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Authors(s)	Merkl-Davies, Doris M., Brennan, Niamh
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Discretionary Disclosure Strategies in Corporate Narratives: Incremental Information or Impression Management?

Doris M. Merkl-Davies
Bangor University

Niamh M. Brennan
University College Dublin

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Discretionary Disclosure Strategies in Corporate Narratives: Incremental Information or Impression Management?

1.0 INTRODUCTION

The purpose of this paper is to review and synthesize the literature on discretionary narrative disclosures. We explore why, how, and whether preparers of corporate narrative reports use discretionary disclosures in corporate narrative documents and why, how, and whether users react thereto. To facilitate the review, we provide three taxonomies based on: the motivation for discretionary narrative disclosures (opportunistic behavior, i.e. impression management, versus provision of useful incremental information); the research perspective (preparer versus user); and seven discretionary disclosure strategies. We also examine the whole range of theoretical frameworks utilized by prior research, and we put forward some suggestions for future research.

Recent corporate scandals have highlighted the importance of and drawn attention to financial reporting quality [Clarke and Dean, 2007]; [Donoher et al., 2007]. If discretionary narrative disclosures are used for impression management rather than incremental information purposes, then financial reporting quality will be undermined. If managers engage in impression management, and if users are susceptible to it, then adverse capital misallocations may result. Thus, discretionary narrative disclosures constitute an important area of accounting research.

The scope of the paper is discretionary narrative disclosure strategies in the narrative sections (both verbal and numerical information) of corporate documents (excluding the financial statements).[1] The most commonly researched corporate documents are annual reports that Neu et al. [1998] state are effective vehicles for impression management due to the proximity of the narrative sections to the auditor's report, which may add credibility to the disclosures. We also examine prior research on other vehicles for narrative disclosure strategies including press releases, managerial forecasts, websites, and conference calls. However, the paper does not cover impression management studies of graphs and pictures in corporate documents. Although laborious [Abrahamson and Amir, 1996], nonetheless it is important to engage in impression management research to understand how managers

[1] This is in contrast to the voluntary disclosure literature that focuses on specific discretionary disclosures in corporate report documents within a pre-defined framework of topic categories with the aim of constructing a disclosure index capturing disclosure quantity and quality.

communicate with shareholders and stakeholders, possibly to manage their perceptions.

The emphasis of the paper is primarily on preparer (i.e. managerial) and user behaviors rather than on methodological aspects of prior research.[2]

The paper makes the following contributions. First, we classify prior research into the two competing schools of thought: research that assumes that managerial discretionary disclosure choices are opportunistic and constitute impression management; and research that assumes that they constitute value-relevant information aimed at improving investor decision making. We consider possible theoretical underpinnings of the two competing positions. We discuss different theories explaining managers' motives to engage in impression management or to provide incremental information. Taking a user perspective, we identify various theories, in particular from behavioral finance and from psychology that explain why investors might be susceptible to managerial impression management.

Second, we bring together the preparer and user perspective, investigating managerial discretionary disclosure strategies (the preparer perspective) and responses thereto (the user perspective). Taking a preparer perspective, we examine all the discretionary disclosure strategies applied by managers in corporate narratives, classifying them into seven categories. This allows the full array of discretionary disclosure strategies to be assessed as a whole rather than strategy-by-strategy as has been the tendency in prior research. This enables a better understanding of the wide range of techniques applied by managers to manage impressions/enhance disclosure quality. From a user perspective, we bring together both capital markets and behavioral research on whether discretionary narrative disclosure strategies influence decision making and whether, therefore, they are effective.

Third, we suggest future research opportunities. From the preparer perspective, we use alternative theories from the accounting, management, and social psychology literature to suggest additional impression management motivations and strategies not previously considered in a financial reporting context. From the user perspective, we take different theories and prior research in behavioral finance and psychology to suggest new avenues for studying the effect of discretionary narrative

[2] For more detailed discussions of the various methodologies used by previous research, refer to Jones and Shoemaker [1994]; Merkl-Davies et al. [2005]; Guillamon-Saorin et al. [2007].

disclosures on users, and to explain why users might be influenced by managerial impression management.

The remainder of the paper is organized as follows. Section 2 discusses the two competing schools of thought. As part of that discussion, we consider the importance and consequences of impression management. Section 3 examines research from a preparer perspective, including the seven discretionary disclosure strategies implemented by managers in corporate narratives. Section 4 presents research from the user perspective. In both preparer and user sections, we discuss theoretical frameworks in prior research and prior empirical research findings. Limitations of prior research and suggestions for future research are set out in Section 5. Section 6 draws together the evidence on whether discretionary narrative disclosure strategies constitute impression management or value-relevant information.

2.0 IMPRESSION MANAGEMENT AND RESEARCH TAXONOMIES

Prior research assumes that discretionary disclosures either (a) contribute to useful decision making by overcoming information asymmetries between managers and firm outsiders; or (b) constitute opportunistic behavior whereby managers exploit information asymmetries between them and firm outsiders through engaging in biased reporting, i.e. impression management.

How does impression management differ from incremental information? Hooghiemstra [2000, p. 60] defines impression management as "a field of study within social psychology studying how individuals present themselves to others to be perceived favourably by others." In a corporate reporting context, impression management is regarded as attempts "to control and manipulate the impression conveyed to users of accounting information" [Clatworthy and Jones, 2001, p. 311]. As a result, managers are presumed to use corporate reports as impression management vehicles to "strategically…manipulate the perceptions and decisions of stakeholders" [Yuthas et al., 2002, p. 142]. These quotes implicitly assume that managers *consciously* engage in these practices.

Previous research on financial reporting quality has focused on earnings management [e.g. Burgstahler and Eames, 2006] and fraud [e.g. Rezaee, 2005]. However, firms also use more subtle forms of influencing outsiders' impressions of firm performance and prospects, namely by manipulating the content and presentation of information in corporate documents with the purpose of "distort[ing] readers'

perceptions of corporate achievements" [Godfrey et al., 2003, p. 96]. In the accounting literature this is referred to as impression management.

The opportunity for impression management in corporate reports is increasing. Narrative disclosures have become longer and more sophisticated over the last few years. According to the Arthur Andersen [2000, p. 7] survey of 100 listed UK companies, narrative material occupies 57 percent of the annual report in 2000, as compared with 45 percent in 1996. Narrative annual report sections provide "almost twice the amount of…information as do the basic financial statements" [Smith and Taffler, 2000, p. 624]. This growing importance of descriptive sections in corporate documents provides firms with the opportunity to overcome information asymmetries by presenting more detailed information and explanation, thereby increasing their decision-usefulness. However, they also offer an opportunity for presenting financial performance and prospects in the best possible light, thus having the opposite effect. In addition to the increased opportunity for opportunistic discretionary disclosure choices, impression management is also facilitated in that corporate narratives are largely unregulated.[3]

If impression management takes place, what are its consequences? Impression management, like earnings management, involves "managers us[ing] judgment in financial reporting…to alter financial reports to…mislead some stakeholders about the underlying economic performance of the company" [Healy and Wahlen, 1999, p. 368]. Whereas incremental disclosures provide value-relevant information about future cash flows and result in improved decision making, impression management leads to potential capital misallocations [Holthausen, 1990]. Thus, it entails the same serious risk of adverse capital misallocations as earnings management.

Example 1 illustrates excerpts from the annual report of Enron immediately prior to its collapse. The highlighted phrases are consistent with a positive bias introduced by Enron. We believe this is a reflection of opportunistic managerial

[3] The regulation of narrative disclosures is complex. The Securities and Exchange Commission (SEC) Rule 10*b*-5 prohibits untrue statements or omission of material facts that would render disclosures misleading. In addition, under AU Section 550 of the Public Company Accounting Oversight Board (PCAOB), auditors are required to consider whether information (including its presentation) outside the audited financial statements is materially inconsistent with information (or its presentation) appearing in the financial statements. On December 4, 2001 the Securities and Exchange Commission (SEC) warned that firms could face civil fraud lawsuits for potentially misleading pro forma statements if they do not also provide a "clear and comprehensible" explanation of the pro forma calculation [Johnson and Schwartz, 2005]. The International Accounting Standards Board [2005] has published a discussion paper *Management commentary*, with a view to developing standards or guidance on this topic.

behavior aimed at manipulating readers' perceptions of corporate achievements rather than an attempt to provide investors with useful incremental information. Deloitte Consulting [2003] found that Enron's corporate communications became increasingly vague and ambiguous as the firm's financial situation began to deteriorate. It would appear that Enron managed impressions with words when the underlying numbers told another story. Craig and Amernic [2004] conclude that Enron's 2000 letter to shareholders "has…serious implications regarding the authors' truth-telling [and] their grasp of even a rough socially-constructed reality" [p. 826].

Example 1
Extracts from Enron's Letter to Shareholders, Annual Report 2000 (emphasis added)

Enron's performance in 2000 was a **success by any measure**, as we continued to **outdistance the competition** and **solidify our leadership** in each of our major businesses. In our largest business, wholesale services, we experienced an **enormous increase** of 59 percent in physical energy deliveries. Our retail energy business achieved its **highest level ever** of total contract value. Our newest business, broadband services, **significantly accelerated** transaction activity, and our oldest business, the interstate pipelines, registered **increased earnings**. The company's net income reached a **record** $1.3 billion in 2000. [p. 4]

Enron hardly resembles the company we were in the early days. During our 15-year history, we have **stretched ourselves beyond our own expectations**. We have metamorphosed from an asset-based pipeline and power generating company to a marketing and logistics company whose **biggest assets** are its well-established business approach and its innovative people. [pp. 6-7]

Our performance and capabilities cannot be compared to a traditional energy peer group. Our results put us in the **top tier of the world's corporations**. We have a proven business concept that is eminently scalable in our existing businesses and adaptable enough to extend to new markets. [p. 7]

Our talented people, global presence, financial strength and **massive market knowledge** have created our sustainable and unique businesses. EnronOnline will **accelerate their growth**. We plan to leverage all of these **competitive advantages** to **create significant value** for our shareholders. [p. 7]

Table 1 summarizes the two competing positions. Prior research tends to take one or other position, often implicitly and without discussion. US researchers tend to adopt the incremental information assumption, whereas non-US researchers are more likely to take an impression management standpoint.[4] Only eight studies (all US) have effectively distinguished between these two competing schools [Lang and Lundholm, 2000]; [Frederickson and Miller, 2004]; [Barton and Mercer, 2005]; [Bowen et al., 2005]; [Johnson and Schwartz, 2005]; [Krische, 2005]; [Elliott, 2006]; [Matsumoto et al., 2006].

[4] Different methodological traditions are influential in this respect, with US researchers tending to adopt more quantitative methods and non-US researchers taking a more qualitative approach.

The impression management interpretation of managerial discretionary disclosure strategies is based on a weak form of market efficiency. This assumes that investors are unable to assess managerial bias in the short term. Based on this assumption, managers engage in impression management to influence the firm's share price, which can lead to capital misallocations and increased compensation, via stock options, for managers [Adelberg, 1979]; [Rutherford, 2003]; [Courtis, 2004a, p. 293].[5]

By contrast, the incremental information school is based on a semi-strong/strong form of market efficiency where investors are capable of assessing reporting bias. The efficient market hypothesis states that all market participants have rational expectations about future returns, which implies that, on average, the market is able to assess reporting bias [Hand, 1990]. This assumes that biased reporting (including impression management) would lead to higher cost of capital and reduced share price performance. As managers' compensation is linked to stock price performance, managers have no economic incentives to engage in impression management. Thus, advocates of the incremental information school deny the existence of impression management [Baginski et al., 2000, 2004]. On the contrary, managers are assumed to have economic incentives to engage in unbiased reporting as it enhances their reputation and compensation [Baginski et al., 2000].

As shown in Table 1, different theories are invoked to explain preparer and user behavior: agency theory is predominant in explaining managers' (i.e. preparers') behaviors; behavioral finance and expected utility theories explain users' behaviors. Assumptions concerning the rational expectations or otherwise of preparers and users are also relevant.

[5] However, it has to be noted that some proponents of the opportunistic perspective subscribe to a semi-strong form of market efficiency, as they believe that investors are able to assess managerial bias. They regard impression management as "executive hyperbole", i.e. a harmless corporate reporting ritual with no capital market consequences [Courtis, 2004a, p. 293]. In their analysis of emphasis on pro forma earnings in press releases, Bowen et al. [2005, p. 1012, footnote 2] distinguish between opportunistic and ritualistic managerial behavior.

Table 1
Competing schools of thought on discretionary disclosure strategies in corporate narrative documents

Aspect	Impression management school	Incremental information school
Jurisdiction	Predominantly non-US	Predominantly US
Market efficiency	Weak[1]	Semi-strong/strong
Theory	Preparers → Agency theory: Opportunistic perspective Users → Behavioral finance theories	Preparers → Agency theory: Information perspective Users → Expected utility theory
Interpretation of discretionary disclosure strategies	Impression management	Value-relevant incremental information
Explanation of discretionary disclosure practices	Exploitation of information asymmetries to manage users' perceptions	Overcoming information asymmetries and increasing information usefulness
Manager incentives	Biased reporting leads to increased share performance (in the short term) resulting in increased managerial compensation	Unbiased reporting leads to improved managerial reputation, lower cost of capital and increased managerial compensation[2]
Consequences	Short-term capital misallocations	Improved capital allocations
Behavior of market participants	Preparers → Rational Users → Irrational/bounded rational	Preparers → Rational Users → Rational
Tests	Preparer behavior → • Association between discretionary disclosure strategies and concurrent negative financial performance/negative earnings surprises User behavior → • Share price reactions to discretionary disclosure strategies • Behavioral responses to discretionary disclosure strategies	Preparer behavior → • Association between discretionary disclosure strategies and negative future financial performance User behavior → • Share price reactions to discretionary disclosure strategies • Behavioral responses to discretionary disclosure strategies

[1] An alternative explanation is that preparers *believe* that users are persuaded by impression management strategies. In this case, reporting bias constitutes "an irritating inefficiency in the financial system, which professional investors long ago learned how to tune out" [Warner, 2004, p. 27].
[2] Preparers have no incentives to engage in impression management since users are capable of seeing through the bias. If there is bias, this would leads to higher cost of capital, reduced share performance, and thus reduced managerial compensation.

The different views of market efficiency underlying the two schools of thought summarized in Table 1 are reflected in Table 2 which categorizes prior research according to the taxonomies we have adopted in this paper: the two schools of thought, the preparer and user perspective, and the seven discretionary disclosure strategies identified by previous research. The main concern of the impression management school is determining whether and under which circumstances firms engage in impression management. Thus, the majority of such studies are from the preparer perspective. They mainly examine the association of various impression management strategies with a range of firm characteristics, primarily concurrent negative financial performance. By contrast, the incremental information school presumes that discretionary disclosure strategies constitute incremental information. Their main concern is investigating whether and to what extent investors perceive them as value relevant. Thus, the majority of studies from the incremental information school are from the user perspective.

3.0 PREPARER PERSPECTIVE

Impression management research from a preparer perspective employs a wide range of content analysis techniques to investigate whether and how managers use corporate narrative documents for impression management purposes and what factors might influence this behavior. Specifically, impression management studies focusing on corporate annual reports are based on the implicit assumption of an incongruity between the information in the narrative sections and the financial accounts. If preparers have not engaged in impression management, narrative discretionary disclosures should be consistent with the information in the financial statements. If inconsistency is found, preparers are likely to have used the narrative statements to influence the perceptions and decisions of users.

3.1 Theoretical frameworks

Five theories have provided the theoretical underpinning for research focusing on the preparer. These are agency theory; signaling theory; legitimacy theory; stakeholder theory; and institutional theory. We first describe each of the theories, followed by a discussion of their differences. We then present empirical evidence.

3.1.1 Agency theory

Agency theory dominates this field of research. Both competing schools of thought (impression management and incremental information) use assumptions rooted in agency theory [Baiman, 1990]. The incremental information school presumes that managers provide discretionary narrative information to overcome information asymmetries between firm insiders and outsiders to lower the cost of capital, thereby enhancing share performance, and thus increasing managerial compensation [Baginski et al., 2000].

