

# The Municipality and the Annual Report

- How to Communicate Financial Information

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## Abstract

According to the Local Government Accounting Act (SFS 1997:614), all municipalities in the Swedish public sector are required to draw up an annual report. An annual report's design is partly regulated by the law, but municipalities are also allowed to include information and present it as they choose. This has led to municipalities showing various levels of creativeness when drawing up an annual report. A municipality has often different stakeholders, and research has shown that different stakeholders understand and value the annual report differently. Some stakeholders are familiar with the economic language and some are not, and how does a municipality work with communicating an annual report so that each stakeholder can understand it?

This study will investigate how municipalities in Stockholm County communicate financial information using their annual reports through a literature study, a content analysis of municipalities' annual reports for 2016 and six interviews with municipal officials. The theoretical framework is inspired by Fassin's operationalization of the concept "stakeholder", Remund's definition of the concept "financial literacy", and Kotler's model for an effective communication strategy. This study, based on an analysis of municipalities' annual reports and interviews with municipal officials, points out that it would appear like a majority of municipalities lack a communication strategy for communicating their annual reports.

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# 1.0 Introduction

*This chapter provides a background for the overall purpose of the study, which results in the formulation of a purpose and research question.*

## 1.1 Background

In the early 1980's, a heated debate arose in Sweden about the design of municipal accounting (Kommunforskning i Västsverige [KFi], 2011). This debate began from the need for more regulated municipal accounting principles, to be able to compare municipalities. At the same time, the concept of new public management, concerning the extent of the business- like nature of the municipal accounts had begun to spread (ibid.). The discussion eventually led to the introduction of the Local Government Accounting Act (SFS 1997:614). The current accounting act, which began to apply in 1998, stipulates among other things, the municipalities' obligations regarding their annual accounts. The legislative text of the annual report shows that the purpose of municipalities' annual report is to account for the outcome of operations, the financing of operations and the financial position at the end of the fiscal year. In addition, the law stipulates that the annual report should be formulated in a readable form so that stakeholders can access the information (SFS 1997:614). However, designing the annual report in a readable form will not automatically contribute to more people being able to access the annual report; it is also depending on how effectively the municipalities communicate the annual report (Yusuf, Jordan, Neill & Hackbart, 2013).

A municipality's annual report constitutes an important function in the management and communication of operations (Rådet för Kommunal Redovisning [RKR], 2014). For instance, the annual report serves as a decision-making source for politicians, but also as a document that can assist a stakeholder of a municipality with financial information. In addition to the annual report being prepared in accordance with the prevailing rules and regulations, it is also important that the information in the document is understood by the receiver, without them necessarily having a specialist expertise in the field of business (ibid.). Unfortunately, research has shown that people generally find it hard to understand the content of the annual report (Epstein 1975; Epstein & Pava, 1994 & OECD, 2017). Other research has shown that people who lack understanding of economic language refrain from participating within contexts where

knowledge of economics is required (Almenberg & Dreber, 2015). For a political organization such as a municipality, a reduced public participation could mean a reduction of their legitimacy because the decision makers do not get the required feedback, thereby leading to a democratic problem (Schafer & Zhang, 2016). It is therefore important to give citizens an opportunity to form an idea of how well the politicians have performed their responsibilities (Mack & Ryan, 2007). To communicate the information the sender must work actively with the design of the annual report. An approach that could assist this need, is that the municipality develops an effective communication process for how the annual report is to be communicated. One of the more well-known communication models has been developed by Kotler (2011). In his model of effective communication, he emphasizes several factors for how communication can best fulfil its purpose, including identifying a target audience, setting objectives for communication, and collecting feedback from the chosen audience (ibid.).

## **1.2 Problem Statement and Research Question**

Previous research about the municipal annual report has shown that the annual report is primarily used by local politicians (KFi, 2010). Research has shown that other interest groups have refrained from receiving their information from the annual report (ibid.). One of the main reasons behind the fact that municipalities need to generate an annual report is to enable stakeholders to acquire information about how well the municipality manages the business, and thus manages taxes from the inhabitants (Lee, 2006). However, previous research has shown that it is not only of disinterest from stakeholders' perspective to take part of the annual reports, but rather that public organizations are lacking in transparency when communicating to their stakeholders. Although the mission of satisfying the need of every stakeholder in one document could seem like an impossible task, the municipality should strive to improve their communication within the annual report, so that they do not risk excluding stakeholders from participating in debates pertaining to economic policy (Jordan, Yusuf, Mayer & Mahar, 2016).

To investigate how to increase awareness of a municipalities' annual report, scholars in the field have begun to become interested in the communication of the annual report. Research has shown that the most critical factor for communicating information to stakeholders is to spread and distribute the information effectively (Jordan et al., 2016). What “effectively” may mean in this context is rather unclear, some researchers emphasize that the layout (the amount of text and use of images and graphs) must be adapted to the target group. Others emphasize that the

information must be easy to understand and be related to the target group (Bay, 2018). In this research, the term “financial literacy” is used to describe those who have the ability to understand the financial language (Bay, Catasús & Johed, 2014). Language is an important function of communication, helping the receiver to create an opinion about the information communicated (Bredmar, 2013). For municipalities it is therefore important to adjust the complexity of language used in communication, so that they could reach stakeholders they wish to communicate with. Otherwise, they are taking a risk when sending a message if the message cannot be decoded by the receivers as intended (Jordan et al., 2016). Other scholars have argued that for the communication to be considered effective, the communication process must be clearly framed (Katsikas, Manes-Rossi & Orelli, 2017). Within this research, a variety of communication models had been developed, including Kotler's (2011) model for how to communicate to a target audience more effectively.

From the discussion above we have formulated the research question *how efficiently do municipalities in Stockholm County communicate their annual reports?*

### **1.3 Aim and Knowledge Contribution**

One of the more useful documents that describes an organization's financial position is the annual report (Avram, 2017). Earlier research has highlighted the reliance of transparency from public organizations when communicating financial information (Yusuf et al., 2013). However, research centered more so around on the importance of being transparent, rather than the means in which to achieve this transparency. In addition, research on the communication of the annual report has primarily focused on private organizations, with surprisingly few studies made on the public sectors, despite the global effect of tax expenditure regardless of one's location. Another comprehensive theme in previous research of financial communication, regardless of whether previous research has been conducted with a quantitative or qualitative approach, is that focus has been on the receiver of financial information rather than the sender.

This study shall therefore investigate how public organizations work in order to reach out efficiently with their communication. By using a qualitative research approach and focusing on the actor behind the message, this study will describe several perspectives and approaches on how public organizations communicate financial information. By examining this, the study will

be able to account for the shortcomings surrounding the annual report as a means of communication.

The purpose of this research is to investigate the communication of financial information in public organizations and how this is illustrated in the communication of annual reports. In the implementation of the research, both a document analysis and semi-structured interviews have been used. In the content analysis, all 26 municipalities located in Stockholm County were included and where the annual report for 2016 has been the underlying document. The empirical evidence from the interviews consist of six interviews conducted with officials working with the annual report.

## **1.4 Outline**

To answer the research question and fulfil the study's purpose, will the next chapter present earlier research in the field. The chapter continue by presenting the concepts and analysis models that are used to answer the research question. In chapter three, a discussion around the choice of methods and presentation of the consequences that these may entail for the research. The fourth chapter will start by presenting the empirical data, collected through content analysis and interviews. Thereafter the chapter will continue by presenting the analysis, and concludes with a review of the most important findings. The result will be followed by chapter five, where a discussion and critical reflection will be presented. In chapter six, the conclusion and the knowledge contribution will be processed, followed by the last chapter that treats the constraints of the study and give inspiration to further research.

## 2.0 Literature Review

*This chapter will further explore the research among communication, stakeholders and financial literacy. The chapter's final section will examine the concepts and models which will later be used in the analysis section.*

### 2.1 Introduction

The aim of this study is to describe what a public organization typically considers when communicating financial information. Stakeholders are only able to absorb part of the information of the annual report to a limited degree, and therefore, public organizations should work to raise interest for the annual report among stakeholders. The study's purpose is to investigate the communication of financial information in public organizations and how this is illustrated in the communication of annual reports. The theoretical background will consist of theories relating to stakeholders, communication and financial understanding. Based on these theories, the theoretical framework will be formed, which will then help to answer the research question, *how efficiently do municipalities in Stockholm County communicate their annual reports?*

The review is divided into four different themes; communication, financial communication, stakeholders and financial literacy. Each theme will describe research previously conducted in the field, the dissemination of the research field, and the contradictions that may exist. The review will begin by presenting previous research, basic concepts and models in the field of communication research, given that communication is the very essence of the problem description. The theme of communication will be dissected to allow for the presentation of specific fields in communication, namely financial communication. In this theme, the difference between financial communication and communication in a more general sense will be presented, as well as what prevalent research indicates are the main challenges of communicating financial information. Furthermore, the research related to the concept stakeholder, since this is the group that the communication aims to reach. Finally, the concept of financial literacy is introduced, which will help clarify why communication of financial information differs from other communications.

## 2.2 Review of the Literature

### 2.2.1 How to Communicate

The core of the communication research has focused on how a sender could send a message so that the message is interpreted as intended by a receiver (Al-Fedaghi, 2012). This theory has been developed by scholars who argue that the concept is broader than a message between sender and receiver. Receivers could indeed consist of a group in which sense-making occurs, which may affect the final interpretation of the message (ibid.). Kotler, who is usually highlighted as one of the more influential communication scholars in modern times, has developed a model in which to describe the different steps in the communication process (Kotler, 2011):

- **Sender:** the one who sends the message.
- **Encoding:** the process in which the message is encoded, so that it can be sent.
- **Message:** the set of symbols that the sender transmits.
- **Media:** the selected communication channel which the message is sent through.
- **Decoding:** the process in which the receiver tries to get an idea of the message.
- **Receiver:** the one who receives the message.
- **Response:** the action that follows when the receiver has processed the message.
- **Feedback:** the receiver's response directed at the sender.
- **Noise:** the noise that occurs between the sender and the receiver, both when the message is sent and when the sender is to receive the feedback from the receiver.

By understanding this process, the sender will be able to reduce background noise and the risk that the receiver makes other interpretations than intended decreases.

Kotler (2011) has also developed an eight-step model for how effective communication can be conducted. The model states that an effective communication strategy should follow these steps:

- 1) **Identifying the target audience**
- 2) **Determining the communication objectives**
- 3) **Designing the message**

- 4) **Choosing media**
- 5) **Selecting the message source**
- 6) **Collecting feedback**
- 7) **Setting the total promotion budget**
- 8) **Shaping the overall promotion mix**

The target audience is an organization's stakeholders. To reach out with their communication, organizations must identify which stakeholders they have. A communication objective could be to get response on the material from stakeholders (Kotler, 2011). In cases when stakeholders lack knowledge about financial information, one communication objective could be to contribute to an increased understanding. When designing a message, organizations should work to create attention, interest, desire and action among the stakeholders. For communication to be able to reach stakeholders effectively, organizations ought to consider which communication channels will be used and whether these communication channels can be considered personal or impersonal. To find out whether the communication has been effective, tools are required to measure the results. By having good internal control and an integrated communication process, one can ensure that the organization's' messages are perceived consistently. In order not to launch excessive communication plans, it is beneficial if organizations are able to adjust the communication according to the financial resources available.

