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Under Pressure: How Top Managers Are Affected by Ownership Structures

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Abstract

This study investigates how top managers are influenced by ownership structures in the forming of an investment agenda. The research is based on a comparative multiple case study of three competing firms, two private and one public, within a Swedish durable goods industry. The analysis supports previous research on the subject but also identifies other factors with significant effects on managerial decision making. Ownership concentration has been recognized as a factor determining owners' possibilities to convey their expectations of management. Furthermore, the relationship between the owners and management influences the managers ability to make sense of these expectations. Corporate culture and company identification can control who the manager's ultimately feel accountable to. This indicates that there is no direct causal relationship between ownership concentration and investments, which previous research has assumed.

Tutor: Johan Graaf

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1. Introduction

1.1. Background

Choosing whether to be a private or public company could by some be perceived as an irrelevant matter with little effect on company operations as companies typically, independent of ownership, strive to offer competitive products or services that generate profit. However, even though private and public companies might share similar fundamental goals, the approach to achieving them has been found to differ widely due to various demands from owners that influence top managers' decision making (Anderson, Duru & Reeb, 2012; Asker, Farre-Mensa & Ljungqvist, 2011; Asker, Farre-Mensa & Ljungqvist, 2014; Bernstein, 2015; Gao, Hsu & Li, 2018; Tengblad, 2004). Therefore, making the decision to go public or private, requires a fundamental understanding of the effects of ownership structure on a company's decision making.

Capital investments are generally operational or strategic in nature. Strategic capital investments generally involve higher levels of risk and produce outcomes with significant long-term effects on company performance (Alkaraan & Northcott, 2006). Typical strategic projects include for example: acquisitions and mergers, introductions of new product lines, and installations of new manufacturing processes. These investment decisions play a key role in establishing long-term growth and value creation, which ultimately determines a company's value to its owners. Furthermore, as investments enable both the capturing of new market shares as well as the retention of existing customers, they are also a guiding factor in determining the future competitiveness of a company. However, different ownership structures provide different conditions for investing. Previous research has found that use of capital budgeting methods vary between industries and ownership structures (Sandahl & Sjögren, 2003). Ownership structure has also been determined to affect cost of capital (Pagano, Panetta & Zingales, 1998), expectations on performance and returns (Tengblad, 2004), as well as responsiveness to new investment opportunities (Asker et al., 2014). Thus, different ownership structures have unique effects on the investment process, and should subsequently yield different investing outcomes.

The most common rationale for going public is to rebalance accounts after investments and growth (Pagano et al., 1998), rather than increasing profitability or investments. A result of going public is thus a greater availability of funding and a lowered cost of capital. In isolation, IPOs would therefore increase possibilities for value creating capital investments elevating company performance. However, even though the relationship between investments and value creation depends on funding and cost of capital, it is also a causality consisting of other variables such as investment horizon, preference for risk and innovation (Asker et al., 2014; Gao et al., 2018; Bernstein, 2015). In actuality, no ownership structure has been determined superior over the other as all ownership structures have both pros and cons.

1.2. Research gap

Previous research on the effects of ownership structure on investment decision making is extensive. However, the research could to some extent be considered incomplete seeing that: (1) the studies are predominantly quantitative, (2) typically assume a simple and direct causal relationship between ownership structure and investments, and (3) they usually take the perspective of public firms. These points are discussed in order below.

Research examining the relationship between ownership structure and investments has primarily been conducted using a quantitative methodology (Asker et al., 2011; Asker et al., 2014; Bernstein, 2015; Gao et al., 2018; Pagano et al., 1998). Thus, previous research determines *if* capital investments are affected by ownership structures, but not necessarily *how* this variation expresses itself (Lee & Humphrey, 2006). An abundance of qualitative research on the topic has yielded a rather simple perception of the relationship, where ownership is assumed to directly influence investment decisions. In turn, this results in a weak understanding of a very nuanced relationship. Previous research has established the statistical connections between ownership and investments, but fails to fairly illustrate how the relationship expresses itself in reality.

Building on the previous point, much research on the subject assumes a direct causal relationship between ownership structure and investments, where ownership structure is the input and investments decisions are the output (Anderson et al., 2012; Asker et al., 2014; Bernstein, 2015; Gao et al., 2018). This fails to recognize other indirect effects of ownership. Depending on these non-disclosed effects, it is possible that the researched, casual relationship between ownership and investment is somewhat inaccurate. Ownership might actually engender pressure or expectations which in turn affects executives and investment decisions (Tengblad, 2004). Thus, investments might not be not contingent on ownership *per se*, but rather the pressure it spawns. Moreover, previous researchers have for example noticed that the relationship between ownership, investments and value creation could be endogenous as value creation, in itself, creates new possibilities of ownership (Myeong-Hyeon, 1998; Asker et al., 2011).

Lastly, the previous studies tend to focus on public firms due to problems with both availability and reliability of private firm's financial statements. Private companies usually face lower requirements on reporting and auditing, making this data difficult to access and less reliable. Therefore, research considering the perspective of private companies is limited. In many studies, we consequently see that private firms are used simply as a point of reference for public firms. Private companies are assumed to be equivalent to the public, but without any of the problems related to public ownership, such as agency problems and short-termism tendencies. Tengblad (2004), a major contributor to our work, exclusively researched public companies. Thus, his conclusions, although very interesting, lack a crucial comparison to equivalent private companies.

1.3. Research question

The purpose of this study is to investigate the relationship between ownership structure and capital investments. The study will focus on three aspects established as directly affecting investment decisions: investment horizon, risk and innovation. Investigating possible differences in these factors are of interest to companies evaluating to go public, delist or remain in its ownership. Moreover, it is also of interest to the public as it discloses hidden company characteristics dependent on ownership, which could facilitate understanding and alignment of preferences between investors and companies. From a broader psychological perspective, the results could indicate the effects of high expectations and pressures from external actors on company executives. This study is aimed at addressing the following research question:

How does ownership structure, private or public, influence top management's forming of an investment agenda?

This relationship is examined through a case study of a durable goods industry in Sweden. The study is based on extensive interviews with senior executives representing three competitors within this specific industry, one of these being public and the other two privately owned. The senior executives regularly communicate with the owners as well as are familiar with the company's investment decisions and specific reasoning behind them. Thus, possible differences arising from ownership structure can be analyzed.

1.4. Contribution

This thesis aims to complement current research by addressing the issues previously identified in the research gap. We provide a further understanding of the relationship between ownership structure and investment decision making through a qualitative approach, differing from the frequently used quantitative approach in previous research. This approach entails a more nuanced understanding due to its focus on *how* the possible differences are expressed in reality rather than *if* they exist (Lee & Humphrey, 2006).

Moreover, the qualitative approach means that we can relax many of the assumptions typically made in research on the topic. Most importantly, we do not assume a direct causal relationship between ownership structure and investments. This enables the identification of other factors that influence the investment agenda. The outcome of the study indicates that additional factors, such as ownership concentration, relationships between owners and management, and corporate culture, also have substantial effects on the investment agenda. Subsequently, it is possible to conclude that the relationship between ownership structure and investments is not causal; the investment agenda is influenced by a wide range of factors.

Lastly, this thesis contributes to existing literature by its direct comparison of investment decision making in private and public companies. Thus, we do not have to revert to the view of private firms as a benchmark for public firms, rather we use an open approach examining the two types of firm more independently.

2. Theory and literature review

2.1. Previous research

This section explains the previous literature and research on which this study is based. Firstly, a review of ownership structures and capital budgeting is provided, these are fundamental concepts in the study. Following that, the review highlights previous findings in related areas of study, namely investment horizon, investment risk and innovation. Finally, a theoretical framework is introduced, through which the empirics will be analyzed. Propositions concerning the relationship between ownership structure and investments, and what we expect to find are presented ongoing.

2.1.1. Private and public ownership structures

There is a range of ownership structures as a result of the many different types of businesses permitted under Swedish law. In this study, public and private companies are the focus. Public companies have their shares listed on a public stock exchange, and private companies do not. Furthermore, public companies require more invested share capital than private companies (SFS: 2005:551. ch. 1, 4-8 §§).

