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How do government reforms influence the establishment of private limited companies in Sweden?

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Abstract

- Title of thesis:** How do government reforms influence the establishment of private limited companies in Sweden?
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- Key words:** Government, reform, audit, legal capital, employment tax, private limited company, establishment, re-establishment
- Background:** This study focuses on three reforms which the Swedish government have performed: The abolishment of the audit requirement, the reduction of the legal capital requirement, and the reduction of the employment taxes. What effect have they had on the establishment of private limited companies?
- Purpose:** The purpose of this dissertation is to explain the influence government reforms have on the establishment and re-establishment of private limited companies in Sweden.
- Method:** An explanatory study was performed to study the effect of the reforms, and a quantitative method was used which includes the positivistic and deductive approach.
- Conclusion:** For a majority, the reforms were not decisive; rather, they were contributory for founders' decision to establish a private limited company. Many owners have re-established from different organizational forms to the private limited company form.

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1. Introduction

1.1 Background

To start-up a company can be a complex procedure for a founder. There are many barriers in society, such as fear of taking risks, financial losses, limited knowledge and training and also cultural barriers associated with foreign entries (Nawaser et al., 2011; Fielden et al., 2000; Barkema et al., 1996), which all makes it laborious to start a company. One particular complex issue is reforms set by the government. Governments, in countries all over the world, have intervened through adjusting the reforms over recent years in order to remove the barriers and help increase establishments of new companies (Dubini, 1989). Reforms for this purpose have been seen in many European countries, especially in recent two to three decades, in countries such as Italy and the UK (Viviano, 2008; Collis 2005). In Sweden there are three typical examples of recent reform adjustments. One of these is the abolishment of the audit requirement. Another is the reduction of the legal capital requirement. A third example is the reduction of employment taxes.

Despite the complexity, there are many reasons to start a new company. The founder of a company may have invested a lot of money with the main objective to increase the value of his investment (Alchian and Demsetz, 1972). Another reason could be that a person attempts to imitate other successful companies and ideas which would lead to greater innovation (Kogut and Zandor, 1992).

There are different organizational forms to choose from for a founder. The three major forms in Western countries are: sole proprietorships, partnership and limited liability companies (Nelson, 2008). According to Lenhardt (1996), Western European countries recognize two types of limited liability companies which both require legal entity and a limited shareholder liability. These two forms are: the public limited company (plc), which can be publicly traded, and the private limited company (ltd.), which is privately held. Lenhardt (1996) also states that after the sole proprietorship company form, the private limited company is today the most common type of organization form in Western Europe, not only compared with the public limited company but also in comparison to classic ownership such as general and limited partnership.

In Western European countries, governments try to encourage people to start their own business which would lead to an improved economy in the country, and also help decrease unemployment through the creation of new jobs (Fonseca, Lopez-Garcia and Pissarides, 2001). There are studies which show that there are great costs associated with starting-up a business (ibid.). Sweden is one of the countries which have made a lot of efforts over the years in order to eliminate these costs as they represent a barrier in the establishment of new businesses. There are three recent actions from the Swedish government which was intended to aid this issue. One of the measures taken by the government was the abolishment of the audit requirement for private limited companies (Regeringen, 2010a). This law has been in effect since the 1st of November 2010, but does not apply to companies that meet more than one of these three requirements:

- More than 3 employees
- More than 1.5 Million SEK in total assets
- More than 3 Million SEK in net sale

This law influenced approximately 250 000 private limited companies and 14 000 partnership firms in Sweden (Regeringen, 2010b). The purpose of this law was to improve the circumstances for smaller companies in order to help them lower their costs. The law would help them save money since the audit does not always serve any greater purpose for smaller companies which have no shareholders who need to be updated. These smaller companies can instead utilize the money, which would otherwise have been spent on the audit, to expand their businesses (Regeringen, 2010a).

Another course of action was taken on the 19th of November 2009, when the Swedish government presented a proposition to the parliament which went through and came into effect on 1st of April 2010. The intention from the Swedish government was to make it easier to start-up a private limited company. Under this law the legal capital requirement dropped from SEK 100 000 to SEK 50 000 (Regeringen, 2009).

The legal capital requirement is used when starting a limited liability company in Sweden and in many other countries (Armour, 2006). The amount of legal capital which is required may vary depending on the law of the country. The main purpose of the legal capital is to protect investors and creditors. The legal capital serves as a deposit which can be used to protect the investors and creditors against bankruptcy and similar situations (ibid.).

A third measurement was the decision to decrease the employment tax on employees aged 18 to 25 in order to make it more cost-effective for employers to employ people, and it was also an attempt to reduce unemployment (Regeringen, 2008). This law has been in effect since the 1st of January 2009 (ibid).

The main objective for these reforms has been to increase the establishment of new private limited companies. But there can also be a possible side effect on re-establishments, where existing companies with different organizational forms decide to re-establish to the private limited company form. This will not increase the total number of companies but only change the ratio of which organization forms applies in the country (Regeringen, 2009).

1.2 Problem discussion

To increase the possibility and the motivation of people to start their own businesses requires an understanding from the governments' side. Individuals, who carry an idea and want to realize it, will do so to a greater extent if they are not restricted by excessive regulatory burdens and barriers. If entrepreneurship is made more accessible to the public, there will be an increase of establishments of new companies (Dubini, 1989).

According to Klapper, Laeven and Rajan (2006), there are significantly lower business start-ups in countries where the entry requirements in the market are especially strict. These requirements can be directly harmful to the creation of new enterprises and the establishment of new private limited companies in the country (ibid.).

There are three reforms from the Swedish government that have attempted to increase business establishment. First is the abolishment of the audit requirement for smaller companies in 2010, but it was not the first country to do so. Sweden followed the footsteps of many European countries. For instance, it was abolished in the UK in 1994 (Collis, 2005). A study from Collis (2010) shows that small companies accounted for 94% of all European companies in 2003. From the same article, a study showed the threshold of turnover in 2005 in European countries that had employed the audit exemption rule. The study showed that those countries had a large turnover increase in comparison to countries which had not implemented the audit exemption rule yet, such as Denmark, Malta and Sweden. The audit exemption rule can, therefore, be seen as an extra incentive for individuals to start a private

limited company which would be classified as a small company in order to be exempted from the audit requirement (ibid.).

Another course of action from the Swedish government was the reduction of the legal capital requirement. Armour (2006) concludes that the minimum legal capital requirement serves as a barrier for entrepreneurs in the establishment of businesses. He seeks to explain that the costs over-weigh the benefits with such a requirement. At the same time, he also explains that the purpose of the legal capital requirement, which is to protect investors, is not fulfilled as the amount is not sufficient. Therefore, he wishes to express that the legal capital requirement is less sufficient than using the capital in a loan agreement.

The third reform in Sweden was the reduction of the employment taxes. In many countries, the employment taxes have been reduced in an attempt to deal with the unemployment issue. It is often related to youth unemployment, as young people often lack experience which makes it difficult for them to find a job (MacDonald, 2011). But studies show that the purpose of the reduction is not being fulfilled, especially long-term (Marx, 2001). According to Marx (2001), the majority of those who received a job at the time would have been employed even if the reduction did not take place. Another study, performed in Sweden by Benmarker, Mellander and Öckert (2009), states that there was no difference in employment before and after the reduction of employment taxes, and instead they claim that the wages increased as the taxes decreased.

Studies today show the impact different reforms from the government have on companies (Armour, 2006; Benmarker et. al., 2009; Collis, 2010; Marx, 2001). This study will seek to determine how important the different reforms from the Swedish government have been for newly established private limited companies and examine if the purpose of the reforms has been fulfilled. The study will be performed from the founders' point of view and seek to determine how government reforms have influenced their decision to choose the private limited company form. The purpose, for the reforms mentioned, is to help individuals with the establishment of new companies (Dubini, 1989), but have all the reforms had the effect that the government hoped for? Are some reforms better than others? Or are the reforms only making already established companies change from a different company form to a private limited company form? Therefore, we find that this study is important and will contribute to determining how important these reforms have been for the establishment of new companies

and also if the Swedish government's efforts have had an effect. We also want to explain which reform has had the greatest impact on the start-ups of businesses.

Since the reforms that are reviewed in this study are relatively new, there are not many studies which relate to the result or the effect of the reforms. Most of the studies took place before the government reforms and point towards what one could expect from the reform if it were to be implemented (Armour 2006; Benmarker et al, 2009). There are statistics on how many new private limited companies that have been established since the reforms (Bolagsverket, 2012), but the statistics do not show if the reforms have had any effect on the establishments.

Tabone and Baldacchino (2003) study the companies' need of an auditor; however, they do not look at how mandatory audit requirements influence start-ups of companies. Instead this study will try to explain what the reforms actually mean for the establishment of private limited companies.

There are studies on the legal capital requirements, but most of them refer to the purpose of the requirement, which for instance is to protect investors and creditors, and studies whether the purpose is fulfilled or not (Armour, 2006; Miola, 2005; Schön, 2004). This study will not focus on the fulfillment of the purpose, but rather on the effect the legal capital requirement has had on the establishment of new companies.

This study will seek to determine which effect the government reforms have had on the establishment of private limited companies in Sweden. Whether there truly has been an increase in new-establishments of companies or if existing companies with different organizational forms are taking advantage of the reforms and re-establishing to the private limited company form.

We are unable to find any relevant articles which focus on the Swedish government's influence on the establishment of new companies; therefore, this study contributes to research this gap.

1.3 Problem formulation

How do government reforms influence the new-establishment and re-establishment of private limited companies in Sweden?

1.4 Purpose

The purpose of this dissertation is to explain the influence government reforms have on the new-establishment and re-establishment of private limited companies in Sweden.

1.5 Delimitations

The dissertation will focus on the reforms which the Swedish government has implemented to ease the process of establishment of businesses, and also focus on which effect the reforms have had on newly established private limited companies. This dissertation will also seek to study if there have been any side effects from the reforms in form of re-establishments. We are aware that there are different types of barriers in society, but this study will focus mainly on the government barriers. There can be other reasons which influence founders to establish/re-establish than government reforms, but this study will not look into these different reasons but only focus upon what influence the government reforms have had.

2. Method

The purpose of this study is to perform an explanatory study on how founders of new private limited companies experience government reforms. The government is regularly working on increasing company start-ups (Perren and Jennings, 2005). There are different views on how the reforms affect newly established companies. According to Dubini (1989), it has become more legitimate from the government's point of view to construct reforms in order to stimulate establishments of new companies. Increasing start-ups is an important aspect of a country's general growth (ibid.).

