisions in small, privately owned firms is different from that of large firms, amongst other things due to their inaccessibility to capital markets and to differences in operating environment. Thus, it is of interest to examine whether even smaller firms develop yet another pattern of capital structure. Second, most studies utilize accounting data to identify and measure the degree of dependence between investment and finance decisions. Thus, the specific set of line items in the balance sheet impacts on the results. The balance sheets of small Swedish firms provide at least one interesting aspect, i.e., the untaxed reserves disclosed in the balance sheet according to the tax link model (see e.g., Kinserdal, 1995). Untaxed reserves have basically two primary aims (see e.g., Swedish Government Proposition, 1999/2000:1): first, to lower the tax levy on investments financed with internally generated income and second, to create an opportunity for firms to appropriate, during prosperous years, funds that may cover losses in poor years. The first aim implies a financing effect, the second an income smoothing effect. Untaxed reserves, according to the proposition, are considered to be an important source of funds for firms, especially for small and newly established firms. The purposes of the paper, therefore, are to identify possible associations between firms' assets and liabilities exhibited in the balance sheet and, if possible, to explain the underlying patterns of these relationships in small Swedish limited liability firms.

This study examines the cross-balance sheet structure by employing a canonical correlation analysis among 75,324 micro firms in Sweden. The results from these micro firms in Sweden are compared with prior studies with smaller samples on large corporations and small businesses, both public and private. Compared to prior similar studies, as noted earlier, we extend the set of variables by splitting long-term assets into long-term financial assets and long-term fixed assets on the asset side of the balance sheet and by including untaxed reserves as a mean of financing firms to account for institutional factors that influence the

balance sheet items in Sweden. The asset variables are labeled criterion variables and are represented by five categories; cash and securities, receivables, inventories, long-term financial assets, and long-term fixed assets. The liability and equity variables are labeled predictor variables and are also represented by five groups; accounts payable, other current debt, long-term debt, untaxed reserves, and equity.

Model 4. Balance sheet structure.

$$Y_1 + Y_2 + Y_3 + Y_4 + Y_5 = X_1 + X_2 + X_3 + X_4 + X_5 \quad (4)$$

$$u_1 = a_1 X_{11} + a_2 X_{12} + a_3 X_{13} + a_4 X_{14} \quad a_1 \text{ canonical weights for assets}$$

$$u_n = a_1 X_{n1} + a_2 X_{n2} + a_3 X_{n3} + a_4 X_{n4} \quad b_1 \text{ canonical weights for equity and liabilities}$$

$$v_1 = b_1 Y_{11} + b_2 Y_{12} + b_3 Y_{13} + b_4 Y_{14} \quad u_1 \text{ canonical scores for assets}$$

$$v_n = b_1 Y_{n1} + b_2 Y_{n2} + b_3 Y_{n3} + b_4 Y_{n4} \quad v_1 \text{ canonical scores for equity and liabilities}$$

A symbolic presentation of the variables in the canonical correlation analysis. *Criterion variables*; Y_1 - Cash and securities, Y_2 - Receivables, Y_3 - Inventories, Y_4 - Long term financial assets, Y_5 - Long term fixed assets. *Predictor variables*; X_1 - Accounts payable, X_2 - Other current debt, X_3 - Long term debt, X_4 - Untaxed reserves, X_5 - Equity

The results from the present study have contributed a number of findings: first, by establishing the degree of dependency between the two sides of the balance sheet and thus indicating to what degree the assumption of independence between investment and finance decisions hold true. Both are found to be relevant in managers' tendencies in making decisions about their financial strategy. Second, firms exhibit, by examining the balance sheet composition, dependencies between investment and finance decisions: (1) matching maturity structure, (2) use of collateral for loans, (3) managing risk with surplus in cash and low leverage, (4) balancing inventories (and accounts receivable) with accounts payable (and other current debt), and (5) utilizing the possibilities of appropriating funds to untaxed reserves in relationship to capital intensity.

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Table 1. Income Statement.