Typically public companies have numerous smaller owners and private companies have a more concentrated ownership. A more concentrated ownership in private companies generates high incentives for corporate governance through close monitoring of management (Asker et al., 2011). It also allows owners to be more active as they have a better insight into the firm's operations. In contrast, the distinct separation of ownership and control in public companies leads to agency problems. Moreover, the high liquidity of public shares encourages shareholders to sell at signs of trouble rather than to monitor and govern management, yielding low incentives for corporate governance (Asker et al., 2011). This illustrates one of the main differences between the two ownership structures; public ownership is to a greater extent characterized by information asymmetry between management and owners, resulting in agency problems. Because of these agency problems, active shareholders in public companies pursue internal monitoring to ensure a functioning corporate governance system. When active shareholders in public companies provide internal monitoring, they also indirectly reduce stock liquidity by creating information asymmetry among shareholders. Subsequently, a lower stock liquidity helps to further promote internal monitoring by increasing the costs of “exit” for dissatisfied shareholders (Bhide, 1993). Internal monitoring and corporate governance can in these ways be employed in public companies to address agency problems and associated costs in public companies.

Private company owners can generally influence the decision making and strategic development of a company through their direct control over the board of directors, and subsequent indirect control over management (SFS: 2005:551. ch. 8, 1-4 §§). As ownership in public companies is more dispersed, individual shareholders struggle to influence corporate decision making. Instead, shareholder influence, to a large extent, derives from the established concept of shareholder value policy, which views the creation of wealth for shareholders as the main task of corporations and argues that shareholders should have the final say in the strategic development of companies (Tengblad, 2004). The concept of shareholder value has been found to affect capital investments and company performance. Jürgens, Lung, Volpato and Frigant (2002) concluded that shareholder value policy does not improve company performance. Furthermore, they claim that the more companies prioritize shareholder value, the worse they perform in terms of profit margin and return on capital. This is because shareholder value policy puts a greater stress on financial indicators and encourages short-term actions to achieve short-term targets predetermined by equity market analysts. Short-termism in public companies can manifest itself, for example, through changes in investments as short-term financial targets can be met simply by reducing investments, alleviating the balance sheet (Jürgens et al., 2002). Short-termism therefore poses a threat to innovation capability and long-term value creation in public companies. These short-term pressures are not present in private firms to the same extent, as shares in private companies are relatively illiquid, making the value of the company less susceptible to short-term fluctuations in financial indicators.

2.1.2. Capital budgeting practices

Capital budgeting is the process of evaluating capital investment projects based on projected financial outcomes. Capital budgeting is commonly employed in practice and much previous research on the subject exists. The use of conventional capital budgeting techniques like: payback period, net present value (NPV), internal rate of return (IRR), return on assets or investment (ROA or ROI) and risk analysis techniques (sensitivity analysis), has perhaps been researched the most, but the findings are inconclusive. Alkaraan et al. (2006) observed that, to account for the uncertainty and complexity often associated with investment projects, most companies use more than one financial analysis method. Abdel-Kader and Dugdale (1998), noted a widespread use of discounted cash flow (DCF) techniques, like NPV and IRR, but also found that in practice, relatively unsophisticated methods, like payback period and ROI, were viewed as the most important. Even though DCF analysis is considered the most precise evaluation technique, it is criticised for being sensitive to changes in forecasted cash flows and how it fails to include intangible factors, making it biased towards short-term, non-strategic investments that are easier to quantify. On this basis, it is argued that the evaluation of investment projects constitutes a “simple is best” philosophy, where making the investment process intuitive is of the greatest importance (Alkaraan et al., 2006).

Other authors, like Sandahl and Sjögren (2003) have found that company size can help explain the choice of capital budgeting methods. Larger companies tend to have better resources and competency for more formalized investment processes, enabling the use of more accurate and sophisticated methods, like NPV. As public companies are larger than private companies in general, these findings seem to suggest that public companies use more sophisticated capital budgeting methods.

Sandahl and Sjögren (2003) also propose that the relatively recent concepts of shareholder value and shareholder wealth maximization has impacted the use of capital budgeting methods, especially in public companies where management has been forced to meet the demands of owner's at a greater extent than before. Required returns of capital markets amount to a hurdle rate, DCF methods incorporate this rate into investment decision making through cost of capital and by discounting future cash flows. The DCF methods therefore provide a fundamental basis for selecting investment projects in line with shareholder expectations and preferences. Subsequently, they argue that the use of DCF methods (e.g., NPV and IRR) should be higher in public companies than in private. On the other hand, related research argues that the increased orientation in public companies towards meeting the demands of capital markets leads to short-termism, which in turn affects the use of capital budgeting methods. Companies focusing on shareholder wealth maximization prioritize short-term profit and, in turn, also employ more short-term capital budgeting techniques, like payback period (Segelod, 2000).

2.1.3. Investment horizon

Previous research has repeatedly determined that firms, especially public, are subject to pressure and expectations of performance from both capital markets and owners. These pressures have been determined to result in a short-term focus, as public companies are expected to achieve financial targets, determined by capital markets, on a quarterly basis. We begin by studying the sources of this pressure to then understand how it manifests itself.

Tengblad (2004) exemplifies how CEOs of public companies have become increasingly influenced by shareholder value policy and expectations from stock markets. Managers perceive that equity markets monitor their work closely and that the development of the share price represents the market's opinion on their performance. Furthermore, the increased use of stock options as a central part of executive compensation and an impatience with underperforming CEOs, contributes to an increased focus on short-term profits in public companies (Tengblad, 2004). Stock option compensation is aimed at resolving corporate governance and agency problems, by aligning executive's interests with shareholders'. However, it could be argued that stock option compensation rather exacerbates these issues by putting the CEOs compensation at risk for short-term fluctuations (Asker et al., 2014).

Another explanation to short-termism in public companies is related to the fact that shares in these companies are highly liquid. Therefore, signals of problems (like failing to meet sales targets) will cause the value of the company to drop. Shareholders often do not have sufficient information on which investment opportunities are long-term value creating, communication and presentation of new investment projects to shareholders is therefore critical. It is also difficult for public companies to communicate what different signals mean and how they should be interpreted by shareholders. Some short-term losses are often required to generate long-term growth (consider start-up costs and depreciation). Signaling is therefore an important practice, almost exclusively employed in public companies that can have large effects on the valuation of a company (Asker et al., 2014). Private companies are assumed to have less agency problems as they tend to have a more concentrated ownership with better insight into the operations. Private owners are therefore typically more active, enabling them to focus on long-term value creation (Bhide, 1993).

Thus, a high level of expectations directed towards public companies is often visualized in the form of short-term pressures. The effects of short-termism tendencies in public companies has been extensively researched and a short-term focus on profits has repeatedly been proven to distort investment decisions. Passing on NPV positive investment projects can, for example, boost short-term income and the stock price, as it reduces start-up costs and depreciation (Asker et al., 2014). Furthermore, managers of public companies regularly take actions to smooth earnings in the short-term, at the cost of long term value creation. These actions are taken to control the stock price by maintaining predictability in earnings (Graham, Harvey & Rajgopal, 2005). Short-termism has other distortive effects as well. Public firms invest relatively less than private firms and are slower to adapt to new investment opportunities (Asker et al., 2014), which is interesting as going public provides a company with better access to capital at a lower cost (Pagano et al., 1998). One explanation to this, connecting Sandahl and Sjögren (2003), is that because public firms have more clearly expressed expectations and required returns from shareholders, they subsequently have higher hurdle rates for investments.

Lastly, CEOs tend to conform and align their work to the stock market's expectations. A corporate focus on shareholder value could thereby lead to situations in which the strategic development in public firms reflects the perspective of less knowledgeable external actors, rather than the views of employees and managers with “detailed, day-to-day knowledge of technology, operations and customers” (Tengblad, 2004). This tendency towards conformity in public companies is expected to impact creativity and innovation negatively. It is also suggested that demanding expectations, by themselves, can damage long-term development since they lead to conformity and alignment to short-term financial goals (Tengblad, 2004).

2.1.4. Investment risk

Risk is an important part of investment decision making that is often overlooked. The reason for this is that risk factors are difficult to identify and pair with a probability of occurrence. The most common way to incorporate risk into the investment decision making process is through risk analysis methods such as sensitivity analysis, probability analysis, computer simulation and beta analysis. However, research suggests that risk evaluation in practice is perceived more as a question of judgment than a formal analysis (Alkaraan et al., 2006).