This study has a positivistic approach which is often associated with a quantitative research method and the deductive approach (Saunders, Lewis and Thornhill, 2009). The reason for choosing the positivistic approach is because we aimed to explain how the establishment of private limited companies are affected by government reforms, and to draw conclusions about which aspects of government reforms are the most important. We could have chosen to conduct this study with an interpretive approach, if we for example did not know which government reforms to focus on. But this study has three main reforms to focus on: the abolishment of the audit requirement for small private limited companies; the reduction of the legal capital requirement for all private limited companies; and the reduction of the employment tax for youths in all companies. The study will examine what effects these government reforms have inflicted. Therefore, the positivistic approach best suits this study.

The quantitative research method is the method which best fulfils our requirements, since we intend to explain the relation of government reforms and the establishment of new companies through a measurable study. Our study will turn towards all private limited companies, in the municipality of Kristianstad, which have been established after the reforms from the government. We could have chosen a qualitative research method and performed interviews with for example auditors or founders of new companies to ask them for their view on the government reforms. However, the qualitative method did not suit this research since we wanted to study all available established private limited companies within the area of Kristianstad, and make a generalization of the results in hand.

As this study will test what influence government reforms has on the establishment of private limited companies, it has a deductive approach. There are many existing theories, and we are also not trying to create a new theory, therefore, we are not conducting this study with an inductive approach. The study will seek to explain reality and try to find correlations between government reform and the establishments of private limited companies.

3. Theory

3.1 Introduction

Since the purpose of this study is to explain the influence government reforms have on the establishment of new private limited companies, the theoretical framework will present two parts which it is divided in: the limited liability company form and government reforms. First there is a presentation of the limited liability company form where differences between countries and private and public forms are explained. The next focus is to explain the purpose of government reform. In this part, there is a presentation of the three government reforms in Sweden which this study focuses on, namely the abolishment of the audit requirement, the reduction of the legal capital requirement, and the reduction of the employment taxes. After each government reform is described, a hypothesis is presented. Finally there is a summary of all the hypotheses where they are connected to the purpose of this study.

3.2 Limited liability companies

Shares have existed since the Roman Empire during the fifth century with the rise of distinction of ownership and management of a business, which had not existed before (Beets, 2011). According to Berle and Means (1930), before the existence of limited liability companies, shareholders were not assumed to be in need of protection since they had direct contact with the management and also had mutual interests. Today's limited liability company was formed in the US during the 19th century, where the framework for how the company was to be governed was established (Beets, 2011). Protection was given to investors who were no longer personally liable for company debts; hence, the creation of limited liability company form was born (ibid.). Sweden, which also saw the need for shareholder protection, established a Companies Act law in 1848 (Riksdagen, 2004).

Today, a limited liability company is a very common type of organizational form. There are a number of rules concerning limited liability companies in Sweden which are all regulated by Swedish law, under the Companies Act (Aktiebolagslagen, 2005:551). In Sweden, there are more than 1.12 million companies in total, where approximately 30% are limited liability companies (SCB, 2012-03-15). There are two forms of limited liability companies: the private limited company and the public limited company (Lenhardt, 1996).

3.2.1 Private and public limited companies

The private limited company form is a limited liability company where the shares of the company are privately held and cannot be publicly traded (Lenhardt, 1996). The public limited company is the opposite; the shares are publicly held and are publicly traded on stock exchanges (ibid.).

The limited liability company form varies from country to country. Even though the term is the same, the form is not. The US limited liability form is inspired by the German GmbH and in many aspects; they are very similar to each other (Carney, 1995). They are both a mix of a corporation and partnership (Rodriguez, 1992). The German GmbH is a private limited company form and so is the Limited liability company form in the US (Carney, 1995). The US version of the public limited company is called a corporation and in Germany it is called AG (ibid.). In contrast the Swedish limited liability company form is inspired by the UK form of limited liability companies. The term limited liability company in Sweden and UK consists of both public and private limited forms and these two forms are distinguished. One of the greater differences between the US/German form and the UK/Swedish form are different tax issues (Rodriguez, 1992). According to Wells and Yoshimoto (1993), complicated issues can arise in the US since they do not have a standardized law for the entire nation regarding limited liability companies. The law varies from state to state and some states do not even have the limited liability company form, which is rather unique for the US. In Sweden, the rules for limited liability companies apply for the entire country (Aktiebolagslagen, 2005:551).

3.2.2 The main differences between private and public limited companies in Sweden

There are several differences between the public and private limited company form. One of these differences is that the private form is a more accessible and less complicated form of organization than the public form (Lenhardt, 1996). This can be seen in the managerial structure which is simpler in the private form than in the public form (ibid.). In Sweden there is also a difference in management between the private and public form. In the private form there is no obligation to have a CEO; a chairman of the board is only required when the board consists of more than one board member; and the board can consist of one or more members, whereas in the public form there are more obligations in these areas (Aktiebolagslagen, 2005:551).

Another difference is that in a private limited company the shares are not publicly traded (Aktiebolagslagen, 2005:551). If there are two or more owners of a private limited company, there is a possibility to inscribe a reservation in the article of association. This reservation would adjust the right for a shareholder to sell to a new owner without the consent of other existing owners. It can also be reserved that the existing owners should be offered the shares before considering a new owner (ibid.).

3.2.3 Why choose the limited liability company form?

The most important attribute for a founder who intends to start a company is that he/she must believe in his/her business with great enthusiasm (Jones, 1997). According to Dubini (1989) there are three main reasons to start a business. The first is personal development to achieve individual goals. The next is to contribute to the development of their environment, and the last reason “is to increase personal status and prestige” (Dubini, 1989, p. 16).

Why a person chooses the limited liability company form may depend on various things. In the US and Germany, where they have similar forms of the limited liability company, one of the main advantages of the company form is the tax benefits which play a key role in the choice of the company form (Lenhardt, 1996). One of the arguments, proposed by Cecil et al. (1995), is that the invested amount is all that is at stake, and therefore, the risk is limited to the share capital. In a partnership company form the risk lies on the investor personally (ibid., p. 45).

A study by Horvath and Woywode (2005), in Germany, showed that the majority of limited liability companies had a significantly greater growth rate than companies with unlimited liability, such as partnership firms. The study also showed that business failure was significantly higher among companies with limited liability. Horvath and Woywode (2005) suggest that the reason for this difference comes from the distinction in risk. Since a partnership company has unlimited liability, there is much more at stake than for a limited liability company. According to Horvath and Woywode (2005), the difference in risk affects the behaviour of the owner. The owner of a limited liability company has less to lose and can, therefore, take more risky decisions than the owner of a partnership firm, who is unlimitedly liable and has more to lose (ibid.). According to Budde and Kräkel (2011), the founder of a private limited company is assumed to be risk averse and, therefore, chooses the private

limited company form in order to be protected with limited liability. However, Gollier, Koehl and Rochet (1997) claim that owners of private limited companies tend to be exposed to more risk than owners of other company forms, such as the partnership form, which indicates that the protection from limited liability is a major factor for the creation of the limited liability company form.

The advantages of the private limited company form should appeal to new business founders. The advantages can also play a role in existing companies with different organizational form, which could see them re-establish to the private limited company form. When a company in another form than the private limited company form, such as partnership or sole proprietorship, starts to grow and increase their assets, the owner of that company has reasons to review the risk which he/she is exposed to (Horvath and Woywode, 2005). This is because the owner of a partnership or a sole proprietorship company is personally liable and has, therefore, greater incentives to protect themselves and their private assets. An example of how the owner of such a company can solve this issue is to re-establish to the private limited company form, where the owner is limitedly liable (*ibid.*).

3.3 Government reforms

The growth of a country depends heavily on the establishment of new companies (Dubini, 1989), and complicated reforms prevent people from starting a company (Klapper et al., 2006). Therefore, the government tries to ease the process for individuals to start their own businesses (Dubini, 1989). One way of doing this is to cut extra costs for establishments of new companies.

High costs associated with starting a business tend to slow down the establishment process and also prevents creation of jobs (Fonseca et al., 2001). Fonseca et al. (2001) have conducted a study which shows how many procedures a person, who intends to start a business, has to go through in different countries, and how many weeks it takes before the business is registered. The results between the countries vary a lot; the most accessible country in his study is Denmark, which has two procedures and the registration was complete after the first week. In comparison, Spain, which was the least accessible country, had 17 procedures to go through before the company could be registered, and the registration took 23.5 weeks on average. Fonseca et al. (2001) also claim that, in theory, where registration processes are

easily accessible, the registration of new companies should increase. But the reality differs from the theory, "the countries with the high costs also happen to be the ones with a big concentration of smaller employers, so they are the ones most likely to suffer from the high start-up costs" (Fonseca et al., 2001, p. 701), which indicates that countries with high amount of small businesses are the countries with the most barriers. To remove barriers and to ease the process for new companies to establish is an important action which governments need to take.

In the UK, the government has been working hard to help establishments of new companies. The UK does not have a high concentration of small companies compared to other European countries; therefore, the UK has made large efforts in making the small company form more accessible for the people (Fonseca et al., 2001). A study by Michaelis et al. shows that 55% of the employment in the UK comes from small and medium sized companies (from Robertson et al., 2003). The government wishes to increase the employment in the UK, and have, therefore, taken measures against the establishment barriers that exist (ibid.).

Moreover, in Italy, where the concentration of small companies is high, people who wished to start their own businesses in the retail sector had to first seek permission from the local council. In 1998, the permit-seeking process was abolished in some states in an attempt to remove the barrier for establishment, which later saw great results. A result from the abolishment was that the start-up costs were reduced which lead to higher employment rates compared to states where the rules were not adjusted yet (Viviano, 2008).

Furthermore, in 2002, the Mexican government implemented a program called "System of Fast Opening of Firms" (SARE in Spanish). The purpose of this program was to help increase business start-ups, and this was done by removing several procedures to make it faster and easier for people to start their own companies (Kaplan, Piedra and Seira, 2011).

In addition to explaining the importance of removing the barriers, a study from Blanchard and Giavazzi (2001) shows that high market reforms create higher start-up costs for firms. The higher start-up costs can lead to lower employment and also higher market prices (from Bertrand and Kramarz 2002). According to Fonseca et al. (2001), more service jobs are created in Europe today in the "new economy" rather than traditional manufacturing jobs or jobs in the public sector. They claim "job creation is more in the hands of small entrepreneurs

than in the hands of large corporations" (ibid., p. 693), which points towards the importance of removing the barriers for small companies in order to simplify the creation of jobs.

Also in Sweden, the government has also tried to remove existing barriers. The main reason that the Swedish government tries to ease the establishment of new companies is because more companies would mean more tax incomes (Regeringen, 2009). Also, more jobs would be created. The three most recent actions taken by the Swedish government is: the reduction of the legal capital requirement for private limited companies; the abolishment of the audit requirement for small companies; and the reduction of employment taxes for youths (Regeringen, 2008; Regeringen 2009; Regeringen, 2010a).