	<i>English</i>	<i>Swedish</i>
1	Operating income	Rörelseintäkter
2	Operating expenses	Rörelsekostnader
3	Operating Profit or Loss before Depreciation	Rörelseresultat före avskrivningar (spec A)
4	Depreciation	Avskrivningar
5	Operating Profit or Loss after Depreciation	Rörelseresultat efter avskrivningar
6	Financial income	Finansiella intäkter (spec B)
7	Financial expenses	Finansiella kostnader (spec B)
8	Profit or Loss after Financial Income and Expenses	Resultat efter finansiella intäkter och kostnader
9	Extraordinary income and expenses, net	Extraordinära intäkter och kostnader, net
10	Profit or Loss before Appropriations and Tax	Resultat för bokslutsdispositioner och skatt
11	Appropriations	Bokslutsdispositioner (spec C)
12	Taxes	Skatt
13	Net Profit or Loss for the Year	Årets vinst

Table 2. Assets in in the balance sheet.

	<i>English</i>	<i>Swedish</i>
1	Cash and bank	Kassa och bank
2	Shares and participations	Aktier och andelar
3	Bonds and other securities	Obligationer och andra värdepapper
4	Liquid resources from group companies	Likvida reserver från koncernföretag
5	Other receivables from group companies	Andra förskott till koncernföretag
6	Accounts receivable - trade	Kundfordringar
7	Loans and accomodation bills	Lån
8	Other current assets	Andra kortfristiga fordringar
9	Inventories	Varulager
10	Advances to suppliers	Förskott till leverantör
11	Current Assets	Summa omsättningstillgångar
12	Blocked Accounts with the Central Bank of Sweden for Investment or similar reserves	Spärrade medel
13	Shares and participations in group companies	Aktier o andelar i koncernföretag
14	Shares and participations in non-related companies	Aktier och andelar i ej relaterade företag
15	Long-term receivables from group companies	Långfristiga fordringar från koncernföretag
16	Other long-term receivables	Andra långfristiga fordringar mm
17	Intangible fixed assets	Immateriella tillgångar
18	Fixed assets in progress, advances to suppliers	Pågående nyanläggningar, förskott
19	Machinery and equipment	Maskiner o inventarier
20	Buildings and land	Byggnader o mark
21	Fixed Assets	Summa anläggningstillgångar
22	Balance Sheet, Total	Balansomslutning

Table 3. Liabilities and equity in the balance sheet.

	<i>English</i>	<i>Swedish</i>
23	Loans to group companies	Lån till koncernbolag
24	Other payables to group companies	Övriga skulder till koncernbolag
25	Accounts payable -trade	Leverantörskulder
26	Tax on income	Bolagets skatteskuld
27	Short-term loans	Upplupna kostnader o förutbetalda intäkter
28	Other current liabilities	Övriga kortfristiga skulder mm
29	Advances from customers	Förskott från kunder
30	Current liabilities	Summa kortfristiga skulder
31	Payables to group companies	Skulder till koncernbolag
32	Pension provisions - PRI and others	Avsatt till pensioner
33	Other long-term liabilities	Andra långfristiga skulder
34	Long-term Liabilities	Summa långfristiga skulder
35	Tax allocation reserve	Periodiseringsfond
36	Tax equalization reserve etc.	Skatteutjämningsreserv
37	Investment and similar reserve	Investeringsfonder mm
38	Accumulated excess depreciation	Ackumulerade överavskrivningar
39	Other untaxed reserves	Övriga obeskattade reserver
40	Untaxed reserves	Summa obeskattade reserver
41	Share capital, issued	Aktiekapital
42	Restricted reserves	Bundet eget kapital
43	Non-restricted reserves and profit or loss brought forward	Fritt eget kapital
44	Net profit or loss for the year	Årets vinst
45	Equity	Summa eget kapital
46	Balance Sheet, total	Balansomslutning

Table 4. List of variables in the income statement of public housing companies.