According to Anderson et al. (2012), risk appetite is one of the big differences between family owned and non-family owned businesses. Family businesses are more risk-averse compared to non-family businesses. Family owned businesses invest relatively more into capital expenditures (CAPEX) and relatively less into research and development (R&D). The author argues that CAPEX carries less risk than R&D as they, in general, can be realized with a higher degree of certainty by selling the physical asset. Family owners are often undiversified, with a majority of their capital in the family business. This motivates them to implement long-term value creating principles, but also to be risk-averse (Anderson et al., (2012). Most oftenly however, risk-aversiveness overshadows the long-term investment horizon as undiversified owners tend to be attentive to their assets. Family firms tend to have, just like private companies, a more concentrated ownership. Risk-averse tendencies are therefore expected to be encountered in private companies at a larger extent than public companies. Even though the concept of family businesses has been excluded from our research, previous findings like this one can contribute to a better understanding of the field.

On the other hand, Panousi and Papanikolau (2012) find that risk-aversiveness is similar in private and public companies. Risk-aversiveness is argued to depend on idiosyncratic (firm specific) risk, and to what degree owners are diversified to limit this risk. Undiversified owners avoid potential losses by lowering investment risk. Public firms typically have more diversified owners, owning stocks in several companies, while owners of private companies are typically more undiversified. However, as public companies are governed by undiversified executives, rather than undiversified shareholders, they also apply risk-averse investments strategies. The authors argue that shareholders in public companies generally do not have good insight into a company’s investment decisions and little influence on investment preferences (Panousi & Papanikolau, 2012). Connecting to Asker, effective rewards systems (e.g. stock options) that align owner interests with executives can help manage warped risk preferences (Asker et al., 2014).

2.1.5. Innovation

As already mentioned, the use of some capital budgeting techniques, like DCF models, tends to be biased towards short-term, less innovative projects with outcomes that are easily forecasted (Alkaraan et al., 2006). Christensen, Kaufman and Shih (2008) explain these problems in detail. The net present value method (NPV) often underestimates the return of investments in innovation by comparing them to a “business as usual” scenario. In this scenario the financial performance of the company is assumed to remain unchanged forever if a project is not pursued. In competitive markets however, firms that do not invest in innovation will experience loss of profit and market shares to competitors that do. Another issue with the NPV method is that it requires the estimation of future cash flows, which can be particularly difficult for innovative projects. Terminal value assumptions are used to facilitate cash flow estimations in the long term and often constitute a substantial amount of a project's value. The use of terminal value is risky as it magnifies incorrect valuations and assumes the previously discussed “business as usual” scenario (Christensen et al., 2008). This points towards a need for complementary, strategic ways of evaluating innovative investments. As previously discussed, Sandahl and Sjögren (2003) find that NPV methods are mostly employed in large public companies. This would suggest that public companies pursue less innovative projects, because their evaluation practices are biased towards short-term and less innovative projects.

Research looking at how innovation is affected by going public finds that an IPO often results in many skilled inventors leaving the company, and that the enhanced capital access increases acquisitions of innovative technology. The IPO thereby constitutes a change in innovation strategy, from developing innovation internally to acquiring innovative technologies externally. However, the change in innovation strategy also affects the quality of the innovation negatively (Bernstein, 2015).

Other research argues that there are two types of innovation: exploratory and exploitative. Exploratory innovation requires building new knowledge, characterized by coping with high uncertainty and long time horizons. Exploitative innovation builds on existing knowledge, characterized by shorter time horizons and less uncertainty. Public firms with better access to capital at lower costs, have relaxed financial constraints that encourage them to explore. However, public firms also experience pressure to deliver short-term results which forces them to pursue more exploitative innovation. The pressure to deliver short-term results tends to overshadow the relaxed financial constraints in public firms, leading public firms to be more conservative and short-term in innovation strategy, building on existing technology rather than developing new technologies. Conversely, private firms are more aggressive in innovation strategy with longer time horizons (Gao et al., 2018). Furthermore, this corresponds to previously discussed research by Asker et al. (2015) arguing that public firms are more short-term oriented.

2.2. Theoretical framework

In this section we present a theoretical framework to assist the understanding and analyzing of the collected empirical data. The theoretical framework is based upon the work by Tengblad (2004), who studies the effects of public ownership on managerial decision making. In his study, Tengblad finds that top managers in public companies are greatly influenced by expectations and demands from shareholders.

Tengblad interprets the duty of executives to be management of expectations. Successful top managers are able to fulfil and actively form expectations by communicating, arguing and convincing stakeholders, both internally and externally. Demands from investors are oftentimes contradictory, "some shareholders prefer long-term growth, others short-term rewards, and some may be risk-takers advocating for big acquisitions" (Tengblad, 2004). Simply following external expectations is therefore not possible for top managers, their function is rather to resolve these expectations into a consistent and comprehensible plan.

Executive's process of understanding and making sense of the expectations directed at them is interpreted using the concept of sensemaking (Weick, 1995). Managers and executives work in a complex and demanding environment. Sensemaking is the process of gaining an understanding of a situation to facilitate action. Pivotal in this scheme is enactment, which refers to how we co-construct our environment by interacting with it. As we react to, or enact, our environment we participate in the transformation of it, as our actions bring new structures and situations into existence (Weick, 1995). Therefore, company executives play a part in producing the expectations and pressures directed at them. By communicating and interacting with, for example, owners and financial markets, executives co-create an environment in which certain things can be expected of them. Subsequently, when executives feel that certain expectations are placed on them, they feel accountable to fulfil them. In other words, executives feel that they have to address and achieve the expectations directed towards them. Executives align themselves and conform to expectations to be perceived as competent by those to whom they feel accountable. This entire process is summarized in the model below.

Figure 1: Model in theoretical framework by Tengblad (2004)

Tenblad's (2004) theoretical framework provides a model through which we can understand and answer the research question. The model explains how top managers form an investment agenda based on the expectations directed towards them, something managers in both public and private companies are subject to. Summarized shortly, expectations are directed at top managers, managers interpret and make sense of these expectations to then form and communicate an investment agenda. As managers work to fulfill the goals and pressures they perceive as most important, they reveal towards whom they feel accountable. Thus, by mapping out and analyzing differences between the firms in each of the underlying steps, we can determine how public and private ownership structures respectively influence the investment agenda. The model does not rely on assumptions of causality between ownership structure and investments, allowing for a fairer rendering of the relationship, more in line with reality.

3. Method

3.1. Design

This thesis is based on a comparative multiple case study of three competing firms within a Swedish durable goods industry, two private and one public. These companies are matched with regards to industry, markets and size to adjust for the risk of factors, other than ownership structure, influencing firm decision making. The rationale behind keeping the industry and participants non-disclosed is to fortify anonymity, enabling greater disclosure of empirics. Data collection will be conducted through semi-structured interviews with senior managers, complemented with data from official records, like annual reports. This qualitative design is suitable as it enables the investigation of *how* ownership affects a company's investments. This is a broadly defined field with many different parameters influencing outcomes. Supporting this approach, Ruddin (2006) argues that the strength of case studies lies in their ability to capture specific features of reality and make it possible to analyze a large number of variables in conjunction.

The qualitative data collected will be analyzed through Tengblad's (2004) theoretical framework covered in the previous section. Tengblad provides a comprehensive model of how decision making in firms is impacted by pressure, or expectations, from external actors. Companies with different ownership structures are likely to experience varying levels of external pressure. Public companies are for example more probable to be covered in the media and receive more attention from institutional investors and analysts, mainly because their shares are more liquid and available to the public. Tengblad's framework helps in the understanding of pressures and how they impact the forming of an investment agenda. Furthermore, Tengblad's model builds upon research of public Swedish companies. The Swedish overlap makes the model more appropriate from a theoretical perspective as it is based on cultural values and norms also influencing the interviewees.

The fact that the study consists of multiple interviewees, representing companies competing with each other, helps create a nuanced picture of the industry. Matching the firms also enables the analysis of potential differences between the firms adhering to ownership structures, crucial to answering the research question. As two of the firms researched are privately owned, there is also a great opportunity to further build upon, or complement, the previous extensive research on investment activities in public firms.