By contrast, the impression management school explains managerial discretionary disclosure strategies as opportunistic and regards information provided by management as driven by self-interest [Abrahamson and Park, 1994]; [Courtis, 1995, 2004a, 2004b]; [Hooghiemstra, 2000, 2001]; [Godfrey et al., 2003]; [Rutherford, 2003]; [Smith and Taffler, 1992a, 2000]; [Aerts, 2005]; [Li, 2006]. As negative organizational outcomes give rise to conflicts of interest between managers and shareholders, managers are prompted to manipulate outsiders' perceptions of and decisions on financial performance and prospects (i.e. to engage in impression management) [Aerts, 2005]. This opportunistic managerial behavior has given rise to the so-called obfuscation hypothesis [Courtis, 1998], which assumes that managers are not neutral in presenting accounting narratives [Sydserff and Weetman, 1999]. Managers tend to obfuscate failures and emphasize successes [Adelberg, 1979].

3.1.2 Signaling theory

Smith and Taffler [1992a] and Rutherford [2003] use signaling theory in the context of the obfuscation hypothesis. Whereas agency theory focuses on poorly performing firms, signaling theory focuses on the behavior of managers in well-performing firms who signal this superiority by greater transparency in their disclosure and presentation of information.

3.1.3 Legitimacy theory

Legitimacy theory has also been invoked to explain corporate reporting practices. Within legitimacy theory, disclosures (particularly social and environmental disclosures) are hypothesized to alter perceptions about the legitimacy of the organization. For example, corporate social disclosures are regarded as a response to

public pressure and increased media attention [Hooghiemstra, 2000]. Underlying legitimacy theory is the notion of the firm engaging in a social contract with society. Consequently, survival is dependent to some extent on operating within the boundaries of societal norms. Impression management has been applied as an explanatory framework to analyze the reactions of firms facing legitimacy threats. Hooghiemstra [2000] uses an impression management approach to investigate Shell's handling of public controversy when in 1995 it announced its plans to sink the Brent Spar in the Atlantic. Ogden and Clarke [2005] apply legitimacy theory to the corporate communication practices of recently privatized water companies, focusing on customers rather than investors as the users of annual reports. Newly privatized entities are expected to be more competitive and customer focused than the precursor monopoly bodies.

3.1.4 Stakeholder theory

Stakeholder theory is similar to legitimacy theory in that it regards firms' corporate reporting as a response to the demands and expectations of various stakeholders, such as employees, customers, government agencies, lobby groups, etc. Firms are assumed to engage in impression management to manipulate the perceptions of a particular stakeholder group. Hooghiemstra [2000] shows how Shell, after abandoning its plans to sink the Brent Spar in the Atlantic, engaged in a dialogue with its key stakeholder groups to change their perceptions.

3.1.5 Institutional theory

Institutional theory assumes that firms will conform to institutional expectations by adopting institutional norms. By adopting such norms, firms reduce inspection by internal and external constituents. Managers are assumed to respond to institutional pressures in their corporate reports. Bansal and Clelland [2004] apply institutional theory to the disclosure of environmental liabilities and expressions of commitment to the environment. They find that by adopting impression management tactics firms gain legitimacy which, in turn, lowers their unsystematic stock risk.

3.1.6 Differences in the five theories

Five aspects distinguish the above theories: differing managerial incentives, audiences, concepts of performance, contexts, and research designs/methodologies.

Managerial incentives differ depending on whether managers are assumed to act opportunistically or to provide information-relevant discretionary disclosures. In the case of both agency theory and signaling theory, investors are the audience for disclosures, whereas legitimacy theory, stakeholder theory, and institutional theory take society/stakeholders as the audience for disclosures. Agency theory and signaling theory focus on financial performance, whereas legitimacy theory, stakeholder theory, and institutional theory focus more on social and environmental performance. Studies adopting agency and signaling theory also focus on impression management as an every-day occurrence, whereas studies from a legitimacy theory, stakeholder theory, or institutional theory perspective study the use of impression management in a non-routine reporting context, such as privatization or pollution. Finally, an agency or signaling theory perspective tends to result in large sample sizes and a positive methodology involving quantitative content analysis, hypothesis testing, and statistical association tests, a legitimacy theory, institutional theory, and stakeholder theory perspective tends to involve more in-depth investigations of specific events that might have given rise to impression management, by means of case studies and qualitative content analysis.

3.2 Impression management strategies and empirical findings

Due to the predominance of agency theory explanations of managerial behavior, prior research has almost exclusively focused on one aspect of impression management, namely the manipulation of outsiders' perceptions of firm performance. Most studies regarded impression management as a response to negative organizational outcomes.

3.2.1 Preparer motives

Managers are presumed to engage in one of two types of behavior: (1) concealment or (2) attribution – a defensive framing tactic that shifts the blame for negative outcomes away from themselves. Concealment can be achieved in two ways: by either (1a) obfuscating negative outcomes (bad news) or (1b) emphasizing positive organizational outcomes ("good news"). Research analyzing positive bias presumes that "sections of the [annual] reports are allegedly managed so as to present management in as favorable a light as possible" [Stanton et al., 2004, p. 57].

Attribution is an impression management strategy borrowed from social psychology [Heider, 1958]; [Jones and Davis, 1965]; [Kelley, 1967]. It is a self-serving bias involving individuals' perceptions and explanations of events that manifests itself in a tendency to claim more responsibility for successes than for failures. In a financial reporting context it entails managers attributing positive organizational outcomes to internal factors ("entitlements") and negative organizational outcomes to external factors ("excuses").

Clatworthy and Jones [2006, p. 506] observe that it is not clear "whether this impression management is conscious or unconscious." The prior literature is generally not explicit about whether impression management is executed on a conscious or sub-conscious level, although it is clear that most studies implicitly assume conscious behavior.

Agency theory explains impression management as reporting bias introduced by the opportunistic behavior of managers who select a style of presentation and choice of content that is beneficial to them. This assumes a conscious and deliberate managerial disclosure strategy [Bowen et al., 2005].

This confusion can be partly attributed to prior studies drawing from both agency theory and the social psychology literature. Unlike concealment, self-serving bias (in the form of performance attributions) constitutes a distortion that is – at least partly – unconscious of the way humans perceive reality. The social psychology literature regards impression management as "the conscious or unconscious attempt to control images that are real or imagined in social interactions" [Schlenker, 1980, p. 6].

Staw et al. [1983] and Abrahamson and Park [1994] test whether impression management strategies are executed deliberately and consciously by investigating whether they are associated with subsequent selling of shares by management. If impression management strategies are used intentionally to increase the firm's share price, managers will also tend to sell their shares in the short term to avoid a loss when information about the firm's financial problems becomes public. Both studies find evidence for this opportunistic managerial behavior. This suggests that impression management strategies are executed intentionally and consciously.

3.2.2 Overview of the seven impression management strategies

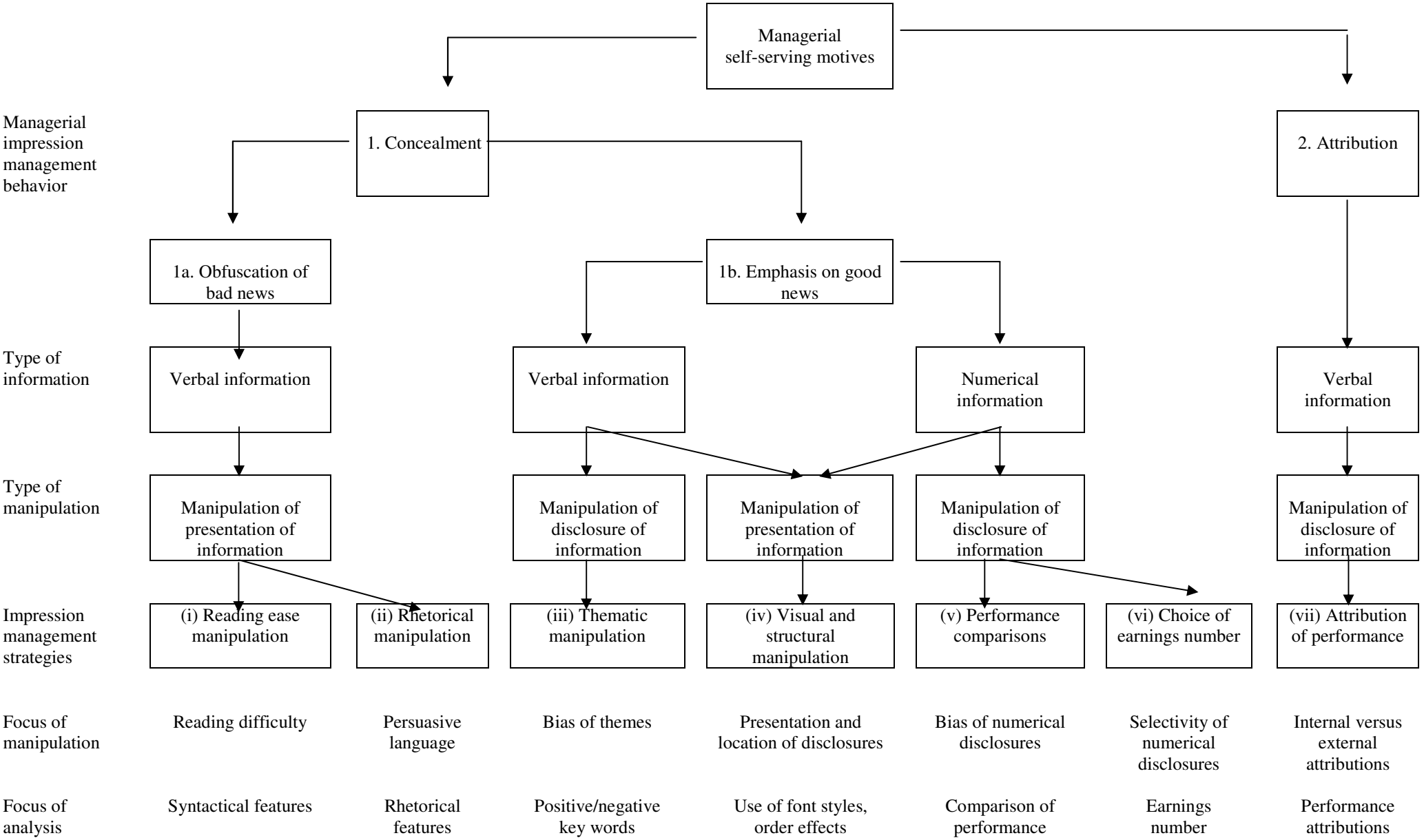
As shown in Figure 1, preparer motives can be classified into concealment and attribution. Figure 1 also the types of information affected by impression management

(verbal/numerical), the types of manipulation (presentation/disclosure of information), and the seven impression management strategies examined in prior accounting research. Additionally, Figure 1 identifies the focus of manipulation and the focus of content analysis for each of the seven impression management strategies.

Six strategies are used for concealment. Two of these obfuscate bad news by manipulating verbal information either by (i) reading ease manipulation (i.e. making text more difficult to read) or (ii) rhetorical manipulation (i.e. using persuasive language). Four strategies emphasize good news by manipulating verbal and/or numerical information: (iii) thematic manipulation emphasizes positive words and themes, or emphasizes positive financial performance; (iv) visual and structural manipulation involves the way in which information is presented (i.e. visual emphasis or ordering of verbal/numerical information); (v) performance comparisons involve choosing benchmarks that portray current financial performance in the best possible light; and (vi) choice of earnings number involves selecting one of a number of earnings amounts for disclosure to favorably portray current financial performance.

The seventh impression management strategy is the attribution of organizational outcomes.

Figure 1
Managerial impression management strategies in corporate narrative documents



As indicated by Figure 1, the seven impression management strategies are carried out by (i) disclosure choices and/or (ii) the presentation of information by means of (a) bias and (b) selectivity. Bias entails conveying information in a very positive light (or occasionally in a very negative light), and selectivity involves omitting or including certain items of information.

Table 2 classifies prior research according to the three taxonomies adopted in this paper (i.e. the two competing schools of thought, the preparer/user perspective and the seven impression management strategies. Eight studies view discretionary disclosure strategies in the light of both impression management and incremental information: [Lang and Lundholm, 2000]; [Frederickson and Miller, 2004]; [Barton and Mercer, 2005]; [Bowen et al., 2005]; [Johnson and Schwartz, 2005]; [Krische, 2005]; [Elliott, 2006]; [Matsumoto et al., 2006].

Seven studies take both a preparer and user perspective: [Abrahamson and Amir, 1996]; [Schrand and Walther 2000]; [Lang and Lundholm, 2000]; [Bowen et al., 2005]; [Johnson and Schwartz 2005]; [Matsumoto et al., 2006]; [Davis et al., 2007]. These seven papers are classified as user studies in Table 2, even though they take both a user and preparer perspective.

Table 2
Taxonomies: Impression management/incremental information; Preparer/user perspectives; Seven impression management strategies

(i) Reading ease manipulation (see Table 3)	(ii) Rhetorical manipulation (see Table 4)	(iii) Thematic manipulation (see Table 5)	(iv) Visual and structural effects (see Table 6)	(v) Performance comparisons (see Table 7)	(vi) Choice of earnings number (see Table 8)	(2) Attribution of organizational outcomes (see Table 9)
Panel A –Impression management – preparer perspective						
• Adelberg [1979]	• Thomas [1997]	• Abrahamson and Park [1994]	• Courtis [1996]	• Lewellen et al [1996]	• Guillamon-Saorin [2006]	• Aerts [1994]
• Parker [1982]	• Jameson [2000]	• Smith and Taffler [2000]	• Guillamon-Saorin [2006]	• Cassar [2001]		• Hooghiemstra [2001]
• Lewis et al. [1986]	• Sydserff and Weetman [2002][3]	• Clatworthy and Jones [2003][2]		• Short and Palmer [2003]		• Aerts [2001]
• Courtis [1986]	• Yuthas et al. [2002]	• Rutherford [2005]		• Guillamon-Saorin [2006]		• Clatworthy and Jones [2003][2]
• Jones [1988]		• Guillamon-Saorin [2006]				• Aerts [2005]
• Baker and Kare [1992]						• Ogden and Clarke [2005]
• Smith and Taffler [1992a]						
• Smith and Taffler [1992b]						
• Subramanian et al. [1993]						
• Courtis [1995]						
• Courtis [1998]						
• Sydserff and Weetman [1999]						
• Clatworthy and Jones [2001]						
• Sydserff and Weetman [2002][1]						
• Rutherford [2003]						
• Courtis [2004a]						
• Li [2006]						
• Merkl-Davies [2007]						

Table 2
Taxonomies: Impression management/incremental information; Preparer/user perspectives; Seven impression management strategies

(i) Reading ease manipulation (see Table 3)	(ii) Rhetorical manipulation (see Table 4)	(iii) Thematic manipulation (see Table 5)	(iv) Visual and structural effects (see Table 6)	(v) Performance comparisons (see Table 7)	(vi) Choice of earnings number (see Table 8)	(2) Attribution of organizational outcomes (see Table 9)
Panel B –Incremental information – preparer perspective						
		• Abrahamson and Amir [1996] [3,6]				
Panel C – Impression management - user perspective						
		• Lang and Lundholm [2000] [3,5, 6] • Henry [2006b] [3] • Matsumoto et al [2006] [3,5,6]	• Staw et al. [1983] [3,6] • Baird and Zelin [2000] [4] • Courtis [2004b] [4] • Kelton [2006] [4]	• Schrand and Walther [2000] [3, 6]		• Staw et al. [1983] [3] • Lee et al. [2004] [3]
Panel D – Incremental information - user perspective						
		• Davis et al. [2007] [3,6] • Henry [2006a] [3]	• Bowen et al. [2005] [3,5, 6] • Elliot [2006] [4,5]	• Krische [2005] [4,5]	• Frederickson and Miller [2004] [4,5] • Johnson and Schwartz [2005] [3,4,5] • Bowen et al [2005] [3]	• Baginski et al. [2000] [3] • Baginski et al. [2004] [3] • Barton and Mercer [2005] [3,5]

[1] Sydserff and Weetman [2002] is difficult to classify as it uses three methodologies: one reading ease manipulation and two rhetorical manipulation.
[2] Clatworthy and Jones [2003] test for the association between (i) positive/negative organizational outcomes and (ii) the attribution of positive/negative organizational outcomes to internal/external factors and increasing/declining performance.
[3] Share price reaction study
[4] Experiment
[5] These studies distinguish between the two competing schools: impression management and incremental information
[6] These studies take both a preparer and user perspective

3.2.3 Readability/reading ease manipulation

Table 3 summarizes impression management studies that focus on readability/reading ease manipulation. These studies regard reading difficulty as a proxy for obfuscation, with obfuscation being defined as "a narrative writing technique that obscures the intended message, or confuses, distracts or perplexes readers, leaving them bewildered or muddled" [Courtis, 2004a, p. 292]. They are based on the presumption that "preparers manipulate transparency by reducing clarity when they wish to disclose less about their underlying circumstances" [Rutherford, 2003, p. 189]. Studies investigate whether managers manipulate outside parties' perceptions of firm performance by rendering corporate narrative documents difficult to read. Syntactical complexity makes texts more difficult to read and this is regarded as a proxy for obfuscation. There is a limit to the extent to which readability can be manipulated as text must be sufficiently readable so that the impression one wants to manage is actually managed. On the other hand, it may be that managers' intent is to leave readers confused and to put them off probing further.

