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**Rhetoric, Argument and Impression Management
in Hostile Takeover Defence Documents**

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Rhetoric, Argument and Impression Management in Hostile Takeover Defence Documents

Abstract

This exploratory study extends the analysis of narrative disclosures from routine reporting contexts such as annual reports and press releases to non-routine takeover documents where the financial consequences of narrative disclosures can be substantial. Rhetoric and argument in the form of impression management techniques in narrative disclosures are examined. Prior thematic content analysis methods for analysing good and bad news disclosures are adapted to the attacking and defensive themes in the defence documents of target companies subject to hostile takeover bids. The paper examines the incidence, extent and implications of impression management in ten hostile takeover defence documents issued by target companies listed on the London Stock Exchange between 1 January 2006 and 30 June 2008. Three impression management strategies – thematic, visual and rhetorical manipulation – are investigated using content analysis methodologies. The findings of the research indicate that thematic, visual and rhetorical manipulation is evident in hostile takeover defence documents. Attacking and defensive sentences were found to comprise the majority of the defence documents analysed. Such sentences exhibited varying degrees of visual and rhetorical emphasis, which served to award greater or lesser degrees of prominence to the information conveyed by target company management.

While exploratory in nature, this paper concludes with suggestions for future more systematic research allowing for greater generalisations from the findings.

Keywords: Defence documents; hostile takeover bids; impression management,

Rhetoric, Argument and Impression Management in Hostile Takeover Defence Documents

1. Introduction

Financial disclosures in takeover documents, and the competitive nature of hostile takeover bids, provide a unique setting in which to study rhetoric and argumentation in financial reporting. Covalleski, Dirsmith and Samuel (1995) comment that accounting can be used, not only to represent economic reality, but also as a rhetorical device. Rhetoric in this paper refers to the use of language to persuade or influence others. This research examines three impression management strategies in the hostile takeover defence documents of target companies listed on the London Stock Exchange (LSE): thematic manipulation, visual manipulation and the use of rhetorical devices.

Although the ostensible objective of defence documents is to reduce information asymmetry between target company management and shareholders, it is possible they are employed to serve more opportunistic purposes (Cooke, Luther & Pearson, 1998). In hostile takeovers managerial motivations to engage in impression management, and thus impact on the outcome of the bid, are likely to be stronger than in routine reporting situations, as a result of (1) the threat to the employment prospects of target company incumbent management (Schoenberg & Thornton, 2006); and (2) the importance of share price as a critical determinant of the success or failure of the bid (Brennan, 1999, 2000). While the effects of impression management are usually short-lived in routine corporate reporting, impression management in a hostile takeover situation could have an impact upon the outcome of the bid, resulting in irreversible consequences for shareholder wealth, industry structure and management structure (Botsari & Meeks, 2008).

This paper assumes impression management is a deliberate and intentional reporting strategy. It is possible that reporting bias in publicly issued statements arises from hubris – managerial optimism and overconfidence – resulting in ego-centric bias/self-deception. However, most prior research supports an impression management perspective (Staw, McKechnie & Puffer 1983; Abrahamson and Park 1994; Fiol 1995).

This research contributes to the literature on impression management in an accounting context in two ways. Firstly, impression management is investigated in an original

corporate reporting context - that of hostile takeover defence documents. To date, research on impression management in non-routine corporate reporting contexts has been limited to a study of seasoned equity offerings by Lang & Lundholm (2000). Brennan & Gray (2000) used examples from and relating to profit forecasts in takeover documents to illustrate the use of rhetoric and argument during takeovers, but their study did not apply rigorous content analysis methods in analysing the narratives. Our paper adds to the work of Cooke et al. (1998) who examine the influence of 36 items of disclosure in takeover defence documents on the outcome of the takeover bids. Their work, however, is statistically based, whereas this study is exploratory, is based on less quantitative data and is accompanied by a qualitative dimension. The second contribution is methodological. Most thematic analysis in prior research has analysed corporate narratives into positive and negative, often by reference to firm performance. Given the hostile takeover bid context, this paper categorises disclosures between attacking and defensive. Analysis of visual emphasis is extended beyond Brennan, Guillamon-Saorin & Pierce (2009) to include six additional methods of visual emphasis. Finally, in addition to repetition and reinforcement in Brennan et al. (2009), this paper adds two rhetorical lexical devices – verbal form and engagement. These are particularly suitable for application to the analysis of disclosures in hostile takeover documents.

Section 2 of the paper introduces some of the prior literature, the regulatory framework and the research questions. The research methodology is presented in Section 3 and findings of the research are reported in Section 4. The paper concludes in Section 5 by considering the research findings, the implications of the research and suggestions for further research.

2. Literature review, regulatory framework and research questions

This section introduces the literature on hostile takeovers and impression management, culminating in the questions addressed in the research.