3.3.1 Audit Requirement

The audit, which is performed by an auditor, has the main objective to perform an independent inspection of a company's financial report. Auditing is important in today's society where ownership and management are separated. The auditor has the responsibility of confirming that a company has given a true and fair view of their performance over the past year. The purpose of the audit is to protect all stakeholders, such as the owners and creditors, against falsified information from a company (Porter, Simon and Hatherly, 2008). The audit profession is not a new phenomenon.

In the US, the concept of auditing was first officially introduced through a recommendation by the Securities and Exchange Commission (SEC) in 1940. The recommendation from the SEC was that all listed companies should be inspected by an independent party, namely an auditor (Fichtner, 2010). Auditing as a law was created in Sweden in 1983 where all limited liability companies, both public and private, were forced to hire an auditor. This law was later adjusted in 1988, which included that the auditor had to be an authorized auditor (Riksdagen, 1981/82).

However, in 2010, the Swedish government removed the audit requirement for private limited companies which did not fulfil more than one of following requirements (Regeringen, 2010a):

- More than 3 employees
- More than 1.5 Million SEK in total assets
- More than 3 Million SEK in net sale

The purpose of the abolishment of the audit requirement was to simplify the private limited company form (Regeringen, 2010a). By giving the owners more freedom, they can decide what type of service they want from an auditor or decide whether they need an auditor at all. Through this reform, companies which feel that they have no need for an auditor, have the opportunity to save money on expensive audit fees (ibid.). Another reason for the abolishment of the audit requirement was to remove the monopoly situation that the audit firms had gained through the obligation for all limited liability companies to have an auditor (ibid.).

Nevertheless, Sweden was not the first country to abolish the audit requirement for small companies. In 1994, the UK carried out this reform (Collis, 2005). Countries such as Germany, the Netherlands, Finland and Denmark have also abolished the audit requirement for private limited liability companies (Regeringen, 2010a).

In Malaysia where all companies are required to have an auditor, a study has been undertaken to research the need for an audit exemption rule for small private limited companies. The study turned towards the owners of small private limited companies, and the results showed that the majority of the companies would prefer to be exempted from the audit requirement if possible, since the owners of the companies considered the costs of auditing to outweigh the benefits (Kamarudin, Abidin and Smith, 2012).

However, a study by Chung and Narasimhan (2001) focuses on founders of limited liability companies and their view of the abolishment of auditors in such companies. In their study they compare the view of founders from Hong Kong, who still have the audit requirement, and the view of founders from the UK. The results from their study show that both founders in the UK and Hong Kong find that the benefits of the audit outweigh the costs.

Moreover, in UK 2003, the boundary for companies to be classified as small companies was increased and included more companies. Before the reform, the turnover limit for private limited companies to be classified as small private limited companies was £1 million, and was later increased to £5.6 million. The DTI commissioned a study performed by Collis (2003), which was directed towards the founders of private limited companies who were already within the boundary of small private limited companies (turnover under £1 million), and also those private limited companies who were going to be part of the boundary after the reform (turnover £1 million - £5.6 million). The government estimated that 69% of the companies

within the new boundary would take advantage of the abolishment of the audit requirement (Bartram, 2004). However, Collis' (2003) study showed that only 21% of the companies within the new boundary (turnover £1 million - £5.6 million) would exploit the audit exemption rule. In Sweden, the government estimated that 40% of the companies exempted from the audit would take advantage of the reform. They also stated that newly established companies would have a higher tendency to exploit the reform than companies which have existed before the reform (Regeringen, 2010a).

3.3.1.1 Hypotheses

According to the Swedish government, the abolishment of the audit requirement gives the owner of a company freedom and a possibility to lower their costs (Regeringen, 2010a). A study of small companies in Malaysia showed that the majority of the founders of small private limited companies believed that the costs of auditing outweigh the benefits. In contrast, founders of small private limited companies, in UK for instance, tend to hold on to their auditor, even though it is no longer a requirement as the founders consider the costs of an auditor to outweigh the benefits (Chung and Narasimhan, 2001; Collis, 2003). We presume that the abolishment of the audit requirement for small private limited companies will have a minor impact on founders' decision to establish new private limited companies or re-establish an existing organizational form into the private limited company form.

The main reason for our opinion is that the Swedish business culture is more similar to the UK culture than to the Malaysian. A study, from Kalogeraki (2009), shows that Sweden and the UK have similarities in cultural aspects. Compared to Asian countries, which are more collectivistic, European countries tend to be more individualistic (Hofstede, 2006). This supports our reason, and Seow (2001) states that an unregulated business culture is linked to an individualistic business culture. Since the abolishment of the audit requirement can be seen as a factor of unregulated business culture, European countries with their individualistic culture still demand the audit. Therefore, the abolishment of the audit requirement should only affect companies to a limited extent.

Another reason is the audit culture which differs between Europe and Asia. The EU has introduced several recommendations over the years, and also introduced a Green Book which has become an audit package proposal and discusses how to improve auditing in European

countries (European Union, 2010). The idea of introducing the Green Book is to increase the solidarity for all the countries within the EU to have similar auditing standards, which already exists in EU:s 8th company law directive (European Union, 2006). Since the UK and Sweden are both part of the EU, they generally follow the same recommendations. However, arguments differ from country to country, and this study will determine how small Swedish private limited companies experience the audit exemption rule, and how it has affected their decision to start a new private limited company or re-establish an existing organizational form into the private limited company form. The discussion above leads to the following hypotheses:

*Hypothesis 1a: The abolishment of the audit requirement is of **minor** concern for the founder's decision to start a new private limited company.*

*Hypothesis 1b: The abolishment of the audit requirement is of **minor** concern for the founder's decision to re-establish an existing organizational form into the private limited company form.*

3.3.2 Legal Capital Requirement

There is a legal capital requirement when an individual decides to start-up a limited liability company, both public and private (Armour, 2006). Together with the limited liability company form, the legal capital was introduced in the 19th century. Since the owner has limited liability, and is no longer personally liable, the legal capital represented the amount which the investors and creditors had as a protection for their investments (Armour, 2006; Kraakman, 2006). “The legal capital is the total amount stated as a liability in the balance sheet” (Miola, 2005, p.418), which means that the amount is all that the owner is liable for.

The amount of legal capital varies from country to country, and also between public and private forms (Miola, 2005). Recently, in Europe, a reduction of the legal capital has occurred. Denmark for instance, reduced the amount for legal capital requirement by almost a third, while other countries, such as France and the UK, have reduced the amount of legal capital to only a symbolic amount of €1 and £1 respectively (Regeringen, 2009). Sweden has followed the footsteps of their fellow European countries by reducing the amount of legal capital requirement by half, from SEK 100 000 to SEK 50 000, in 2010 (ibid.).

In Sweden where a majority of new established companies are service companies, the government's purpose of the legal capital reduction was to increase the accessibility and the establishment of new such companies (Regeringen, 2009). According to Ettlé and Rosenthal (2011), service companies' need of capital assets is very low compared to manufacturing companies. The higher legal capital is, therefore, a barrier for the establishment of new companies and the reduction of the legal capital would remove a part of this barrier. The Swedish government states, in a proposition, that the majority of companies run by women are service companies, and with this background they have expectations that a reduced capital requirement attracts more women to dare to start-up their own business (Regeringen, 2009).

However, a possible side effect of the reduction of the legal capital requirement could be that, rather than increasing the establishment of new private limited companies, existing companies with different company forms, such as partnerships or sole proprietorships, would re-establish into the private limited company form (Regeringen, 2009).

Today within the EU, a person is able to create a private limited company in one country and start up a branch in another (Seibert, 2007). In recent years, this has become more common, due to different legal capital requirement in different countries as one of the main reasons (Regeringen, 2009). This phenomenon has, for instance, been seen in Germany where the legal capital requirement is €25 000, the highest among all European countries. In Germany, an increase of UK private limited company has occurred since the UK form has no legal capital requirement (Seibert, 2007). In order to stop this trend and to promote the domestic private limited company form, Germany might have to reduce the legal capital requirement in order to help increase establishment of German private limited companies (GmbH). According to Seibert (2007) Germany do not, however, intend to reduce the legal capital requirement to the same extent as the UK, because reports show that there is high insolvency of UK private limited companies in Germany (ibid.). For the same reason, Sweden has decided not to completely remove the legal capital requirement (Regeringen, 2009).

Also, the legal capital requirement is seen as a prevention of unserious businesses (Müllbert and Birke, 2002). That is another reason that both Germany and Sweden do not wish to remove the legal capital requirement completely (Regeringen, 2009; Seibert, 2007). The legal capital requirement is not a burden for serious-minded entrepreneurs (Schön, 2004).

There has been a lot of discussion regarding the effect of the legal capital requirement, as many believe that the purpose is no longer being fulfilled. The main argument is that the amount of the legal capital requirement is not sufficient enough to protect investors and creditors. Many, therefore, argue for the removal of such a requirement (Schön, 2004; Mülbert and Birke, 2002; Armour, 2006; Enriques and Macey, 2001; Miola, 2005). According to Schön (2004), the legal capital is rather useless from a creditor's point of view since the capital can be used up a short time after the start-up. According to Enriques and Macy (2001), the amount of legal capital is pointless with regards to the amount of debt a company may have, they state that "it makes no sense for a highly leveraged company that transports radioactive waste to have the same minimum capital requirement as a company with little leverage that designs software" (ibid., p. 1186), which points towards the importance of taking into account which type of industry a company operates in.

3.3.2.1 Hypotheses

Armour (2006) states that a legal capital requirement prevents the establishment of private limited companies. According to Seibert (2007), reports show that UK private limited companies acting in Germany, show higher insolvency than the German equivalent form, the GmbH. The Swedish government sees an increased use of foreign private limited companies with branches in Sweden (Regeringen 2009). To follow the European trend by reducing the legal capital requirement, the Swedish government hopes for an increase of private limited companies by reducing the amount by half from SEK 100 000 to SEK 50 000 (Regeringen, 2009). As most studies see the legal capital requirement as a barrier to business entrepreneurship, our view is that the reduction of the legal capital requirement has had a clear impact on founders' decision to start a private limited company and increase the establishment of new private limited companies. But we also presume that there has been an impact on the re-establishment of existing organizational forms into the private limited company form, because the reduction of the legal capital requirement has made the company form more accessible and more appealing to existing firms towards their current organizational form. There are different views of the legal capital and the effect of the issue. This study will investigate the importance of the legal capital requirement for newly established and re-established private limited companies in Sweden. The discussion above leads to the following hypotheses:

*Hypothesis 2a: The reduction of the legal capital requirement is of **major** concern for the founder's decision to start a new private limited company.*

*Hypothesis 2b: The reduction of the legal capital requirement is of **major** concern for the founder's decision to re-establish an existing organisational form into the private limited company form.*

3.3.3 Unemployment

The unemployment issue exists among all countries in the world and affects all parts of society. It has been most common over the last three decades (Green, 2000). According to Mortensen and Pissarides (1999), the unemployment rate in Europe is higher than the unemployment rate in the US. The main reason for the difference in unemployment between Europe and the US depends on how they both value employees, which is shown in their main argument “that unemployment insurance benefits and a tax on the dismissal of employees is higher in Europe” (ibid., p. 262). With this, Mortensen and Pissarides (1999) intended to express that the unemployment situation is rougher in the US which leads to the importance of having a job, while in Europe, there are more benefits to being unemployed.