3.1.1. Validity and generalization

Case studies are sometimes criticized because of an expected problem in generalizing the results. Since case studies are defined by the case, we cannot argue that this case analysis is statistically valid; that would be equivalent to claiming that the analysis holds for all similar cases. However, it is important not to confuse case reasoning with statistical reasoning. Case study research should be seen as a way of deductively explaining *how* reality functions, rather than establishing statistical connections. Therefore, the point of case study research is not to establish generalizations, but to in detail illustrate the case that has been researched (Ruddin, 2006). In the terms of this paper, the research method has been developed in order to understand *how* ownership affects companies, relying on previous research that has statistically established the connection.

3.1.2. Matching

The purpose of matching companies in this study is not to eradicate all differences across firms, instead it is to make the comparison fair. The matching is made based on industry, active markets and size, following the methodology of previous research (Asker et al., 2014; Gao, Harford & Li, 2013). Comparing companies relatively similar to each other in these aspects enables us to better isolate ownership structure as the explanatory factor of differences between them. Companies in the same industry, markets and of comparable size are the most probable to face similar investment opportunities and conditions, limiting the risk of other parameters influencing the result.

Two of the firms studied, one private and one public, operate exclusively in the industry at hand. The third firm operates in two major industries, with the investigated industry being one of them. Regarding size, the three firms' respective net revenues and total assets are shown below. In order to display the relation in size between the firms while maintaining confidentiality by not disclosing numbers, the different firms are represented in a diagrammatic format showing the relative size of net revenues and total assets.

Table 1: Firm pseudonyms, ownership structure and relative net revenue

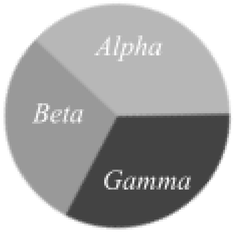
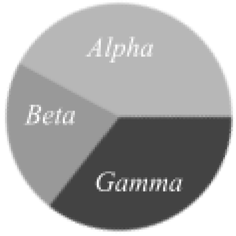
Firm	*Ownership structure*	*Relative net revenue*	*Relative total assets*
Alpha	Public		
Beta	Private		
Gamma	Private		

Table 2: Relative net revenue and relative total assets, as percentages relative to the figures of firm Alpha

	Alpha	*Beta*	*Gamma*
Relative net revenue	100 %	77.4 %	87.1 %
Relative total assets	100 %	52.7 %	84.3 %

As shown in the table, the total assets between the firms differ considerably more than the net revenues. Previous research has found that investments typically increase with size, therefore size needs to be managed in the matching (Asker et al., 2014). However, as this study aims to investigate the effects of ownership on *how* firms invest rather than *if*, some differences in size between firms are not believed to affect the results. Observed differences in size are not expected to be eliminated completely, instead focus lies in finding reasonable similarities.

Moreover, the matching in this study is also connected to geographical regions as firms competing in the same markets are subject to the same legislations and market demands, indicating similar investment possibilities. All the three companies in the study are mostly present in Sweden, Norway and Finland. These are Alpha's and Beta's primary markets with Sweden being the most significant. Firm Gamma is also active in western Europe but its business is focused on the Nordic countries.

The companies do however naturally vary in certain aspects. To give the reader a better understanding of each firm and its circumstances, we provide a short description of each firm and its ownership structure below.

Firm	*Ownership structure*	*Firm description*
Alpha	*Public ownership*. Five largest shareholders together control a majority of the votes. Largest shareholder holds one quarter of the firm. Founding family is still shareholders.	Segmented in the upper-middle of the market. Grows organically and through acquisitions. Market leading position. Listed on the stock exchange since the 90's.
Beta	*Private ownership*. Recently acquired by a new owner holding 100% of the company. Owner operates in the same industry.	Segmented in the medium-high to high segment. Aims towards a strong brand, superior service offering and organic growth.
Gamma	*Private ownership*. Owned to 100 % by Swedish conglomerate with businesses in many different industries.	Market leading in its primary industry. Several brands, grows organically and through acquisitions.

Figure 2: Description and ownership structure of firms investigated.

3.2. Data collection

3.2.1. Interviews

Interviews are the primary source of qualitative data. The interviews were semi-structured, meaning that every interview began following a similar set of questions, but as the interviews progressed we were opportunistic in recognizing new questions as they appeared. This enables us to adapt the interview to the interviewee depending on his, or her, ability and willingness to discuss certain topics. Furthermore, this deepens the information exchange by focusing on the topics where most relevant information can be found. This opportunistic interview technique is a prevalent approach in qualitative research and a legitimate means for collecting information (Lee & Humphrey, 2006). The question template was developed with regards to previous research as well as the study's research question, how ownership pressure influences investments in three perspectives: horizon, risk-preference and innovation (Appendix 1).

Table 3: Firm pseudonyms, ownership structure and position of interviewees

Firm	*Ownership structure*	*Interviewee*
Alpha	Public	CEO
Beta	Private	COO [VP]
Gamma	Private	CFO [VP]

The interviewees were senior executives with formal responsibility and insight into investment decision making in the company. All interviewees were also in direct contact with the company owners and well aware of the pressures and expectations that were put on them. Five interview sessions of, in total, between 80–130 minutes with each firm were conducted over a period of two weeks (22nd May 2021 to 13th April 2021). Preceding each interview the companies were researched in order for the interviewers to gain a fundamental understanding of the individual firm's business and situation. The interviews were held in Swedish on an online video conferencing program.

The interviews were not recorded to exhibit confidentiality and respect the integrity of the interviewees as professionals. Even though not recording each interview session might decrease the reliability of the study, it is justifiable as a means of promoting more truthful responses. A risk with interviews as a data source is that the interviewees may be unwilling or hesitant to disclose certain information (Lee & Humphrey, 2006). Executives will be especially careful in their disclosure of firm specific and strategic information as it jeopardizes the competitiveness of their companies and subsequently their individual careers. As a result of this, executives tend to only provide safe and standardized information during interviews. This problem can partially be countered by clarifying the degree of anonymity, in our case developed by neither recording the interviews, nor disclosing participants.

3.2.2. Official documents

The study will also use official documents, such as annual reports, as a source of data. This data has been collected online and distributed to us by the interviewees.

Table 4: List of official documents and sources used to investigate each firm.

Official document/source	*Used for firms*
Annual report	Alpha, Beta, Gamma
Official website	Alpha, Beta, Gamma
Sustainability report	Gamma
Press releases	Alpha, Beta, Gamma

Using multiple types of data collection has several benefits. Primarily, it provides an additional perspective on each firm, addressing the problem that interviews could be considered unreliable as they are subject to the personal biases of both the interviewee and the interviewer. Official documentation provides standardized data that can complement the descriptive and subjective data collected from interviews. Furthermore, company executives are busy people. Fitting time consuming interviews into their schedules is therefore often very difficult (Lee & Humphrey, 2006). The advantage of triangulation, having several sources of data, is a more nuanced and developed understanding of the case.

3.3. Data analysis

Detailed notes were taken during each interview, one interviewer was responsible for asking questions while the other interviewer was the assigned note taker. Recording the interviews was considered but was ultimately deemed disadvantageous, as the interviewees would be more prone to give standardized and safe responses. This outweighed the potential advantages of being able to listen to the interview again. Since the interviews were conducted in Swedish, the empirical material also had to be carefully translated, using digital lexicons when needed. A final transcription was completed directly following each interview, the notes were reviewed and corrected if necessary, for example to incorporate a direct impression that was not visible in the text. In total, approximately 5% of the original notes were corrected to finalize each transcription. When deemed necessary, interviewees were contacted once again after a session to answer complementary questions or provide further information on topics we wished to develop. All interviewees were able to provide such information, this data was collected and summarized just like the regular interview sessions.

After the data collection, the authors jointly processed and categorized the information, following O’Dwyer’s approach of “categorising themes and individual aspects of interviews in several stages to ensure that both general patterns and individual differences were articulated" (Lee & Humphrey, 2006). The data was firstly classified according to the theoretical themes identified in the previous literature, namely investment horizon, risk preferences and innovation focus. Secondly, the data was classified into sub-themes for each company studied.

4. Findings

In this section we present the empirical findings from the interviews and the official documents. The findings are categorized and presented in accordance with the three themes identified in previous research on the topic: investment horizons preferences, risk preferences and innovation focus.

4.1. Investment horizon preferences

The empirical findings that concern investment horizon preferences displays if the respective companies are more short or long-term oriented. The differences derive from expectations from owners, the company's short or long-term orientation and preferences of the executives.