<i>English</i>	<i>Swedish</i>	<i>...Continued from left bottom</i>	
		<i>English</i>	<i>Swedish</i>
Rental Revenues Housing	Bostadshyror (1)	Interest Contribution	Räntebidrag (7)
Rental Revenues Offices	Lokalhyror (1)	Financial Income	Ränteintäkter mm.
Other Rental Revenues	Övriga hyror	Financial Expenses	Räntekostnader
Rental Arrears	./Hyresbortfall totalt (2)	Financial Items, net	Finansnetto
Total Rental Revenues	Hyresintäkter	Income After Financial Items	Resultat efter finansiella poster I
Other Property Management Revenues	Övriga förvaltn. intäkter	Capital gain/loss, property	Reavinst/förluster fastigheter
Total Rental Revenues, Net	Nettoomsättning	Capital gain/loss, long-term investments	Reavinst/förlust långa placeringar
Property upkeep	Fastighetsskötsel	Write down, property	Nedskrivning fastighet
Repairs	Reparation	Other items affecting comparability	Övriga jämförelsestörande poster.
Water and sewerage	Vatten	Items affecting comparability	Jämförelsestörande poster (totalt)
Electricity	Fastighetsel	Income After Financial Items II	Resultat efter finansiella poster II
Refuse disposal	Renhållning	Appropriations to/ dissolution of the Tax Allocation Reserve	Avsättning till/ upplösning av periodiseringsfonden
Heating	Värme	Excess Depreciation, property	Överavskrivn. fastighet
Property insurance	Fastighetsförsäkringar	Excess Depreciation, inventory	Överavskrivning inventarier
Miscellaneous, unspecified	Övrigt/ospecificerat (3)	Other appropriations	Övriga bokslutsdisp.
Operating expenses	Driftskostnader (tot)	Group contribution	Koncernbidrag**
Maintenance	Underhåll (4)	Shareholders' contribution	Aktieägartillskott**
Site-lease rent	Tomträttsavgälder	Income before taxes	Resultat före skatt
Property tax	Fastighetsskatt	Deferred corporate tax	Uppskjuten bolagsskatt
Operating expenses, net	Driftnetto	Corporate tax	Aktuell bolagsskatt
Depreciation and writedowns in property adm.	Avskrivningar (5)	Net Income for the year	Redovisat resultat
Property expenses, total	Fastighetskost. (tot)		
Operating Profit, gross	Bruttoresultat		
Central costs	Centr. administration (3)		
Other operating income/expenses	Övriga rörelseint./kost.		
Operating Profit, gross (excl. Items affecting comparability)	Rörelseresultat (exkl. jmf. stör. post.) (6)		
<i>Continued at top right...</i>			

Table 5. List of variables in the balance sheet in public housing companies.

Assets		Liabilities and equity	
English	Swedish	English	Swedish
Intangible assets	Immateriella anläggningstillgångar (5)	Share capital	Aktiekapital
Building	Byggnader (5)	Share premium reserve	Överkursfond
Land	Mark (5)	Revaluation reserve	Uppskrivningsfond
Land improvements	Markanläggning (5)	Statutory reserve	Reservfond
New constructions and rebuilding in progress	Pågående produktion(5)	Restricted equity, total	S:a bundet eget kapital (9)
Property, total	Fastigheter (totalt)	Profit or loss brought forward	Balanserat resultat
Inventories	Bostadslåneposter (5) Inventarier mm (3)	Profit/loss for the year	Redovisat resultat
Tangible assets, total	Materiella anläggningstillgångar (totalt)	Non-restricted equity	S:a fritt eget kapital (9)
Long-term investments	Långfrist. placeringar	Equity	Eget kapital (totalt) (9)
Long-term claims	Långfristiga fordringar mm. (8)	Tax allocation reserve	Periodiseringsfond
Fixed financial assets, total	Finansiella anläggningstillgångar (totalt)	Excess depreciation reserve, property	Ackumulerade överavskrivningar fastigheter
Fixed assets, total	Anläggningstillgångar (totalt)	Excess depreciation reserve, inventory	Ackumulerade överavskrivningar inventarier
Inventory	Varulager	Other untaxed reserves	Övriga obeskattade reserver
Short-term claims	Kortfristiga fordringar	Untaxed reserves, total	Obeskattade reserver (totalt)
Short-term investments	Kortfristiga placeringar	Provisions for pensions and similar commitments	Pension mm.
Cash and bank deposits	Kassa och bank	Provisions for taxation	Uppskjuten skatt
Current assets, total	Omsättningstillgångar (totalt)	Other provisions	Övriga avsättningar
Total assets	Totala tillgångar	Provisions, total	Avsättningar (totalt)
		Long-term liabilities	Långfristiga skulder (10)
		Short-term liabilities	Kortfristiga skulder (11)
		Liabilities	Skulder (totalt)
		Shareholders' equity and liabilities	Eget kapital & skulder