### **2.2.2 How to Communicate Financial Information**

The means in which to communicate financial information is a well-studied field in business administration research (e.g. Avram, 2017; Bay, 2018; Bredmar, 2013). This field has traditionally been explored by scholars in finance and accounting, who mostly have focused on the choice of whether to communicate at all, as well as how to communicate accounting standards (Palmieri, Perrin & Whitehouse, 2018). Scholars have argued that the intention of communication is to communicate an organization's values and in doing so display a unified organization (Socoliuc, 2016). This view is also reinforced by Ditlevsen (2012), who concludes in her study that annual reports serve as a tool through which organizations communicate their corporate identity and thus attract stakeholders. Avram (2017) argues that the organization's process of communicating financial information must be transparent to gain credibility from stakeholders. He states that "financial communication has become a strategic concern, managed at the level of corporate governance that ensures the transparency of financial information and

contributes to proving the credibility of an entity among stakeholders.” (Avram., 2017, p. 401). This view is also shared among other scholars who believe that to achieve transparency for stakeholders, the information must be easily accessible and understandable (Yusuf et al., 2013). Although many studies pointed out the importance of public organizations being transparent when communicating financial information, many public organizations still lack the way they choose to disseminate information about their financial reports. Most often, organizations use only one or a pair of communication channels, which makes accessibility difficult (ibid.).

Focus has shifted toward an increased interest in how texts are written and how to speak (ibid.). For instance, scholars have investigated what role texts play in the understanding of a retirement system (Nell, Lentz & Pander Maat, 2018). Bredmar (2013) focuses in his report on a term called “pedagogical communication”. The main difference between communication and pedagogical communication is that the latter focuses more so on how to achieve a meaning and acquire a deeper understanding through communication. Even other scholars have focused on sense-making and argues that to elicit a reaction and get people to understand the information given to them, the figures need to be presented in such a way that they are made sense of (Bay, 2018). One possible way of doing that would be if the person presenting the information makes the information more personal and relatable to the receiver (Carlsson-Wall, Kraus, Lund & Sjögren, 2016). Some scholars have therefore focused on the use of metaphors, a figure of speech used to explain a term by using other terms (Carlsson-Wall et al., 2016; Young, 2013). The meaning of this is when people are having trouble understanding a certain message, perhaps in a context that is unfamiliar to them, metaphors can help them to gain a deeper understanding. Both studies agree that by using metaphors, people with little or no knowledge of economics could receive a better understanding of financial language presented. Nevertheless, while the use of metaphors could assist people in the understanding of an issue, it could also be misleading (Young, 2013). It is important to be aware of what these metaphors truly represent, and to be careful not to interpret them as truths. Since every metaphor imposes a limit, no metaphor could encompass the entirety of the object at hand, the potential understanding of a term or a connection may therefore be inhibited (ibid.). Regardless of the focus within the field, scholars agree that financial communication is something organizations should work to improve upon (Yusuf et al., 2013).

### 2.2.3 Defining a Stakeholder

The concept of stakeholders was introduced in the early 1960s within the research field of management (Mitchell, Bradley & Wood, 1997). The first scholars who coined the term defined “stakeholder” as groups that an organization is dependent on for its survival. The term was used primarily in the private sector as they were more dependent on their stakeholders to survive compared to the public sector. It was not until the mid- 1980’s that the definition was given a broader meaning and began to be used outside the private sector. The expanded definition defined stakeholders as groups and individuals affected by an organization's achievements and objectives (ibid.). The main criticism of the term has been that it has become too broad and is therefore vague. Further, it fails to consider that stakeholders have different opportunities to influence and affect the organization (Mitchell et al., 1997; Perrault, 2017). Other criticism of the concept is that it applies a statistical approach regardless of who the stakeholders are, the term does not recognize that stakeholders change over time and management's ability to identify an organization's true stakeholders is severely limited (Buchholz & Rosenthal, 2005).

In the research of stakeholders, scholars have been divided: those who have a broad definition of the concept and those who have a narrow definition of the concept (Mitchell et al., 1997). The definition presented by Freeman (as cited in Mitchell et al., 1997) belongs to one of the broadest definitions of the concept. Researchers who have tried to narrow the term have defined stakeholders as those that have a relationship with the organization. Both Wicks and Nasi have attempted to make the concept more specific by emphasizing that stakeholders must interact with an organization (as cited in Mitchell et al., 1997). In his research, Fassin (2009) made a distinction between different stakeholders, naming the different groups as follows:

- 1) Real stakeholders - Those affected to a great extent by the organization,
- 2) Stakewatchers - Those who have an interest in preserving the interests of the first group,
- 3) Stakeholders - Actors exercising influence over the organization but who do not have a direct interest in the organization,
- 4) Stake seeker - Those who are the secondary stakeholders of the organization,
- 5) Non-stakeholders - Those who lack interest in the organization.

Other scholars have also attempted to operationalize the concept to clarify that there are many ways in which one can be recognized as a stakeholder. A model has been developed that

describes three different characteristics of stakeholders. (Ferrell, Gonzalez-Padron, Hult, Tomas & Maignan, 2010). According to Ferrell et al.'s model, an individual or group may be a stakeholder if they meet any of the following requirements:

1. When the actor has the potential to be positively or negatively affected by organizational activities and/or is concerned about an organization's impact on his/her or others' well-being,
2. When the actor can withdraw, or grant resources needed for organizational activities,
3. When the actor is valued by the organizational culture.

Both models try to make the term more useful by reducing the level of abstraction and giving clearer guidance on how to understand organizations' stakeholders.

#### **2.2.4 Defining Financial Literacy**

Since economic language has grown in complexity, a need to distinguish those who understand this language as opposed to those who do not has been necessitated. Scholars have therefore introduced a concept describing this distinction: "financial literacy". To be literate can be described as to have "the ability to read and write: the ability to use language proficiently" (Collins Dictionary). Financial literacy can therefore be described as having the ability to understand financial terms and relationships or, as put more simply: understanding of the economic language. As with the concept of stakeholders, the definition of financial literacy is widely debated within the research field (Bay et al., 2014). In his study, Remund (2010) has summarized the more recent but numerous definitions of financial literacy in the following five categories:

- 1) Knowledge of financial concepts,
- 2) Ability to communicate about financial concepts,
- 3) Aptitude in managing personal finances,
- 4) Skill in making appropriate financial decisions,
- 5) Confidence in planning effectively for future financial needs.

Drawing from the various definitions within these categories, Remund has suggested a definition of financial literacy as follows:

Financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions. (2010, p. 284).

This definition considers the fact that the level of financial literacy varies with time and place, an idea supported by Bay et al. (2014) who argue that financial literacy should be understood as “a concept that needs to be situated in practice because the characteristics that constitute financial literacy, or those that apply to it, vary with time and place” (ibid., p. 36). This definition indicates that financial literacy should be understood in the context in which it is being investigated. Financial literacy is not the only concept used in order to describe the understanding of the economic language. A term introduced by Wobker, Kenning, Lehmann-Waffenschmidt & Gigerenzer (2014) is Minimal economic knowledge (MEK). Their definition of MEK, a “basic knowledge of the economic facts, concepts, and causal relationships needed for understanding and participating in the economy” (ibid., p. 232), differs from the other definitions in such a way that it also emphasizes participation.

The research field of financial literacy can be classified into three different sub fields: level of financial literacy in demographic areas, the effect of financial literacy on financial decisions, and finally, the impact of financial education (Bay, 2018). In the first two sub fields, scholars have found differences in financial literacy along such lines as gender, age and education (Almenberg & Dreber, 2015; Almenberg & Widmark, 2011; Wobker et al., 2014). In their report Almenberg and Dreber (2015) focus on how financial literacy between the genders affects participation on the stock market. Their research shows that women are less financially literate than men, a result that can be used as one explanation as to why there are fewer women than men participating on the stock market (ibid.). Other scholars have investigated variables concerning geographical areas (Bumcrot, Lin & Lusardi, 2013). Their study of financial literacy among American households reveals that the proportion of households with the aptitude for financial literacy is generally low, and that financial literacy varies considerably with geographical location. In the third sub field, research has shown that the most effective way to improve financial literacy is to offer education in economics (Ergün, 2017). The study also showed that students who lived with their parents were less financial literate than those who moved out of their childhood homes and were forced to provide for themselves (ibid.). In a

study concerning how people understand information about retirement, scholars concluded that the crucial factor was not whether one had knowledge of the topic, but rather the participants' general reading ability (Nell et al., 2018). All the above studies indicate that there is a difference in level of financial literacy between various groupings, and that this difference further limits the ability for people to participate within different parts of the community and society at large.

## **2.3 Conclusion**

Research within the field of communication has developed and become more dynamic. There is less focus on the message itself as scholars are trying to understand the meaning of various actors within the communication process. Nevertheless, the message itself is not rendered unimportant as many researchers are increasingly interested in how the language can be acquired, so that more people can communicate in this way (Nell et al., 2018). When individuals encounter organizations in their daily lives, it can become increasingly difficult for an organization to know which individuals or groups that are stakeholders, and which stakeholders can be considered more important than others. Scholars have been forced to accept that the term is too broad for practical use. Therefore, they have begun to develop new concepts and models to describe and rank the organization's most important stakeholders. Even in the field of financial literacy, scholars have become more interested in revising the concept. The economic language is constantly increasing its vocabulary and unfortunately, this is not paralleled by individuals' and groups' increased understanding of these very concepts, a division which may further increase financial illiteracy.

## **2.4 Theoretical Framework**

The models and theories presented in the previous sections will be the basis of our analysis models. We intend to attribute ideas from the fields of theories about stakeholders, financial literacy and communication (both financial communication and communication at large).

We intend to conduct our study by using Fassin's (2009) operationalization of the concept stakeholders, as it emphasizes that there are several ways in which an individual or group can be defined as stakeholders, which a flatter definition of the concept cannot incorporate. By using this definition, we will be able to categorize which kind of interests municipalities are targeting. Furthermore, we intend to use the definition of financial literacy presented by

Remund (2010), as this definition embraces the idea that the context plays a role in understanding the concept. It is important to remember that an individual could have a good understanding of economic terms and relationships as is encountered in their own private economy, but it may be more difficult to understand the terms that are used by a public organization.

To analyse the data collected during the study, two analysis models will be used. The first model will analyse the results of the content analysis and the other model will analyse the interview data.

### **2.4.1 Analysis Model for Content Analysis**

To analyse the annual reports, we have developed a model that consists of two variables: spread and readability. The model categorizes how well the sender adjusts the complexity of the design of communication (readability), as well as how the sender works to spread the communication (spread). An organization that uses very few channels for its communication can be considered to want fewer receivers, primarily the nearest circuit, referred to as insiders. When the opposite is true, communication can be adopted by several stakeholders, this group is therefore referred to as outsiders. In the readability variables, there are two categories that can be considered as the target audience for the communication: those with a high understanding of economic language, the financially literate, and those with low understanding of economic language, the financially illiterate.