4.1.1. Firm Alpha: short-term tendencies

When asked about the specific effects of being publicly owned, the CEO of *firm Alpha* expressed that "It is good as long as we perform." Thereto, it was uttered that a major difference between the two ownership structures, from previous experience, is the distinction between "Do this." and "What do you want to do?". Thus, being public lowers the pressure to directly follow owners' preferences due to the possibility of changing owners and difference in ownership concentration; "we could have new owners tomorrow". This lowers direct contact with owners but also enhances contact with the board, partially consisting of people representing owners, i.e. largest shareholders, which creates an indirect pressure to comply. The magnitude of how involved the board is in the operations depends on what type of owner organization they represent; institutional investors are less involved in the operations. The largest shareholder in Alpha is represented in the board and is thus involved in its operations. Moreover, the executive emphasized the importance of facts rather than emotions as foundation for decisions when comparing public ownership to private ownership.

The constant surveillance from the market brings abiding pressure to perform all the time; annually, quarterly and daily. For example, when completing an acquisition, the disclosure of direct benefits was demanded by shareholders, for example through synergies. Shareholders want continuous communication on the development and performance of such synergies. Before completing an acquisition, the executive therefore has to be sure that the transaction is defendable both in the short and long-term.

Public ownership also provides opportunities for internal, employee ownership, which can be a very efficient source of motivation and value creation in the company, according to the executive. Internal ownership will, just like stock option compensation, align the employee's interest to those of shareholders, to some extent amplifying the focus on short-term profits. The stock price is integrated into the firm's operations as a benchmark for evaluating performance. The CEO monitors the stock price continuously, checking several times per day and considers the equity market to be another way of challenging competitors.

When asked to specify horizons, the executive defined long-term as five year targets saying that "[...] there is no point having goals more distant", while short-term was defined as yearly targets. However, no investments are said to be taken in the short-term without considering possible long-term consequences. Alpha pays much attention to short-term profits, but believes that long-term profits should not have to suffer because of that. However, in terms of investment horizons, the firm displays the most short-term tendencies of the three in the study.

Value creation is described as important every year and public ownership is therefore described as "more healthy". Short-term value creation is important and cannot be discarded to protect long-term interests. Short-term awareness, rather than focus, is not thought to jeopardize long-term value creation according to the CEO. However, market surveillance and expectations of performance mean that some investments are discarded:

> Some investments that will be profitable and beneficial in the long-run, for example acquisitions, are not carried out since they are a challenge to communicate and motivate in the short-term. It is crucial that a decision can be justified to the owners, the constant coverage from capital markets affects this. [CEO of Alpha]

4.1.2. Firm Beta: long-term for “healthy wave”

The COO of the privately owned *firm Beta* described their ownership structure as beneficial to avoid the type of short-term pressure Alpha is subjected to. This due to the fact that these expectations lead to an unnecessary pressure and over-emphasizing of top-line results. By being private, firm Beta can instead focus on its operations rather than worrying over its performance: “Ride on a ‘healthy wave’ with longer cycles and less pressure on quarterly results.” Underlying company strategies have been developed that intend to guide the company for the future 10–20 years. The long investment horizons are related to the corporate culture and a strong belief in the company’s ability to innovate and offer superior service. Of course some new product offerings are developed to satisfy short-term market needs, and generate profits. In these cases the company has found it easier to compete on service offerings rather than products. However, the COO emphasized how the company worked with longer investment horizons since a focus on achieving short-term targets is believed to hamper development and innovation. It was also uttered that the entrepreneurial structure and culture of the company means that: “Owners can wish for financial results as much as they want but we are built bottom-up.”

When the executive compared the current owners to prior ones, he acknowledged that previous owners were more focused on direct financial results. This indicates differences between private owners and their preferences: “[...] it is reasonable to perform worse than our financial result goals if we know it will benefit the following years”. However, the new owner appears to have a contrasting strategic approach on how to compete in the market. Thus, some long-term investments favored by executives meet resistance from the owner who demands more concrete results rather than developing the brand, indicating clash of cultures. The managers reactions to the new owner attempt to change the strategic direction and culture of the company, was described in the following way:

> The company is left unchanged after the new owners acquired us due to our view of how everything works. It would be difficult for the owner to enter the company and have certain demands and requirements changing our way. People would have left their jobs, I would have left the same day. [COO/VP of Beta]

4.1.3. Firm Gamma: long-term focus inherited from owner

The CFO from the second privately owned company *Gamma*, states that: “Our private ownership creates long-term focus and clarity which makes it easier to operate than a listed firm. Public firms can have different large owners creating jerkiness”. The long-term focus originates from the owner and their business philosophies, aimed at promoting value creation for generations. Gamma is expected to be a part of the owner's long-term growth scheme. These expectations are conveyed through the indirect pressure from the board consisting of representatives from the owners’ company, assigned their role based on their expertise and knowledge about the owners’ company and preferences. Their indirect involvement in Gamma’s investment agenda differs depending on size of investment and how related the matter at hand is to the daily operations. Large investments such as acquisitions are handled by owners, or at least through tight communication with them: “The owners are financing the investments from their own wallet so they are naturally involved and the ultimate decision makers”. Questions closely connected to the daily operations are handled by Gamma’s executives who are trusted with running the business because of their competences within the industry: “freedom under responsibility”. The board and owner company are more involved in decisions and questions that can be managed centrally, such as financing.

The requirements on financial performance communicated by owners are very aligned with the owner’s overall long-term perspective. Gamma is expected to reach and work towards specific financial goals, but with no direct horizon. There are also no direct sanctions if financial targets are not reached. However, it is central that actions are taken to steer the company right when in trouble: “If we are approaching the ditch, we act immediately.” The financial expectations from owners without a direct horizon indicates that there is little pressure for short-term results:

> The big difference to publicly owned companies is less focus on quarterly numbers where you usually hear “This is the most important quarter”. An important decision is rather taken when needed. Quarterly numbers are not irrelevant but they are not guiding, we take advantage of that we are “under the radar”. [CFO/VP of Gamma]

The company primarily works from a three year plan, where a longer perspective is considered for larger investments and acquisitions. Furthermore,when an important decision has to be made, primarily strategic outcomes are considered, rather than financial ratios or market reactions, because strategy is most decisive in the long run.

4.2. Risk preferences

The findings related to the company's risk preferences display their willingness to pursue investment projects associated with uncertain rewards. The executives generally considered risk in two ways; idiosyncratic risk (risk of the underlying business model) and product risk (risk in product offerings).

4.2.1. Firm Alpha: shareholders demand low risk

With regards to risk, the CEO of *Alpha* aligns himself with the pressures from equity markets and the largest shareholders who are represented in the board. This is related to the fact that all the owners gain from decisions that lift the stock price. The risk preferences are according to the executive connected to the ownership structure: "Risk is attributable to ownership and owners. [...] the willingness to take risks in public firms is lower, security is important." Stable and recurring cash flows are sought after as shareholders prefer investments with little risk and clear up-sides. Hence, owners expect and demand risk-aversiveness. The CEO of *Alpha* described the business as risk-averse, to the extent that low risk is prioritized over possible long-term profits. Innovative projects are less likely to be pursued as their payoffs are associated with a high degree of uncertainty.

The board is very involved in the business, and there is a high level of trust between the board and the management team, which helps to further convey confidence towards equity markets. Low risk expectations are incorporated into the business through a diversified portfolio of products with little reliance on the performance of individual products. The level of risk naturally varies across different product segments. Some products will have more uncertain payoffs but they are required to build a strong brand and explore new solutions. Before any investment is accepted a risk assessment is made. This assessment is qualitative and concerns factors such as: Does the need exist? What does the market look like? Are there any substitute products?

4.2.2. Firm Beta: risk comes second

The firm *Beta* has a somewhat contrasting approach to risk management. In choosing projects, executives are guided by a "gut feeling" developed through years of experience.

Investments are not evaluated on the basis of risk but on the basis of their ability to capture and anticipate future demand. Innovative investments are argued to be of low risk as they contribute to the development of a stronger brand. New and innovative solutions is Beta's strength, therefore pursuing innovative projects is not viewed as risky but rather a necessity to remain competitive. Excessive risk is however avoided and projects have to be chosen carefully due to the competition of resources between investments. The executive believes that the most scarce resource is experienced and competent personnel. Investments adhering to efficiency in internal processes are typically seen as more risky than investments into new product offerings as they, by themselves, are not developing the brand or generating revenue.