A great concern within the unemployment issue is the increasing youth unemployment over recent years. According to MacDonald (2011), the UK has seen an increase in youth unemployment of 25% between 2008 and 2009. This phenomenon is not new as it has existed for a long time and in many countries, and is discussed a lot in order to solve the issue. (Choudry, Marelli and Sinorelli, 2012; MacDonald, 2011). One of the reasons for the high youth unemployment given by Choudry et al. (2012) is that in the labour market, human capital is very important for the employer. One of the most important components of human capital is job-specific work experience and this is something which youths often lack. Low human capital, therefore, leads to long-term unemployment (ibid.).

According to Marx (2001), the governments, especially in European countries, have introduced several policies in order to tackle the issue of unemployment. For instance, in order to help decrease unemployment within a country, the governments have implemented employment subsidiaries and reduced employment taxes (ibid.). The youth unemployment was also experienced in Sweden where an increase between 2001 and 2006 of approximately 38 000 to 71 000 per month was a fact (Regeringen, 2006). In 2007, in an attempt to reduce

the youth unemployment, the Swedish government introduced a new law which reduced the employment taxes for employers in all organizational forms. The law came into effect on 1st of July 2007 and targeted youths up to the age of 24 (ibid.). This law was later renewed on 1st of January 2009 by increasing the age group to 25 and also made an additional reduction of the employment taxes (Regeringen 2008). According to Bennmarker, Mellander and Öckert (2009), another possible effect from the employment tax reduction is increased business start-ups.

A reduction of employment taxes would in theory mean an increase in employment (Bennmarker et al., 2009). However, studies in this area have shown negative results (Bennmarker et al., 2009; Gruber, 1997; Korkeamäki and Uusitalo, 2009). Korkeamäki and Uusitalo (2009) performed a study of companies in Finland where the Finnish government reduced the employment taxes with an average of 4.1% in Northern Finland over a three years period. The results from their study showed a slight effect of the government reform through an increase in employment of 1.3%. However over 2% of the employment tax reduction was edged out because of increasing wages for existing employees (ibid.). Another study performed by Gruber (1997) studies the reduced employment taxes in Chile in the early 1980s. The results from this study showed a very low effect on employment in the country. Instead, almost all the effort which was put in to reducing unemployment went to increasing the wages for existing employees. The same results were seen in Sweden, where a study by Bennmarker et al. (2009) showed increasing wages as a result of reduced employment taxes rather than increased employment.

In addition, Bennmarker et al. (2009) also discusses the effect of reduced employment taxes on the establishments of new firms. They claim that “one of the objectives of the reform was to stimulate the growth of new firms” (ibid., p. 488). This area is not well documented, which makes it difficult to study (ibid.). They were, however, able to perform an experiment to see if there is a correlation between the reduced employment taxes and increasing start-ups. The results from this experiment showed “a one percentage point decrease in the payroll tax rate increases the number of firms by 0.3%. [...] Reduced employment taxes can lead to increased business start-ups either through increasing entries or reducing exits” (ibid., p. 488). This points towards that there actually was a slight increase in company start-ups.

3.3.3.1 Hypotheses

Benmarker states that the effect of the reduced employment taxes on the establishment of new companies is not well documented, but in his study he finds a possible effect on the establishment of businesses from reduced employment taxes. The reason for the possible arise in business establishment may be because individuals who want to start a company, and are only interested in the private limited company form, now have an extra incentive to create a company.

However, Studies show that a reduction of employment taxes does not always experience the expected effect and is often questioned (Benmarker et al., 2009; Gruber, 1997; Korkeamäki and Uusitalo, 2009). Our view on the reduction of the employment taxes supports previous studies which have been conducted, that Sweden will follow the same pattern as the countries where the studies have been performed, and therefore presume that the reduction has had minor impact on the establishment of new private limited companies.

This study will also seek to explain the effect that the employment tax reduction has had on the re-establishment of existing organizational forms into the private limited company in Sweden. We do not, however, believe that there are any incentives from other existing companies with different organizational forms to re-establish into the private limited company form since the employment tax reduction applies to all organizational forms. The discussion above leads to the following hypotheses:

*Hypothesis 3a: The reduction of the employment tax for youths is of **minor** concern for the founder's decision to start a new private limited company.*

*Hypothesis 3b: The reduction of the employment tax for youths is of **no** concern for the founder's decision to re-establish an existing organizational form into the private limited company form.*

3.4 Combining the government reforms

So far, we have considered the reforms in isolation of each other. One could also expect that they have a combined effect on the establishment of new private limited companies, but also on the re-establishment of existing organizational forms into the private limited company form. Another argument is that one reform may not be enough for an individual to start a

company. But when a second or a third reform comes through to make the company form more accessible, that might have a greater impact on the individual to start a business than any reform individually. The combined effect of the reform would not only have an impact on the establishment of new private limited companies but also on the re-establishment of existing organizational forms into the private limited company form. This study will also reveal if the reforms, alone or combines, have been decisive for the founders' decision to establish a private limited company. The discussion above leads to the following hypotheses:

*Hypothesis 4a: The abolishment of the audit requirement, the reduction of the legal capital requirement and the reduction of the employment taxes for youths have all impacted the establishment of new private limited companies to various degrees, but a combination of them is of **major** concern and decisive for founder's decision to start a new private limited company*

*Hypothesis 4b: The abolishment of the audit requirement, the reduction of the legal capital requirement and the reduction of the employment taxes for youths have all impacted the establishment of new private limited companies to various degrees, but a combination of them is of **major** concern and decisive for founder's decision to re-establish an existing organizational form into the private limited company form.*

4. Empirical Method

4.1 Introduction

The purpose of this study is to explain the influence that government reforms have on the establishment of private limited companies, and the method which best suits this study is the quantitative method since this study seeks to make a generalization. The empirical material was collected through a survey with the founders of private limited companies in the municipality of Kristianstad, and was performed by telephone.

An advantage by collecting empirical data through telephone interviews is that the results are received instantly (Lavrakas,1993). Another advantage was the fact that we had the possibility to explain the questions to the respondents which reduces the degree of misinterpretation. This would not have been possible if we had sent a survey via e-mail or by post (ibid.). A third advantage was that we were able to hold discussions with some of the respondents and get further developed answers.

In this chapter, there will be a presentation of how the study was conducted. First, there will be a short presentation of a pilot study which was performed in the early stages of this thesis. Next, the population of the survey will be presented. The third part will consist of the operationalization of the study, where the hypotheses to this study and the survey questions will be explained and motivated. Part four will be a critique of the survey layout and part five will analyze the population and the sample loss of this study.

4.2 Pilot study

In order to get a picture of how the government reform has affected the establishment of private limited companies, we performed a pilot study on an authorized auditor named Håkan Juhlin at Grant Thornton in Kristianstad¹. The purpose of the pilot study was to get feedback and to get his view of the government reforms effect on the establishment of private limited companies in Kristianstad. Being an auditor, we thought that he would have an insight on the situation, especially in the area of the abolishment of the audit requirement for small private limited companies, but also in the question of the legal capital requirement reduction.

¹ Håkan Juhlin, Authorized Auditor, Grant Thornton, Interview 13th of April 2012.

During the pilot interview, we wanted to have a discussion with Håkan regarding the reforms and only asked open questions to get a wider picture of the situation. The main points that were discussed during the pilot interview were the importance of the different reforms. Juhlin felt with great certainty that there was an effect of the government reforms in form of increased business start-ups in Kristianstad. He felt that the abolishment of the audit requirement and the reduction of the legal capital requirement went hand in hand in terms of importance to the establishment of private limited companies; however, he said that the reduction of the legal capital requirement was slightly more important than the abolishment of the audit requirement. He did not, however, feel that the reduction of the employment taxes had any direct effect on the creation of new companies, rather, that this particular government reform was directed towards existing companies. He also expressed his belief that the reforms did not only fill its purpose to enhance the establishments of new private limited companies but also affected existing companies with other company forms, such as partnerships, to switch to the private limited company form. In fact, he suspects that the reforms has had a greater affect on existing firms with other company forms to switch to the private limited company form than it has resulted in the establishment of new private limited companies.

Before this pilot study, we were only concerned with focusing on the establishment of new private limited companies. But after the pilot study, we felt the need to also include the effect that the government reforms have had on re-establishments of companies with other organizational form to the private limited company form.

4.3 Population

This study aimed towards a total population of founders from private limited companies which were registered after April 2010 up until today in the municipality of Kristianstad. The reason we chose to focus on companies established after April 2010 was because the reduction of the legal capital was introduced on 1st of April 2010, and the abolishment of the audit requirement was known to come shortly after. Also, the employment tax reduction had been implemented since 1st of January 2009. This register was retrieved from the municipality of Kristianstad's website and the amount of companies measured up to 542 companies in total (Kristianstad, 2012). The founders' contact information, however, was not available on the website, so we had to find the contact information by searching on the internet (allabolag

2012-04-21), but we were unable to find the phone number to all 542 companies, and e-mail addresses were only existent for a few companies. Due to certain limitation, the questionnaires were not sent by post. From these 542 companies, we could only call 302 companies. The survey turned towards all the private limited companies which were registered after April 2010 in the municipality of Kristianstad and had registered their phone number. When collecting the contact information, no regard was taken to business industry or the founders' age or sex.

4.4 Survey layout

The survey consisted of nine questions which took approximately two minutes to perform per call. All the respondents were offered anonymity. Initially, the respondents were given an explanation of what the survey was about and the different government reforms were presented, in order to avoid misunderstandings. Afterwards, the respondents were asked five general questions, questions 1-5, which would separate them into different groups for future analysis. Questions 6-9 covers what we intend to study and will eventually confirm or reject our hypotheses.

4.4 Operationalization

There are seven hypotheses in this study which all consists of one dependent variable and one independent variable. The dependent variable is the establishment/re-establishment in all hypotheses. The independent variable is the government reforms.

4.4.1 Abolishment of the audit requirement

Hypotheses 1a and 1b assume that the abolishment of the audit requirement only has a minor effect on the establishment/re-establishment of private limited companies. With this study we aim to see how founders of companies value this government reform and to see how important the government reform has been for their decision to establish/re-establish to a private limited company. In these hypotheses the independent variable is how founders value the abolishment of the audit requirement. The difference in hypotheses 1a and 1b is possible to see through a distinction between new established private limited companies and exiting companies which have re-established to the private limited company form, which are also the dependent variables in these hypotheses.