The spread is shown on the Y-axis and the readability is shown on the X-axis. Since six different factors for spreading information of the annual report are examined, the Y-axis will consist of a scale between 0-6. The middle range will be the difference between the municipalities that work actively to spread information of the annual report (located in one of the higher boxes) as compared to those who need to work more to spread information about the annual report (ends in the boxes at the bottom). Since eighteen different factors for measuring the readability of the annual report are examined, the X-axis will consist of a scale ranging between 0-18. The middle range will be the difference between the municipalities that work actively to make the content of their annual report more understandable (ending up in one of the boxes at the far right) towards those who need to put in more work to make their annual report more of an easy-to-read document (ending up in one of the boxes at the most left). The two lines in the middle

interval will allow us to look at four different categories; insider's financial literacy, insider's financial illiteracy, outsider's financial literacy as well as outsider's financial illiteracy. To facilitate understanding of the model, each subset has a metaphor attached. These metaphors will be presented in conjunction with the review of each individual category.

### ***Insider's financial literacy***

This box contains municipalities whose usage of various media to spread information about the annual report is very low. The annual report is designed for those who understand and are comfortable using economic language. These municipalities reach stakeholders that can be considered financially literate and have a great interest in the municipality. Therefore, municipalities that end up in this box will be labelled as "controllers".

### ***Insider's financial illiteracy***

This box contains municipalities whose usage of various media to spread information about the annual report is very low. The annual report is designed so that those who feel uncomfortable using economic language can understand. These municipalities reach stakeholders that can be considered financially illiterate and have a great interest in the municipality. Therefore, municipalities that end up in this box will be labelled as "guides".

### ***Outsider's financial literacy***

This box contains municipalities whose usage of various media to spread information about the annual report is very high. The annual report is designed for those who understand and are comfortable to use economic language. These municipalities reach stakeholders that can be considered financially literate. Therefore, municipalities that end up in this box will be labelled as "advertisers".

### ***Outsider's financial illiteracy***

This box contains municipalities whose usage of various media to spread information about the annual report is very high. The annual report is designed so that those who feel uncomfortable using economic language can understand. These municipalities have the possibility to reach all

kinds of stakeholders. Therefore, municipalities that end up in this box will be labelled as “missionaries”.

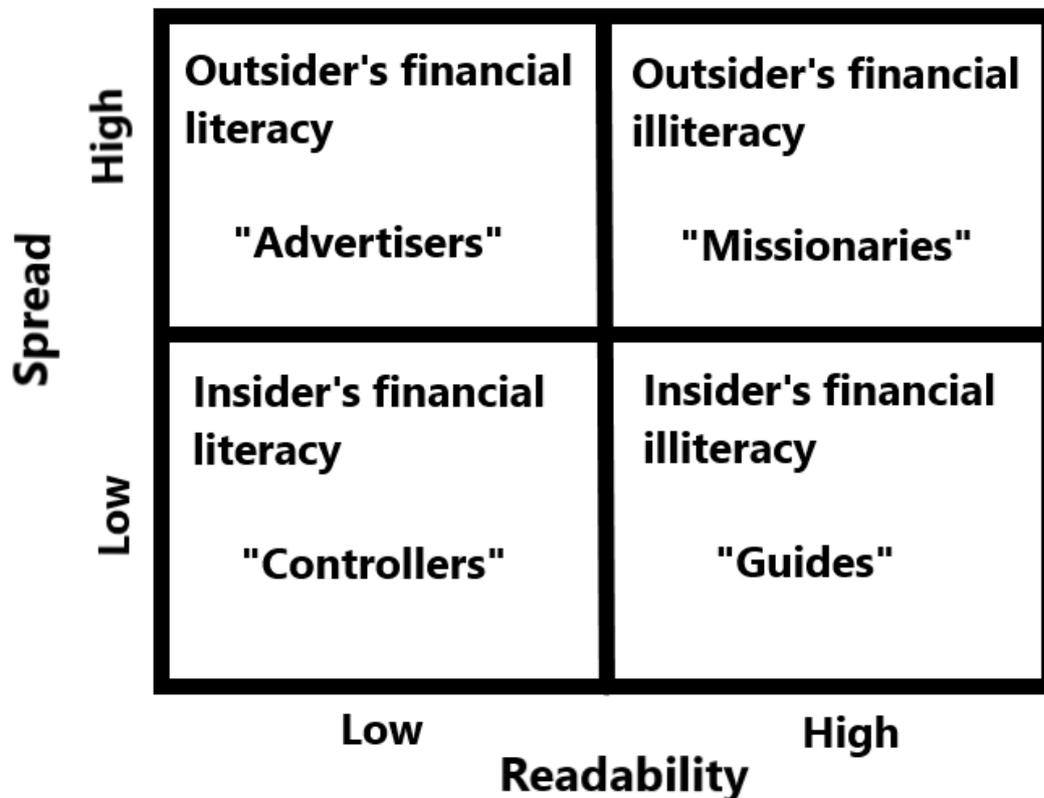


Figure 1. Analysis model for the content analysis

#### 2.4.2 Analysis Model for Interviews

The analysis model for the interviews are based on Kotler’s (2011) model for effective communication but has been modified to adapt to the needs of this study. In our study, we are mainly interested in the senders’ (municipalities) perspective and how their message (the annual report) is communicated. Five criteria will be used to analyse the interviews:

- 1) **Identifying the target audience**
- 2) **Determining the communication objectives**
- 3) **Designing a message**
- 4) **Choosing media**
- 5) **Collecting feedback**

### ***Identify the target audience***

To create an effective message, the sender must start by identifying who the message is to be communicated to (Kotler, 2011). As the sender determines which groups the message is aimed at, it must also determine which groups it is not intended for. The target audience for communication may be those who need the information in order to make decisions, or those who want to know more about a particular area. As soon as the stakeholders are decided on, the rest of the communication is also determined. It is only once this has occurred that one can know what to say, when to say and how to say it (ibid.).

### ***Determining the communication objectives***

Once the organization has decided which stakeholders they wish to reach, the organization must set aims and purposes for communication (Kotler, 2011). This means that the organization reasons in terms of what response they want from stakeholders (ibid.). Possible purposes for a municipality's annual report could be: to inform stakeholders, to raise awareness about the municipality's activities, or provide information about how the municipality is structured.

### ***Designing a message***

After identifying which stakeholders should be reached and the desired response, it is time to try to prepare a message (Kotler, 2011). For the message to have as much impact as possible, it must create attention, contribute to interest, the fulfilment of needs, and ultimately cause the stakeholder to act. The sender must reason in terms of the message's content, structure and format. The message content is about what theme that will produce the right response. Structure is about how the argumentation in the message should be designed and format is about how the message should be framed in terms of layout (ibid.).

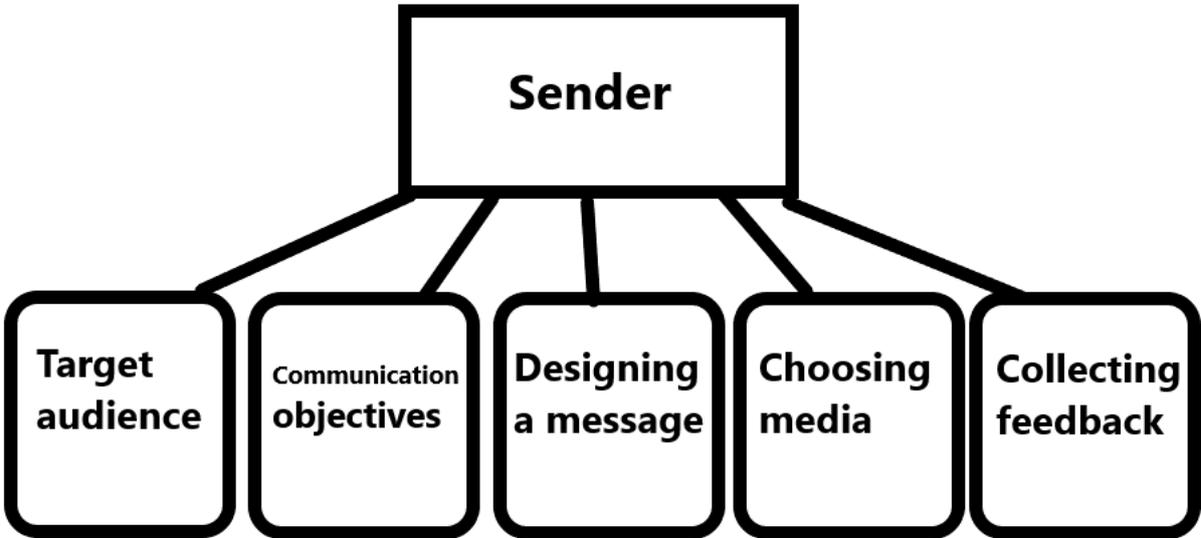
### ***Choosing media***

In the next step to communicate effectively, the sender must decide which communication channels to use (Kotler, 2011). When it comes to the choice of media, scholars typically distinguish between personal communication channels and non-personal. As a public

organization, it is difficult to get more personal communication, so municipalities will need to focus more on non-personal communication channels, those more suited to mass communication. With the development of social media, however, opportunities have opened for municipalities to become more personal in their choice of communication channels (ibid.).

*Collecting feedback*

Once the message has been sent through the selected communication channel, the sender must ensure that feedback is collected to see if the purpose of the message has been met (Kotler, 2011). Responses can be collected and measured by for example measuring how many people respond to the message or by asking the target audience how they perceive the message.



*Figure 2. Analysis model for the interviews*

It is important to keep in mind that this analysis model of efficient communication describes an ideal communication strategy. Most likely, few public organizations include and follow all the steps when designing their strategies, since it can be difficult due to e.g. regulations. Therefore, it may well be that the municipalities do not follow this model to the letter, but rather design a communication strategy that suits them.

## 3.0 Methodology and Methods

*This chapter gives an exposition of the research approach and the chosen research methods, content analysis and semi- structured interviews, along with overall ethical considerations and research limitations.*

### 3.1 Introduction to Method Approach

The problems surrounding public organizations' ability to communicate financial information is not only considered a communication problem but also a democratic problem. The purpose of this research is to investigate the communication of financial information in public organizations and how this is illustrated in the communication of annual reports. Our aim is to draw attention to different perspectives on how a public organization experiences the communication of financial information. This will be achieved by taking the senders' perspective on financial communication. We hope this perspective can contribute to increased understanding of why the receiver is unable to decode the information provided, while also raising the issue of whether public organizations may need to develop their communication processes when communicating financial information to their stakeholders.

By conducting a content analysis and following up with semi-structured interviews, this study will highlight the problem from more than one perspective, while aiming to answer the research question; *how efficiently do municipalities in Stockholm County communicate their annual reports?*

#### 3.1.1 Operationalization

In the implementation of the research methods, a large amount of data will be gathered. In addition, the empirical data collected from the content analysis and the interviews will differ on some points. Therefore, two sub-questions have been formulated;

- *To what extent do the municipalities work to make the annual report more readable?*
- *To what extent do the municipalities work to spread information about the annual report?*

These questions will be answered based on the data collected from the content analysis, while also give a broader understanding of the problem and help to answer the research question.