Reading difficulty is attributed to two factors: (1) managerial manipulation [Courtis, 1998, 2004a]; [Sydserff and Weetman, 1999]; [Clatworthy and Jones, 2001]; [Li, 2006] and (2) bad writing [Baker and Kare, 1992]; [Courtis, 1995]. Courtis [1995, p. 4] questions "whether writing which is difficult to read is executed deliberately to mask some unfavourable aspect of corporate behavior, or is performed unwittingly out of ignorance." Whereas the former represents a deliberate effort by managers to mislead users and thus constitutes impression management, the latter is due to lack of skill on the part of the writer. In practice, however, it is not easy to differentiate between the two.

Lack of skill is a less likely explanation. Corporate narrative documents of listed firms are probably written by professional writers. Considering the adverse effect of a badly executed annual report in terms of money and reputation, firms are likely to spend time and care ensuring that their communications are exact. Often professional outside agencies are employed to write narrative report sections that convey the right message.

Table 3
Summary of reading ease manipulation studies

Study	Country	Sample size	Narrative sections	Readability measure	Independent variables	Results
Adelberg [1979]	US	16	Footnotes, Management review of operations, Auditors' reports	Cloze	Firm performance	Standard footnotes and management's review of operations are difficult to read; Profitability is inversely related to the reading difficulty of non-standard footnotes and of auditors' reports.
Parker [1982]	Australia	10	Chairman's/ directors' review of operations	Fog	None	Narratives are of low readability.
Lewis et al. [1986]	Australia	9	Managing director's report, Operations review	Fog, Flesch, Kwolek, Dale-Chall, Lix, Fry	None	Narratives are of low readability.
Courtis [1986]	Canada	142	Chairman's address, Financial statement footnotes	Fog, Flesch	Firm performance, Corporate risk	Poor quality readability is not related to poor performance or high risk.
Jones [1988]	UK	1	Chairman's report	Flesch	Firm performance, Time, Firm size, Listing status, Title of chairman's narrative, Chairman	Readability declines as turnover (proxy for firm size/corporate complexity) increases, over time and when the company become listed.
Baker and Kare [1992]	US	44	President's letter	Flesch	Firm performance, Firm size,	Presidents' letters of larger firms are more readable. The association between readability and profitability is inconclusive.
Smith and Taffler [1992a]	UK	66	Chairman's report	Flesch, Lix, Cloze	Firm survival	Readability and understandability measure different concepts; Understandability is a function of the sophistication of the target audience.

Table 3
Summary of reading ease manipulation studies

Study	Country	Sample size	Narrative sections	Readability measure	Independent variables	Results
Smith and Taffler [1992b]	UK	66	Chairman's report	Flesch, Lix, Cloze	Firm survival	There is no difference in readability between failed and non-failed firms.
Subramanian et al. [1993]	US	60	Letter to stockholders	Fog, Flesch	Firm performance	Annual reports of good performers are more readable.
Courtis [1995]	Hong Kong	32	Chairman's report, Footnotes to the accounts	Fog, Flesch, Lix	Firm performance, Firm size, Industry	No significant difference is found between readability and independent variables.
Courtis [1998]	Hong Kong	120	Chairman's report	Flesch	Firm performance, Press coverage	Narratives of firms with high press coverage are significantly less readable.
Sydserff and Weetman [1999]	UK	10	Operating and financial review	Flesch, Texture index	None	Texture index captures factors not captured by readability formulas.
Clatworthy and Jones [2001]	UK	120	Chairman's report	Flesch	Firm performance	Variability of readability is not explained by performance. Thematic structure is a key driver of variability of readability.
Sydserff and Weetman [2002]	UK	27	Chairman's report	Flesch, Transitivity index, DICTION	Firm performance	Transitivity index and DICTION are useful alternatives to readability formulas.

Table 3
Summary of reading ease manipulation studies

Study	Country	Sample size	Narrative sections	Readability measure	Independent variables	Results
Rutherford [2003]	UK	64	Operating and financial review	Flesch	Firm performance, Firm size, Corporate risk, Organizational complexity, Statutory regulation	Poorly performing firms do not obfuscate using textual complexity. Readability is not associated with any other variables.
Courtis [2004a]	Hong Kong	60	Annual reports, Interim reports, Prospectuses	Flesch	Firm performance, Corporate age, Corporate complexity	Low reading ease, and high readability variability, are associated with bad news.
Li [2006]	US	55,719 firm years	10-K statements	Fog, Length	Firm size, Market to book ratio, Firm age, Special items, Volatility, Firm complexity, Financial complexity, Firm events, Regulatory environment	Annual reports of firms with lower earnings are harder to read. Positive earnings of easier-to-read annual reports are more persistent.
Merkl-Davies [2007]	UK	93	Chairman's report	Flesch, Flesch Kincaid, Various cohesion measures	Good/bad news, Firm size, Industry	Chairmans' reports of large firms are less cohesive and thus more difficult to read than those of small firms.

Readability studies can be grouped into four categories: (1) reading difficulty of annual report narratives [Parker, 1982]; [Lewis et al., 1986]; [Courtis, 1986]; [Jones, 1988]; (2) variability of readability of different narrative sections of annual reports [Courtis, 1998]; [Clatworthy and Jones, 2001]; [Courtis, 2004a], (3) association between the reading difficulty of annual report narratives and various firm characteristics, most commonly firm performance (see "Independent variables" column in Table 3), and (4) studies focusing on methodological development [Stevens et al., 1992]; [Smith and Taffler, 1992b]; [Jones, 1997]; [Sydserff and Weetman, 1999, 2002].

Studies generally find annual report narratives to be difficult to read [Lewis et al., 1986]; [Courtis, 1986]; [Courtis, 2004a]; [Smith and Taffler, 1992b]. Research indicates that "even users of the greatest sophistication have difficulty in fully comprehending financial narratives" [Smith and Taffler, 1992b, p. 94]. In a single firm case study, Jones [1988] finds readability to decrease over time, which goes hand in hand with sales growth (sales being a proxy for organizational complexity), and when the firm going public.

Findings of studies based on the obfuscation hypothesis which presumes that managers have a "tendency to manipulate or arrange prose to…mask 'bad news' [negative organizational outcomes] with more difficult writing" [Courtis, 1998, p. 461] are mixed. Adelberg [1979]; Subramanian et al. [1993]; Courtis [1998, 2004a]; Li [2006] find reading difficulty and firm financial performance to be inversely related, whereas Courtis [1986, 1995]; Baker and Kare [1992]; Smith and Taffler [1992a]; Clatworthy and Jones [2001]; Rutherford [2003] find no such relation. Merkl-Davies [2007] finds firm size, but not financial performance, to be the determining factor in reading difficulty. Although her main effects model shows negative financial performance to be directly related to reading difficulty, this association is no longer significant when financial performance is interacted with firm size.

3.2.4 Rhetorical manipulation

Research focusing on rhetorical manipulation regards persuasive language as a proxy for obfuscation. It assumes that managers conceal negative organizational outcomes using rhetorical devices, such as pronouns and the passive voice. This strand of impression management research does not focus on "what firms say," but rather on "how they say it" [Pennebaker et al., 2003, p. 571].

Table 4
Summary of rhetorical manipulation content analysis studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Thomas [1997]	US	1	Manager's message to stockholders	Passive constructions, Sentence openers, Relationship between first and last paragraph, Euphemisms	Firm performance	Negative news is factual, objective and not attributable to individuals thought to be responsible.
Jameson [2000]	US	200	Entire annual report	Multiple voices, Embedded genres, Contrasting focal points	Firm performance	Uses complex linguistic analysis to show how mixed-return, compared with top-return, funds are explained.
Sydserff and Weetman [2002]	UK	27	Chairman's report	Transitivity index, DICTION	Firm performance	Transitivity index balances but does not supplant use of readability scores.
Yuthas et al. [2002]	US	14	President's letter and Management Discussion & Analysis	Comprehensibility, Truth, Legitimacy, Sincerity, DICTION	Firm performance	Positive and negative performers are more communicative.

Findings of research based on this impression management strategy are also mixed. Thomas [1997] concludes that managers' messages to stockholders differ between profitable and unprofitable years. She finds negative organizational outcomes associated with rhetorical devices aimed at blaming performance on circumstances outside managers' control. Her overall conclusion is that "managers' letters suggest and imply, but they do not lie" [p. 63]. In other words, it is possible to read between the lines.

Jameson [2000] finds shareholders' reports of mixed-return mutual funds to be significantly less direct than those of top-performing mutual funds. However, the relative indirectness of reports on mixed-return funds compared with top-return funds could be interpreted not as impression management, but as the increased complexity of the subject. This is similar to the argument that larger firms have more complex operations that lead to increased reading difficulty.

Sydserff and Weetman [2002] examine the association between verbal tone and financial performance. They find some limited evidence of impression management, but they conclude that management is even-handed in presenting narrative information.

Yuthas et al. [2002] find that firms with positive and negative earnings surprises exhibit a higher level of rhetorical features associated with Habermas' principles of communicative action (i.e. suggesting clarity, truthfulness, sincerity, and legitimacy) than firms without earnings surprises. This seems to suggest that managers of firms with earnings surprises use the narrative sections not for impression management purposes, but to emphasize their honesty and trustworthiness.

3.2.5 Thematic manipulation

Studies focusing on thematic manipulation, summarized in Table 5, assume that managers conceal bad news by not reporting it, or by not reporting it to the same extent as good news. This phenomenon is referred to as the "Pollyanna principle" (Pollyanna being an eternal optimist) [Hildebrandt and Snyder, 1981]. Managers are assumed to present themselves and financial performance in the best possible light; this manifests itself in the prevalence of positive rather than negative words/themes. However, Abrahamson and Amir [1996]; Henry [2006a]; Davis et al. [2007] regard the use of words with positive or negative connotations not as an impression management strategy, but as a means of overcoming information asymmetries by providing users with incremental information about expected future performance.

Table 5
Summary of thematic content analysis studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – Preparer perspective						
Abrahamson and Park [1994]	US	1,118	President's letter to shareholders	Positive/negative keywords	Firm performance measures, Various corporate governance variables	Outside directors, large institutional investors and accountants limit concealment of negative organizational outcomes.
Smith and Taffler [2000]	UK	66	Chairman's report	Positive/negative keywords	Firm survival	Firms' discretionary narrative disclosures are closely associated with financial performance.
Clatworthy and Jones [2003]	UK	100	Chairman's report	Positive/negative keywords	Firm performance	No evidence is found of biased themes depending on financial performance.
Rutherford [2005]	UK	44	Operating and financial review	Frequencies of 90 key words	Firm performance, Gearing	Language is biased toward the positive.
Guillamon-Saorin [2006]	UK and Spain	172	Press release	Positive/negative keywords	Firm size, Firm performance, Nationality, Industry	Firms use more positive key words than negative key words, even controlling for performance, indicating biased reporting.
Incremental information – Preparer perspective						
Abrahamson and Amir [1996]	US	1,355	President's letter to shareholders	Positive/negative keywords	Firm size, Firm performance measures, Equity returns	Information in presidents' letters is consistent with financial information. Information in presidents' letters is used by investors to assess the quality of earnings.

Table 5
Summary of thematic content analysis studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – User perspective						
Lang and Lundholm [2000]	US	41+ 41	Disclosure documents	Type of statements (performance, management spin, forward-looking, other), Tone of disclosures (optimistic, neutral, pessimistic)	Equity offering/non-offering firms	Disclosure increases prior to equity offerings. Tone is predominantly optimistic.
Henry [2006b]	US	1,366	Press releases	Tone (positive/negative keywords - DICTION), Length of press release, Textual complexity, Numerical intensity	Abnormal share price returns	Tone of earnings press releases influence investors' reactions.
Matsumoto et al. [2006]	US	8,867 firm quarters	Conference call transcripts	Manager optimism, Analyst skepticism	Firm performance	Managers are more optimistic if results are good, but analysts are more skeptical in such situations. Analysts are skeptical of forward-looking statements. Analysts can detect false optimism by managers. Market reaction is consistent with analyst skepticism.
Incremental information – User perspective						
Davis et al. [2007]	US	23,400	Press releases	Optimistic/pessimistic language, DICTION	Future performance, Size, Industry, Year	Positive (negative) association between positive (negative) language and future performance.
Henry [2006a]	US	441	Press releases	Keywords, Length, Complexity, Numerical Intensity, Tone	Market reaction	The market reacts to verbal information. Inclusion of verbal information improves the predictive accuracy of market returns beyond inclusion of financial information.

Some studies find that firms tend to emphasize positive organizational outcomes, regardless of their financial performance [Smith and Taffler, 2000]; [Rutherford, 2005]; [Guillamon-Saorin, 2006]. Others find no evidence of biased themes depending on financial performance [Abrahamson and Park, 1994]; [Abrahamson and Amir, 1996]; [Clatworthy and Jones, 2003]; [Davis et al., 2007]; [Matsumoto et al., 2006]. However, managerial positive bias is only an indicator of future firm performance if it is confirmed by analyst opinion [Matsumoto et al., 2006]. In the context of conference calls, Matsumoto et al. [2006] distinguish between managerial optimism as impression management/incremental information on the basis of whether it is confirmed by analyst opinion. They find managerial optimism regarding future financial performance is not confirmed by analyst opinion and also is not reflected in future financial performance which suggests that it constitutes positive bias rather than incremental information.

Lang and Lundholm [2000] investigate positive bias in a different context of new equity public offerings. They categorize narrative disclosures before new equity public offerings into three broad categories: (i) performance-related disclosures, (ii) management spin, and (iii) forward-looking items. Management spin (i.e. impression management) is measured in two ways: (a) significant additional detail concerning performance, and (b) management quotes expanding on performance results. In addition, they take 15 different types of statement and classify these into optimistic, pessimistic, and neutral. They find that the absolute and relative frequency of optimistic disclosures increases dramatically before equity public offerings, whereas pessimistic disclosures decrease slightly. After the offering the mix of "tones" becomes more neutral. This suggests that managers engage in impression management before equity offerings to increase the firm's share price.

3.2.6 Visual and structural manipulation

Perceptions of firm performance and prospects can also be manipulated by the way information is presented in corporate documents. Four different types of emphasis can be applied: (1) Repetition occurs when an item is repeated more than once [Courtis, 1996]; [Guillamon-Saorin, 2006]. Courtis [1996] suggests that repetition of information can enhance the understandability of financial reports or can add noise to the reporting process, whereas Guillamon-Saorin [2006] assumes repetition is used for impression management purposes; (2) Reinforcement occurs

when a piece of information is emphasized by using a qualifier [Guillamon-Saorin, 2006]; (3) Visual emphasis occurs when firms use a number of visual effects to make a piece of information more obvious to readers (for example, emphasis by highlighting, font style and size, bullet points, bold text, color, etc.) [Courtis, 2004b]; [Guillamon-Saorin, 2006]; (4) Ordering or physical location of information is used to direct readers' attention to or away from specific items of information [Staw et al.,1983]; [Baird and Zelin, 2000]; [Bowen et al., 2005]; [Elliott, 2006]; [Guillamon-Saorin, 2006]; [Kelton, 2006]. Table 6 summarizes this research.