4.4.2 Reduction of the legal capital requirement

These hypotheses assume that the reduced legal capital requirement is of major concern for the founder's decision to establish/re-establish their private limited company. This study will aim to find out how important this government reform has been for their decision to establish/re-establish to a private limited company, and will compare how different companies value the reform. Both hypotheses are studied through the independent variable, how founders value the reduction of the legal capital. The independent variable which is the established/re-established companies, assume that both established and re-established private limited companies value the reform to a clear extent.

4.4.3 Reduction of employment taxes

The hypothesis in 3a assume that the reduction of the employment taxes will have a minor influence on founders of new private limited companies decision to start-up their business, while 3b assumes that the reduction of employment taxes will have no effect at all on existing companies with different organizational forms to re-establish to the private limited company form. Both hypotheses are studied through the independent variable 'impact of reduction of employment taxes'. The distinction between newly established and re-established companies is the dependent variable which will help study the difference between the two groups and confirm these hypotheses.

4.4.4 Combining the government reforms

Hypothesis 4a and 4b assume that a combination of the government reforms will have major impact and will be decisive for the founders' decision to establish/re-establish to a private limited company. Independent variables are all three government reforms and the dependent variable is the established/re-established private limited companies.

4.4.5 Survey questions

The study was performed between 4th of May 2012 to 14th of May 2012. Telephone calls were made to all 302 companies on the list. Those who did not answer their telephone were called two further attempts, on 11th and 14th of May 2012.

Before the survey was conducted, the companies were divided into four industries, namely: service companies; producing companies; sales companies; and ownership/management companies. The division was intended to serve as a control variable for possible future analysis, since different reforms may suit some companies better than others. For instance, Ettlle and Rosenthal (2011) states that service companies' need of capital is very low in comparison to producing and capital intensive companies, which indicates that they are more sensitive to a higher amount of legal capital. On the other hand there is reason to believe that capital intensive and producing companies sees a need for an auditor to a greater extent, since the nature of their business is more complex.

Initially, the focus turns towards the purpose of this study, which is to explain how the founders of private limited companies are influenced by different government reforms. In this part, question 6-8, we ask the respondents to rank, from a scale of 1-7, how important the different reforms have been for their decision to establish/re-establish to a private limited company. The reason we chose the scale of 1-7 was to get a larger variation of the results. Finally, in question 9, we ask if any of the reforms, alone or combined, had any direct influence on their decision to establish/re-establish. We chose this layout to find out the importance of each reform separately, and finally see if the reforms were decisive or contributory to the founders' decision to establish/re-establish to their private limited company. (See appendix 1 and 2)

Since we wanted to see how the government reforms have affected different actors, we separated them with control variables which are present in questions 1-5. Question number 1, which asked how many employees the company had, was intended to divide the companies by the size. The second question, which asked if the company was newly established or if it had been re-established from a different organizational form, was intended to divide the two groups since we wanted to see what effect the government reforms have had on the two groups separately. Question 3 was only asked to those companies who had re-established, and asked which year the company had been established before they re-established to the private limited company form, for any possible future analysis. Question 4, which asked if the company was forced by law to have an auditor, since this was not available in any register, was also a way to separate the companies into two groups for future analysis. The 5th question was only asked to those companies that were not forced by law to have an auditor,

and asked if they used the service of an auditor voluntarily, because this study seeks to explain what effect the abolishment of the audit requirement has had, i.e. to see if the companies took advantage of the reform or if they still chose to use an auditor.

4.5 Critique against survey layout

A possible disadvantage, when collecting data from telephone interviews is that the respondents are influenced by us as interviewers (Lavrakas, 1993). But we were well aware of this problem and did our best not to interfere since we had prepared standardized questionnaires to minimize the risk of misinterpretation. During the survey, we could not identify any difficulty from the respondents in understanding the questions, as they almost never needed to have the questions content explained. We got the feeling that the respondents were well aware of the circumstances which exist within the private limited company form. However, in some cases, the respondents asked us to repeat a question. But we got the feeling that the respondents who asked us to repeat a question did so if they did not hear the question the first time or if they wanted to think a bit more. This problem could have been avoided if the respondent had the questions written form in front of them.

In some cases, we were able to discuss the reforms with the respondents and further get an understanding of why they answered as they did. This was most common with founders who felt that the government reforms had no decisive impact on their decision to establish/re-establish. Those owners wished to explain what reasons affected their decision to establish/re-establish. This could have been used to a greater extent in our study, however, we reckoned that the time limit was a problem and not all the respondents had the time to discuss the matter over the telephone. Since there was only a small amount of respondents who we were able to discuss with, it is difficult to make a generalization, which this study seeks to do.

The number of questions which we could ask the respondents were limited, since we could not bother the respondents for such a long while (Lavrakas 1993). This is another disadvantage with the method we used, because had we been able to send out the surveys by post or e-mail, we could have set up more questions in order to possibly broaden our analysis. We feel that we have enough questions for our purpose, but more questions could have expanded the study even further. For example some demographic questions such as ones about turnover and questions about bankruptcy could have been of interest for an expanded

study, however such question are sensitive to ask directly through telephone with strangers, this could have been more accepted to ask about in a survey by post or mail. But there lies a risk with sending a survey by post or e-mail, which is that the answering frequency might have been lower than by telephone interviews.

4.6 Analysis of sample loss

Table 4.1 shows the answer frequency of the survey. The total amount of established Private limited companies in the municipality of Kristianstad, since April 2010, was 542 in total. From this amount, 302 companies had registered telephone numbers, and these 302 companies was the population which we focused to get in contact with. 104 of those companies which we contacted did not answer their phone on any of three different attempts. 36 companies were too busy to answer and 32 companies were not interested to participate in this survey. Another 21 companies were not reached due to their telephone number's being out of order. From those 302 companies we received answers from 109 companies. This gives us an answer frequency from the total population of 20,1% and an answer frequency of 36,1% from all the companies which we were able to contact.

Table 4.1 - Sample loss

Total Population	542
Missing phone number	240
Survey Population	302
No answer	104
Busy	36
Not interested	32
Out of order	21
Total answers	109
Answer frequency total population	20,1%
Answer frequency survey population	36,1%

In table 4.2 the answer frequency within four different industries are presented. We illustrate the distribution of all companies in the survey and the answer frequency in respective industries. In order to divide the companies for future analysis and to ensure that the population is in proportion to the answer rates.

Table 4.2 - Survey population divided into industry

Industry	Total	Procent	Answer	Procent
Service companies	134	44,4%	49	45,0%

Producing companies	51	16,9%	25	22,9%
Sales companies	73	24,2%	25	22,9%
Owner/Management companies	44	14,6%	10	9,2%
Total answers	302	100,0%	109	100,0%

From the total survey population the largest industry was service companies, which accounted for 134 companies in total and a percentage of 44.4%. From these 134 companies, 50 participated in the survey, which accounts for 45.9% of the total answers. The second largest group in the total survey population was sales companies which accounted into 73 companies in total and a percentage of 24.2%. From these 73 companies, 25 participated in the survey, which accounts for 22.9% of total answers. The third group, namely producing companies, accounted for 51 companies in total and a percentage of 16.9%. From these 51 companies, 24 participated in the survey which gives a percentage of 22%. The last group in the survey is Owner/Management companies which accounted for 44 of the total survey population, and a percentage of 14.6%. From these 44 companies, 10 participated in the survey which gives a percentage of 9.2%.

5. Empirical Analysis

5.1 Introduction

This chapter will study the data which have been collected from the survey. First there will be descriptive statistics on the collected material. Next, the hypotheses of this study will be tested with the help of different tests, mainly Mann-Whitney U tests and chi-square tests. During all tests, a significance level of 5% has been used. By using a 5% significance level, the tests become more accurate. Therefore, we have chosen to use 5% level rather than 10% or other because we want the results of this study to be as reliable as possible.

5.2 Descriptive statistics

The total number of answers in this study was 109. The separation between newly established and re-established private limited companies is presented in table 5.1. This separation was necessary for this study since the hypotheses differentiate the two groups.

Table 5.1 - Answers vs. Establishment

Establishment	Answers	Percent
New establishment	70	64.2%
Re-establishment	39	35.8%
Total	109	100.0%

We can see from the table 5.1 that there is a majority (64.2%) of newly established private limited companies represented in this study.

In table 5.2, another distinction between the companies which partook in the survey was the separation of industry. This separation was performed in order to see if the industry which a company belonged to played any roll in how they valued the different reforms. We also divide the industries for newly established and re-established companies in order to see if there are any differences in the decision of establishment between the industries.

Table 5.2 - Industry vs. Establishment

Industry		Establishment		
		Newly established	Re-established	Total
Service	Amount	27	22	49
	% within industry	55.1%	44.9%	100%
Producing	Amount	15	10	25
	% within industry	60.0%	40.0%	100%
Sales	Amount	20	5	25
	% within industry	80.0%	20.0%	100%
Ownership/management	Amount	8	2	10
	% within industry	80.0%	20.0%	100%
Total	Amount	70	39	109
	% within industry	64.2%	35.8%	100%

In table 5.2, we can see that the majority (49 out of 109) of companies are service companies. Another discover in table 5.2 is that the ratio between newly established/re-established is higher in sales and ownership/management (80%/20%) companies than in service and producing companies (60% / 40% and 55.1% / 44.9%).

In table 5.3, the companies are divided into how many employees the companies have. This was a way to divide the companies according to size. The first row shows the mean for the whole sample and the second column clears out 4 companies because the mean gets misleading when including those 4 companies

Table 5.3 - Employees mean and std.

Employees	Amount	Min	Max	Mean	Std.
With outliers	109	0	80	2.87	8.525
Without outliers	105	0	10	1.60	2.138

Table 5.3 shows that the mean in the first column counts to 2.87 employees/company. This column is misleading for the population, since it includes 4 companies with a high amount of employees (10, 15, 33 and 80). The second column counts the mean of employees to 1.6/company and excludes those 4 companies. The exclusion is only presented here to give a better picture, but these four companies will be included in the coming analyses.

Another way of dividing the companies by size was the use of the audit exemption rule. Since there are different requirements which need to be met in order to be exempted from having an auditor, those who are required to have an auditor are seen as larger companies than those who do not need it.

Table 5.4 - Audit requirement

Audit requirement	Answers	Percent
Required	16	14.7%
Not required	93	85.3%
Total	109	100.0%

The results in table 5.4 shows that a majority of the respondents were not required to have an auditor, and the majority of the respondents can therefore be seen as the owners of small private limited companies.

Table 5.5 shows how the respondents have valued the different reforms, and include the minimum and maximum values for the different government reforms as well as the mean and standard deviation, with no regard taken to if the company is newly established or re-established.

Table 5.5 - Reforms mean and std.