## **3.2 Research Approach**

Since this study is interested in describing a phenomenon rather than explaining and describing the extent of the problem, there is a need to use a method that offers opportunities to study something in depth while simultaneously collecting a large amount of data. Therefore, this study uses two different methods; a content analysis and semi-structured interviews. Both methods are associated primarily with the qualitative approach (Bryman & Bell, 2015). By using these methods, the study get opportunity to control the amount of collected data. Furthermore, we get the opportunity to immerse ourselves in the field by, for example, asking the participants to develop their answers, or to ask additional questions. If the study had instead investigated the problem using quantitative methods, such as questionnaires, it would have been difficult to get an in-depth understanding of the problem. An increased amount of data also means that there is no need to use a large sample to answer the research question (Slevitch, 2010). As opposed to the quantitative approach where sample selection and size are important to draw generalizable conclusions, this study aims to describe how participants perceive the problem (ibid.). However, generalization in a qualitative research approach can be characterised as analytical generalization. To modify or in other ways advance the study's initial theoretical concepts or new concepts that arose after the study's completion can offer analytical generalizable conclusions. Instead of thinking that a study is a sample, which is the point of view when looking to draw statistical generalizable conclusion, and rather look at it as a case or experiment and going beyond the setting for a case or study makes it possible to draw generalizable conclusions (Yin, 2014).

In qualitative research it is assumed that people perceive reality in different ways, which is in line with the research purpose: to investigate the communication of financial information in public organizations and how this is illustrated in the communication of annual reports. This

indicates that the study's participants held a substantial influence over which data would be collected, differing from the quantitative approach, where the researcher, not the research object, decides which data to collect (Bryman & Bell, 2015). Since both the content analysis and interviews are shaped according to the authors' preconceived beliefs, and the collected data was based on the participants' subjective experiences, the conclusions drawn in this study cannot be a description of an objective reality, indicating that this study has a subjectivist-oriented epistemology (Slevitch, 2010). From a subjectivist perspective "truth is a matter of credibility" (ibid, p 77), meaning that if more people agree to what the research can conclude, more credibility is conveyed, and the study is therefore considered to be closer to the truth. Therefore, it is not certain that if this research was replicated by other researchers, they would arrive at the same conclusions. Since qualitative studies experience reality as something that can only be described by people's perception of it, this study takes a constructivist standpoint of the world around it. Because of the subjectivist-oriented epistemology, the sample, and the fact that the research aims to understand a phenomenon, we can view our methodology as in line with the hermeneutical approach.

Within quantitative research, the justification of a study is based on its validity and reliability (Bryman & Bell, 2015). A study's validity refers to the fact that the study truly investigates the subject it intends to investigate, while reliability is about how well the study can be repeated without any effect on the result (Mellinger & Hanson, 2016). Within qualitative research, focus is not mainly on validity and reliability. Instead, a study is justified through its credibility and transferability (Bryman & Bell, 2015). Credibility has to do with whether the research has been carried out according to practice and that those who share the results agree with the description of the actuality presented by the researcher. Transmissibility is about whether the conclusions in the study can be considered valid in other situations (ibid). Therefore, try this study to be as transparent as possible while also attempt to be persuasive of the description of the phenomenon, so that it is clear that the research has been performed in a credible manner.

## 3.3 Research Methods

### 3.3.1 Sample

Robinson (2014) offers a four-point approach to qualitative sampling. The first point is to *define a sample universe* by using inclusion and exclusion criteria, which can be described as criteria

that must be met to be included or excluded in the sample. The more criteria used, the more homogenous the sample universe becomes. The second point is to *decide on a sample size*, and then move on to *devise a sample strategy*. Various strategies for selecting a sample exists, such as random, convenience or selective sampling. The final point is to *source the sample*, which means to collect the data (ibid.). By following Robinson's suggested sampling process for both methods, a consistent basis of sample selection is made possible.

For point one, four different inclusion criteria were used. Two of the basic requirements were that the municipalities must be located within Stockholm County, and the annual reports for 2016 must have been available at the time that the research was conducted. The primary reason for this was that at the time of this study, only a few municipalities had presented their annual reports for 2017. By mixing the sample by using the annual reports for 2016 for some municipalities and 2017 for others it could have resulted in an unfair comparison. As Sweden's largest county population-wise, the municipalities in Stockholm County have a considerable number of inhabitants and other stakeholders. Therefore, it was of interest to investigate neighbouring municipalities to see if they increasingly compete when it comes to attracting stakeholders. By using that sample, the study was also given the opportunity to comprehend if they influenced each other in the design of the annual report. The last two sample criteria included municipalities from both sides of the political spectrum, and municipalities that differ in demographic aspects.

As for the sample size, this study will use two different methods, meaning that the amount of data will differ for each method. Since the content analysis will be more comprehensive, and the interviews are more so for the deeper understanding of the phenomenon, the sample size will be greater for the content analysis. Regarding the selection of interviewed municipalities, six municipalities were used, each meeting the inclusion criteria. As the content analysis was performed more superficially than the interviews, a larger sample is used by including all 26 municipalities within Stockholm County and in doing so the study aims to give a broader comparison. Had the study only collected data from few municipalities, the risk of missing important details would have been greater. The study used selective sampling when deciding on the sample size for both methods.

### 3.3.2 Content Analysis

When conducting the content analysis, 24 different factors relating to a municipal annual report were used. These factors were divided into the three different categories; *accessibility*, *design* and *terminology*. Each factor was ranked on a scale of 0-1, where 1 is better. The points were then calculated, to give the municipality a total score in each category. The category accessibility will correspond to the variable spread in the analysis model and the other two categories are summarized to correspond to the variable readability.

#### 3.3.2.1 Accessibility

In the research of how well the municipality spreads information about the annual report and makes it accessible to stakeholders, the study has checked for six different factors. The study has investigated whether the municipality has attempted to spread information or offer the annual report by using the following media: the municipality's website, the local newspaper, a printed edition, the municipality's Facebook page, the municipality's Instagram account and the municipality's Twitter account. If it has been possible to access the annual report or obtain information about this on any of the above communication channels, the municipality has been rewarded with 1 point for each used channel.

#### 3.3.2.2 Design

In the investigation of the annual report's design, a review of each municipality's annual report has been investigated to analyse the contents of the document. In this category, 10 different factors were used to evaluate the layout, and to determine whether the annual report could be considered a user-friendly document. Factors investigated in this category were: if the annual report offered a glossary of economic terms, if it had a table of contents, if they used the term stakeholder, if it was clear without having to refer to the income statement what the municipality's largest spending area was and how big a share of the income that came from citizens. Other factors investigated were whether the municipality utilized graphs and/or tables on how they spend 100 SEK in revenue, if they made comparisons between outcomes and budget, if they made comparisons with other municipalities and how many pages the annual report consisted of. Just like other factors, the factor around the number of pages has been

ranked on a 0-1 scale. However, this scale has been divided into tenths, with fewer pages giving a higher score.

### **3.3.2.3 Terminology**

To investigate the second part of readability, a review of how well basic economic concepts are explained as well as clarifying the distinction between the concepts has been done. By investigating whether the municipalities define concepts such as income statement, cash flow analysis, balanced requirement, devaluation, depreciation, and balance sheet, and if explanations for differences between short-term and long-term liabilities and different assets are given. The study tries to explain how well a financially illiterate person can understand the document.

### **3.3.3 Interviews**

To properly engage in the issues that have been of interest to this study, semi-structured interviews have been used. The sample consisted of five face-to-face interviews conducted by visiting the municipalities and meeting with officials. In addition to these five interviews, one interview was conducted via email (Österåker Municipality), as it was not possible to meet. The officials all had a role in the preparation of the annual report and were either chief accountants (2), budget managers (2), operational controller (1), communicator (1) or chief controller (1).

Before the first interview, an interview template was created, which was divided into three different topics; the role and purpose of the annual report, who the stakeholders are and finally, the annual report as a means of communication of financial information to stakeholders. This subdivision was made to better adapt the interviews according to the analysis model. Each interview began by informing the participants of who we were and the purpose of our investigation. Participants were also informed about their rights to anonymity and the right to withhold from answering the questions if they felt unwilling to do so. Participants were also asked if they agreed to the interview being recorded and made aware of how the recordings were to be processed. The recordings were made to collect the data and to minimize the risk that something was missed during the interviews, but also as a support for us when transcribing.

Semi-structured interviews were used because it offered access to larger amounts of data while at the same time offering greater flexibility (Bryman & Bell, 2015). Compared to unstructured interviews, this method gave a guarantee that the topics under investigation were reviewed (ibid.). By asking questions without a definitive or short answer, the participants were invited to reflect on their opinions and have these reflections present in their answers. This helped to gain an insight into how the participants perceived the problem. By collecting the data simultaneously, we were given the opportunity to revise our questions in real-time, which gave us the opportunity to get as much relevant data as possible. In the case of Österåker Municipality, this could naturally not be performed, but the choice to allow one municipality answer the questions in writing was motivated by the broader perspective the study received. The interviews took between 30-60 minutes.

### **3.4 Source Critical Consideration**

Municipalities in Stockholm County are alike in many ways and often draw inspiration from each other, which means there is a risk of conformity in the responses connected to the geographical dimension of the sample selection. The gathering of data from the interviews is based largely on the participants' perspective, which means that if the study were repeated on another occasion using the same municipalities but different officials, the result would most likely look different. The literature consists of peer reviews articles and issued reports and documents from public agency, which means that the information is likely to be correct.

### **3.5 Ethical Reflections**

The Swedish Research Council (2017) has compiled research ethical research principles that apply to social science. One of the research ethical principles that covers this study is the information requirement. It stipulates that researchers should inform all those involved in the study about the research purpose which means we need to inform the participants about the purpose of our study, the terms and conditions for participation and their right to cancel their participation. We have also informed the participants of their right to anonymity and that their names will be anonymous in the study so as not to risk disclosing information that the individual considers sensitive. Furthermore, another requirement is that of consent, which means that the participants must agree to participate before the interview. Finally, the collected data has been used only in the framework of the research and have not been for commercial use.

# 4.0 Analysis & Results

*This chapter will present the data that was collected, consisting of the content analysis and all six interviews. The data will be presented based on the different themes presented in previous chapters. The chapter's closing section will contain an analysis of the data that was collected.*

## 4.1 Empirical Results for Content analysis

### 4.1.1 Accessibility

In total, 16 of the 26 investigated municipalities offer their stakeholders access to a printed version of the annual report in one way or another. Some municipalities offer to print the annual report in exchange for a fee, and others print a limited number of annual reports that are available at the municipal office. To spread information about the annual report, the most common approach and the only communication channel that all municipalities use is by publishing the annual report on the municipality's website. When it comes to advertising the annual report in local newspapers, only 9 municipalities chose to use this communication channel. Social media is utilized even less in informing stakeholders about the existence of the annual report, with 8 municipalities using at least one type of social media, and only two municipalities using more than one type. The most popular channel on social media were Facebook (6), followed by Twitter (4), and the least popular media were to announce it on Instagram (1). Overall, the municipalities use an average of 2.3 media (out of 6) to distribute information about the annual report.