Table 6
Summary of visual and structural manipulation

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – Preparer perspective						
Courtis [1996]	Hong Kong	145	Annual reports	Redundancy – repetition of voluntary information	Firm size, Profitability, Risk, Industry	There is no persuasive evidence that redundant voluntary disclosure is a problem in annual reports.
Guillamon-Saorin [2006]	UK and Spain	172	Press release	Repetition, Reinforcement, Visual emphasis	Firm size, Firm performance, Nationality, Industry	Good news is repeated, reinforced, and emphasized more, even controlling for performance, indicating biased reporting.
Impression management – User perspective						
Staw et. al. [1983]	US	81	Letter to shareholders	Performance explanations	Change in stock price, Institutional ownership, Age of CEO, Tenure of CEO, Salary of CEO	Impression management is effective in that self-serving attributions are associated with improvements in stock price.
Baird and Zelin [2000]	US	92 MBA students	Hypothetical president's letter	Ordering of good news/bad news	---	Subjects are more influenced by information read first in presidents' letters.
Courtis [2004b]	Hong Kong	100	Annual reports	Use of color, Change in color	Change in profitability	Unclear association between change in color and change in profitability; Color influences perception formation and investor judgments.
Kelton [2006]	US	59 MBA students	Web-based financial disclosures	Presentation format, Information type	---	Results suggest that presentation format affects nonprofessional investors' information processing and decision outcome for certain decisions but does not affect information acquisition. Participants using electronic financial information were significantly less accurate than those using paper-based information.

Table 6
Summary of visual and structural manipulation

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Incremental information – User perspective						
Bowen et al. [2005]	US	206 firms, 1,188 firm quarters	Earnings press releases	Emphasis/positioning of pro forma earnings	Value relevance, Firm performance, Media coverage, Level of scrutiny from regulator	Firms emphasize metrics that are more value relevant and that portray more favorable firm performance.
Elliott [2006]	US	89 MBA students and 55 analysts	Earnings press releases	Emphasis/positioning of pro forma earnings	---	The location of pro forma earnings, and not just their disclosure, influences investor perceptions and investment decisions.

Courtis [2004b] finds no difference in the use of color between profitable and unprofitable firms. However, Bowen et al. [2005] find that firms with low value relevance of earnings and greater media exposure place less emphasis on generally accepted accounting principles (GAAP) earnings and greater relative emphasis on pro forma earnings (i.e. they visually direct readers' attention to the earnings number that shows financial performance in the best possible light). Guillamon-Saorin [2006] finds that firms emphasize positive rather than negative information and that positive information tends to be more prominently placed than negative information.

3.2.7 Performance comparisons

Bias also manifests itself in numerical disclosures. This stream of research (summarized in Table 7) is based on the assumption that firms introduce positive bias by choosing performance comparisons that enable them to portray their current performance in the best possible light. Two types of performance comparisons have been studied: (1) benchmark earnings number (choosing the lowest prior-period comparative benchmark earnings number in order to report the highest year-on-year increase in earnings) and (2) performance referents (comparing performance indicators against reference points, either time-series (past performance) or cross-sectional (industry averages and competitors).

Table 7
Summary of performance comparisons studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – Preparer perspective						
Lewellen et al. [1996]	US	772	Corporate proxy statements	Common stock return performance comparisons	Firm size, Blockholders, Share ownership by highest paid executive, Rate of return of common stock	Evidence is found of a downward bias in stock return benchmarks, resulting in a bias in the comparison, indicating that managers engage in self-serving behavior.
Cassar [2001]	Australian	484/392 (1/5 years)	Annual reports	Disclosure of share performance graphs	Comparison share price performance, Firm size	Better performing firms are more likely to disclose share performance graphs. This selectivity, together with choice of comparisons in graphs, resulted in 87% of firms performing better than disclosed comparisons.
Short and Palmer [2003]	US	119	President's letter	Performance referents	Firm size, Firm performance, Corporate age	CEOs of large, highly performing and young companies use more external performance referents than CEOs from small, poorly performing and established firms.
Guillamon-Saorin [2006]	UK and Spain	172	Press release	Prior-period and other benchmarks	Firm size, Firm performance, Nationality, Industry	Benchmarks exaggerate good news, indicating biased reporting.
Impression management – User perspective						
Schrand and Walther [2000]	US	130	Quarterly earnings announcements	Prior-period earnings benchmarks	Share price reaction	Managers select prior-period benchmarks that result in the greatest increase in earnings. Investors use benchmarks to evaluate earnings.
Incremental information – User perspective						
Krische [2005]	US	104 students	Earnings announcements	Prior-period earnings benchmarks	---	Quantitative description of prior-period gain or loss in current year earnings announcements helps investors evaluate firm performance.

The selective use of a benchmark, to highlight positive changes in earnings, has been investigated by Lewellen et al. [1996]; Schrand and Walther [2000]; Cassar [2001]. Lewellen et al. [1996] find that share price performance benchmarks disclosed in corporate proxy statements are biased downwards; this has the effect of allowing managers to overstate relative share return performance. Schrand and Walther [2000] find that managers are more likely to select the lowest prior-period comparative benchmark earnings number that enables them to report the highest year-on-year increase in earnings. Cassar [2001] finds that better performing firms are more likely to voluntarily disclose share performance graphs in their annual reports. Guillamon-Saorin [2006] takes a different approach. She treats the use of performance comparisons of quantitative disclosures in press releases as emphasis in the form of reinforcement. Of the 1,109 quantitative amounts (from 172 press releases) to which a performance comparison was applied, 1,020 (92 percent) were applied to positive amounts.

Short and Palmer [2003] investigate the way CEOs monitor and interpret organizational performance using internal and external performance references. They find that CEOs of large and highly performing firms use more external performance referents in their performance explanations than CEOs of small and poorly performing firms.

3.2.8 Choice of earnings number

This disclosure strategy is concerned with the numerical disclosures; specifically the earnings number (see Table 8). It involves selectivity in terms of choosing specific earnings numbers and omitting others.

There has been substantial research on pro forma earnings; however, previous research has not explicitly identified the disclosure of pro forma earnings as an impression management strategy. Pro forma earnings are earnings numbers other than those calculated under GAAP. Thus, pro forma earnings can be computed in many different ways. They have been referred to as “earnings excluding all the bad stuff” [Fox, 1998, p. 48]. Two possible explanations for pro forma earnings have been put forward [Bowen et al., 2005]: (1) managers are motivated to provide users with more accurate useful information or (2) managers are making the firm look more profitable. If the latter motivation is the case, then the use of pro forma earnings fits the

definition of impression management in the sense that pro forma earnings introduce positive bias into corporate narratives.

Johnson and Schwartz [2005] provide evidence that pro forma earnings are predominantly income increasing over their GAAP counterpart. They state that firms use pro forma earnings for the purpose of "managing readers' perceptions of earnings" [p. 924]. They find support for opportunistic behavior in that managers go far beyond just excluding non-recurring items from pro forma earnings, by including other unspecified adjustments. Johnson and Schwartz also find that firms that report pro forma earnings have earnings that are no different in persistency than those of firms that report GAAP earnings. This, they say, contradicts the notion that firms use pro forma earnings to draw investors' attention to less persistent, more transitory items in GAAP earnings (i.e. with the purpose of providing users with incremental information).

Guillamon-Saorin [2006] defines selectivity (a quantitative measure) as the choice of an earnings amount for inclusion in press releases from the whole range of earnings figures available in the underlying financial statements. She finds that firms select the highest earnings number suggests that firms portray their performance in a positive light. This indicates an impression management motivation.

Table 8
Summary of choice of earnings number studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – Preparer perspective						
Guillamon-Saorin [2006]	UK and Spain	172	Press release	Choice of earnings number	Firm size, Firm performance, Nationality, Industry	Selection of information for disclosure introduces bias into financial reporting.
Incremental information – User perspective						
Frederickson and Miller [2004]	US	46 MBA students; 34 analysts	Earnings announcements	GAAP or pro forma earnings numbers	Earnings, Risk, Earnings growth, Credibility, Favorableness	Unintentional cognitive effects cause unsophisticated investors to perceive pro forma earnings announcements as more favorable.
Johnson and Schwartz [2005]	US	433	Press release	Pro forma earnings disclosures	Profitability, Firm size, Market risk, Ownership, Growth expectation	Income-increasing pro forma adjustments to GAAP earnings dominate the sample. Some highly profitable firms make income-decreasing pro forma adjustments.
Bowen et al. [2005]	US	206 firms, 1,188 firm quarters	Earnings press release	Pro forma earnings disclosures	Value relevance, Firm performance, Media coverage, Level of scrutiny from regulator	Firms emphasize metrics that are more value relevant and that portray more favorable firm performance.

3.2.9 Performance attribution

Research on the attribution of organizational outcomes (see Table 9) focuses on performance explanations. Managers are assumed to act in a self-serving manner, attributing positive organizational outcomes to internal factors (entitlements) and negative organizational outcomes to external factors (excuses).

Baginski et al. [2000, 2004] do not regard performance attributions as constituting impression management. Rather, consistent with the incremental information school, performance attributions are regarded as a disclosure strategy for overcoming information asymmetries by providing additional explanations "which aid investors in the interpretation of management forecasts by confirming known relationships between attribution and profitability or by identifying additional causes that investors should consider when forecasting earnings" [Baginski et al., 2004, p. 1]. However, they do not examine self-serving attributions as such. They simply classify them into internal and external attributions (which they refer to as "causal attributions") without linking them to positive or negative organizational outcomes.

Table 9
Summary of attribution studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – Preparer perspective						
Aerts [1994]	Belgium	50	Directors' reports	Performance explanations	Short-term performance, Stability of performance, Firm size, Industry	Accounting narratives are biased, with success being claimed but negative factors being blamed on external uncontrollable factors.
Hooghiemstra [2001]	US, Japan	60	CEO's letter to shareholders	Performance explanations, Technical language	Firm performance	Both US and Japanese CEOs attribute positive outcomes to internal factors; Both US and Japanese CEOS explain positive and negative outcomes in causal language.
Aerts [2001]	Belgium	22	Directors' report	Performance explanations	Short-term performance, Long-term performance, Listing status, Firm size	Significant degree of consistency in accounting narratives over time is found. Consistently high levels of positive attributions are unresponsive to performance change.
Clatworthy and Jones [2003]	UK	100	Chairman's report	Performance attributions	Firm performance	Managers engage in self-serving attributions. Positive organizational outcomes are attributed to internal factors and negative organizational outcomes to external circumstances.
Aerts [2005]	Belgium	167	Directors' reports	Performance explanations	---	Self-serving tendencies in attributional behavior depend on context, and the nature of the accounting effect explained.
Ogden and Clarke [2005]	UK	10 water plcs	Customer service statements in annual reports	Assertive and defensive impression management tactics	---	Corporate reporting is an important resource in legitimacy management.

Table 9
Summary of attribution studies

Study	Country	Sample size	Narrative sections	Content analysis technique	Independent variables	Results
Impression management – User perspective						
Staw et. al. [1983]	US	81	Letter to shareholders	Performance explanations	Change in stock price, Institutional ownership, Age of CEO, Tenure of CEO, Salary of CEO	Impression management is effective in that self-serving attributions are associated with improvements in stock price.
Lee et al. [2004]	US	294	Annual reports	Attributional statements	Stock prices	Companies that made self-disserving attributions (i.e. internal, controllable) for negative events had higher stock prices one year later.
Incremental information – User perspective						
Baginski et al. [2000]	US	2,085	Management forecasts	Manual coding of internal/external causes	Forecast type, Analyst following, Forecast horizon, Disclosure package, Other announcements, Share prices	Attributions are more likely with bad news forecasts. Attributions enhance precision or credibility of the forecasts.
Baginski et al. [2004]	US	951	Management forecasts	Manual coding of internal/external causes	Firm size, Earnings volatility, Good/bad news, Forecast type, Regulation, Industry, Other disclosures	Attributions are more likely for larger firms, bad news forecasts, maximum-type forecasts; are less likely in regulated industries and in longer-horizon forecasts; are associated with greater absolute and more negative price reactions to management forecasts.
Barton and Mercer [2005]	US	124 analysts	Self-serving disclosures blaming bad performance on external factors	Plausible explanations, Implausible explanations	Analysts' beliefs about earnings persistence, Forecasts of earnings per share, Management reputation, Earnings valuation multiples	Analysts provide higher earnings forecasts and stock valuations for plausible explanations. Implausible explanations lead to lower earnings forecasts and assessment of cost of capital, than if no explanations are provided.

Aerts [1994, 2001] and Clatworthy and Jones [2003] find firms to be more likely to attribute success to firm-internal than firm-external factors. Negative organizational outcomes are explained using accounting terminology, whereas positive organizational outcomes are explained by clear cause-effect statements [Aerts, 1994]. Managers of firms with both improving and declining performance attribute positive organizational outcomes to internal factors and negative organizational outcomes to external circumstances (i.e. they engage in self-serving behavior) [Clatworthy and Jones, 2003]. Context and motive significantly affect self-serving tendencies [Aerts, 2005]. The effectiveness of this impression management strategy is dependent on the extent to which explanations are plausible [Barton and Mercer, 2005].

In a cross cultural study of US and Japanese firms, Hooghiemstra [2001] finds that managers of both profitable and unprofitable US firms attribute positive organizational outcomes to internal factors and negative organizational outcomes to external factors (i.e. they engage in self-serving behavior). However, regardless of financial performance, Japanese managers attribute negative organizational outcomes to external circumstances, but they do not show any self-serving tendencies by attributing positive organizational outcomes to internal factors.

3.2.10 Conclusions from empirical research

Evidence from studies focusing on reading ease manipulation, rhetorical manipulation, and thematic manipulation is inconclusive. Many studies find no association between these discretionary disclosure strategies and negative financial performance. As already outlined in Section 3.2.3, findings regarding obfuscation by means of reading ease manipulation are inconclusive. The overall evidence concerning rhetorical manipulation seems to suggest that firms do not use persuasive language in corporate narrative documents to obfuscate negative organizational outcomes. In relation to thematic manipulation, some studies observe positive bias in the themes, regardless of firm financial performance. Others conclude that firms do not seem to use narrative corporate report sections "to reduce the effect of bad news or to smooth the effect of good news" [Abrahamson and Amir, 1996, p. 1159]. However, research regarding thematic manipulation in non-routine reporting contexts, such as equity offerings, shows stronger results.

These mixed and inconclusive results can be interpreted as evidence that these discretionary disclosure strategies are used for the provision of incremental relevant information rather than for impression management purposes. Managers may be motivated to overcome information asymmetries by providing information in an easily accessible way. There may be no association between, for example, reading difficulty and negative financial performance as that firms may use language (e.g. reading difficulty) not for obfuscation, but for clear communication with users. Rhetorical devices may serve other purposes than impression management, namely to clarify and to maintain organizational legitimacy with users [Yuthas et al., 2002].

Alternatively, there may be problems with measures of reading difficulty, choice of disclosure vehicle (i.e. predominantly corporate annual report sections) and/or choice and measures of firm performance (i.e. concurrent negative firm performance; predominantly short-term and firm-specific measures of firm performance).

There is some evidence suggesting that firms manipulate visual and structural effects to emphasize good news. Findings from research on performance comparisons and choice of earnings number suggest that these discretionary narrative disclosure strategies constitute impression management rather than incremental information. The evidence also seems to suggest that performance attributions constitute self-serving bias (i.e. impression management) rather than managerial performance explanations aimed at providing investors with incremental information.

Support for the impression management school can be attributed to two factors. First, these discretionary disclosure strategies (specifically performance comparisons and choice of earnings number) are concerned with earnings – managers perceive earnings to be the prime focal point of investors [Graham et al., 2006].[6] Earnings thus constitute the most worthwhile information to manipulate in corporate narrative sections. Second, studies focusing on these discretionary disclosure strategies are based on more immediate disclosure vehicles, primarily press releases, which constitute more likely impression management vehicles than annual reports.

[6] Nearly two-thirds of managers ranked earnings as the measure of value they perceived to be of most importance to outside stakeholders.

4.0 USER PERSPECTIVE

This section first examines the theoretical underpinnings of the two schools of thought. Then investor/user reactions to managerial discretionary disclosure strategies in the form of (a) share price reaction studies and (b) behavioral studies are discussed. Studies from both schools adopt the same methodologies (i.e. either capital market tests or behavioral experiments) to assess the impact of discretionary disclosure strategies on users, albeit under diametrically opposed assumptions.

4.1 Theoretical framework

The majority of share price reaction studies either do not refer to any theories explaining investor responses to discretionary narrative disclosure strategies or make use of economics-based theories. By contrast, behavioral studies either explicitly or implicitly draw on theories from behavioral finance that explain investor reactions by reference to psychology-based arguments.