Reform	Min	Max	Mean	Std.
Audit requirement	1	7	2.68	1.948
Legal capital	1	7	3.70	2.128
Employment tax	1	7	2.44	2.066

From table 5.5, we can see that the reduction of the legal capital requirement has had the greatest impact for all respondents in average whilst the employment tax reduction had the least impact in average. However, the legal capital requirement has also the largest standard deviation (2.128) towards the other two reforms, which means that the answers among the respondents varied most regarding this question.

In table 5.6 we present the respondents view of the three government reforms, which this study focuses on. The table presents the mean and standard deviation for newly established and re-established private limited companies.

Table 5.6 - Reform vs. Establishment mean and std.

Reform	Establishment	Mean	Std.
Audit Requirement	New establishment	2.36	1.786
	Re-establishment	3.26	2.112
Legal capital	New establishment	3.47	2.152
	Re-establishment	4.10	2.049
Employment tax	New establishment	2.47	2.172
	Re-establishment	2.38	1.886

As table 5.6 shows, the legal capital reduction has had the greatest impact in both categories when looking at the means for all the reforms (3.47 and 4.10). And the employment taxes has the lowest impact on both groups (2.47 and 2.38).

In order to find out which distribution our sample material has, we performed a Kolmogorov – Smirnov test. This test showed that our material was not normally distributed, since the significance values for all our survey questions were 0.000. In order for them to be normally distributed, the values had to be higher than the significance level, i.e. 5%. The Kolmogorov-Smirnov test determines which tests would be applicable to prove our hypotheses. Since our material is not normally distributed, the tests which best suits our study is therefore Mann Whitney U test and chi-square test. Another reason for using the chi-square test is that the test is useful when comparing two non-random variables. The T-test is another test which in a first sight would be reasonable to suit our study, but this test is only suitable when the material is normally distributed.

5.3 Hypothesis testing

In the following analysis, we present the results from our study according to our hypotheses and show if our hypotheses are accepted or rejected. The following hypotheses were to be tested for the different reforms in order to analyze the importance of the reforms from the founders of private limited companies point of view, both newly established and re-established, in the municipality of Kristianstad.

5.3.1 Audit requirement

*Hypothesis 1a: The abolishment of the audit requirement is of **minor** concern for the founder's decision to start a new private limited company*

*Hypothesis 1b: The abolishment of the audit requirement is of **minor** concern for the founder's decision to re-establish an existing organizational form into the private limited company form*

A Mann-Whitney test was performed in order to see if there is any difference in perception of the audit requirement between newly established and re-established private limited companies. Our hypotheses assume that there would be no difference between the two groups.

Table 5.7 - Audit requirement Mann-Whitney U test

Mann Whitney U test - Hypothesis test summary		
Null hypothesis	Sig.	Decision
The perception of the audit requirement is the same among newly established and re-established private limited companies	0.031	Reject the null hypothesis

Significance level 5%

From table 5.7 we can see that from the Mann Whitney U test, a significant difference was discovered between the newly established and re-established companies, since the p-value is 0.031 (lower than the significance level, 5%). This can also be seen in the mean ranks, which were presented in table 5.6, where the mean of newly established and re-established was 2.36 and 3.26 respectively. Given that we assumed that there would be no difference, our hypotheses are rejected in this case.

Next, we perform a chi-square test where we present how the respondents valued the abolishment of the audit requirement. During the survey, we used a scale from 1-7. But we have combined the different values to make it easier to review the results. Initially, we combined the values into three groups to get an overview and to match them with our hypotheses, which are presented in table 5.8.

Table 5.8 - Audit requirement value vs. Establishment (1)

Audit requirement Effect (1-7)		Establishment		
		Newly established	Re-established	Total
None (1)	Amount	34	13	47
	% within establishment	48.6%	33.3%	43.1%
Low (2-4)	Amount	25	12	37
	% within establishment	35.7%	30.8%	33.9%
High (5-7)	Amount	11	14	25
	% within establishment	15.7%	35.9%	22.9%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%

Significance level 5% P-value=0.050

Our hypotheses regarding the audit requirement assumed that the founders of newly established and re-established companies would value the reform to the same extent which was only presumed to be of low impact for their decision to establish their company. From table 5.8, we can see that a majority (48.6%) of new established companies put no value in the reform, whereas re-established companies valued the reform to a greater extent and a majority

(35.9%) of them answered that the reform had high impact on their decision to re-establish. Our hypotheses assumed that both groups would value the reform to the same extent, which was presumed to be of low impact. This difference can also be seen in the p-value of 0.050 in table 5.8, which shows a significant difference between the two groups. Therefore both our hypotheses will be rejected in this case.

We sought to see if another type of combination of the different values would give the same results as in table 5.8, this because people tend to value numbers in different ways. And with two different divisions, we were to be able to capture perceptions of a larger number of founders; therefore, we decided to perform another chi-square test. We decided to combine the values into four groups instead of three. The results turned out to be a bit different, which can be seen in table 5.9. The new combinations now include a ‘medium’ category which changes the result for the re-established companies from high to medium. We presented this table in order to give a broader perspective and a larger variation.

Table 5.9 - Audit requirement value vs. Establishment (2)

Audit requirement Effect (1-7)	Establishment			Total
		Newly established	Re-established	
None (1)	Amount	34	13	47
	% within establishment	48.6%	33.3%	43.1%
Low (2-3)	Amount	20	7	27
	% within establishment	28.6%	17.9%	24.8%
Medium (4-5)	Amount	10	14	24
	% within establishment	14.3%	35.9%	22.0%
High (6-7)	Amount	6	5	11
	% within establishment	8.6%	12.8%	10.1%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%

Significance level 5% P-value=0.041

As table 5.9 shows, the results differ between newly established and re-established companies. A majority (48.6%) of the newly established companies answered that the abolishment of the audit requirement had no effect of their decision to establish a private limited company, which remains the same as it was in table 5.8, since this group was not changed. The respondents, who had re-established into the private limited company form, did however rate the abolishment of the audit to a higher level since a majority (35.9%) of them answered in medium impact. This differs from table 5.8 as it is now considered to have a medium impact rather than high. This, however, still does not accept our hypotheses, since

there is still a significant difference between newly established and re-established companies with a p-value of 0.041; rather it just changes the picture.

Earlier in table 5.4, we could see that the majority (93 out of 109) of the respondents were not required to have an auditor. In table 5.10 below, we present how many owners of private limited companies in the survey who choose to use the audit voluntarily. A distinction between newly established and re-established companies was made.

Table 5.10 - Voluntary audit vs. Establishment

Voluntary audit		Establishment		
		Newly established	Re-established	Total
No	Amount	16	15	31
	% within establishment	27.1%	44.1%	33.3%
Yes	Amount	43	19	62
	% within establishment	72.9%	55.9%	66.7%
Total	Amount	59	34	93
	% within establishment	100%	100%	100%
Significance level 5%		P-value= 0.094		

The results from table 5.10 show that 66.7% of all the companies who are exempted from the audit requirement still choose to use it voluntarily. If we look at newly established and re-established companies separately, we can see that a majority (72.9%) of newly established companies chose to use an auditor, despite the audit exemption rule. There is also a majority within the re-established companies (55.9%) that still uses an auditor, even though they are not required to, but it is not as clear as within the group of newly established companies. The p-value of 0.094 indicates that there is no significant difference between newly established and re-established companies regarding the use of voluntary audit.

Table 5.11 presents the voluntary audit in regard to which industry the companies belong to, in order to see if there may be any difference in the use of voluntary audit if we take industry into account.

Table 5.11 - Voluntary audit vs. Industry

Voluntary audit		Bransch				Total
		Service	Producing	Sales	Ownership	
No	Amount	15	7	6	3	31
	% within industry	34.9%	30.4%	31.6%	37.5%	33.3%
Yes	Amount	28	16	13	5	62
	% within industry	65.1%	69.6%	68.4%	62.5%	66.7%
Total	Amount	43	23	19	8	93
	% within industry	100%	100%	100%	100%	100%

Significance level 5% P value = 0.974

The p-value (0.974) in table 5.11 shows that there is no greater difference among the different industries in the question of voluntary audit. Within each industry, between 62.5% to 69.6% choose to use the audit voluntarily, whilst 30.4% to 37.5% choose to take advantage of the audit exemption rule.

5.3.1.1 Summary

When it comes to the importance of the abolishment of the audit requirement, this study showed that a majority of the entire population regarded the reform to have no effect on their decision to establish. However, a significant difference can be seen in the results between newly established and re-established private limited companies. Re-established companies tend to value the reform to a higher extent than newly established companies, which can be seen as a failure from the government's point of view since the reform was initially intended to increase establishment of new companies. Furthermore, the study showed that not a single newly established company considered the reform to be decisive for their decision to establish.

5.3.2 Legal capital requirement

*Hypothesis 2a: The reduction of the legal capital requirement is of **major** concern for the founder’s decision to start a new private limited company.*

*Hypothesis 2b: The reduction of the legal capital requirement is of **major** concern for the founder’s decision to re-establish an existing organisational form into the private limited company form.*

As we did with the audit requirement reform, a Mann-Whitney U test was performed, in table 5.12, to see if there were any differences in the view of the reform among newly established and re-established companies. Our hypotheses assume that there would be no difference between the two groups.

Table 5.12 - Legal capital requirement Mann-Whitney U test

Mann Whitney U test - Hypothesis test summary		
Null hypothesis	Sig.	Decision
The perception of the Legal capital requirement is the same among newly established and re-established private limited companies	0.128	Retain the null hypothesis

Significance level 5%

The result from the Mann-Whitney test in table 5.12 shows no significant difference in the importance of the reduction of legal capital between the two groups, since the p-value of 0.128 is higher than 5%. Therefore, our hypotheses are accepted in this case.

In table 5.13, we performed a chi-square test where we present the answer rate of the question regarding the reduced legal capital requirement. As with the audit requirement, a scale of 1-7 was used and combined into three groups.

Table 5.13 - Legal capital value vs. Establishment (1)

Legal capital requirement Effect (1-7)		Establishment		
		Newly established	Re-established	Total
None (1)	Amount	23	6	29
	% within establishment	32.9%	15.4%	26.6%
Low (2-4)	Amount	17	13	30
	% within establishment	24.3%	33.3%	27.5%
High (5-7)	Amount	30	20	50
	% within establishment	42.9%	51.3%	45.9%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%

Significance level 5% P-value=0.135

Our hypotheses regarding the legal capital requirement assumed that both newly established and re-established private limited companies would value the reform to a major extent. The table above accepts our hypotheses in this case, since the majority of both groups (42.9 % and 51.3% respectively) have answered that the reforms have had a high impact on their decision to establish. This is also confirmed where the p-value of 0.135 states that there is no significant difference between the two groups.

As with the audit exemption rule, we performed another chi-square test to see if the results would differ if we combined the values into four groups instead. This can be seen in table 5.14.