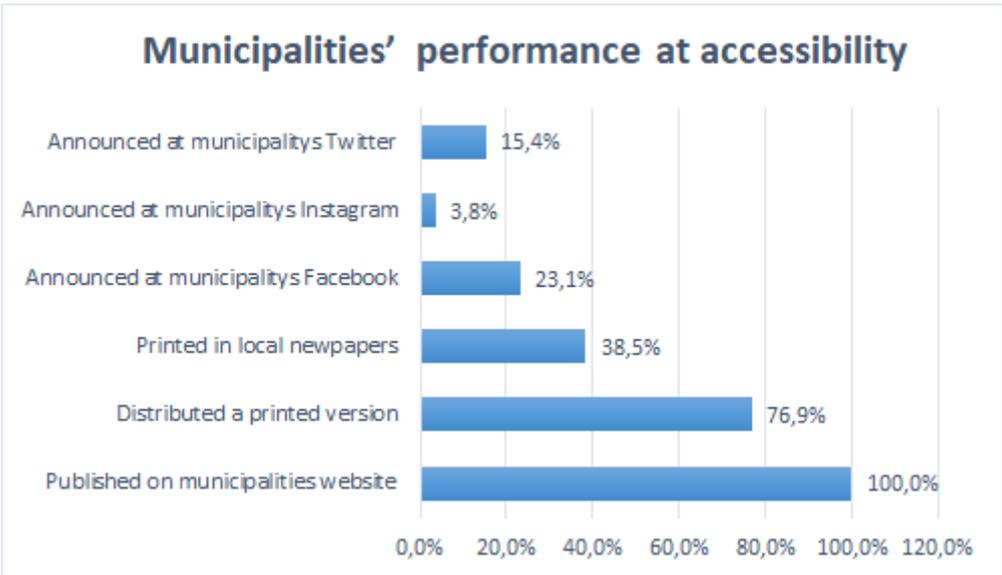


Figure 3. To what extent do the municipalities use different communication channels?

### 4.1.2 Design

When looking at the design of the annual report, the factor that the municipalities have most in common is the use of a content table, which all municipalities barring two have included. A comparison of the income statement with the budget is also a frequent occurrence, with 17 municipalities who use this approach. Fewer municipalities (12) include an economic glossary in the annual report. Half of the municipalities use the term “stakeholders” in their annual report, but only one municipality develops its definition of the term by including a subsection relating to it. When it comes to presenting the municipality's biggest expense and how much of the municipality's revenues come from the municipality's citizens in form of tax payments, most of the municipalities (15) present this in other places than in the financial documents. With the use of a graph, representing 100 SEK, a total of 12 municipalities explain how the municipality's expenses are distributed. One municipality also uses the same approach to describe how the municipality's revenues are distributed. A minority of municipalities (8) present comparisons to other municipalities or the County. The municipalities generally perform well when it comes to number of pages with more municipalities (3) reaching the highest score compared to with the lowest score (2). Only three municipalities offer a summarized version of the annual report. Overall, the average in this category is 5.3 points out of the maximal 10 points.

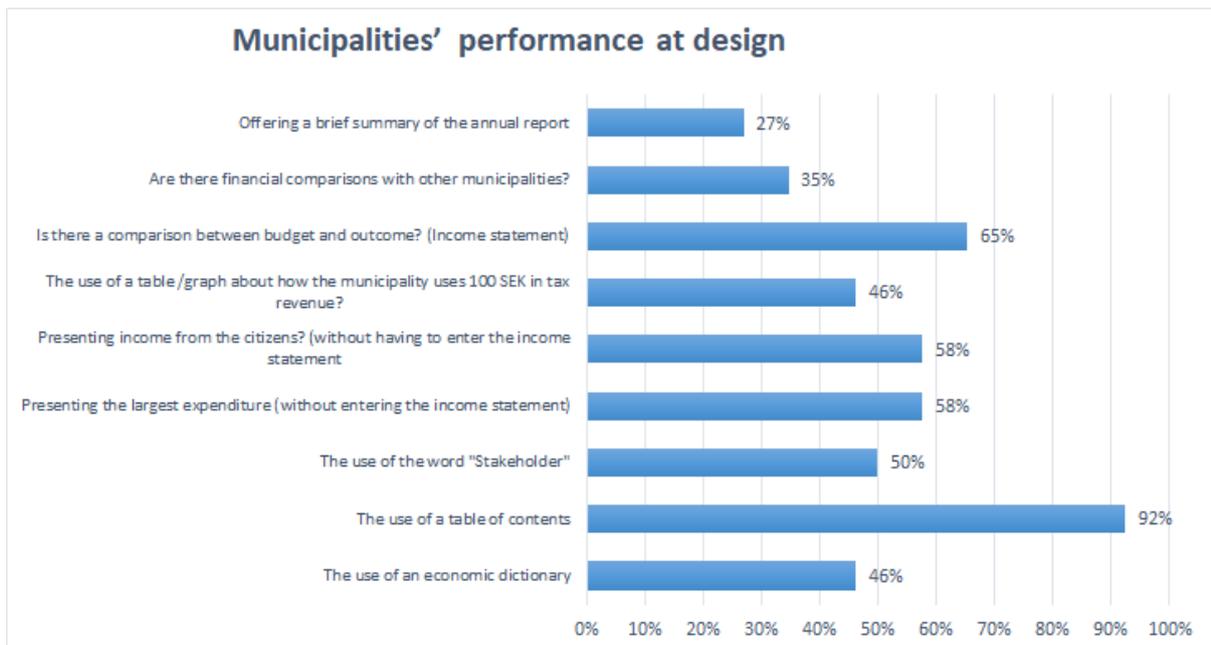


Figure 4. The extent to which municipalities use different parts in their annual report. Note that the factor about number of pages is missing from this table.

### 4.1.3 Terminology

Of particular significance when achieving high scores in this category is whether the annual report contains an economic glossary or not. The most common concept explained by the municipalities is the municipal balance requirement, which 20 municipalities explain. A total of 11 municipalities describe the difference between current and non-current liabilities. It is also common to describe the purpose of the balance sheet and define the term depreciation. A total of 10 municipalities have some form of explanation for these concepts. This was usually connected to the description of the cash flow analysis. Slightly fewer municipalities describe how to understand the income statement (9). The concept devaluation is described by only two municipalities. Overall, the average in this category was 3.2 points out of 8 points.

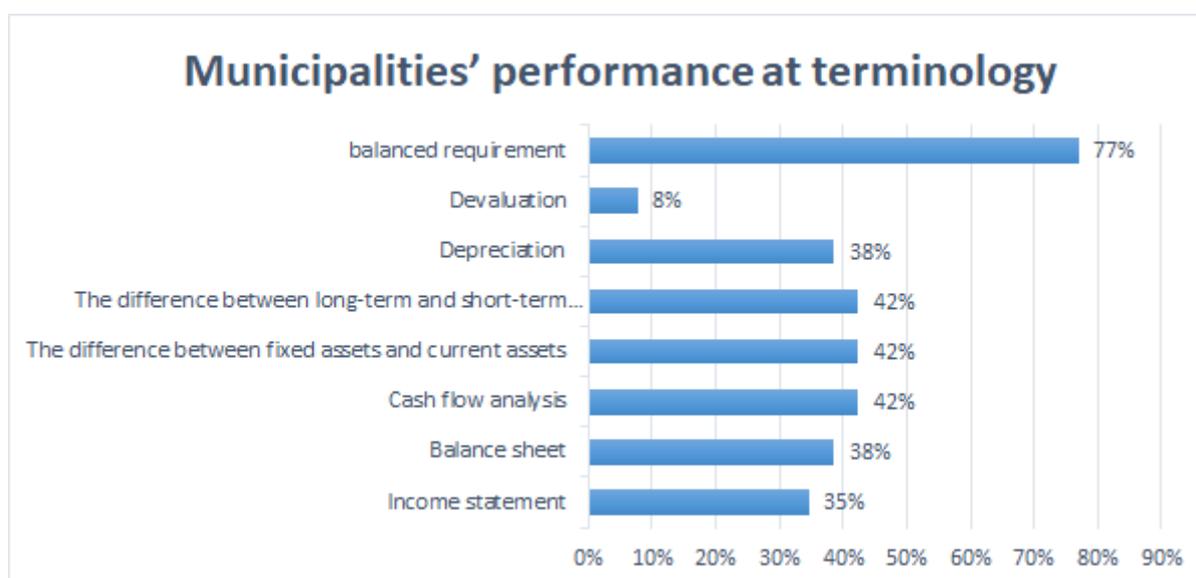


Figure 5. A table explaining how well the municipalities explain different economic concepts.

## 4.2 Empirical Result for Interviews

The interviews were all conducted face-to-face except for Österåker Municipality who answered the questions in writing. The municipal officials are presented in the following table. Since the officials' names were confidential and the subjects were anonymous, the letters A-H are used instead.

Municipality	Official	Position
Tyresö	A	Chief Accountant
Ekerö	B	Chief Accountant
Upplands Väsby	C,D	Budget manager, communicator
Stockholm	E, F	Budget manager, coworker
Haninge	G	Chief Controller
Österåker	H	Operational controller

Figure 6. A table over the interviewed municipal officials.

The empirical data is presented according to the different steps in the analysis model; *identify the target audience, determine the communication objectives, design the message, choose the media and collect feedback.*

### **Identify the target audience**

All officials mention at least two groups to which the annual report is addressed. Most mean that the annual report is aimed primarily at politicians and secondarily at inhabitants. Ekerö Municipality does not conform to this view by meaning that the annual report's primary target group is inhabitants. Upplands Väsby Municipality agrees that the annual report is primarily aimed at politicians, but add that they create campaigns to reach the inhabitants. Both the City of Stockholm and Ekerö Municipality also highlight the business sector, primarily credit institutions, as target group for the annual report. The City of Stockholm is the only municipality that offers an English version of the annual report, in order to reach foreign credit institutions.

Most of the interviewed municipalities, except for Ekerö Municipality, do not use the concept of stakeholders to a great extent. The municipalities indicate that there are two reasons for this. Firstly, they mean that it is obvious who a municipality's stakeholders are. The official in Haninge Municipality explained this by comparing the public sector and the private sector:

We do not have that group of stakeholders; we do not make a profit, we do not have any shareholders, we have the municipal assembly that is voted in by the citizens. ...Somehow, one must remain neutral in a political organization and keep in mind: what is the basic idea of (the municipality)? Well, it exists for our citizens. (Haninge Municipality, official G)

Secondly, by having an overview of the municipality's stakeholders, the officials are afraid of involuntarily excluding individuals or groups. Österåker Municipality describes the problem of categorizing its stakeholders as follows:

I do not think a municipality can decide who its stakeholders are. Entering it in an annual report could have the effect that a group who feel like stakeholders but are not mentioned would be upset. We have a distinct target group who we are required to report to, and it is the citizens' representatives in the municipal council. In addition, our stakeholders are those who choose to be interested in our business. (Österåker Municipality, official H)

### **Determining the communication objectives**

The officials emphasize that the main purpose of establishing the annual report is to comply with the current regulations:

The primary purpose is to follow the law, one ought to have an annual report. (Tyresö Municipality, official A)

Consequently, the purpose of the annual report is to assist politicians in decision making processes. An annual report can also assist the municipality in other parts of the internal work process, both in budget follow-up or as information to employees as the official from Ekerö Municipality explains:

We actually have a lot of budget follow-up in it ... If you look back at previous years, you can also browse in it ... (Official B)

Due to the informative wealth of an annual report, one communication objective could be that the annual report is seen as an informational document in which the municipality accounts for their offered services. Therefore, it serves as a marketing tool that Upplands Väsby Municipality works continuously on:

The purpose is to show citizens what they get for their tax money, and what we deliver to the citizens in Väsby, and for them to get a better insight into the municipality's activities. (Upplands Väsby Municipality, official C)

## Designing a message

Nearly all municipalities have a collaboration between the Finance Department and the Communications Department to make the annual report more accessible. However, while increasing the number of images and graphs to make the message easier and more readable, the number of political objectives has increased, which contributes to a significant increase in the annual report's length:

We have 26 objectives at the moment. The politics itself is also a counteracting factor in making this as thin as possible. (The City of Stockholm, official E)

The official from Ekerö Municipality compares the accounting principles of the International Financial Reporting Standards, IFRS, to Rådet för Kommunal Redovisning, RKR, and is concerned that the municipal sector is looking more and more towards IFRS principles, which will further complicate the design of the annual report.