The next two sections discuss user-orientated studies by reference to their theoretical premise. Lee et al. [2004] is not included in this discussion, as this paper does not refer to a theory to explain user behaviour.

4.1.1 Economics-based theories

Share price reaction studies from the incremental information school explain investor reactions to managerial discretionary disclosure strategies by implicit reference to expected utility theory. This means that any reaction to discretionary disclosure strategies is assumed to be driven by their perceived informativeness/value relevance. Investors' susceptibility to impression management [see Baginski, 2000, 2004]; [Henry, 2006a]; [Davis et al., 2007] or user characteristics such as cognitive/emotional effects are not taken into account. The underlying assumption is that markets are efficient and that share prices are set by sophisticated investors capable of fully assessing "the true cash flow implications of accounting data" [Hand, 1990, p. 740]. For this reason, investors are assumed not to be susceptible to impression management.

By contrast, share price reaction studies from the impression management school presume that investors are potentially receptive to impression management; and that this receptiveness could have real economic consequences. This assumes

market inefficiencies because (a) not all users are sophisticated or (b) sophisticated users are affected by cognitive limitations preventing them from seeing through impression management. Thus, investors (at least some) are assumed to make decisions based on irrationality or bounded rationality[7] [see Newell and Simon, 1972]; [Simon, 1982]. Few of these studies refer to any theories explaining investor behavior.

Expected utility theory

Baginski et al. [2000, 2004] assume that discretionary disclosure strategies constitute incremental information resulting in share price reactions due to their perceived value-relevance. They do not consider the possibility of discretionary disclosure strategies being driven by opportunistic managerial motives, as this would not fit their utility maximization assumptions. They observe that economics-based theories of attribution do not exist [Baginski et al., 2004, p. 27].

Prior research has found only a weak association between earnings and share prices [Henry, 2006a, p. 2]. As investors are risk-averse, they react positively to increased disclosure. For this reason, the relation between earnings and share prices can be improved, not only by including earnings numbers, but also by including verbal content and writing style in the disclosure variable (press releases in this instance) [Henry, 2006a]. Henry [2006a] concludes that this is because the earnings information is largely stale, and it is the narrative components of press releases that contain new information.

Davis et al. [2007] examine stock price reactions to optimistic and pessimistic narrative disclosures. They find a significant incremental market response to managers' linguistic style, suggesting that investors find such disclosures credible. Consistent with Baginski et al. [2000, 2004] they attribute this stock price reaction to the incremental information content of the disclosures.

Incomplete revelation hypothesis

This hypothesis states that statistics that are more costly to extract from publicly available data are less completely reflected in market prices. The easier

[7] Bounded rationality is nearly optimal behavior and may, for example, involve the use of rules of thumb.
A minority of studies taking an impression management perspective assume that both managers and investors are rational. Impression management is thus part of the ritualistic (boilerplate) function of corporate disclosures [Gibbins et al., 1990].

information is to extract the more it is impounded into share prices. Since pro forma earnings take time and effort to reconcile with GAAP earnings, investors might be inclined to take them at face value and thus be misled by managers opportunistically choosing income-increasing pro forma earnings. By employing the incomplete revelation hypothesis [Bloomfield, 2002], Bowen et al. [2005] use economics-based arguments to explain investor reactions to managerial impression management. Li [2006] invokes this hypothesis to explain why managers might manipulate syntactic features to make the annual reports of poorly performing firms difficult to read.

4.1.2 Behavioral finance theories

Research from behavioral finance suggests that investors are not a fixed group, "but instead consist of an ever-changing pool of investors, who as they become older and if wiser are replaced by a new cohort still wet behind the ears and ready to be misled emotionally" [Huang, 2005, p. 115]. Furthermore, less experienced investors are able to influence market prices [Shleifer, 2000]. Finally, even experienced professional investors are susceptible to systematic biases in their cognitive processing of information resulting from specific presentation formats [Mullainathan and Shleifer, 2005].

Two share price reaction studies [Schrand and Walther, 2000]; [Henry, 2006b] and the vast majority of behavioral studies either explicitly or implicitly draw on theories from behavioral finance (that, in turn, are based on research in cognitive and social psychology) to explain user susceptibility to impression management.

By providing insights into the underlying reasons for market inefficiency, behavioral finance explains why users might be misled by opportunistic discretionary disclosures. Behavioral finance is based on the premise that under uncertainty individuals do not make decisions based on rationality, but on bounded rationality. This leads to heuristic-driven (i.e. rule of thumb) decisions. Additionally, uncertainty leads to individuals taking into account not only the substance, but also the form, of the risky alternatives they face. This means that they consider the framing of choices (i.e. the terms in which expected outcomes are expressed), regardless of whether such frames are economically relevant or not. This behavior under uncertainly results in market inefficiency, where inefficiency is defined as the systematic departure of prices from fundamental values [Shefrin, 2002]. Thus, susceptibility to impression management may be a result of either heuristic-driven bias or framing effects.

User reactions to impression management can be analyzed in the context of three explanatory frameworks: biases relating to decision making and belief, social biases, and framing effects. Biases relating to decision making and belief are due to cognitive limitations. Social biases are mainly attribution biases concerning the way we assign responsibility for an event. Framing is the way information is worded, formulated or presented.

Decision making and belief

A number of studies specifically refer to particular theories explaining the cognitive biases relating to decision making in an environment where the presentation and disclosure of information has been manipulated, including the belief-adjustment model, the functional fixation hypothesis and cognitive limitations.

Baird and Zellin [2000] use Einhorn and Hogarth's [1981] belief-adjustment model to explain whether users' perceptions of firm performance and prospects are influenced by the ordering of positive and negative information. The model considers whether all information is equally utilized (no order effect) or whether individuals are more influenced by the first information item (primacy effect) or the last information item (recency effect). Further, utilization of information depends on certain characteristics of the information set, namely (1) the complexity of the information and task (complex vs. simple), (2) the length of the information set (short vs. long), (3) the consistency or inconsistency of the information components, and (4) the response mode employed to process the information (estimation vs. evaluation). Baird and Zellin's results indicate that investors rely most on the information presented first (primacy effect) when assessing a firm's past and future performance.

Adopting the belief-adjustment model and sequential cognitive processing, Tan et al. [2002] explain user (analysts) susceptibility to impression management in the form of earnings guidance provided by management (i.e. the tendency to overstate bad news[8] and understate good news) by means of the recency effect.

Under the functional fixation hypothesis, unsophisticated investors are assumed to be incapable of "unscrambl[ing] the true cash flow implications of

[8] Fox [1997] quotes the exchange between Goldman Sachs analyst Rick Sherlund and Microsoft CEO Bill Gates and sales chief Steve Ballmer after a meeting with analysts that entailed a grim presentation full of cautionary and downbeat words about the future. Bill Gates and Steve Ballmer's response to Rick Sherlund's comment "Congratulations. You guys scared the hell out of people" was to give each other a high five.

accounting data" [Hand, 1990, p. 740]. This contrasts with the efficient markets hypothesis where sophisticated investors are believed to be capable of fully interpreting accounting data. Hand extends the functional fixation hypothesis by including both sophisticated and unsophisticated investors. Schrand and Walther [2000] use Hand's extended functional fixation hypothesis to explain share price reactions to earnings benchmark comparisons. Thus, investor susceptibility to this impression management strategy is due to investors fixating on the information reported to them, due to information processing biases.

Frederickson and Miller [2004] also attribute the susceptibility of unsophisticated investors to impression management in the form of income-increasing pro forma earnings as unintentional cognitive effects, due to information processing limitations.

Elliott [2006] is one of the few authors to consider two possibilities – that stock price reactions could be due to the perceived informativeness of the information disclosed or may be the result of unintentional cognitive effects. She finds unsophisticated investors to be more easily misled by impression management than professional investors. Due to their cognitive limitations, unsophisticated investors attribute more importance to emphasis/presentation issues than to the information contained in earnings numbers.

Kelton [2006] adapts a theoretical research framework from Mauldin and Ruchala's [1999] accounting information systems research to examine contingency factors influencing unsophisticated investors' judgments. She incorporates two contingency factors influencing information processing: cognitive and technological. Thus, she takes account of human information processing issues and specific design characteristics of the accounting information.

Social biases

Discretionary disclosures are only effective in managing impressions by altering user perceptions if they are perceived to be credible. Barton and Mercer [2005]; Mercer [2005] use attribution theory to provide insights into the factors contributing to the credibility of information. In order for information to be credible, it needs to be plausible.

In an experimental setting, Barton and Mercer [2005] examine analysts' reactions to managerial attributions. If analysts do not find the explanations plausible,

based on game theoretic models of strategic disclosure, such disclosures will be regarded as "cheap talk" (costless communication unlikely to have an effect), i.e. impression management, and will be ignored. Cheap talk models sometimes include "babbling equilibria" in which uninformative messages are ignored by users. Relying on concepts from psychology, Barton and Mercer [2005] provide an alternative reason why implausible explanations might be ignored. Most belief-adjustment models in psychology assume that, when readers update their beliefs, they give zero weight to implausible explanations. However, they cite more recent research which finds that implausible explanations which blame poor performance on temporary external factors may backfire and have the opposite effect of increasing analysts' concerns about poor performance. Based on these arguments, Barton and Mercer predict that plausible explanations will reduce cost of capital. This is because they increase management reputation, which in turn reduces risk from information asymmetry, thereby lowering cost of capital. The converse is also predicted – implausible explanations will harm management reputation and thus increase the cost of capital.

Further, attribution theory predicts information credibility to depend on forthcomingness (accuracy, completeness, and timeliness) of disclosure [Mercer, 2005]. As impression management is expected to lack credibility since it is indicative of a lack of managerial "forthcomingness" (i.e. inaccurate, incomplete, and untimely discretionary disclosures). Further, attribution theory regards credibility to be a function of information incongruity predicting that discretionary disclosures that are at odds with managers' personal incentives are more likely to be attributed to a dispositional characteristic (e.g. the manager's honesty or trustworthiness) than disclosures that are congruent with the managers' incentives. This means that users are more likely to attribute forthcoming (i.e. accurate, complete, and timely) negative news disclosures to managers' honesty and trustworthiness than forthcoming positive news disclosures. This effect is confirmed by Matsumoto et al. [2006] who find that analysts are more skeptical of good news than bad news disclosures.

However, Mercer finds that this social bias is only a short-term effect. In the long term, managers who report positive earnings news are perceived as having higher reporting credibility than managers who report negative earnings news, regardless of their previous forthcomingness. This suggests that impression management might be effective in the long term.

Framing effects

Prospect theory describes how people make choices when faced with choosing between different risky alternatives and is an alternative to expected utility theory. Tversky and Kahneman [1981, 1986] have shown that individuals' judgments are influenced by the terms in which risky alternatives are expressed – what they call "framing effects". Prospect theory predicts that people's choices differ depending on the way risky alternatives are framed, for example, in positive rather than negative terms. Thus, prospect theory shows that the way information is presented (information format) influences the way it is processed. Krische [2005] explains the effectiveness of performance comparisons as a function of investors' memory limitations. Investors are unable to assess the bias in the benchmark comparisons of earnings as their memory of prior-period earnings is inaccurate or incomplete. Henry [2006b] invokes prospect theory to explain why the tone of earnings press releases influences investors' reactions to earnings announcements. Framing financial performance in positive terms causes investors to regard the results in terms of increases relative to reference points (e.g. performance relative to some prior-period metric).

4.2 Empirical findings regarding user reactions to discretionary disclosures

Table 2 identifies prior studies taking a user perspective. User-oriented studies comprise archival share price reaction studies or experimental studies.

4.2.1 Share price reaction studies

Researchers examine investor reactions to four discretionary disclosure strategies, namely (1) performance attributions (i.e. internal/external attribution of performance) [Baginski et al., 2000, 2004] and self-serving/self-disserving attributions, [Staw et al., 1983]; [Lee et al., 2004]; (2) thematic manipulation (i.e. positive/negative discretionary disclosures) [Abrahamson and Amir, 1996]; [Lang and Lundholm, 2000]; [Henry 2006b]; [Matsumoto et al., 2006]; [Davis et al., 2007]; (3) visual and structural effects (i.e. emphasis on pro-forma earnings) [Bowen et al., 2005], and (4) choice of earnings number [Bowen et al., 2005].

Additional narrative disclosures are value-relevant. Hoskin et al. [1986]; Francis et al. [2002] find a share price reaction to narrative disclosures and conclude that they are credible and have information content for investors. However, these two

studies only consider the frequencies of additional narrative disclosures rather than their content.

Baginski et al. [2000, 2004] find that investors react to management attributions accompanying management forecasts (i.e. either internal or external attributions of firm performance). They conclude that these disclosures are credible and enhance the stock market reaction to earnings surprises. Similarly, Davis et al. [2007] find a significant market response to optimistic and pessimistic language in management earnings announcements; this indicates that the information is credible and constitutes a means of overcoming information asymmetries.

Hutton et al. [2003] observe significantly positive market reactions to good news earnings forecasts accompanied by verifiable supplementary disclosures, insignificant market reactions to good news earnings forecasts accompanied by "soft talk" (qualitative disclosures), and significant market reactions to bad news earnings forecasts irrespective of the type of supplementary disclosures. Consistent with attribution theory, this suggests that only verifiable statements that are perceived to be inconsistent with managers' personal incentives are credible.

Staw et al. [1983] examine the impact of changes in prior-period stock returns on performance attributions, as well as looking at the effect of performance attributions on subsequent share prices. Baginski et al. [2000, 2004] and Lee et al. [2004] only examine investor reactions (i.e. subsequent share prices) to managerial performance attributions.

Staw et al. [1983] find prior decreases in stock price to result in defensive attributions (i.e. attributing negative organizational outcomes to external circumstances). Furthermore, both increases and decreases in prior stock prices result in attributions of positive organizational outcomes to internal factors; this suggests that both prior positive and negative stock movements "can be a source of insecurity or provide reason to engage in self-serving attributions" [p. 596].

Staw et al. [1983] find self-serving attributions (attributing positive organizational outcomes to internal factors) to be associated with subsequent improvements in share price, irrespective of the financial performance of the firm. This is taken as evidence that "self-serving attributions appear…to be convincing to the investing public" [p. 582], suggesting that impression management is effective. Similarly, Abrahamson and Amir [1996] find a strong negative association between the number of negative words in the president's letter to shareholders and market-

adjusted returns. However, Lee et al. [2004] find the opposite – managers using self-disserving attributions (i.e. who take responsibility by attributing negative events to internal, controllable factors) in their corporate narrative documents to have higher stock prices one year later. This suggests that the market responds positively to managerial attempts to overcome information asymmetries by providing explanations for negative events. These results suggest that attributions are used by investors to assess the quality of earnings.

Johnson and Schwartz [2005] use a more direct test of market reactions, based on a sample of firms that did/did not disclose a pro forma earnings number. They find that pro forma earnings firms are priced higher. However, they question whether this higher pricing is a result of their adopted disclosure strategy. They find the higher pricing not to be related to characteristics of the pro forma disclosures *per se*, suggesting that investors are not misled by pro forma earnings. Schrand and Walther [2000] find that investors are influenced by managers' strategic use of prior-period benchmarks resulting in favorable increases in earnings. They conclude that managers must assume that investors are not rational in that they do not use other publicly available information and are taken in by the use of a carefully chosen benchmark.

The presentation techniques adopted, such as emphasis or the prominence of the positioning of the disclosure, also influence investors. Bowen et al. [2005] find that the stock market response to pro forma earnings is greater where the earnings number has received greater emphasis. They assume that the incremental information content of pro forma earnings increases as the relative emphasis on the pro forma number increases.

Henry [2006b] finds that markets react to the tone, length, and numerical intensity of press releases. Matsumoto et al. [2006] find positive price reactions in response to managerial optimism in earnings announcements press releases. However, prices are subsequently revised in response to analysts' skepticism expressed during conference calls. This suggests that investors are susceptible to managerial bias, but subsequently revise their opinion. It also suggests that analysts are able to assess managerial bias and that investors ultimately agree with analyst skepticism.

Lang and Lundholm's [2000] research is an exception, maybe because they locate their research in a non-routine reporting context. They test whether increased disclosures prior to new equity public offerings are mere hyping of the stock or whether there is a positive price reaction to the additional disclosures. They find that

firms with significantly increased disclosures (including management spin disclosures) suffer greater negative returns at the announcement of the new share offering; this suggests that the market views such increased disclosure as hype.