Table 5.14 - Legal capital value vs. Establishment (2)

Legal capital requirement Effect (1-7)		Establishment		
		Newly established	Re-established	Total
None (1)	Amount	23	6	29
	% within establishment	32.9%	15.4%	26.6%
Low (2-3)	Amount	11	9	20
	% within establishment	15.7%	23.1%	18.3%
Medium (4-5)	Amount	25	15	40
	% within establishment	35.7%	38.5%	36.7%
High (6-7)	Amount	11	9	20
	% within establishment	15.7%	23.1%	18.3%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%

Significance level 5% P-value=0.221

In table 5.14 above, we can see that the results have changed towards the results in table 5.13. The results have gone from having a high effect to a medium effect. Many respondents have valued the reform to 5 out of 7, and since the value 5 has been moved from high to medium,

the results have been affected. With the combination of four different groups, our hypotheses are rejected. In table 5.14, it can also be reviewed that there is no significant difference between the two groups, with a p-value of 0.221.

The next table, table 5.15, will measure the importance of the reduced legal capital according to industry. The table was created to find out if companies from different industries have different views of the legal capital. We divided the scale of 1-7 in to three groups and the results are shown below.

Table 5.15 - Legal capital value vs. Industry

Legal capital requirement Effect (1-7)		Industry				
		Service	Producing	Sales	Ownership	Total
None (1)	Amount	11	6	5	7	29
	% within industry	22.4%	24.0%	20.0%	70.0%	26.6%
Low (2-4)	Amount	12	8	7	3	30
	% within industry	24.5%	32.0%	28.0%	30.0%	27.5%
High (5-7)	Amount	26	11	13	0	50
	% within industry	53.1%	44.0%	52.0%	0.0%	45.9%
Total	Amount	49	25	25	10	109
	% within industry	100%	100%	100%	100%	100%

Significance level 5% P-value=0.034

Table 5.15 shows that three out of four industries value the legal capital to similar extent but the industry ownership/management stands out where 70% of the respondents in this industry answered that the legal capital has had no effect for their decision to establish a private limited company. Table 5.15 also shows a p-value of 0.034 which means that there is a significant difference between industries and how they value the legal capital.

5.3.2.1 Summary

In this study, the reduction of the legal capital was discovered to be the reform of the greatest importance for the establishment. Within newly established companies, 10% answered that the reform was decisive for their decision to establish a new private limited company. This can be seen as a success for the government, since this study concludes that the establishment of new private limited companies has increased by 10% in the municipality of Kristianstad, because of this reform. In addition to this, a large majority considered the reform to be important for their decision to establish and the reform can therefore be considered to be a contributory factor.

5.3.3 Employment taxes

*Hypothesis 3a: The reduction of the employment tax, for youths, is of **minor** concern for the founder’s decision to start a new private limited company.*

*Hypothesis 3b: The reduction of the employment tax for youths is of **no** concern for the founder’s decision to re-establish an existing organizational form into the private limited company form.*

The hypotheses regarding the reduction of the employment taxes assumed that there would be a difference in the perception of the reform among the newly established and the re-established private limited companies. We assumed that the reform would be of minor concern for newly established private limited companies, whilst it would have no impact at all for re-established private limited companies. The results are shown in table 5.16 below.

Table 5.16 - Employment tax Mann-Whitney U test

Mann Whitney U test - Hypothesis test summary		
Null hypothesis	Sig.	Decision
The perception of the employment tax is the same among newly established and re-established private limited companies	0.816	Retain the null hypothesis

Significance level 5%

The Mann-Whitney U test in table 5.16 shows no significant difference between the two groups (p-value of 0.816) which leads to the rejection of our hypothesis in this case.

Next, the respondent’s answers regarding the employment tax reduction is presented in a Chi-square test in table 5.17. Our hypotheses in this reform states that newly established companies will have a minor interest in the reform and that re-established will put no value at all in the reform

Table 5.17 - Employment tax value vs. Establishment

Employment tax Effect (1-7)		Establishment		
		Newly established	Re-established	Total
None (1)	Amount	42	21	63
	% within establishment	60.0%	53.8%	57.8%
Low (2-4)	Amount	14	11	25
	% within establishment	20.0%	28.2%	22.9%
High (5-7)	Amount	14	7	21
	% within establishment	20.0%	17.9%	19.3%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%
Significance level 5%	P-value = 0.621			

Table 5.17 shows that the employment tax reduction was of no impact for a majority of the founders decision to establish their company in both groups. Our hypothesis of newly established companies is rejected, but the one about re-established is accepted. However we expected that there would be a difference between the two groups, but table 5.17 shows that no significant difference are discovered with a p-value of 0.621. The hypothesis is rejected in this case.

In table 5.18 below, we divide the companies into two groups depending on how many employees they have. The two groups are companies which have 0 to 3 employees and companies which have 4 to 80 employees. This table will present if the number of employees a company has, may affect how they value the employment tax reduction reform.

Table 5.18 - Employment tax; employees mean and std.

Employment taxes	Amount	Mean	Std.
Employees 0-3	85	2.09	1.797
Employees 4-80	24	3.67	2.496

The results in table 5.18 indicate that companies that have more than five employees tend to value the employment tax reduction more (mean 3.67) than those companies with three or less employees (mean 2.09). However, there is a larger standard deviation among the companies with four or more employees (2.2.496) than the companies with three or less employees (1.797).

A chi square test is presented in table 5.19, to see if there is any significant difference in how companies, with different number of employees, value the employment tax reduction.

Table 5.19 - Employment tax value vs. Employees

Employment taxes		Employees		Total
		0-3	4-80	
None (1)	Amount	55	8	63
	% within employees	64.7%	33.3%	57.8%
Low (2-4)	Amount	19	6	25
	% within employees	22.4%	25%	22.9%
High (5-7)	Amount	11	10	21
	% within employees	12.9%	41.7%	19.3%
Total	Amount	85	24	109
	% within employees	100%	100%	100%

Significance level 5% P-value = 0.004

The p-value of 0.004 indicates that there is a significant difference in how companies with different number of employees value the reduced employment taxes, and we can also see that a majority of companies with a small number of employees value the reform far less than companies with a large number of employees.

5.3.3.1 Summary

If we look at how the companies considered the importance of the reform, a large majority, in both newly and re-established companies, regarded the reform to be of no importance. In this study we could see that this reform tends to suit companies with higher amount of employees, who see a possibility to hire cheap labour.

The results are not surprising since a large majority of the survey population had such few employees. Also, those companies who have employees do not necessarily have to be individuals under the age of 25 and the reform is therefore not relevant to those companies; hence, the low value of the government reform among many companies.

5.3.4 Combining the reforms

*Hypothesis 4a: The abolishment of the audit requirement, the reduction of the legal capital requirement and the reduction of the employment taxes for youths have all impacted the establishment of new private limited companies to various degrees, but a combination of them is of **major** concern and decisive for founder's decision to start a new private limited company*

*Hypothesis 4b: The abolishment of the audit requirement, the reduction of the legal capital requirement and the reduction of the employment taxes for youths have all impacted the establishment of new private limited companies to various degrees, but a combination of them is of **major** concern and decisive for founder's decision to re-establish an existing organizational form into the private limited company form.*

In these hypotheses we combined all the reforms to see if a combination of these reforms would be decisive for founders' decision to establish/re-establish to a private limited company. We assumed that both groups would put a large value on the reforms when they were combined with no significant differences between new established and re-established companies.

Table 5.20 - Reform decisiveness (combined/alone) vs. Establishment

Decisive		Establishment		
		Newly established	Re-established	Total
None	Amount	57	31	88
	% within establishment	81.4%	79.5%	80.7%
Abolishment of audit requirement	Amount	0	1	1
	% within establishment	0%	2.6%	0.9%
Reduction of Legal capital	Amount	7	3	10
	% within establishment	10%	7.7%	9.2%
Reduction of employment taxes	Amount	4	0	4
	% within establishment	5.7%	0.0%	3.7%
Combination of all reforms	Amount	2	2	4
	% within establishment	2.9%	5.1%	3.7%
Combination of audit and legal capital requirement	Amount	0	2	2
	% within establishment	0.0%	5.1%	1.8%
Total	Amount	70	39	109
	% within establishment	100%	100%	100%
Singnificance level 5%	P-value=0.150			

In our hypotheses, we assumed that a combination of all the reforms would have the same impact on newly established and re-established private limited companies. The p-value (0.150) in table 5.20 shows that there is no significant difference between the two groups, so our hypotheses were correct in this matter. However, the results from table 5.20 shows that the reforms were not that decisive at all compared to our expectations. A large majority from both newly established and re-established companies answered that the reforms, neither combined nor alone, were decisive for their decision to establish a private limited company. Only 3.7% of the founder's of all the companies valued a combination of the reforms to be decisive for their decision to establish/re-establish, and only 1.8% valued a combination of the audit requirement and the legal capital requirement reforms to be decisive. Rather than a combination, 9.2% of all companies in the survey valued the reduction of legal capital requirement to be decisive. Our hypotheses were drastically rejected in this case.

In addition to the chi-square test in table 5.20 above we have conducted different test on the combination of the reforms, such as against number of employees, the difference in industry and which organizational form a company had before they re-established to the private limited company form. But all the results showed no significant difference.

5.3.4.1 Summary

The combination of the reform turned out to be of minor importance for the founders of private limited companies in the municipality of Kristianstad. One possible explanation may be that different industries value different reforms in distinct ways. Companies with great need of capital do not assess the capital requirement to a high extent, since those companies still have to make costly investments. While, on the other hand, a company with no assets puts a higher value on a legal capital and benefit more from a reduction in it. Similarly, companies with complex business and with advanced tax schemes will benefit more from an auditor than companies with simple business arrangements. Therefore, companies tend to only value one of the reforms to a great extent, where a combination of them is not relevant for their business.

Why many companies considered the reforms to have had no decisive impact on their decision to establish a private limited company can depend on various things. As mentioned in chapter 4, we had the possibility to hold discussions with the respondents over the

telephone in order to get further developed answers. Discussions were mostly held with respondents who did not value the reforms at all. In those discussions, the real reasons for their decision to establish a private limited company were revealed. The reasons given during these discussions varied, as some respondents claimed that it was simply the security of the private limited company form which attracted them and had a major impact on their decision. Another group of respondents, which could be considered to be large companies, claimed that none of the reforms were decisive at all since they chose to establish a private limited company for other reasons, such as the seriousness which the company form represents. A third group claimed that existing tax benefits within the company form was an important factor for their decision to establish a private limited company.

6. Conclusion and discussion

The purpose of this study was to explain how government reforms influence the establishment of private limited companies in Sweden. In this chapter, we will discuss the results and present our theories. We will also make a note to the government, as well as present suggestions for future studies.