In almost all municipalities, the municipal committees write their own parts for the annual report, thus allowing them to highlight the information they consider important. But this practice is not without friction as the official from Tyresö Municipality explains:

If you work within a committee, you naturally think it is going to be: "we have invested 700 million SEK in the Social Welfare Committee!" And to sum it up into 8 limited points ... is almost degrading. You want to convey much more. (Official A)

Haninge Municipality's official stresses that an annual report should be a document that is both easy to find and easy to understand:

We aim to write easy-to-read Swedish ... We do not use difficult words or very long, complicated sentences, so that one should be able to read and look into it and understand it. When it comes to the financial information, you cannot translate everything into easy-to-read Swedish. Solidity means solidity. (Official G)

This is a view shared with Tyresö municipal official, who means that there is a risk of jargon when the language becomes very adapted to the professional group.

## ***Choosing media***

The consensus appears to be that the printed version of the annual report is less attractive to citizens, and most people take part of the report on the internet. Even so, all municipalities except Upplands Väsby offer the annual report both as a printed version and on their website. The City of Stockholm officials mention that there are fewer printed copies each year, however, the city will continue to offer a printed version.

People who work in accounting think it is useful to have it as an encyclopedia. (Official C)

While Haninge Municipality and the City of Stockholm officials acknowledge that they can be better at using social media to spread information about the annual report, Upplands Väsby Municipality and Österåker Municipality are more active on social media. Especially Upplands Väsby Municipality has over the years focused increasingly on communication channels on the internet. The officials mean that to maximize the spread of the annual report, it is necessary to adjust the message and offer it through channels where people find it easily accessible. As official D explains:

One always has to be up to date on which target audience one has. (Official D)

The municipality works around the year with communicating the municipality's activities by using a campaign called #hejaVäsby. The campaign consists of among other things, a website and posters in different locations all around the municipality. They continue to develop the usage of communication channels as official C describes:

We might have to rethink this a number of times. We have not found the perfect way to communicate, but we try things. (Official C)

## **Collecting feedback**

Nearly none of the municipalities have ways to measure how many people take part of the annual report or how they understand its content. Tyresö municipality mentioned that they try

to be available to those who has questions about the annual report while also raising one of the problems close to why the municipals does not get more feedback than they do:

The lack of knowledge of our target groups can be so great that they do not even know what questions to ask, and that's a concern, I think. There is no reason for everyone to be economists but a basic understanding of these things, I would say, is necessary to fulfill their missions in a valuable way. (Tyresö Municipality, official A)

The City of Stockholm says that they do not receive much feedback on the annual reports but believes that it can be hard for individuals to find their way to the Department of Finance. Haninge Municipality also highlight that they need to work more to make it easier for the stakeholder to provide feedback. The City of Stockholm thinks that there may be more questions related to the actual content of the annual report rather than the report itself, a thought that is shared with Upplands Väsby Municipality.

Many municipalities state that they would like to receive more feedback from the public. Both Haninge and Upplands Väsby municipality describes the sudden increase in feedback they received only on occasions when the annual report had a new layout:

I got it the first year, but it was only because I developed a new layout ... This year, of course, I was expecting the same thing, but that was not the same. But they thought it was okay. (Haninge Municipality, official G)

On the question of how many people that take part of the annual report, many said that they lacked information about it, but that they were not a large number. The only municipality that mentioned more concrete numbers in this context was Upplands Väsby, which through its campaign had managed to get around 15,000 views / downloads but pointed out that it was unfortunately a one-time effect, since it had gone down to the usual 300 views / downloads the year after.

## **4.3 Analysis of Empirical Data**

### **4.3.1 Content Analysis**

## **Accessibility**

All municipalities offer the annual report on their website and all municipalities have at least one official Facebook account. As for Twitter, almost all municipalities have at least one official account, while the presence on Instagram is more varied. This obviously has consequences for their ability to use social media as a communication channel. Only eight of the 26 investigated municipalities use social media as a communication channel to inform citizens about the annual report. Sollentuna Municipality is the only municipality who uses all the investigated communication channels and Södertälje Municipality uses more than one social media channel, both Facebook and Twitter. This can imply that the municipalities aim primarily at the internal stakeholders (Fassin, 2009). Overall, the low usage of social media indicates that municipalities must begin to communicate to those outside the municipality's immediate sphere.

The municipalities are not much better at spreading information about the annual report in more traditional ways such as announcing in the local newspapers or offer a printed version at the municipal office or the public libraries, but those who do also perform well when it comes to accessibility. Many municipalities commented in the interviews that the amount of printed version of the annual report has decreased significantly due to environmental concern or a low interest to read the printed version. This could mean that the annual report will become more and more digitized, and the municipalities will need to look over their presence and usage of internet- based communication channels to make sure the message gets through to the stakeholders.

## **Design and terminology**

Most municipalities succeeded in achieving an approved result in these two categories. Ekerö, Haninge, Norrtälje, Sigtuna and Stockholm Municipality are the five municipalities that performed best in both categories. It can therefore be argued that their annual reports are increasingly aimed at stakeholders who have a low understanding of the economic language. On the other side of the spectrum, Huddinge, Sollentuna, Solna, Vaxholm and Österåker Municipality performed poorly in both categories, indicating that their annual reports aim at reaching stakeholders who already possess good knowledge in economics. Overall, the results show two different approaches municipalities take when designing the annual report. The main difference between the two groups is the use of an economic glossary, where municipalities who use it belong to the group that performed well in the category terminology. The

municipalities aim to make the annual report a more easily understood and comprehensible document for various stakeholders reflects in the higher points they received. The other group has taken an approach that could be categorized as bureaucratic, or by economists for economists.

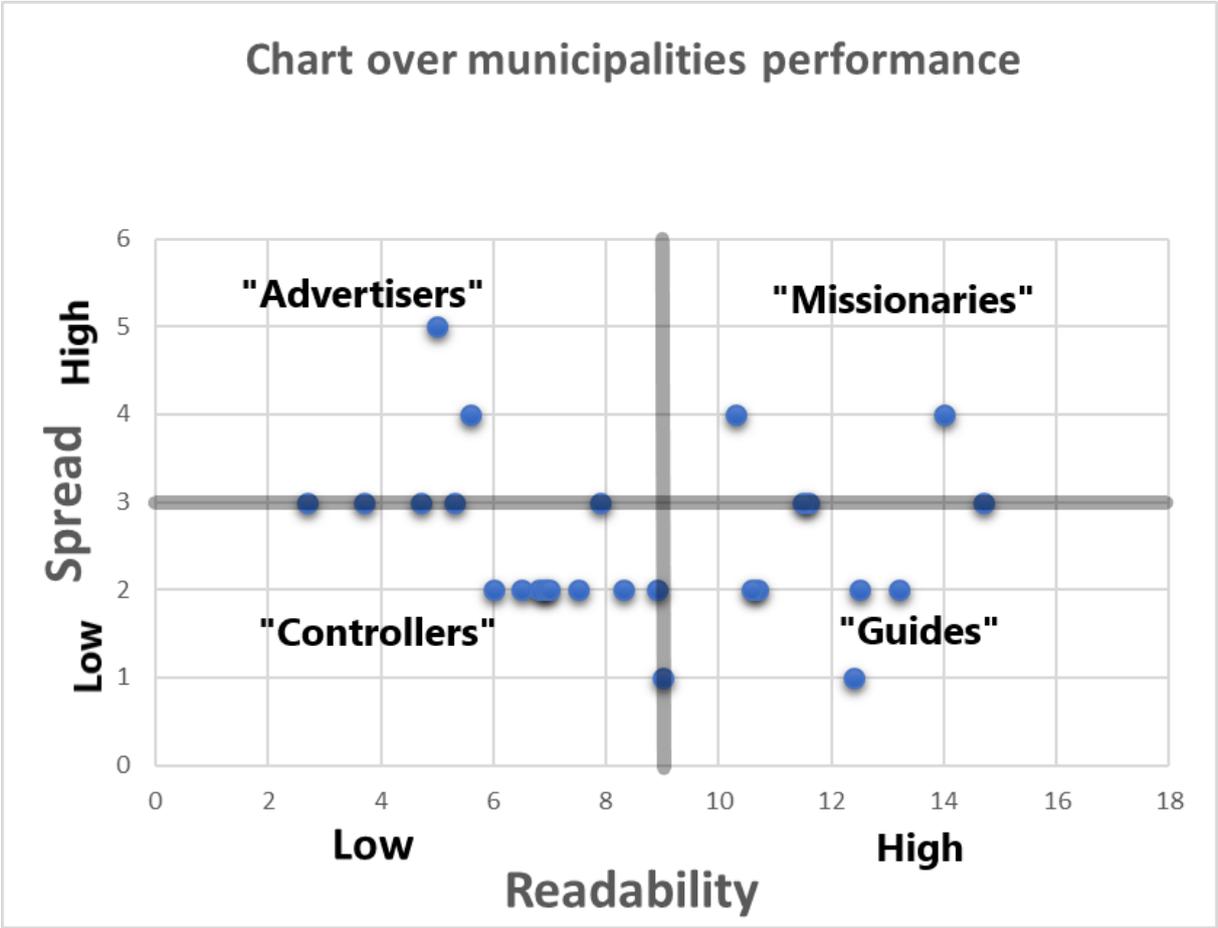


Figure 5. The municipalities are placed on the analysis model according to their total score from all three categories.