The owner of Beta seems to have different risk preferences, valuing stable and recurring revenue high as it brings a stability to the business. The conviction of the executive to invest to secure a strong brand positioning has not yet persuaded the new owner.

4.2.3. Firm Gamma: structural risk aversion

For *Gamma*, the structure in the owners' own company indicates their risk preferences: "The owners' companies are separate to secure them against a possible crisis or recessions, indicating long-term focus and risk-aversiveness." Tendencies of risk-aversion can also be seen from the fact that the owners are directly involved in large investments which notedly affect their own finances.

Besides the owners' preferences of risk-aversiveness the firm further believes that the market itself is associated with very low levels of risk: "The products will always be demanded." The competition is also very transparent since "everyone sees what the others do". Gamma does therefore not need to take considerable risk in product development or acquisitions because these products would then easily be copied by competitors. Product development, including new designs, is therefore of low risk and takes advantage of current trends and styles to develop strong brands.

4.3. Innovation focus

Innovation has been defined differently by the three firms in the study. On one hand, both firms Alpha and Gamma believe that innovation infers substantial change in the product offerings unnecessary in their traditional industry. Firm Beta, on the other hand, states innovation as one of their sources of competitiveness and pursues it continuously. Beta subsequently has a lower threshold for what counts as innovation.

4.3.1. Firm Alpha: innovation as a balancing act

Innovation within the industry is marginal according to the largest shareholders of *Alpha*, a point also acknowledged by the executive. Thus, the company is not meant to be radically innovative, rather evolutionary. However, due to the public listing it is crucial for the company to be seen as awake and on the edge: "Public ownership means that it is more important to be innovative and to act directly. A positive with the public environment is that it keeps us awake." Despite that, the market is negative towards large innovative investments with no clear financial results.

Moreover, the CEO explains that he has to be able to explain and communicate every decision to the market and shareholders. Innovative products suffer from this because the potential future rewards are hard to motivate in the short-term. With constant monitoring and questioning, the CEO sees little point in challenging the views of shareholders and therefore engages in necessary, but limited, innovation.

4.3.2. Firm Beta: branding through evident innovation

The innovation focus in *Beta* is evident. The company is very focused on product development and creating new markets instead of chasing financial results and revenue. This has yielded an entrepreneurial and flat structure promoting innovation and close communication with the customer. This is also related to the company's positioning in the market, offering exclusive products to well paying customers. Beta is determined to stay ahead of the competition, trying to discover new trends and possibilities rather than adapting to competition. Characterizing the company, the COO talks a lot about innovation, claiming that "looking at competitors will not drive the industry forwards, instead we take inspiration from international trends and try to apply them to our industry".

The expectations on innovation from the owner of Beta somewhat clashes with this corporate culture. The owner expects Beta to be innovative to a certain degree, so that they can maintain their market position. However, this degree is somewhat less than what is wanted by the executives and what is described as expected by the market. As with the previously mentioned clash of cultures, direct pressure on less innovation would lead to people quitting their jobs which inhibits the owner's preferences.

4.3.3. Firm Gamma: strategy over innovation

The owners of *Gamma* demand innovation in the sense of keeping up with competitors and market demand in order to stay attractive as the company is not dependent on innovations strategically. Instead, innovation in Gamma is aimed at keeping up with competitors and trends in the industry in terms of design and solutions, but also to "do something else" strategically since major competitors have strong positions within their respective segments, making it difficult to compete with them on their terms. Innovation comes from new product designs and innovative usage of current products, not necessarily from new products.

4.4. Summarization of empirics

	Alpha	*Beta*	*Gamma*
Investment horizon			
Theoretical:	Short-termism, emphasizing shareholder value	Long-term value creation is focal	
Actual:	Short-term but not at the expense of long-term even if it is highly valued	Long-term is emphasized over short-term	Structural long-term focus but short-term is good indicator
Risk preferences			
Theoretical:	Less risk-averse than private but governed by undiversified executives	More risk-averse than public as owners typically are undiversified	
Actual:	Risk-aversion, risk is more important than horizon	Risk decided by gut feeling. New products are risky	Clear risk-aversion governed by managers' decisions
Innovation focus			
Theoretical:	Lower quality of innovations, exploitive innovation	Higher quality of innovations, more explorative innovation	
Actual:	Low innovation, too difficult to defend investments to the market	Innovation is vital part of core business and branding	Low innovation, more important with strategy than innovative products

Figure 3: Summarization of empirical findings in relation to theoretical expectations.

5. Discussion

In this section we use the theoretical framework by Tengblad (2004) to analyze the empirical material, and to ultimately determine how ownership structure affects top managers in the forming of an investment agenda. The discussion is divided according to the different processes outlined in Tenblad's (2004) model, namely: (1) expectations of executives, (2) executive's interpretation of expectations, (3) executives' communication of an investment agenda and (4) accountability to the agenda. The first part will evaluate differences in expectations from owners and their ability to direct them towards top managers. The second part consists of how managers interpret these expectations by considering which factors affect managers' sensemaking process. The third part analyses the realisation of expectations into an investment agenda and how managers communicate it to owners. Lastly, the fourth part discusses the discovered effects of ownership structure on top manager's perception of accountability to the investment agenda and owners.

5.1. Owner's possibilities to put pressure

In Alpha, Beta and Gamma, owners expressed their expectations of top managers and the financial performance of the company. This is not very surprising, owners want management to govern the company in line with their own preferences. A more interesting outcome we have been able to identify is that the owner's ability to put pressure on management depends on the owner's *separation* from company operations and decision making. In other words, the owners ability to convey their expectations to management and to make certain demands depends on the various possibilities for interactions and structures between owners and managers.

When observing firm Alpha a distinction between two pressures can be seen, ownership pressure and market pressure. Ownership pressure originates from the expectations of the largest active shareholders. Market pressure derives from expectations of external equity analysts, employees and faceless shareholders, who benefit through the principles of shareholder value (Tengblad, 2004). Thus, being public means that there are competing pressures which complicate owners' possibilities to execute pressures towards managers, as identified by Tengblad (2004). In Alpha, internal monitoring through board representation among largest shareholders is an action aiming for the ownership pressure to overrule market pressure and reduce the separation between owners and managers. But even so, the principles of shareholder value, adhering to market pressure, is evident and emphasized in the firm through internal ownership and the appreciation for short-term profitability and secure cash flows to boost stock price (Asker et al., 2011; Tengblad, 2004).

When comparing these competing pressures in firm Alpha to the ones in firms Beta and Gamma it is evident that these are solely affected by ownership pressure. Thus, there is a difference in separation connected to ownership concentration. Because the owner of Beta and the owners of Gamma have 100 % ownership they have the possibility to influence their respective separation, firm structure and effectively convey their expectations. The owner of Beta has chosen to be directly involved in decision making, while the owners of Gamma involve themselves indirectly through representatives. Beta is less separated than Gamma from its owner. These respective choices originate from the difference in industrial diversification among the owners.

Thus, there is a difference in *separation* between the firms' owners where the two privately owned firms have owners with total control and the public firm Alpha's largest shareholders lack control as a result of competing pressures from the market. Hence, in order for Alpha's owners to gain total control they could acquire a larger equity stake and ultimately delist as this also would improve the possibilities for owners to directly intervene and govern, by decreasing the market pressure. This would mean a change in ownership structure and becoming private. Thus, ownership structure can affect but the total power of separation among the owners of Beta and Gamma rather originates from their 100 % ownership stake, i.e. high ownership concentration, rather than their structure. Thus, the casual relationship between ownership structure and execution of pressures can be seen as reliant on ownership concentration as this gives total control over the *power of separation* which in its turn affects the owners' possibilities to convey expectations. In other words, owners can control their degree of separation from the company if they have a large enough stake in it. Ownership concentration is therefore the factor that best determines the owner's ability to put pressure on management.

However, even with great possibility to execute pressures, the penetration of pressures into the firm's agenda depends on managers' willingness to incorporate them, i.e. their interpretation of them as well as their feelings of accountability.

5.2. Top managers' interpretation of pressures

Being an internal and personal process, sensemaking is heavily influenced by social constructions such as relationships and cultures. In order for managers to make sense of their environment and situation, they have to be understanding of their role and position, in relation to their environment and the people around them. The manager's process of making sense of the pressures directed at them has been found to be influenced by their relationship to the owners and the corporate culture. These social constellations help managers' in understanding the pressure, to then address it in a way that the owners feel is satisfactory.