According to theories regarding the audit requirement, from a European aspect, the benefits of the audit outweigh the costs (Chung and Narasimhan, 2001). This can be seen in this study as well since a large group of the population were exempted from the audit requirement, and from this group, a majority chooses to use the audit voluntarily. However, there is a difference among newly established companies and re-established companies. Newly established companies have a larger majority who chooses to use the audit voluntarily than re-established companies. Since one of the reasons for this reform was to increase the establishment of new private limited companies; the use of voluntary audit to such a high extent among newly established companies can be seen as a failure from the government's point of view. However, it is important to point out that there is no significant difference, at a 5% level, between the two groups and instead we therefore make a generalization that both newly established and re-established companies regard the audit benefits to outweigh the costs, since both groups still continue to use the audit voluntarily.

Also, that fact that none of the newly established companies considered the abolishment of the audit requirement to have been decisive for their decision to establish a private limited company indicates that the government reform has not influenced the establishment of private limited companies. The government estimated that the reform would be exploited by approximately 40% of those companies which are exempted from the audit (Regeringen, 2010a), but our study concluded that only 27.1% of the newly established private limited companies choose not to use an auditor, which further indicates that the reform has not had the expected effect.

Theories states that the legal capital is not sufficient and should be removed (Schön, 2004; Armour, 2006). However, the Swedish government sees a need of a legal capital in regard to retain the seriousness of the company form (Regeringen, 2009). In this study, we had the possibility to discuss with the respondents. A large majority of the respondents found that

there were different reasons, other than the reforms, that were decisive for their decision to establish a private limited company. When discussing with the respondents, we found that many of them considered that a legal capital is important in order to retain the seriousness of the company form. We agree with the government in the matter of not removing the legal capital completely. However, the reduction has had a positive effect on the establishment, with a 10% increase of establishments; this reform has to be seen as a success. Even though a majority of the respondents did not find the reform to be a decisive factor, many of them valued the reform to be of great importance and can, therefore, be seen as a contributory factor. However, future research will determine if the increased number of companies will provide a greater value to society than the possible costs of an increase of bankruptcy/business failures, which can be expected when entrance costs are reduced (Seibert, 2007).

The effect of reduced employment taxes would in theory only contribute to a small increase of employment and company start-ups (Bennmarker et al. 2009; Gruber, 1997; Korkeamäki and Uusitalo, 2009). This study concludes that a small amount of newly established companies regard the reform to have been decisive for their decision to establish a new private limited company, which indicates that the reform has had the expected effect. However, this reform can be questioned since a great cost for society is associated with the reform (Marx, 2001), and the effects are not satisfactory. Studies show that the reform is being misused as the wages of existing employees are increasing rather than the reform being used to help people to get employed (Bennmarker et al. 2009; Gruber, 1997; Korkeamäki and Uusitalo, 2009).

A combination of the reforms was thought to have a greater impact on companies' decision to establish than any reform alone. But the results in this study revealed that a majority of the companies did not value the combined reforms to be decisive for their decision, rather than combined, the respondents valued different reforms alone higher. A possible theory for this is that companies in different industries puts different value on the reforms (Ettlie & Rosenthal, 2011; Enriques and Macy, 2001), which leads to that when a company only have advantage of one of the reforms, they prefer that all other companies, their competitors, also will be limited and not benefit from a lot of different reforms.

While performing the study, we were able to hold discussions with the respondents, and a majority made it clear that the reforms were not the main reasons they decided to choose the private limited company form, rather it was other reasons such as the security of being limitedly liable, and also the seriousness which the company form represents. However many companies valued different reforms to a high level, but answered that they were not crucial for their decision to establish. This raises questions, especially with companies who have re-established from other company forms during this period. This because, although founders consider the security of limited liability as the most important factor when establishing a private limited company, our theory is that the reforms were essential to be able to establish the private limited company for some of the companies in this population. Despite the fact that they answered that limited liability was the decisive factor for their decision to establish a private limited company, our theory is that the reforms have been a contributory factor to the crucial decision. Therefore, we believe that a part of the results in the survey possibly is slightly misleading.

6.1 Note to the Swedish government

The government tries to ease the process to start up companies. But what happens when reform after reform is introduced? When it comes to the seriousness of the company form, which is one of the main advantages with the private limited company form, it seems as though the simplification of the company form is reducing the seriousness at the same time. We assume that there are entrepreneurs that use the private limited company form for the seriousness of the company form, and taking this into account there lies a risk in continuing to simplify the company form. Continuous simplification of the company form could lead to a problem for serious-minded entrepreneurs, as they might no longer be satisfied with the development of the company form, as it may no longer be considered to be a serious company form. A possible view from our side is therefore that serious-minded owners may instead demand a company form which is more regulated to suit serious companies.

A consequence of this situation could be that the Swedish government must create two different private limited company forms. One how the company form initially looked like, where there are widely used regulations which indicate that the companies with this company form are truly serious. And a second private limited company form where simplifications are

made to help small entrepreneurs establish businesses but simply want to differentiate their private and business economy, and want to be protected with limited liability.

6.2 Suggestions for future studies

The subject of government reforms is increasing and can be studied from many different views. But to delimit this dissertation, we have only focused upon three reforms' effect on the establishment of private limited companies. In the following, we present three suggestions for possible future studies.

One suggestion would be to perform a study on different stakeholders, such as creditors and suppliers, and see how they regard the simplifications of the private limited company form which have occurred over recent years. With the reduction of legal capital, the creditors and suppliers are no longer protected to the same extent as earlier, and the abolishment of the audit requirement makes it difficult for creditors and suppliers to see how the companies are performing or if they are able to pay their debts in the future. The auditor would usually disclose such information in an audit report.

Another area which could be focused on could be the legal capital requirements effect in Sweden. There are studies today which show that establishment of foreign companies with branches within one's own country is increasing in Europe (Seibert, 2007; Regeringen, 2009). A study in this area could be performed to see how the situation in Sweden was regarding the establishment of foreign private limited companies before the reduction of the legal capital requirement in 2010. It can from there see if and how the situation has changed with the reduced legal capital, and whether it has had the effect which the government had hoped for or if the situation has remained unchanged.

A third suggestion is to see whether the simplification of the private limited company form has lead to increased the number of companies going into bankruptcy within the country. Studies show that the legal capital requirement today is not sufficient to protect investors and creditors (Armour, 2006; Schön, 2004), and other studies have shown an increase in bankruptcy among companies which have established within countries with no legal capital at all (Seibert, 2007). The suggested study could look into if the benefits of simplifying of the private limited company form overweigh the costs.

6.3 Critique towards this study

Through this study, we were able to conclude that other reasons, rather than the reforms, were more decisive for the founders' decision to establish a private limited company. The reforms could be seen as contributory. This study, however, could have focused on the other reasons that were important rather than just concluding that the reforms were not the decisive reasons. We were able to get an overview from some of the respondents where they named a few reasons, but we could have done the same with all the respondents to get a wider picture.

We were pleased with our answer frequency, which gave us a high rate of answers according to the companies we were able to contact. However, since we sought to perform a total population survey, the high amount of companies without a registered telephone number is frustrating and hence, the survey may be slightly skewed because of this.

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Appendix - Survey (English)

Questions asked on the survey (telephone interview)

All companies were divided into different industries:

- 1 = Service company
- 2 = Producing company
- 3 = Sales company
- 4 = Ownership and management

Question 1.

How many employees does the company have?

Question 2.

Is your company newly established private limited company or has it been re-established from a different company form?

- 1 = Newly established private limited company
- 2 = Re-established from sole proprietorship company form
- 3 = Re-established from partnership company form
- 4 = Re-established from limited partnership company form

If the respondent answered 1, go to question 4.

Question 3.

Which year did you start your company (before you re-established to the private limited company form)?

Question 4.

Are you forced to have an auditor by law?

- 1 = Yes
- 0 = No

If the respondent answered 1 yes, go to question 6.

Question 5.

Do you have an auditor voluntarily?

- 1 = Yes
- 0 = No

Question 6.

From a scale of 1-7, how important was the reduction of the legal capital requirement for your decision to establish/re-establish to a private limited company form?

Not important 1 2 3 4 5 6 7 Very Important

Question 7.

From a scale of 1-7, how important was the abolishment of the audit requirement for your decision to establish/re-establish to a private limited company form?

Not important 1 2 3 4 5 6 7 Very Important

Question 8.

From a scale of 1-7, how important was the reduction of the employment taxes for your decision to establish/re-establish to a private limited company form?

Not important 1 2 3 4 5 6 7 Very Important

Question 9.

Did any of these government reforms have any direct influence on your decision to establish/re-establish to a private limited company?

0 = No, none at all.

1 = Yes, the reduction of the legal capital requirement

2 = Yes, the abolishment of the audit requirement

3 = Yes, the reduction of the employment taxes

4 = Yes, a combination of all reforms

5 = Yes, a combination of the legal capital requirement and the audit requirement

Appendix 2- Survey (Swedish)

Samtliga företag delades upp i olika branscher

Bransch

- 1 = Tjänsteföretag
- 2 = Produktionsföretag
- 3 = Försäljning
- 4 = Förvaltning & ägande

Fråga 1.

Hur många anställda har ni?

Fråga 2.

Är ni ett nyetablerat bolag eller har ni gått över från en annan organisationsform?

- 1 = Nyetablerat
- 2 = Övergått från enskild firma
- 3 = Övergått från handelsbolag
- 4 = Övergått från kommanditbolag

*Om de har svarat **nyetablerat**, hoppa över till **fråga 4**.*

Fråga 3.

När startade ni ert företag (innan ni övergick till AB)?

Fråga 4.

Måste ni enligt lag ha revisor?

- 1 = Ja
- 0 = Nej

*Om de har svarat **Ja** på frågan, hoppa över till **fråga 6**.*

Fråga 5.

Använder ni er utav en revisor frivilligt?

- 1 = Ja
- 0 = Nej

Fråga 6.

Från en skala 1-7, hur viktigt var aktiekapitalminskningen för ditt beslut att starta/övergå till aktiebolag.

Inte alls viktigt 1 2 3 4 5 6 7 Mycket viktigt

Fråga 7.

Från en skala 1-7, hur viktig var avskaffningen av revisionsplikten för ditt beslut att starta/övergå till aktiebolag

Inte alls viktigt 1 2 3 4 5 6 7 Mycket viktigt

Fråga 8.

Från en skala 1-7, hur viktig var minskningen av sociala avgifter för ditt beslut att starta/övergå till aktiebolag

Inte alls viktigt 1 2 3 4 5 6 7 Mycket viktigt

Fråga 9.

Har regeringsreformerna varit direkt avgörande till att du valde att starta/övergå till aktiebolag?

0 = Nej, ingen.

1 = Ja, aktiekapitalminskningen

2 = Ja, revisionsplikts avskaffningen

3 = Ja, minskning av sociala avgifter

4 = Ja, kombination av samtliga

5 = Ja, kombination av revisionsplikt och aktiekapital