The box that most municipalities end up in, were Controllers, which means that the municipalities did not work to make the content of the annual report more educational and learning. This group has also not used communication channels to a large extent. Therefore, the focus has been rather on producing an annual report, as only the closest environment can be understood and understood only by those with expert knowledge in business administration. As Figure 5 shows, there are relatively few municipalities that try to spread their annual reports if they have not worked at the same time working on the design of the message. Among those who worked to prioritize the understanding of the message (missionaries and guides), half have

used at least 3 channels or more. The other (Controllers and advertisers) performs about as well, there are 7 out of 16 municipalities that used 3 or more channels to spread their information. This is interesting, as it does not seem to play any major part in the spread, how the municipality designs its annual report. In summary, the results cannot be said to favor municipal reports, more or less everyone needs to intensify their work, as only four municipalities are in the boxes for advertisers and missionaries. Even with regard to readability, most municipalities position themselves in the boxes for controllers and advertisers

### 4.3.2 Analysis of Interviews

With the annual report being statutory (SFS 1997:614) and it is stated that a municipality's annual report primarily is a political document, it still seems like the municipalities look beyond those factors and try to make the annual report into an interesting document. By having the Finance Department collaborating with the Communications Department the municipalities include more personnel in the work process. This collaboration has led to more uniform communication. It is important that the receiver of the information is able to see who is behind the communication and that they can relate the information to the image it has from the organization (Ditlevsen, 2012; Socoliuc, 2016). It is uplifting to hear that the municipalities try to get the annual report into an important communication tool. By also using the document in the internal work, it emphasizes the importance of promoting a municipality and its activities while contributing to strengthening the internal community.

#### **Identify the target audience**

By identifying a target group, it will be easier to formulate a message, because you know who you are targeting and what you want to say (Kotler, 2011). When defining which target groups, the annual report focuses to reach, the municipalities reason differently. Most of the officials mean that their ability to designate a target group was strictly hindered by the regulations, referring to the Local Government Accounting Act (SFS 1997:614). Therefore, these municipalities feel bound by the regulations when selecting the target group for the annual report in the sense that it can be hard to change an annual report's content and layout. In contrast, other municipalities stated that it was clear that inhabitants are the primary target group for the annual report and politicians are secondary. Because politicians, officials, inhabitants and credit

institutions are quite different stakeholder groups, it becomes difficult for the sender to communicate a message that everyone can understand and be able to address. The theory of effective communication does not state that it is wrong to have several different target groups, rather that it will become more problematic. The risk of communication inefficiency increases, particularly when trying to reach two quite different groups with the same message (Kotler, 2011). Upplands Väsby Municipality has tried to reach a solution to that problem by creating two versions of the annual reports, one traditional version aimed primarily at the politicians, and one digital, shorter version, aimed primarily at the inhabitants. By doing this, the municipality makes it possible to reach out with the same document, adapted to suit each target group.

At the same time, the municipalities mean that the term stakeholder can be understood in different ways, and it is hard to rank one group of stakeholders above another one. Tyresö Municipality means that it would be difficult to categorize stakeholders, as is possible in the private sector, because a public organization cannot ignore groups that have an interest in the organization. Haninge Municipality reason similarly and means that by clearly stating which stakeholders the municipality has, they risk excluding groups. This view complicate communication, because if the municipality constantly try to reach everyone, there is a risk that they not reach anyone, because there is no group that perceives that the communication is directed to them. If they instead had followed the theory about effective communication, they could have identified a smaller audience and by that, making the design of the annual report easier.

### **Determining the communication objectives**

Based on the analysis model, it could be understood that the purpose of establishing objectives and purposes for communication, is important to be able to measure and determine the communication effectiveness (Kotler, 2011). By setting up objectives, the municipals can decide if the communication was successful (ibid.). Even in this theme, many officials said that it was the regulations that influenced their ability to set their own objectives. On the other hand, following the law is an objective that is easy to measure the fulfilment of. The consequence, however, is that this is not an objective that helps to develop communication about the annual report or help to make the sender more motivated to perform better when communicating. Most municipalities mentioned that the annual report should inform the reader and raise awareness

about the municipality's activities and services. These are more abstract objectives, which make it difficult for the municipalities to decide if they have achieved the objective. On the question whether these objectives were achieved or not, most municipalities could not give an absolute answer. The municipalities need therefore set clear objectives for what they want to achieve by communicating the annual report and then ensuring that they follow up on these objectives to determine whether they communicate the message effectively. Of the interviewed municipalities, it was only Upplands Väsby Municipality that actively followed up the number of people who read the annual report and who constantly worked towards the objective of reaching more people for every year.

### **Designing a message**

The municipalities have similar approaches to the work process of the annual report. The previous mentioned collaboration between departments has led to increased awareness on how the message can be designed. The most common actions were to change the format of the message by shorten the texts and start using images and graphs to a greater extent. According to the theory of effective communication, it is necessary to use a strong format if you want to reach out with your message (Kotler, 2011). As the municipalities have started to work more with the format of the annual report, communication is likely to be more efficient (ibid.). However, most officials said that all the objectives that were compelled to be followed up in the annual report prevented them from designing the message. They said that their ability to influence how they could communicate and what they would communicate was reduced because of all these objectives. Also, the regulations were an obstacle to the preparation of the annual report.

Most municipalities emphasized that the content would help create an emotional image of the municipality, an image of a place where you want to live and work in. By trying to get an emotional response, the municipality allows the annual report to gain greater attention and strengthen the image of the organization (Kotler, 2011). These municipalities believe that because more than one department is involved in the process, the annual report is designed to be part of a more consistent communication approach and the receiver is more likely to perceive the sender's messages as more uniform (Socoliuc, 2016). Should this sense of uniformity be absent, it could involve problems if the receiver wants to provide feedback to the sender but does not know who the sender is (Kotler, 2011).

## **Choosing media**

To reach its stakeholders with the message, the municipalities need to use the right communication channels, meaning, forums or places where the stakeholder is present. When it comes to decide which communication channels to use, most of the municipalities used non-personal communication channels, which is not surprising as such channels offers great opportunities for spreading a message and because for a municipality it is difficult to use more personal communication channels. Nearly none of the municipality tried to overcome the disadvantages of the non-personal communication channels, Österåker and Upplands Väsby were the only ones to mention how they worked more actively to become more personal in their communication. Some municipalities also use newspapers as a communication channel. The disadvantage of that communication channel compared to a website is that it is harder to estimate how many people have taken part of the information. By not becoming more personal in their choice of communication channels, municipalities will find it harder to get feedback because they are not in direct contact with the receiver (Kotler, 2011).

The ability to use social media to communicate the annual report was utilized to a very low extent. One of the major benefits of using social media is that you can combine the benefits of both non-personal and personal communication channels. Because you can reach out with your message to many stakeholders, while you're keen to be active on the community, you can respond and see the feedback of stakeholders at once. Although the municipalities mainly used non-personal communication channels, many believed that they did not reach any major groups. It indicates that the municipalities should work with their communication strategy.

## **Collecting feedback**

All the participants highlighted the disheartening fact that few stakeholders seem to take part of the annual report. This became clear during the interviews when the common answer was that they hardly get any response on the annual report. Based on the theory of effective communication, the lack of response can be understood as having shortcomings in the municipality's communication process (Kotler, 2011). This could be a result of not identifying a target group and not designing a message that suits the stakeholders (ibid.). The fact that the low response is due to other shortcomings in the communication process is reinforced by the

fact that previous years' work on the annual report has given different levels of feedback. In the interview with Upplands Väsby Municipality, it was found that the transition to a more digital annual report had made more people aware of the annual report and Haninge Municipality had gained increased interest through changes in the annual report's layout.

The low response from the public could be due to unawareness of where to turn to provide feedback. The City of Stockholm concretize this by pointing out that it is usually people with a substantial interest in the annual report, mainly from within the departments or politicians who are the most common respondents. This contributes to the question of how effective communication really is, because one reason for the low response could be that stakeholders are not aware of the existence of the annual report.

However, officials raised the concern that it might be difficult for an interested stakeholder to reach the Finance Department with feedback. This indicates that municipalities lack guidelines for how to respond to the collection of responses. Another shortcoming that drew attention to the gathering of responses was that stakeholders who would like to respond were able to turn to several different parts of the business. For example, the municipality's politicians could receive a response from stakeholders, which means that the actual sender, the Finance Department, misses important response. Overall, the municipalities lacked a clear plan for how they should be used in gathering responses from stakeholders.

## 4.4 Results

One of the more prominent results from the content analysis was the municipalities' low usage of internet-based communication channels such as social media. As the annual report will become more digitized, it is important to use those communication channels to keep the stakeholders informed. Another interesting aspect that emerged in the analysis was that the municipalities could be divided into two camps when it came to how to communicate financial information. On the one hand, they were not even trying to facilitate the understanding of the economic language, while on the other hand there were municipalities that worked to make everyone able to share the information. The lack of clear account of which stakeholders the annual report aims to achieve was consistently for all investigated municipalities. A clearer stakeholder-perspective could help address who the communication is aimed at.

The overall result indicates that the municipalities seem to lack a strategy for effective communication. The municipalities want to reach every possible stakeholder group and by not identifying one clear target group for the annual report, they do not know for which group they communicate with. Therefore, they have difficulties preparing the report. It is also not much clearer what the municipalities have for objectives of the annual report. The main communication objective seems to be informing the stakeholders about the municipalities' activities and services. However, since only one municipality have a way of measuring how many people have taken part of the information, it is hard to know whether the objective is fulfilled. Due to the annual report's total size, affected by the number of political objectives that must be reported, comprehensive regulations and complicated language, the municipalities acknowledged the difficulties of designing the annual report as a document that is understood by stakeholders. Because they cannot formulate the message as they wish, it becomes even more difficult for municipalities to use personal communication channels. The use of more traditional media and website is still the most common communication channels. Due to the lack of personal communication channels and the lack of clear ways to measure the response, municipalities may find it difficult to change the annual report so that it is more adaptable to the wishes of stakeholders.

## 5.0 Discussion & Critical Reflection

Based on this study's results, the creation and following of communication strategies within municipalities can sometimes be hindered by rules and regulations. For instance, since the Local Government Accounting Act (SFS 1997:614) states that the annual report is the municipal executive committee's report to the municipal assembly, it becomes the practical consequence that the annual report's target group and objectives are determined. This also means that it is difficult to study a municipality's communication strategy, as the activities are so affected by predetermined laws. Since the main objective is determined within the law, this research has shown that this has negative consequences for how a municipality work to develop and communicate the annual report. By not setting objectives with the communication, it also complicates the gathering of feedback, as the municipality does not know which feedback which is worth taking into consideration (Kotler, 2011).

The lack among public organizations of using only a few distribution channels is something that both this research and previous research found (Yusuf et al., 2013). This research found that the municipalities are active in social media, however, few municipalities use these channels to spread information about the annual report, which makes one think whether even these media are used to spread the organization's most important financial documents, which channels should then help to spread the annual report? However, it is interesting to note that organizations that are said to work to be as transparent as possible reveal such shortcomings in communicating financial information. Previous research has concluded that to transmit with a message, one must use relevant channels for their stakeholders. In a society where almost everyone has an interest in social media, this should be a more natural channel in the municipality's communication of the annual report. Therefore, by working more actively about this, the municipalities could experience increased credibility and participation from their stakeholders (Yusuf et al., 2013; Avram, 2017).

An important component for achieving credibility is communicating the information so that the receiver can understand the meaning of it (Bredmar, 2013). This study shows that the municipalities have designed their annual reports in different ways. Some municipalities have designed the annual report in such a way that it educates the receiver, while some municipalities have used a more bureaucratic approach: everything is correct, and it can be difficult for anyone

outside the Finance Department to understand and address the information. By adopting a more educational approach, the municipalities could begin to relate communication more directly to the individual. One way to do this could be by using metaphors (Bredmar, 2013; Carlsson-Wall et al., 2016). Therefore, we think that the municipalities would need to collaborate more closely with each other, realizing that they largely have similar stakeholders, with similar needs and skills. The municipalities should be inspired by the research to a greater extent, become more educational in their communication by combine the information with learning (ibid.).