4.2.2 Behavioral research

Behavioral research investigates whether users are susceptible to the manipulation of the presentation and disclosure of discretionary information and whether susceptibility is a function of user characteristics, predominantly financial expertise.

Susceptibility to the manipulation of information

Using MBA students to assess the impact of information ordering in presidents' letters to shareholders, Baird and Zelin [2000] find that individuals' evaluations depend on information ordering, with subjects relying most on the first information read when assessing both past performance and future firm potential.

Courtis [2004b] finds that color in annual reports impacts on unsophisticated investors' perceptions of financial performance. He also observes differences in the evaluation between genders, suggesting that susceptibility to impression management differs between men and women.

In an experimental setting, Krische [2005] confirms Schrand and Walther's [2000] conclusions that investors are susceptible to reporting bias. She finds that investors adjust for prior-period events when clear quantitative descriptions are present, but not when descriptions are absent, even though investors have previously been made aware of the information. The disclosure concerning prior-period events influences their judgment of current-period performance.

Nowadays firms release financial information through websites that require investors to use hyperlinks. Kelton [2006] investigates the effect of cognitive overload on investors. Her preliminary evidence shows that web-based presentation formats are harder for investors to process than paper-based financial information.

Impact of user characteristics on the manipulation of information

In an experiment, Stanton et al. [2004][9] examine whether the impression of performance varies according to (1) access to information (narrative sections as opposed to full annual report) and (2) financial expertise of respondents (marketing students as opposed to accounting students). No significant differences are found. Their results suggest that managers are not successful in manipulating the perceptions of annual report users through narrative sections. However, since they do not carry out a content analysis of discretionary disclosures in order to establish whether the narrative annual report sections contain any evidence of impression management, their results have to be interpreted with caution.

In laboratory experiments using MBA students, Frederickson and Miller [2004]; Elliott [2006] find that unsophisticated investors (MBA students) assign too high a share price to pro forma earnings numbers in press releases, whereas the judgments of sophisticated investors (financial analysts) are unaffected by the reporting bias. Frederickson and Miller [2004] attribute this to unintentional cognitive effects on the part of unsophisticated investors.

5.0 FUTURE RESEARCH

5.1 Differentiating between incremental information and impression management

Previous research on discretionary narrative disclosure strategies has been carried out from two opposing and mutually exclusive schools of thought. Future research needs to effectively differentiate between the two schools. Previous research from the preparer perspective is almost exclusively based on investigating impression management in a routine corporate reporting context (with the exception of Lang and Lundholm, [2000]). However, asset pricing motivations to engage in impression management might be much stronger in a non-routine context involving transactions where share price is a crucial factor, such as initial public offerings, takeovers, or the exercise of managerial share options.

What is more, previous research from the preparer perspective is largely based on quantitative content analysis, with some qualitative studies. However, conventional content analysis approaches are unable to differentiate between impression

[9] Stanton et al. [2004] examine the influence on users of access to information. This is not one of the seven impression management strategies in this paper, but we consider that their research is worth mentioning to understand user impression formation.

management and incremental information. More qualitative content analysis approaches in the vein of Davison [2002, 2008]; Davison and Skerratt [2007]; Craig and Amernic [2004]; Crowther et al. [2006] might be better suited to uncover the underlying managerial intent. Further, surveys of top managers in the style of Graham et al. [2006] focusing on managerial discretionary disclosure decisions might provide valuable insights on the underlying motivation of managers.

Future research from the user perspective needs to incorporate both possibilities (impression management and incremental information) into the research design. Future share price reaction studies need to test for subsequent market corrections. If investors revise their opinion, this is an indication that the initial market reaction occurred as a result of susceptibility to impression management, rather than the perceived value-relevance of narrative disclosure strategies. Future behavioral studies need to provide users with additional information after they have made an initial assessment in order to establish whether this prompts them to revise their opinion. No changes in opinion indicate that users are not susceptible to impression management. By contrast, changes in opinion suggest that users are susceptible to impression management, but correct their initial assessment when provided with additional information.

5.2 Preparer perspective

Future research from a preparer perspective should focus on seven areas.

5.2.1 New theoretical perspectives

The dominant theoretical perspective in impression management research is agency theory. However, agency theory is not without its limitations and drawbacks [see, for example, Roberts et al., 2005]. The lack of evidence to support the obfuscation hypothesis might be attributed to its limited psychological validity. The obfuscation hypothesis is derived from an agency theory concept of impression management that is based on (a) rationality assumptions of preparer and user behavior, and (b) economics-based assumptions of preparer motivations and strategies. Alternative theoretical approaches provide insights into non-economics-based explanations of managerial behavior and focal points for the analysis of impression management other than financial performance.

Research in social psychology differentiates between impression management and ego-centric bias or self-deception. Whereas the former constitutes "a deliberate attempt to distort one's responses in order to create a favorable impression with others," the latter is "a dispositional tendency to think of oneself in a favorable light," [Barrick and Mount, 1996, p. 262]. Unlike impression management, self-deception is a cognitive bias arising because individuals do not behave perfectly rationally. In a financial reporting context this manifests in managerial bias in the form of optimism/overconfidence/hubris that entails managers overestimating their own abilities. So far, research from a preparer perspective has not sufficiently distinguished between managerial impression management and hubris (Staw et al. [1983]; for an exception see Abrahamson and Park [1994]). Hubris involves a portrayal of the firm in a positive light driven by irrational managers displaying behavioral biases, such as optimism and overconfidence. This assumption of managerial optimism (hubris) is widespread in research in explaining the motives for mergers, but has not been adopted in explaining the reporting bias inherent in narrative annual report documents. If managers are regarded as irrational participants in the financial reporting process, then their tendency towards reporting bias could be the result, not of impression management but of self-deception (hubris).

Although impression management and hubris stem from different preparer motives, their potential impact on users in the form of capital misallocations is the same. The methodology pioneered by Brown and Sarma [2006] in the context of acquisitions might be useful to differentiate between the two. They proxy CEO overconfidence using media coverage. If a CEO is portrayed by the business press as overconfident (specific personality traits reported) this makes hubris, and not impression management, the more plausible explanation for managerial reporting bias.

Alternative concepts of impression management derived from social psychology indicate that agency theory explanations of impression management might have limited explanatory power. There are many other theoretical perspectives explaining managerial behavior that might be invoked in moving research paradigms forward. For example, in a longitudinal study of the annual reports of Marks and Spencer, Campbell [2000] applies legitimacy theory to investigate how firms use corporate social disclosures to manipulate outsiders' perceptions of the firm. He suggests that corporate social disclosures are used as a means of reality construction

by successive chairmen. In this vein, a variety of studies demonstrate how corporate leadership uses rhetoric in corporate narrative documents to imprint their view of reality and thus to control outsiders' perceptions of the firm [Hyland, 1998]; [Amernic and Craig, 2004]; [Craig and Amernic, 2004]; [Crowther et al., 2006]. Craig and Amernic [2004] analyze the use of hyperbole in Enron's 2000 letter to shareholders (just before the scandal erupted).

Institutional theory suggests that firms may adopt social norms by emulating other firms in order to reduce attention from economically powerful stakeholders. For this purpose, firms may well engage in impression management. Institutional theory as applied in impression management research could be extended to examine whether firms engage in mimetic isomorphism (i.e. impression management entailing the copying of the behavior or reporting strategies of other firms, such as industry leaders) [see DiMaggio and Powell, 1983].

Impression management also features in other disciplines such as marketing, politics, and social psychology, which may offer new insights for application in a financial reporting context. Stanton and Stanton [2002] identify marketing, political economy, and accountability as additional perspectives adopted in the analysis of annual reports. Huang [2003] points to empirical evidence from marketing and consumer behavior studies regarding firms manipulation of consumer perceptions of risk, as potentially relevant for accounting research.

Studies adopting a political economy perspective regard corporate narratives as ideologically biased documents whose main purpose is to maintain the status-quo – as communication vehicles used by "top management [to] impose its perspectives" [Amernic, 1992, p. 2]. As this entails manipulating users' perceptions of corporate values, it constitutes impression management. In their analysis of the annual reports of the UK water industry, Crowther et al. [2006] use the analogy of corporate reporting as story-telling. Management are the "authors" of narrative corporate report sections that represent "the script of corporate reporting." In their framework, impression management thus constitutes an attempt on the part of the authors of the script "to control the way in which the corporate story is interpreted" [p. 199].

Insights from the reputation risk management literature could be used to investigate impression management in a corporate reporting context. Reputation risk management assumes that incentives to disclose stem from managers' needs to fulfill societal expectations in order to safeguard their reputation. This perspective is

adopted in several social and environmental disclosure studies linking quantity and quality of disclosure to corporate scandals and allegations [Campbell and Beck, 2004]. White and Hanson [2002] use Goffman's [1959] work on impression management to investigate how Amcor, an Australian-based multinational forestry and manufacturing firm, managed its corporate reputation over a thirty-year period.

5.2.2 New managerial motives and strategies

Social psychology provides alternative explanations for the motives of managers to engage in impression management, and also suggests alternative ways to construct impressions that entail "choosing the kind of impression to create" and "deciding how [to] go about doing so" [Leary and Kowalski, 1990, p. 35-36].

The work of Leary and Kowalski [1990] suggests opportunities for application in narrative reporting. They identify three factors motivating impression management. The primary motivation is maximizing expected rewards and minimizing expected punishments. This is consistent with agency theory explanations focusing on opportunistic managerial behavior. However, they note that the strength of people's motivation to engage in impression management depends on (1) the goal-relevance of the impressions, (2) the value of the desired outcomes, and (3) the discrepancy between one's desired and current social image.

Individuals are motivated to engage in impression management if it is relevant to achieving one or several goals – the maximization of social and material outcomes, the maintenance and enhancement of self-esteem, and identity creation. The relevance of these goals depends on the publicity of the individual's behavior and on the individual's dependency on others for valued outcomes. Publicity is "a function of both the probability that one's behavior will be observed by others and the number of others who might see or learn about it" [Leary and Kowalski, 1990, p. 38]. If an individual depends on others for valued outcomes, the impressions that individuals make on others become more important. Thus, the individual's motivation to engage in impression management becomes stronger. They also note that "as a result, people are more likely to ingratiate themselves with their bosses and teachers than with their friends" [p. 38].

Since corporate reporting is public, we can assume that managers are strongly motivated to engage in impression management in order to obtain the various material and social benefits (and possibly to enhance self-esteem and create desired identity).

This could be tested, as not all firms attract the same level of public attention. Managers' social and material benefits depend on the approval of both internal and external parties, prompting them to engage in impression management. Internal boards of directors vary in passivity, and external shareholders and stakeholder groups vary in pro-activity. These variations provide opportunities to research their influence.

The value of the desired outcomes is also a factor in impression management. The higher the value attached to a particular outcome, the stronger the motivation to engage in impression management. The value of desired outcomes is a function of resources. This means that impression management motivation is higher when resources are scarce. Thus, impression management should be stronger during economic downturns and when firms are in heightened competition for funds. Each of these factors provides opportunities for enhanced study of motives behind impression management. Designing studies where these factors are strongly/weakly manifest should enhance our understanding of the influence of each on impression management in corporate narratives.

According to Leary and Kowalski [1990], impression construction depends on five factors: (1) self-concept, (2) desired and undesired identity images, (3) role constraints, (4) target values, and (5) current and potential social image. Impression construction involves constructing either public images that are a reflection of one's self-concept (albeit putting the best part of oneself into public view) or images that are inconsistent with one's self-image. Self-presentational dissimulation (i.e. pretence) is most likely to occur for individuals employed in highly visible occupations, such as teachers, politicians, clergy, and salespeople.

Leary and Kowalski [1990] further state that individuals tend to portray images of themselves that are biased in the direction of their desired self-image. Individuals also strive to ensure that their public image is consistent with their social role. In particular, they try to match their social images to prototypical characteristics fitting their role. In addition, individuals construct images of themselves that match the values and preferences of significant others. In a corporate reporting context, this tendency can be applied to investigate whether firms engage in impression management by emulating the target values of important stakeholder groups or interest groups in society regarding issues such as environmentalism, gender and racial equality, or ethical concerns, such as fair trade issues. In this context, and as suggested earlier, adopting a stakeholder theory perspective that focuses on mimetic

isomorphism – copying behavior (see DiMaggio and Powell [1983]) of other best-in-class firms, could be fruitful.

Finally, Leary and Kowalski [1990] state that impression management construction also depends on individuals' current and potential image in the future, that might be the result of future revelations about the individual. This potential image, based on information others are likely to receive in the future, constrains impression management strategies. Public failures or embarrassments compel individuals to engage in impression management strategies aimed at countering or repairing their damaged image using excuses, apologies, and self-serving attributions.

This raises the question of managerial perceptions of users' impressions. Merkl-Davies' [2007] findings regarding reading ease manipulation in UK chairmans' reports suggest that firms might tailor their corporate narrative documents to the reading strategies of their target readership groups. Her results indicate that large firms seem to cater to the needs of high-knowledge readers (sophisticated investors or readers largely familiar with the information content of the chairman's report); whereas small firms cater to the needs of low-knowledge readers (unsophisticated investors or readers largely unfamiliar with the information content of the chairman's report).

Levantis and Weetman [2004] discuss provision of second-language annual reports. This can offer insights into managers' perceptions of users, which in turn can explain managers' voluntary disclosure and impression management practices. So and Smith [2002] point to the importance of matching presentation style of information to user characteristics, and to the interactions thereof. We also need to understand more about managerial beliefs regarding user impression formation, and regarding the effectiveness of various impression management strategies on users. Although the effects of impression management and perceptions of how users' impressions are formed are related, useful additional nuanced insights can be gained by considering them separately.

In this context, Graham et al.'s [2006] survey of 401 senior financial executives suggests that managers perceive investors and analysts, particularly youthful equity analysts, as being incapable of looking beyond short-term earnings. In the case of negative earnings surprises, managers perceive it not worth their while to explain the underlying reasons and implications for long-term prospects, but prefer to engage in earnings management in order to ensure that they meet or beat analysts'

forecasts. This suggests that negative earnings surprises might also prompt managers to engage in impression management. While there has been some research on the use of impression management to meet/beat analysts' forecasts [Schrand and Walther, 2000]; [Yuthas et al., 2002], to shape analysts' expectations of future performance [Davis et al, 2007], and possibly to guide analysts' expectations downwards [Tan et al., 2002], analyst-orientated impression management research is still in its infancy.

Leary and Kowalski's [1990] model of impression management motivation and construction offers opportunities for greater depth of analysis in corporate narrative documents.

5.2.3 New methodological approaches and content analysis techniques

Previous impression management research uses content analysis techniques to investigate whether and how managers use corporate narrative documents for impression management purposes and what factors might influence this behavior. Due to their agency theory affiliations, most impression management studies are methodologically rooted in the positivist tradition, and involve large sample sizes, statistical analysis, etc. Since quantitative content analysis requires the reduction of large amounts of text to quantitative data, it does not provide a complete picture of meaning. By contrast, qualitative content analysis allows a richer investigation that focuses on the deeper meaning of the text. Newbold et al. [2002, p. 249] note that it "exposes the ideological, latent meaning behind the surface of texts, allowing us to grasp the power relations within them."

Since impression management is a subtle activity, it necessitates methodological approaches that are able to handle these subtleties. More in-depth investigations, based on alternative theoretical explanations and methodological approaches are required. Likely fruitful avenues include case studies and longitudinal analyses using qualitative content analysis techniques, in the vein of Davison [2002, 2008]; Davison and Skerratt [2007]; Craig and Amernic [2004]; Crowther et al. [2006].

Recent research expands our somewhat blinkered view of what constitutes impression management, by applying aspects of communication from other disciplines to corporate reporting contexts. There are many more impression management strategies beyond the seven considered in this paper. For example, using a framework of analysis informed by linguistics, philosophy, and art, Davison [2002,

2008]; Davison and Skerratt [2007] investigate the use of persuasion using rhetorical devices, such as antithesis and repetition, in the textual and visual material of the annual reports of selected firms. In her analysis of the annual review of British Telecom over a ten-year period, Davison [2008, p. 2] demonstrates that repetition is both "…consciously…used as part of a communication strategy to emphasize the existence of intangible assets whose recognition is often inadequate under the traditional accounting framework, and…less consciously, [to] build the identity of an organisation."