Beta was recently acquired and now has a new owner. Relationships take time to develop, the current relationship between the executive of Beta and the new owner is therefore rather weak. The two have different takes on the strategic development of the company and the manager appeared unwilling to align his work to the expectations directed at him. The weak, or non-existent, relationship provides little guidance for the manager to understand the expectations, as well as their source or reasons, providing little incentives to negotiate or find common ground. The management in Beta is rather influenced by the strong corporate culture. The company's success has relied upon the employees and their ability to innovate, putting them at the forefront of trends and technological development in the industry. These are also the values which have enabled the manager at Beta to be successful at work. Because some of the new owner's expectations may hamper the company's ability to innovate and be true to themselves, they challenge the manager's core values. These pressures are therefore perceived as incompatible; the manager would rather leave the company than to conform to a different way of working. The manager's long employment at the company is an important factor to consider as a source of his determination and strong relationship to the company. Loyalty towards what is best for the company rather than listening to the owner is evident.

On the other hand of the spectrum, management at Gamma has a long and healthy relationship with the owners which facilitates the understanding between owners and management. Management clearly understands the absolute requirements on performance, and where there is "wiggle room". The relationship has developed over more than a decade and the owners are consistent and reasonable in their expectations, providing good fundamentals for management to develop a sustainable, long-term strategic plan to work after. With time it also appears that the corporate culture of Beta and its owners have merged which minimizes the risk of misunderstandings or inefficient sensemaking. The strong relationship and coherent cultures means that less sensemaking is required from the managers. Instead, they can focus on growing the business.

Alpha, being a public company, has a very high degree of faceless owners. These are owners to which the company has no relationship, they share only official communication and the owners often have little to no intention of engaging actively with the company. This requires more sensemaking from management to gain an understanding of the expectations. With few relationships influencing the sensemaking process, the executive has to revert to the common conceptions associated with his role, by asking himself "what am I supposed to do as a CEO in this situation?" CEOs of listed companies are for example supposed to maximize the creation of shareholder value, in accordance with shareholder value policy. This means that the CEO has to focus on continuously increasing the share price, resulting in more short-term oriented investments and decision making.

Ownership structure can therefore be concluded to have little effect on an executive's ability to sensemake effectively. Instead, more decisive factors are the management's relationship to the owners, and the corporate culture. A developed relationship provides a common ground which simplifies communication and understanding between the two parties. A strong corporate culture can lead executives to identify with the company rather than ownership, which complicates cooperation and mutual understanding. Finally, the degree to which owners actively involve themselves in their companies affect the sensemaking process, but does not determine the outcome. Active ownership provides more input for sensemaking by providing guidelines to which managers have to relate to. However, the sensemaking process builds upon personal experiences of similar situations. Active ownership could therefore facilitate the sensemaking process if the executive is uncertain about what to do, or just wants to conform to the owner's expectations. However, when the owner's views oppose those of management, as in Beta, active ownership can complicate the sensemaking process and the forming of a coherent agenda.

5.3. Executive's enactment and communication

How top managers communicate builds upon the sensemaking process and the specific expectations directed towards the respective companies. What expectations are communicated and incorporated into the investment agenda ultimately reveal management's interpretation of what pressures are most urgent and important to address.

The public company Alpha provides extensive annual reports and regularly communicates detailed financial information to capital markets, as being a public company brings both requirements and expectations of transparency in financial information. In comparison, Beta and Gamma primarily communicate and answer to ownership pressure while Alpha experiences both ownership pressure and market pressure, as previously discussed. Thus, regulations demanding symmetric information among shareholders in public companies mean that Alpha publicly communicates to both cope with ownership and market pressures. Beta and Gamma are instead able to resolve their ownership pressures through internal communication. The degree of public communication is therefore likely to vary with ownership.

Building on the previous point, communication between managers and owners in private companies resembles a dialogue, where the investment agenda is discussed, which facilitates compromising and alignment of expectations. Communication between managers and owners in public companies is more indirect. Managers choose which expectations to incorporate into the investment agenda, capital markets then react by adjusting their estimations of future financial performance. Therefore, how public managers communicate is more vital, as it directly influences the value of the company, and future expectations of performance. The differences between public and private firms indicate that ownership concentration affects communication.

However, communications are also used to shape expectations. When expectations are justified and acknowledged by management, investors and equity markets expect that these will be undertaken and developed, subsequently generating new expectations of progress within these areas. Thus, some pressures develop based on what information is communicated, or what actions that are taken by a company. The executive of Alpha was well aware of this risk; after carrying out an acquisition the company was continuously expected to deliver on the synergies which were initially communicated. This confirms that Weick's enactment process can help in the understanding of ownership pressures. As Alpha interacts and communicates with the shareholders, they participate in the establishment of expectations directed towards them. Alpha's ability to then fulfill these expectations will in turn influence the establishment of the new expectations directed towards them.

This process means that executives have to be very careful in choosing what to communicate, as the communication could yield excessively high or low expectations on performance, which could jeopardize their careers and the future of the company. Executives have to find a "balance between formulating future expectations so that the stock will perform, without creating unrealistic expectations" (Tengblad, 2004). The executive of Alpha provides an example of this, through a tendency to avoid especially innovative or risky projects because they are too difficult to communicate to shareholders through their inherent uncertainty. In relation, private companies are more prone to make these investments, as acknowledged by the executives of Beta and Gamma. This is primarily because they lack similar market pressures for short-term results. The private companies also have owners that are more directly involved in the business, leading to further understanding of decisions.

5.4. Accountability and alignment to expectations

The question of accountability has been discovered by Tengblad (2004) to affect the alignment of the agenda towards expectations. Thus, the three firms' respective agendas disclose the form of behaviors chosen by top managers as appropriate. As the agenda shows possible disparities between managers' actions and owners' expectations it is revealing towards whom or what the managers feel accountable. This part of the analysis builds on the notion that top managers' duty is to manage expectations and that these ultimately should lead to a consistent agenda (Tengblad, 2004).

Both Alpha and Gamma show signs of similar behavior and governance through emphasizing owners', i.e. shareholders', preferences. The discrepancy between them adheres to the multiple owners in Alpha leading to multiple preferences putting pressure on the CEO. As the interpretation of expectations previously discussed is decisive, it can be seen that the pressure on shareholder value typical for public firms affects firm Alpha (Asker et al., 2011; Asker et al., 2014). However, if the agenda being set towards short-term profitability and secure cash flows is according to the largest shareholders' preferences or basic principles of shareholder value or even both cannot be fully determined. Moreover, it could be that the CEO and employees of Alpha also prefer short-term profitability and low risk, further aggravating the possibility to determine accountability as it could be towards all owners, largest shareholders, minority shareholders, top managers or all the above. But even so the strong emphasis on shareholder value, with previous research supporting (Asker et al., 2011; Asker et al., 2014; Tengblad, 2004), is evidentially more than circumstantial showing the effect of public ownership.

Corporate governance aligned to owners' preferences is also the case in Gamma as its long-term focus and risk-aversion is a carbon copy of the governance model applying to the owners' conglomerate. As this is more or less typical behavior for private firms (Andersson et al., 2012; Bhide, 1993), it is possible that the ownership in Gamma is similar to the one investigated in previous literature which indicates accountability towards owners; the only pressure for compliance they certainly experience. Furthermore, the bureaucratic structure with owners' representatives could mean that the firm's role in a larger corporate network makes it difficult to stand out and govern through alternative principles; even without constant monitoring by the public. Thus, firm structure could govern expectations and affect the accountability and alignment. As the owners have constructed the structure, they are in control of how it guides the company.

The surprising alignment of expectations is rather the behavior of Beta, leading to accountability towards culture rather than governance on the behalf of the owner. The problematic relationship previously discussed and found during interviews discloses the fact that the owner is having difficulties governing according to own preferences. Even though it should be possible for the owner to directly affect through 100 % ownership and direct involvement in running the firm through zero separation, it has been identified as difficult to affect when the culture within the firm and the top managers' views are highly valued within the organization and seen as the keys to success. Theoretically the owner of Beta could benefit from the company being publicly owned as the constant monitoring and importance of shareholder value associated with it could steer the agenda towards the owner's preferences. However this change due to ownership is not certain, but it would be interesting to see how strong a culture stands in relation to market pressure originating from public ownership. The strong culture within Beta and the strong identification among top managers to it is evident and shows the involvement of alternative pressures previously non-disclosed in the work by Tengblad (2004), like company identification. When comparing the effects of culture in Beta with the effects of the structure in Gamma there is a difference originating from the correlation between these and the ownership as the structure in Gamma is constructed by the owners while the culture in Beta is independent of the new owner.