The research has also shown that most municipalities have come to insight that the design of the message has an impact on how many people can absorb the message. By working with the language and using graphs, the municipalities have approached what earlier research advocates, for a message to be reached to the receiver, communication is required in a simple way (Yusuf et al., 2013). Another factor to why each municipality must work with the design of their annual report is since research has shown that levels of economic understanding differs between socio-economic groups (Almenberg & Widmark, 2011; Wobker et al., 2014; Almenberg & Dreber, 2015). Here, however, the study showed that many municipalities felt that the extensive regulatory burden and the finance department, who had the main responsible for the annual report, contributed to increasing the use of the economic language. As previous research has shown, that lack of understanding of the area contributes to reducing participation, the municipalities confirmed in this study that they get very little involvement from citizens when it comes to the annual report (Almenberg & Dreber, 2015).

This study shows that municipalities use and argue about the concept of stakeholders to a much smaller extent than expected. None of the municipalities have chosen to define stakeholders according to a narrower definition such as Fassin's (2009) or Ferrell et al.'s (2010). If groups of stakeholders are defined and ranked according to Fassin's (2009) or Ferrell et al.'s (2010) requirements, the risk of excluding individuals or groups is high. Furthermore, this research has also shown that municipalities have difficulties differentiating between stakeholders, which has consequences for how they fill the communication with a target group-adapted content. According to previous research, by identifying a target group for the communication, one could more effectively reach out with the communication (Kotler, 2011). However, this study has shown that the municipalities use different rankings of stakeholders, but that they not use the term to exclude non-stakeholders. Naturally, it is problematic for public organizations to

excluding different groups of stakeholders, since they are political organizations and as such, they cannot risk excluding anyone.

The extensive regulatory burden was also highlighted when it came to be designing the annual report. According to earlier research, an annual report could serve as a tool through which organizations communicate their corporate identity and thus attract stakeholders (Ditlevsen, 2012). Many municipalities agree with this view, meaning that by presenting as much as possible about the municipalities business, they try to express a uniform image of the municipality. However, research believes that a short message should be used, which is against municipal views of using one of the most comprehensive documents to express this uniformity (Ibid.). This perspective, however, is shared only by a municipality who believes that the annual report can never be an easy-to-read and interesting document for the vast number of people, as it requires more short-lived and appealing messages to attract the municipality's stakeholders.

The fact that one of the organization's most important financial documents attracts so little interest from the public, indicate that municipalities seem to lack communication strategies around the annual report. Another interesting aspect identified in this study is whether public organizations should really use the annual report to communicate financial information. Because the regulations governing the municipal annual report are perceived as bureaucratic for those who work with the preparing the document. By developing other documents, websites or information campaigns, the municipality would probably be able to reach more, as they could then work more targeted with the communication.

## 6.0 Conclusion

To contribute to the research on financial communication, this study has had the purpose to investigate the communication of financial information in public organizations and how this is illustrated in the communication of annual reports. This purpose has been achieved by investigating how municipalities in Stockholm County work today with the communication of the annual report. To clarify the purpose, a research question has been raised, *how efficiently do municipalities in Stockholm County communicate their annual reports?* The overall conclusion is that municipalities seem to lack a communication strategy for communicating the annual report. To investigate the research question further, we have also tried to answer two sub-questions, *to what extent do the municipalities work to make the annual report more readable?* And *to what extent do the municipalities work to spread information about the annual report?* Overall it can be said that municipalities work very differently when it comes to making the annual report a more comprehensible document and when spreading information about the report.

Municipalities in Stockholm County today work more intensively in designing their annual reports. Images, economic dictionaries and graphs are used to a greater extent, for the recipient to want to receive the message. However, this picture differs depending on which municipality you are talking about. You could divide the municipalities into two camps, those who try to make the annual report of a readable document and those who do not work with it. In response to the first sub-question, it can be said that the municipalities are performing well in terms of readability in the annual reports. It should be added, however, that all municipalities need to work with their educational ability and explain economic concepts to a greater extent, to increase transparency to their stakeholders.

The municipalities today work to a very small extent to spread information about their annual report. Although many more traditional media have declined as an important communication channel, new media have emerged, primarily social media. The municipalities have been very little involved in the transition between traditional media and new ones. Which has meant that the municipalities use a certain kind of media to a large extent. This, of course, has consequences for those who can take part in the annual report. The municipalities therefore

need to start using several different channels of communication to disseminate the annual accounts, as it is now the case that many municipalities are lacking in the dissemination of the annual report.

Municipalities today involve more officials and departments in the communication process, compared to before. The consequence of this has been an increased focus on designing a more readable annual report. However, it has not contributed to an increase in interest in the municipal annual report, which indicates that other parts of the communication process are lacking. One of the major problems surrounding the establishment of the municipal annual report and the communication of it is that there is no clear target group. The municipalities should, to a greater extent, decide which target groups, they would reach with their message. In connection with this, the municipalities also need to set objectives with the annual report, which can serve as guidance for the response they are requesting. The low response to the annual report is perhaps the clearest sign that the municipalities need to work more purposefully about the communication. Although there have been exceptions in this research, the overall picture is that the municipalities in Stockholm County are very ineffective when communicating the annual report. By working more focused on communication, the outcome would likely be different.

This study has helped to map how well the municipalities communicate their annual report and how they work to improve this document. One of the conclusions we can draw from this work is that the municipalities need to work out a more accessible and readable document. However, this does not seem possible with current regulations, and the municipalities therefore need to investigate the possibility of drafting other documents containing equivalent information, but not restricted by the regulations. This would enable them to set up a clearer communication strategy, as it is up to the organization itself to formulate what they want to communicate.

## 7.0 Limitations and Further Research

*This chapter will discuss some of the study's limitations with emphasis on limitations connected to the study's research approach and methods. It will also present suggestions to further research.*

### 7.1 Limitations

We are aware that our choice of a qualitative research approach involves some limitations. The chosen methods, semi-structured interviews and a content analysis, are both methods through which it is possible to gather a large amount of data with a small sample selection. However, the quality of an interview is dependent on the interviewer. The better an interviewer is at conducting interviews, the better interviews will be conducted. Furthermore, to have knowledge about the subject is vital for the interviewer's ability to ask relevant follow-up questions (Kvale & Brinkman, 2014). This means that our relative inexperience as interviewers may have had an impact on the collected data from the interviews. Moreover, by conducting semi-structured interviews we have been able to exert some control over which data was collected. Had we instead used methods such as observations or unstructured interviews, we may have been able to collect additional information. Nevertheless, due to the nature of the research question and the fact that the qualitative research approach offers tools for deeper understanding of an issue, we deemed the research approach suitable for our study.

### 7.2 Further Research

The study's sample selection has been limited to the Stockholm area. It would therefore be interesting to investigate municipalities outside the county to see if other municipalities have different approaches. Another suggestion would be to investigate how stakeholders experience the annual report, for example by having them read and evaluate the annual report's content. This would be a complement to this study's perspective, which has examined the annual report's sender. A third suggestion would be to make a more comprehensive content analysis of the annual reports, which looks more closely at for example the language used in the reports. This can further highlight how different municipalities view the annual report and its purpose.

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Nynäshamn kommun årsredovisning 2016  
Salem kommun årsredovisning 2016  
Sigtuna kommun årsredovisning 2016  
Solna stad årsredovisning 2016  
Sollentuna kommun årsredovisning  
Stockholm stad årsredovisning 2016  
Sundbyberg kommun årsredovisning  
Södertälje kommun årsredovisning 2016  
Tyresö kommun årsredovisning 2016  
Täby kommun årsredovisning 2016  
Upplands Bro kommun årsredovisning 2016  
Upplands Väsby kommun årsredovisning 2016  
Vallentuna kommun årsredovisning 2016  
Vaxholm kommun årsredovisning 2016  
Värmdö kommun årsredovisning 2016  
Österåker kommun årsredovisning 2016

# Appendix

## Appendix 1 – Content analysis

Municipality	Terminology	Design	Accessibility	Total
Sigtuna	7	7	4	<b>18</b>
Haninge	7	7,7	3	<b>17,7</b>
Stockholm	8	5,2	2	<b>15,2</b>
Sundbyberg	7	4,6	3	<b>14,6</b>
Ekerö	6	6,5	2	<b>14,5</b>
Tyresö	7	4,5	3	<b>14,5</b>
Södertälje	6	4,3	4	<b>14,3</b>
Norrtälje	6	6,4	1	<b>13,4</b>
Botkyrka	4	6,7	2	<b>12,7</b>
Danderyd	4	6,6	2	<b>12,6</b>
Upplands Väsby	1	7,9	2	<b>10,9</b>
Vallentuna	2	5,9	3	<b>10,9</b>
Upplands Bro	1	7,3	2	<b>10,3</b>
Salem	5	4	1	<b>10</b>
Sollentuna	2	3	5	<b>10</b>
Huddinge	1	4,6	4	<b>9,6</b>
Nynäshamn	4	3,5	2	<b>9,5</b>
Nykvarn	1	6	2	<b>9</b>
Lidingö	1	5,9	2	<b>8,9</b>
Järfälla	1	5,8	2	<b>8,8</b>
Värmdö	1	5,5	2	<b>8,5</b>
Täby	0	5,3	3	<b>8,3</b>
Nacka	1	5	2	<b>8</b>
Österåker	0	4,7	3	<b>7,7</b>
Solna	0	3,7	3	<b>6,7</b>
Vaxholm	1	1,7	3	<b>5,7</b>

## Appendix 2 - Interviews

Interview guide	
Number	Questions
<i>The role and purpose of the annual report</i>	
1	How would you describe the overall purpose of the preparation of the annual report?
2	Should the annual report be regarded as the primary document an investor should read to obtain financial information about the municipality, or do you have other financial documents that give a good insight into the municipality's finances? <b>If yes;</b> what do these documents contain?
3	In addition to statutory requirements, how do you work to determine what information should be included in the annual report?
4	How do you think that the annual report's role and purpose will change in the future?
5	Do you also think that the target audience for the document will be different in the future?
<i>Who are the stakeholders?</i>	
6	What stakeholders do you feel that your municipality has and does it differ from the stakeholders to which the municipality's annual report is addressed?
7	Would you estimate that your stakeholders are more financially literate than stakeholders to other municipalities in Stockholm County?
8	How do you work for people who are not financially literate to understand and understand the content of the financial information presented in the annual report?
9	why is no major description / clear explanation given which stakeholders the municipality has?
<i>The annual report as the means of communication of financial information to stakeholders</i>	
10	From which source is most of your annual report? <b>Follow-up question:</b> How big is the interest among the municipality stakeholders for the municipality's annual report?
11	How do you think that you should work to increase interest in the municipality's annual report?
12	Where do you get inspiration for the development of the content / presentations in the annual report?
13	In your work on the design of the ultimate annual report, what challenges do you experience as hindering you in the development of the annual report?
14	Do you offer the annual report in more languages than Swedish? <b>if yes;</b> which?

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