Using a structural poetics perspective (theory of reading of texts), Crowther et al. [2006] analyze the use of rhetoric using seven binary opposites (e.g., synchronicity-diachronicity, accounting-non-accounting, past-future, etc.) in the annual reports of the ten firms operating in the UK water industry. They conclude that "the authors of the script, [i.e.]…the dominant coalition of management who control…the activities of the company whose performance determines the corporate report" use the corporate narrative sections "to control the way in which the corporate story is interpreted" [p. 199].

These studies demonstrate that the use of more qualitative content analysis techniques may provide a better understanding of how and under what circumstances, firms use corporate narrative documents for impression management purposes, for overcoming information asymmetries, or, indeed for other purposes, such as constructing corporate identity, reputation, or legitimacy.

An alternative to content analysis is surveys of top managers in the style of Graham et al. [2006] concerning managerial discretionary disclosure decisions. This might provide valuable insights on incentives for engaging in impression management, circumstances prompting impression management, and preferred impression management strategies.

5.2.4 Research in different contexts

Social context can be influential in financial reporting research. Psychological research suggests that social context can affect people's cognitions [Huguet et al., 1999]; [Levine et al., 1993]. Further study of corporate contexts that require firms to shape the perceptions of specific groups of firm outsiders regarding financial, environmental or social performance would enhance our understanding of impression management. Previous research has focused almost exclusively on one aspect of

impression management in a corporate context, namely the manipulation of perceptions of firm performance and prospects. Is impression management a day-to-day routine occurrence or is it more likely to take place in non-routine or exceptional circumstances? The application of alternative perspectives allows the analysis of the manipulation of outsiders' perceptions of (i) persons such as managers, the CEO, and the chairman, (ii) the organization as a whole, (iii) environmental performance, social performance, ethical performance, (iv) once-off events such as privatization, demutualization, takeovers, mergers or acquisitions, factory closures, etc., and (v) measures of corporate success other than profits. Opportunities for research in non-routine contexts are provided by other disclosure vehicles such as prospectuses for new equity offerings, takeover and merger documents (especially defense documents in hostile takeovers); and other disclosures such as on demutualization, factory closures, strikes, etc. Managerial asset pricing incentives and the risk of adverse capital misallocations in non-routine contexts such as initial public offerings, seasoned equity offerings, takeovers and mergers is higher than in more routine reporting contexts. For example, defending against a takeover bid tends to lead to a bid price increase, which is not the case in agreed bids [Brennan, 1999]. The persuasiveness of the takeover defense document may influence the outcome of the bid – an increase in bid price or even failure of the bid. Takeovers present an opportunity to research the effects of impression management where the market reaction might be easier to measure. The association between impression management and takeover premiums could also be tested.

In addition to studying non-routine corporate events, bankruptcy, CEO change, hostile takeover bids, and other situations of extreme distress may provide further fruitful contexts for study. As discussed earlier, individuals are motivated to engage in impression management if they think that others have an image of them that is inconsistent with the image they want others to have (usually a less positive image than desired). This is especially the case as a result of public failures or embarrassing incidents. Leary and Kowalski [1990, p. 39] note that "both failure and embarrassment increase impression motivation", and that this leads to attempts at repairing the damage by stressing one's positive attributes and making self-serving attributions for one's failure, i.e. attributing negative outcomes to external factors in the form of excuses. In a corporate reporting context, incidents involving firm failure or embarrassment, such as negative environmental impacts or customer service

problems, lead to a discrepancy between desired and current image and should thus give rise to increased impression management behavior.

Most prior research has taken place in Anglo-Saxon countries. Hooghiemstra [2001] finds different behaviors concerning performance attributions between US and Japanese firms. This suggests that it cannot be assumed that managerial practices are consistent across cultures. Additional international studies could also add insights to our understanding of management disclosure practices and choices.

Since impression management tends to be more pronounced in individuals employed in highly visible occupations [Leary and Kowalski, 1990], managers of large, well-known firms might be more likely to engage in impression management than those in small, less-known, less visible firms. Examples of visible firms are high street stores producing or selling consumer goods, or firms in the public spotlight due to scandals, legal proceedings, record profits or losses, etc. However, both the monitoring hypothesis and the political cost hypothesis suggest the reverse. The monitoring hypothesis claims that organizations with a high public profile are less likely to engage in impression management since they are subject to increased monitoring by institutional shareholders, the press, the government, and other parties. The political cost hypothesis suggests that highly visible firms are less likely to engage impression management, since this potentially increases their political costs.

Is impression management a pro-active, future-orientated or a re-active, retrospective-looking strategy? Aerts [2005, footnote 4 p. 497] differentiates between re-active and pro-active impression management. Pro-active impression management entails “a proactive focus on the rationality of future events in a calculative mode”. By contrast, reactive impression management involves retrospective sense-making and rationality which refers to “a process of ex post explanations or restatements or organizational outcomes and events in order to sustain or restore the image of rationality of the actor”. The vast majority of studies examining impression management in context of financial performance adopt a pro-active focus, whereas most studies in the context of environmental and social performance adopt a re-active focus. However, reverse approaches might provide interesting insights into how firms try to influence and control their public image, reputation, and legitimacy with both shareholders and stakeholders.

5.2.5 Authorship of corporate narratives

The authorship of corporate narratives is not clear. This raises various questions. How are impression management choices made within organizations? By whom are the choices made – internal managers, external public relations advisors, the board (executive or non-executive directors)? Abrahamson and Park [1994] find that some groups such as accountants, some types of shareholders, and outside directors constrain impression management. This avenue of inquiry is worth re-visiting.

Should impression management research be based at the level of the firm, or at the level of individuals such as senior managers, professional writers, or public relations firms?

We need to better understand the process of assembling corporate narrative documents at the level of CEOs/other corporate leaders/other managers. Work in the style of Gibbins et al. [1990] would be useful in this respect. Is the firm and its managers one and the same? Are there differences in the way in which managers portray themselves versus their portrayal of the firm? How do the personal characteristics of managers influence impression management? Firms experiencing changes in CEOs might provide an opportunity to examine the influence of individual managers (former CEO versus new CEO) on impression management behavior [see Campbell, 2000]. Are there any links between impression management and managerial dominance, especially CEO dominance? The takeover literature might provide more insights on the links between managerial characteristics and firm behavior [Jensen and Zajac, 2004]; [Brown and Sarma, 2006].

5.2.6 Audience/users for narrative disclosures

From a preparer perspective, the audience for disclosures may influence impression construction. Managers may take different approaches in constructing impressions for different audiences. Interaction effects between preparers and their audience need to be factored into research designs. Research on attributions acknowledges that the audience for narrative disclosures is not necessarily people outside the firm. Users of information may be divided into internal users and external users [Staw et al., 1983], equity investors and other targets of strategic reporting such as compensation committees, competitors, regulators, and creditors [Schrand and Walther, 2000]. If equity investors are assumed to be audience for disclosures, can it be assumed that they are a homogenous group for all firm types? Does the ownership

structure of the firm influence impression management behavior? Are there any interaction effects, not only between preparers and users, but also between different audiences for the disclosures?

Prior impression management research in accounting does not generally differentiate between impression management directed at internal and external users. However, it could be argued that impression management may be targeted at internal parties, such as staff or the board (especially non-executive directors), as well as external parties. Since shareholders delegate the monitoring of managerial decisions and actions to an internal corporate governance system, managers are also accountable to internal parties, including the board and its audit committee (with input from independent external auditors). The board of directors represents shareholders' interests and scrutinizes managers' performance. Managers, especially the CEO, are rewarded and sanctioned by the board, through compensation contracts and tenure decisions. Managers may engage in impression management internally in anticipation of evaluation of their actions and decisions by the board. Managers may wish to influence the perceptions and decisions of inside parties, with the goal of ensuring economic (compensation contracts, stocks, stock options, and tenure) and psychological (reputation) benefits for managers.

Schaffer's [2002] analysis of the differences in evaluation of managers' performance by inside and outside directors provides some insights into managerial impression management directed at firm insiders. He argues that inside and outside directors face different cognitive and social constraints that inhibit their ability to effectively evaluate managerial performance during times of negative organizational outcomes. These constraints "may cause board members to use either incomplete or distorted information to make assessments" [Schaffer, 2002, p. 98]. Thus it can be argued that, due to these different constraints, inside directors are more likely to be "in cahoots" with management, whereas outside directors are more likely to be influenced by impression management. This internal, inside/outside director perspective suggests that there are impression management research opportunities on internal management documents/disclosure vehicles such as board papers and other internal corporate documents.

Public limited companies in most jurisdictions are required by law to have an external audit of the financial accounts by qualified auditors. The role of external auditors in constraining impression management has not been investigated. Do they

have a role, or do external auditors strictly limit themselves to the financial statements?

5.2.7 Link between impression management and the disclosure vehicle

Most studies on discretionary disclosure strategies from an impression management perspective analyze the narrative annual report sections. Courtis [2004a] extends to interim reports and prospectuses. Discretionary disclosures through other disclosure media, such as websites and conference calls, present an opportunity to expand impression management research to these electronic means of communication with investors. Gibbins and Pomeroy [2007] refer to this as enhanced corporate reporting, and outline the many research opportunities it provides. Prior research on conference calls [Tasker, 1998]; [Frankel et al., 1999]; [Bowen et al., 2002]; [Bushee et al., 2003] tends to focus on the information content of this voluntary disclosure medium, rather than on its use for impression management purposes. Matsumoto et al. [2006] is an exception.

This raises various questions. Are there variations in impression management between periodic reports (e.g. annual reports and interim reports) and once-off reports such as prospectuses, takeover documents and communications with staff during disputes? In staff communications, especially concerning pay claims and disputes, rather than obfuscating negative organizational outcomes, managers may wish to exaggerate negative organizational outcomes. Claims in takeover documents and in staff communications could be compared for variations with those in the immediately preceding and following annual reports.

Prior impression management research implicitly adopts weak-form assumptions of market efficiency that assume that investors are largely unfamiliar with the information contained in annual reports. More research is needed based on more immediate disclosure vehicles. For example, press releases and conference calls are more immediate than annual reports, but possibly more transitory in impact. Conversely, press releases are likely to be covered in national newspapers, television and radio business reports that provide them with a wider audience beyond annual reports users. What is more, Aerts' [2005] differentiation between proactive and reactive impression management suggests that impression management might fulfill different functions in different disclosures vehicles.

5.3 User perspective

We discuss three areas for future research: (1) insights from psychology and behavioral finance providing a better understanding of how users' impressions are formed; (2) the role of user characteristics in susceptibility to impression management; and (3) alternative contexts for studying the effect of impression management on users.

5.3.1 New theoretical perspectives

How are specific impressions (e.g. of management credibility, of organizational effectiveness) created/formed? Once formed, how are impressions managed thereafter? Research in social psychology shows that information must be credible to avoid unintended negative reactions [Burgoon and Miller, 1985]. What is the relation between impression management strategies and positive and negative impressions of credibility? According to Ogden and Clarke [2005] there are limits to what impression management can achieve in terms of persuading users as to the sentiments being expressed in annual reports. Further, Barton and Mercer [2005] find that impression management may backfire in terms of negative managerial reputation effects when perceived by users as lacking plausibility.

Nofsinger [2005] argues that the economy has to be regarded as a complex system of human interactions that is driven not only by what economic participants think (cognitive processes), but also by what they feel (affective processes). Psychology and behavioral finance provide insights on the potential effectiveness of impression management, based on both the cognitive and the affective (i.e. emotional) components of investor behavior. Several theories incorporating emotion into decision making under risk or uncertainty assume that investor decisions are not exclusively driven by cognitive, but also by emotional, factors. Mullainathan and Shleifer [2005, p. 6] argue that persuasive messages elicit both cognitive and emotional responses, resulting in "people often ignor[ing] relevant data and…not process[ing] the messages they receive following Bayesian logic." They state that effective persuasion involves conveying either "incomplete and even misleading information" or "irrelevant information that arouses an emotionally favourable response."

Pixley [2002] states that emotion is routinely and rationally employed in financial decision making. MacGregor et al. [2000]; MacGregor [2002]; Dreman [2004] show that investor decision-making processes are driven not only by the

quality of securities' underlying technical fundamentals, but also by affective evaluation. MacGregor et al. [2000]; MacGregor [2002] find that affective evaluation is based on the image associated with a particular firm. In particular, MacGregor [2002] finds image evaluations to be correlated with financial judgments. Firms can exploit this association to their advantage using impression management. It involves pro-actively manipulating their image and thus the perceptions of firm performance and prospects.

Huang [2005] argues that "puffery", i.e. statements issued by firms that are "vague, promotional, or hyperbolic" [p.113], has the ability to "engender or generate implied meanings not only cognitively, but also emotionally" [p. 115]. This suggests that impression management can influence (i) mood formations, (ii) investor perception formation, (iii) investor judgments.

Research in psychology shows that emotions influence decision making in two ways: (1) the emotional state individuals experience during decision making, i.e. positive emotional states, such as happiness, lead to a more positive evaluation of a situation [Bower, 1981]; [Carnevale and Isen, 1986]; [Isen and Daubman, 1984], and (2) anticipated emotions, i.e. emotions individuals expect to feel about outcomes of decisions. The second aspect forms the basis of the decision affect theory [Mellers et al., 1997].

Research in behavioral finance discusses individuals' emotional state in the context of the mood-as-information hypothesis [Schwarz and Clore, 1983]; this is a theory about how mood affects judgment. It suggests that individuals use their experience of a feeling or emotion directly as evidence of their feelings about a person, object, or event. Thus, individuals' current emotional state may be misattributed to the person, object, or event. This may lead individuals to use the affective signals from their moods when making judgments.

The affect infusion model [Forgas, 1995] claims that the extent to which people rely on their feelings to make decisions depends on how abstract, risky, and uncertain those decisions are. Caplin and Leahy's [2001] psychological expected utility model is based on anticipatory feelings prior to the resolution of risk. It extends the neoclassical expected utility model to incorporate a quite general class of anticipatory feelings, such as anxiety and suspense. Loewenstein et al. [2001] put forward the risk-as-feelings hypothesis that constitutes an alternative theoretical

perspective under risk or uncertainty. It focuses on the role of affect experienced at the moment of decision making.

The decision affect theory, which has been developed from research in psychology [Mellers et al., 1997], provides important insights on investor reactions. It states that individuals' feelings are partly determined by their expectations about outcomes, i.e. comparing what happened with what might have happened. For example, individuals feel disappointment when outcomes fall short of expectations and elated when outcomes exceed expectations. In gambling, for instance, unexpected wins are more elating than expected wins; unexpected losses are more disappointing than expected losses. This implies that investors will be more disappointed by unexpected negative earnings surprises than expected negative earnings; and more elated by positive earnings surprises than expected positive earnings. On the assumption that managers are aware of this phenomenon, impression management is more likely in the case of unexpected negative organizational outcomes.

Few studies have applied these concepts from social psychology and behavioral finance to study narrative corporate disclosures. Mercer [2005] is an exception. She draws on an affect-based model of financial decision making. She finds that managerial reporting credibility differs in the long and in the short term. In the short term, credibility is a function of cognitive processes, whereas, in the long term, it is a function of affective (emotional, feeling) processes. As a result, short-term credibility depends on managerial forthcomingness (the accuracy, completeness, and timeliness of disclosures), especially in the case of negative news disclosure decisions. Long-term credibility depends on the valence of the news disclosed (i.e. whether the news disclosed is positive or negative), regardless of the managerial forthcomingness of the news. Thus, in the long run, managers reporting good news are deemed more credible than those reporting bad news. This suggests that impression management entailing the emphasis of good news is more likely to be successful in the long term, rather than in the short term. This contradicts Lang and Lundholm [2000]; Krische [2005]; Matsumoto et al. [2006] who find that investors revise their initial opinion subsequent to the receipt of additional information. However, the time horizons of Mercer's study differs. Future research needs to examine the interrelationship of positive managerial bias, credibility, and short-term as opposed to long-term memory.

The concepts discussed in this section provide accounting researchers with new opportunities to study the effect of information characteristics (such as readability, content, format, presentation) on user cognitive and affective processes, thereby influencing their judgment and decision making.