Thus, the accountability and the alignment of top managers in the three firms differ. While firm Alpha behaves as anticipated by the market and Gamma as demanded by the owners, Beta stands out through its clear bias originating from company culture. More interestingly, Beta behaves as private firms typically do according to previous research regarding horizon, risk and innovation but as discovered this behavior is not necessarily what is expected, nor demanded by the owner. Thus, the acknowledgment by Tengblad (2004) of managers being "managers of expectations" is deemed as accurate. However, it has been discovered that this notion is more complicated than previously anticipated. Expectations directed towards managers are certainly both internal and external but can go further than to incorporate expectations from people as company culture and firm structure has been deemed relevant for explaining actions in the private firms. Hence, ownership structure has been seen to affect agendas in the sense that it indicates market pressure leaving less room for alternative actions but other factors both controlled and not by owners, structure and culture, have been deemed relevant.

6. Conclusions

This study aims to discover how top managers are influenced by ownership structures in the forming of an investment agenda, by focusing on three aspects of investments: horizon, risk preferences and innovation focus. The analysis build upon the work of Tengblad (2004) who provides a model for understanding how top managers form an investment agenda, depending on: (1) the expectations directed towards them, (2) how they make sense of these expectations, (3) what expectations are addressed and communicated, and (4) what or whom managers feel accountable towards.

The expectations in the form of pressures differ between public and private firms in the sense of a distinction between market and ownership pressure where public firms experience both and private firms only the latter. Even though the pressures themselves originate from ownership structure, their magnitude depends on the separation between managers and owners where higher ownership concentration generates more direct influence through higher *power over separation*. Thus, as owners of public firms typically own a smaller stake than owners of private firms, they have difficulties conveying pressures towards managers as strongly. Moreover, the more ownership they "lack" in comparison to total control, the more managers are torn between market pressure through typical shareholder value policy associated with public ownership (Asker et al., 2011; Asker et al., 2014; Tengblad, 2004) and owners' preferences.

The manager's abilities to interpret the pressures directed at them is not dependent on ownership concentration, but rather the relationship between owners and management and the corporate culture. A developed relationship provides a common ground which simplifies communication and understanding between the two parties. A strong corporate culture can lead executives to identify with the company rather than ownership, which complicates cooperation and mutual understanding. Finally, the degree to which owners actively involve themselves in their companies affect the sensemaking process, but does not determine the outcome.

Manager's communication ultimately reveals to owners which pressures are incorporated into the investment agenda. When expectations are justified and acknowledged by management, investors and equity markets expect that these will be undertaken and developed, subsequently generating new expectations of progress within these areas. Thus, some pressures develop based on what information is communicated. Communication between managers and owners in private companies resembles a dialogue, where the investment agenda is discussed, which facilitates compromising and alignment of expectations. Communication between managers and owners in public companies is more indirect. Managers choose which expectations to incorporate into the investment agenda, capital markets then react by adjusting their estimations of future financial performance. Therefore, how public managers communicate is more vital, as it directly influences the value of the company, and future expectations of performance. Therefore, communication in public companies has to be easy to motivate and justify to shareholders, subsequently managers in public companies are less likely to pursue risky and innovative projects. The differences between public and private firms indicate that ownership concentration affects communication.

The accountability and alignment of managers has been identified as dependent on both pressures and relationships leading to different expectations to manage for the managers in the different firms according to the work by Tengblad (2004). The view of managers as "managers of expectations" by Tengblad (2004) has been discovered valid, but there is a discrepancy regarding which expectations they deal with and what they originate from. Except from dealing with pressures from "people" in the form of ownership and/or market, other factors such as firm structure as well as company culture has been seen to affect managers in the private firms. This problematizes ownership structure as the only determinant factor for investment agenda and rather acknowledges the effects of social constructions as determinant factors. The performance and effect of these two factors could subsequently not be directly dependent on whether the company is public or private, but they have in this study been observed in the case of private firms.

6.1. Contribution

This study makes three focal contributions to the existing research on the topic: (1) the discovered effects of ownership concentration, (2) the importance of sensemaking and (3) the elaborated indications for the casual relationship between ownership structure and investment agenda.

Firstly, it was discovered that the pressure mounted on top managers by owners with the aim of influence over the agenda originates from a separation between the two which is both dependent on and varies with ownership concentration. The effects of ownership structure as to that public firms experience market pressure, being caught in the public eye, from previous research (Asker et al., 2011; Asker et al., 2014) is acknowledged but the degree of separation indicating different possibilities to convey expectations has been identified as possibly dependent on ownership concentration except for ownership structure.

Secondly, the sensemaking process of top managers originating from the work by Weick (1995) and Tengblad (2004) has been deemed accurate in how the pressure mounted on top managers is received. However, it has been seen that the previously established process could depend on relationships between managers and owners as well as between managers and the firm, i.e. affection for culture. Thus, the internal processes of top managers have been identified as important for company actions, determining where accountability lies and to whom or what the agenda is aligned to.

Thirdly, the commonly anticipated casual relationship between ownership structure and firms' actions (Anderson et al., 2012; Bernstein, 2015; Gao et al., 2018), investment agenda in this study, has been further problematized through the discovered effects of social constructions such as culture as well as firm structure and possibly personal characteristics. This indicates through investigations on private firms that the relationship between ownership structure and investment agenda could be dependent on other factors as well, such as firm structure and company culture, that affect managers' management of expectations and that further research on the subject is palatable.

6.2. Limitations

The conclusions of this study are primarily limited both by the fact that only three companies are investigated as well as that these companies are of varying ownership concentration. The relationship between ownership concentration and ownership structure could have been more thoroughly investigated if more firms were studied; leading to more significant conclusions. A case study including more firms would also reduce the risk of the companies in the study being inequitable representatives of their respective ownership structure. Thus, more importantly, investigating another public company would give further possibilities to determine typical behaviors of such firms, as has been done with private firms.

Moreover, the study is limited by the fact that the interviewees from each company were limited to one as further interviews with others would have given the opportunity to both triangulate and enrich the empirical material upon which the study is based.

6.3. Future research

Future research on the subject of the effects of ownership concentration and how this affects actions and correlates with ownership structure is indicated as valuable. Moreover, research investigating more firms would further determine the validity of this study's conclusions.

Furthermore, indications for future research originate from the discoveries regarding the effects of other factors such as culture, structure and personal characteristics on managers' actions and decisions. Their connection to ownership structure is yet to be discovered. Thus, further research could possibly direct the explanations behind firms' actions away from the current focus on ownership structure by investigating the effects of social constructions as well as the interplay between these and ownership.

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8. Appendix

Appendix 1: Interview guide

Introduction and open questions:

* Please describe your operations brief.

* How would you say that your ownership (private or public) affects your capital investment decisions?

* Describe a typical investment for your company (kind, size etc.)

Ownership and market pressure:

* What goals do your owners have for the company? What goals do you have internally?

* Which key figures do you evaluate investments from? Why are these used?

* Relationship: how involved are your owners (largest shareholders) in the daily operations? How often do you communicate? How often do they initiate contact with you and vice versa?

* How often do you monitor the stock price? How often do you communicate with the market?

Innovation:

* How do you define innovation?

* How much do you work with innovation? Internally developed or externally purchased?

* How strong is the urge and pressure to be innovative?

Risk-approach:

* How do you determine risk and what effect does it have for investment decisions?

* What is the common view of risk in the company? Does it reflect the preferences of owners (or large shareholders)?

Horizon:

* What is your definition of short versus long-term? Are there any strategic goals on different horizons?

* Does the ownership affect the horizon for investments?

* How much do you value short-term in relation to long-term goals?

Investment evaluations:

* Do you use the same set of techniques for investments?

* Do you have certain threshold values?

* Which factors do you prioritize in an investment? How do you value return, risk, horizon etc. in relation to each other?