5.3.2 User characteristics

Previous research suggests that unsophisticated investors are more susceptible to impression management than sophisticated investors [Frederickson and Miller, 2004]; [Elliott, 2006]. Other factors could influence differences in users' receptiveness to impression management, including users' cognitive style, their level of work experience, cultural background, personality, and tolerance for ambiguity. Psychology research on text comprehension shows that the reading strategies of high-knowledge and low-knowledge readers differ [McNamara, 2001].

Impression management may influence different types of user (e.g. individual users, institutional investors, analysts, males versus females) differently. This could be tested by asking categories of users of corporate reporting documents to rate examples of different impression management strategies on a Likert scale. A number of studies have attempted to examine through experiment the influence of impression management on perceptions of users [Taylor and Anderson, 1986]; [Beattie and Jones, 2002] using impression management in graphs. Future research might extend to textual material.

5.3.3 Research in different contexts

We have already pointed to opportunities to enhance our understanding of preparer behavior by examining impression management practices in different corporate reporting contexts. Considering different contexts also offers opportunities to understand user reactions to managerial impression management practices. While a number of share price reaction studies have analyzed users' responses to impression management in routine corporate reporting contexts, only one study [Lang and Lundholm, 2000] focuses on a non-routine setting. In relation to the preparer perspective, we mentioned earlier the paucity of studies examining analyst-orientated impression management research. How successful is impression management that is motivated to meet/beat analyst forecasts, to shape analysts' expectations of future financial performance, to guide analysts' expectations downwards? What disclosure

vehicles are used for such purposes, other than those previously researched such as annual reports, earnings press releases, preannouncements (i.e. press release), and earnings announcements?

Matsumoto et al.'s [2006] findings point to the crucial role of analysts in mitigating unwarranted managerial optimism and the potential signaling effects of analyst skepticism to investors. In this respect, conference calls provide a rich medium to study interaction effects between preparers and users.

Elsbach's [1994] analysis of the role of impression management in the construction of organizational legitimacy provides an example of how a combination of semi-structured interviews with representatives of stakeholder groups and an experiment (involving graduate business students) can provide valuable insights into the processes involved in impression formation and the factors contributing to the effectiveness of impression management.

6.0 SUMMARY AND CONCLUSIONS

This paper has reviewed and synthesized prior literature on discretionary disclosure strategies in corporate documents. The literature generally assumes these discretionary disclosures strategies constitute either impression management or useful incremental information. Researchers in both schools of thought adopt the same methodologies, albeit under diametrically opposed assumptions and interpret their results accordingly. It is therefore difficult to conclude whether research findings favor one school over the other. Only eight studies contemplate both possibilities, adopting research designs capable of distinguishing between the two schools, thereby providing valuable insights into the impression management/incremental information debate [Lang and Lundholm, 2000][10]; [Frederickson and Miller, 2004]; [Barton and Mercer, 2005]; [Bowen et al., 2005]; [Johnson and Schwartz, 2005], [Krische, 2005]; [Elliott, 2006]; [Matsumoto et al., 2006].[9]These studies differentiate between the two possibilities by establishing whether investors modify their opinion, depending on subsequent information becoming available.

6.1 Impression management or incremental information? Preparer perspective

[10] Lang and Lundholm [2000], Bowen et al. [2005], Johnson and Schwartz [2005] and [Matsumoto et al. [2006] take both a preparer and user perspective.

The majority of preparer-oriented studies adopt an impression management perspective. The research bias towards this school of thought has generated evidence to date that suggests that discretionary disclosure strategies are driven by opportunistic managerial behavior. Evidence suggests that firms engage in impression management by emphasizing good news and by using performance attributions.

Furthermore, the findings of the four user-oriented studies that incorporate both possibilities into their research design also suggest that managerial discretionary disclosure strategies stem from managerial opportunism rather than the desire to provide value-relevant information [Lang and Lundholm, 2000]; [Matsumoto et al., 2006]. Lang and Lundholm, [2000] findings support an impression management interpretation. They compare the absolute and relative frequency of optimistic language before and after equity offerings. Results suggest that managers engage in impression management before equity offerings in order to increase the firm's share price. The findings of Matsumoto et al. [2006] also point at an impression management rather than incremental information interpretation. The use of managerial optimism during conference calls suggests that *some* firms engage in impression management by means of emphasizing good news. What is more, managerial optimism is only a predictor of future positive firm performance (i.e., constitutes incremental information) if it is not mitigated by analyst skepticism [Matsumoto et al., 2006].

Bowen et al. [2005] find discretionary disclosure strategies to be indicative of *both* managerial opportunism and the desire to provide value-relevant information. This suggests that firms might pursue a mixed strategy

6.2 Impression management or incremental information? User perspective

Initial investor reactions to discretionary disclosure strategies only establish that investors *perceive* particular discretionary disclosure strategies to be credible and thus to constitute value-relevant information. Without checking whether investors modify their opinion depending on subsequent information becoming available, researchers cannot establish whether investors are susceptible to impression management or not.

By incorporating subsequent market corrections and investors' belief revisions into their research design, Lang and Lundholm [2000]; Krische [2005]; Matsumoto et al. [2006] are able to demonstrate that impression management is effective in the short

term. Conversely, while Johnson and Schwartz [2005] find pro forma income increasing earnings adjustments to dominate their sample (impression management behavior), they find that investors do not price earnings multiples higher for pro forma firms, suggesting that investors are not misled by impression management. Furthermore, susceptibility to impression management seems to be a function of financial expertise [Frederickson and Miller, 2004]; [Elliott, 2006].

These results suggest that, although investors are initially susceptible to impression management, they subsequently revise their opinion based on additional information. It also seems that unsophisticated investors are more susceptible to impression management than sophisticated investors.

6.3 Concluding remarks

Impression management research is still in its infancy. The majority of impression management studies have been carried out from a preparer perspective. The predominant explanatory framework adopted is agency theory that interprets impression management as a response to negative organizational outcomes driven by managers' self-interest. Thus, corporate narrative documents are regarded as vehicles for influencing the perceptions and decisions of outside parties regarding firm performance and prospects. Using content analysis, two manifestations of impression management in corporate documents have been identified: (1) concealment by obfuscating negative organizational outcomes and introducing positive bias; and (2) the attribution of performance.

Research from a user perspective tests investor reactions to managerial impression management strategies using capital market tests or experiments involving users. Evidence from both share price reaction studies and behavioral studies suggests that, in the short term, users seem to interpret some types of discretionary disclosures (particularly in the form of visual and structural effects, and choice of earnings number provided in corporate narrative documents) as impression management and not value-relevant information. This is to due to cognitive limitations and framing effects. Preliminary evidence is inconclusive, suggesting that some managerial discretionary disclosure strategies are aimed at influencing outsiders' impressions of the firm, its reputation and its financial, environmental, and social performance (i.e. impression management), as opposed to overcoming information asymmetries

between firm insiders and outsiders (i.e. provision of incremental, value-relevant information).

Results from previous studies suggest that there are two possible avenues to explore for impression management research in a corporate reporting context: (1) an agency theory perspective focusing on the managerial manipulation of investors' perceptions of (a) expected future firm performance or (b) unexpected firm performance in the context of rights issues, etc., based on analysis of immediate communication media with investors, such as press releases, transcripts of conference calls or meetings with analysts; (2) alternative theoretical perspectives that facilitate a focus on the managerial manipulation of outsiders' perceptions of the firm, its reputation, and its financial, environmental, and social performance, particularly in the context of non-routine events and involving the analysis of the whole range of corporate disclosure vehicles.

Impression management may also be a function of regulatory responses. Narrative disclosures are generally unregulated. This raises a number of questions: Is it possible to regulate impression management? Do regulators pay enough attention to the more subtle aspects of financial reporting such as impression management? Huang [2005] distinguishes between two types of impression management: (1) impression management entailing vague statements, such as "we are bullish on this company's future prospects" [p. 115], and (2) impression management that induces "false implied meanings that are thus deceptive, misleading, and can be disproved" [p. 115]. He argues that only the second type should be legally actionable, since the first type "is unlikely to induce any false implied meanings that directly affect investors' beliefs concerning that company's securities."

In this vein, Clatworthy and Jones [2003] question whether auditors' work should extend beyond the financial statements to include narrative disclosures in annual reports. This line of inquiry around the role of auditors/regulators and impression management, could be developed. Is it realistic to expect auditors and regulators to take action on such a subtle activity?

Since impression management has the potential to impair the quality of financial reporting and to result in capital misallocations, it constitutes an important area of research. However, because of its subtle, more qualitative nature and the consequent difficulties in data collection and coding (often manual), it may not attract as many

researchers as other forms of managerial opportunistic behavior, such as earnings management.

Still, so many questions remain unanswered that it represents a fertile opportunity for researchers looking for an under-researched field with rich potential.

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ANNOTATED BIBLIOGRAPHY

1. Clatworthy, M. and M. J. Jones. 2003. Financial reporting of good news and bad news: evidence from accounting narratives. *Accounting and Business Research* 33 (3): 171-185.

This paper examines the use of reporting bias and performance attributions of UK listed firms. Two extreme samples are selected: The top 50 and bottom 50 performing firms, based on percentage change in profit before taxation. Reporting bias is measured by the number of positive and negative keywords in chairmans' statements and performance attributions on the number of positive (negative) organizational outcomes attributed to internal (external) factors. Firms demonstrate bias in the way they report news. Improving performers focus on good news. Declining performers do not discuss the reasons for their poor performance. At best, they discuss good and bad news equally, or more usually they concentrate on good news. Consistent with attribution theory, managers take credit for good news, and blame bad news on the external environment.

School:	Impression management
Perspective:	Preparer
Strategy:	Thematic manipulation; Attribution of organizational outcomes
Theory:	Agency theory (implicit) – Management attempts to present firm performance in the best possible light; Attribution theory
Method:	Content analysis

2. Abrahamson, E. and C. Park. 1994. Concealment of negative organizational outcomes: An agency theory perspective. *Academy of Management Journal* 37 (5): 1302-1334.

This paper focuses on the number of negative keywords in over 1,000 presidents' letters. An inverse association between firm performance (absolute and change in performance from the prior year) and negativity is found, suggesting that there is more negative disclosure when performance is poor. A number of governance variables influence disclosures, including the proportion of outside directors on the board, large institutional shareholders, and firms receiving qualified audit reports.

Most interesting about this paper is the finding that biased disclosures are driven by opportunistic managerial behaviour. Disclosure of fewer negative keywords is found to be weakly associated with subsequent selling of stock by corporate officers.

School: Impression management
Perspective: Preparer
Strategy: Thematic manipulation
Theory: Agency theory (explicit) – Management attempts to conceal poor firm performance.
Method: Content analysis

3. Bowen, R. M., A. K. Davis and D. A. Matsumoto. 2005. Emphasis on pro forma versus GAAP earnings in quarterly press releases: determinants, SEC intervention and market reactions. *The Accounting Review* 80 (4): 1011-1038.

This paper tests two competing hypotheses – whether the emphasis (i.e. positioning) of pro forma and GAAP earnings in press releases provides value-relevant useful additional information and/or whether managers emphasize metrics that portray better firm performance. Three influences are examined: media coverage, ownership of the firm by sophisticated investors, and the post-Enron period (2002). The paper supports the impression management school in that biased metrics are emphasized in press releases. Subsequently, the influence of these biased metrics on investor judgement is examined. Support is found for both schools of thought, in that more value-relevant metrics are emphasized by managers as are metrics that portray more favourable firm performance. The greater the emphasis on the metric, the greater the stock market reaction to the surprise in that metric.

School: Competing hypotheses (impression management versus incremental information)
Perspective: Preparer and user
Strategy: Choice of earnings number; visual and structural effects
Theory: Incomplete revelation hypothesis
Method: Content analysis; share price reaction

4. Barton, J. and M. Mercer. 2005. To blame or not to blame: Analysts reactions to explanations of poor management performance. *Journal of Accounting and Economics* 39: 509-533.

Firms may provide discretionary disclosures to reduce the cost of capital or to influence the interpretation of firm results. Analysts' reactions to managerial self-serving explanations of poor performance (blaming poor performance on external factors) are analyzed in conjunction with plausible and implausible explanations. Performance explanations are found to affect firm value. Plausible (implausible) explanations lead to more (less) optimistic views of firm prospects and higher (lower) analyst forecasts. Implausible explanations lead to lower firm valuations by analysts; however, the effect is asymmetric in that plausible explanations do not lead to higher firm values.

School: Competing hypotheses (impression management versus incremental information)
Perspective: User
Strategy: Attribution of organizational outcomes
Theory: Attribution theory
Method: Experiment

5. Krische, S. D. 2005. Investors' evaluations of strategic prior-period benchmark disclosures in earnings announcements. *The Accounting Review* 80 (1): 243-268.

Building on Schrand and Walther's (2000) research, Krische tests the effects of different approaches to disclosures of prior-period results on investors in an experimental setting. Investors (MBA and accounting students) are required to assess current year earnings and forecast future earnings. Krische shows that inclusion/exclusion in current results of a transitory (i.e. once-off) prior-period gain or loss influences how investors use prior-period earnings to evaluate current-period earnings. She concludes that this effect is likely to be unintentional on the part of investors, resulting from limitations in their memory of the prior-period event. Overall, the experimental results suggest that a quantitative description of the once-off

prior-period gain or loss in a current earnings announcement helps investors to evaluate company performance. Her results highlight the need for consistency in reporting non-GAAP financial performance measures.

School:	Competing hypotheses (impression management versus incremental information)
Perspective:	User
Strategy:	Performance comparisons
Theory:	Prospect theory
Method:	Experiment

6. Ogden, S. and J. Clarke. 2005. Customer disclosures, impression management and the construction of legitimacy: Corporate reports in the UK privatised water industry. *Accounting, Auditing and Accountability Journal* 18 (3): 313 – 345.

Ogden and Clarke apply legitimacy theory to the corporate communications practices of recently privatized water companies, focusing on customers rather than investors, as the users of annual reports. Newly-privatized entities are expected to be more competitive and customer focused than the precursor monopoly bodies. They investigate assertive (e.g. self-promotion and ingratiation) and defensive (e.g. justifications and excuses) impression management strategies in the narrative corporate report sections of ten privatized regional UK water companies. Their objective is to establish whether firms use impression management to gain and maintain legitimacy as customer-focused companies. They find that managers use both acquisitive and defensive impression management tactics. Companies use assertive impression management techniques to build legitimacy, and defensive tactics to address short falls in their performance.

School:	Impression management
Perspective:	Preparer
Strategy:	Attribution of organizational outcomes
Theory:	Legitimacy theory

Method: Content analysis

7. Aerts, W. 2005. Picking up the pieces: impression management in the retrospective attributional framing of accounting outcomes. *Accounting, Organizations and Society* 30: 493-517.

Aerts distinguishes between content and form, a difference ignored in prior literature. He examines attributional coping strategies in the context of accounting narratives and he also explores content-specific attributional patterns.
Aerts tests whether managerial disclosure practices are intentional impression management or arise from unintentional cognitive biases. The number and intensity of explanations in directors' statements is compared for a matched sample of 167 listed and unlisted firms. Contrary to expectations, he finds no association between performance attributions and listing status. No significant bias in attributional tendencies is found between positive performers and negative performers.

School: Impression management
Perspective: Preparer
Strategy: Attribution of organizational outcomes
Theory: Agency theory
Method: Content analysis

8. Lang, M. and R. Lundholm. 2000. Voluntary disclosure and equity offerings: reducing information asymmetry or hyping the stock? *Contemporary Accounting Research* 17 (4): 623-662.

In a matched-pair design, the disclosure practices of 41 firms issuing/not issuing new stock are compared. All public disclosures of the 82 firms are collected for the 18 months before and after the new stock offering. Disclosures are coded according to the type of disclosure, the spin/tone of disclosure and their forward-looking nature. Statements are also coded optimistic, neutral, or pessimistic. Firms significantly increase disclosures prior to new offerings. Share prices increase with increased disclosure, although some of the increase reverses once the announcement of the new share issue is made. Reversals are greater for firms that increase their

disclosures prior to the stock offering announcement than for firms that maintain a constant disclosure level. As such, the market treats increased disclosures as hyping of the stock, although the reversals are incomplete, suggesting that the increased disclosures contribute to a lowering of cost of capital.

School:	Competing hypotheses (impression management versus incremental information)
Perspective:	Preparer and user
Strategy:	Thematic manipulation
Theory:	No theory (agency theory possibly implicit)
Method:	Content analysis and share price reaction