2.1 Hostile takeover bids

A hostile takeover bid is one in which the initial offer by the bidding company is opposed by target company incumbent management (Franks & Mayer, 1996; Powell, 1997). An unwelcome bid is usually aggressively and publicly rejected by the

management of the target company (Schwert, 2000; Andrade, Mitchell & Stafford, 2001). When a hostile takeover bid is announced, target company shareholders must evaluate competing claims of the bidding and target companies and decide whether to tender their shares or reject the offer (Hirshleifer & Titman, 1990). Rejection of a hostile bid can be a ploy by the target company to bargain for an improved offer (Powell, 1997; Schwert, 2000). A further motivation for management to recommend rejection of the bid lies in the prospect of managerial job losses should the takeover proceed (Schoenberg & Thornton, 2006). Thus, due to information asymmetry between target company shareholders and management, and the motivations of target company management to encourage shareholders to reject the hostile takeover bid, there exists considerable scope for the manipulation of shareholders' perceptions and actions through impression management.

The principal regulatory requirements are of the UK Listing Authority (UKLA) and the LSE's Admission and Disclosure Standards. The requirements of the UKLA are twofold: (1) to ensure the timely disclosure of all relevant (price-sensitive) information and (2) to ensure the equal treatment of all shareholders. The City Code on Takeovers and Mergers (Panel on Takeovers and Mergers, 2009) imposes additional rules. Rules 25.1, 30.2 and 32.6 of the City Code require the board of the target company to publish a circular containing its opinion on the offer, or revised offer, as soon as practicable following the publication of the offer document and normally within 14 days. In hostile takeovers, such circulars take the form of defence documents. Defence documents must be posted to shareholders, made readily available and prominently displayed, and an announcement made in relation to their posting and location. Thus, the publication and distribution of defence documents by target company management is a statutory requirement in response to hostile takeover bids. However, in spite of the principles and rules of the City Code, and the requirement of Rule 19.1 that each document published during the course of an offer be accurately prepared and fairly presented, defence documents remain unaudited in the UK.

Cooke et al. (1998) examine the influence of information, in the defence documents issued during 79 takeover bids, on the outcome of the bids. They focussed on 36 disclosure characteristics, which they categorised into adverse comments about the bidder, favourable comments on the target, factual information, forecast data and

physical characteristics of the takeover document. Disclosures were counted and each disclosure variable was measured as a dichotomous variable count between successful and failed bids. Their models included 12 additional control variables and a variable measuring the length of the defence document. They find the two most significant disclosures to be adverse comments on bidders' gearing and the use of photo and artwork in the defence documents. Cooke et al. (1998) find that the content of defence documents does not influence the outcome of bids when outcome is measured as success/failure and that disclosures in defence documents do not correct market mispricing. Defence is more likely to be motivated to obtain an increase in the bid price rather than to rebuff the unwelcome bid.

2.2 Impression management

Impression management "*...is concerned with studying how individuals present themselves to others to be perceived favourably by others*" (Hooghiemstra 2000: 60). In an accounting context it is perceived as "*...distorting readers' perceptions of corporate achievements*" (Godfrey, Maher & Ramsey, 2003: 96). Leary and Kowalski (1990) identify three factors motivating impression management, which seem particularly appropriate to a hostile takeover battle: (1) maximising expected rewards, including maintaining and enhancing self-esteem, and identity creation. Since corporate reporting is public, especially during a hostile takeover bid with a lot of press interest, managers are assumed to be strongly motivated to engage in impression management in order to obtain various material and social benefits (and possibly to enhance self-esteem and create desired identity); (2) the value of the desired outcomes – 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 threatened. Thus, impression management should be stronger when firms are in situations of heightened competition; (3) the discrepancy between desired and current social image – individuals tend to portray images of themselves that are biased in the direction of their desired self-image and 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 and construct images of themselves that match the values and preferences of significant others (e.g. shareholders).

2.3 Research questions (RQs)

Merkel-Davies & Brennan (2007) identify seven impression management strategies in previous studies. Three of these seven strategies are particularly relevant to rhetoric and argument in takeover documents – thematic, visual and rhetorical manipulation. Three research questions are addressed, concerning these three impression management strategies. Previous research on impression management has found evidence of thematic manipulation in routine corporate reporting contexts (Hildebrandt & Snyder, 1981; Abrahamson & Park, 1994; Clatworthy & Jones, 2003; Rutherford, 2005; Brennan et al., 2009). Such research has primarily focused on the reporting of good and bad news or positive and negative financial performance. Lang & Lundholm (2000), the one study of impression management in a non-routine corporate reporting context, does not consider thematic manipulation. Impression management strategy thus remains under-researched in a non-routine reporting context.

The ostensible purpose of a defence document is to promote the rejection of the hostile takeover bid. In persuading shareholders to do the same, target company management invoke multiple arguments to support their stance. Despite their diversity, each fall into one of two overarching themes: (1) attack the bidding company, or (2) defend the target company. The extent to which attacking and defensive sentences are included in defence documents is analysed. The research examines whether firms subject to hostile bids are more likely to attack the bidding company, or to defend their own company and actions, as justification for rejection of the offer.

RQ1: Are hostile takeover documents characterised by attacking and/or defensive themes?

The second research question examines the use of visual emphasis in hostile takeover defence documents. Staw et al. (1983) and Bowen, Davis & Matsumoto (2005) consider the effects of the location and positioning of information in corporate documents and find that companies emphasise information which is favourable to the company. Brennan et al. (2009) identify three different forms of emphasis: (1) visual emphasis through the use of presentational effects such as bullet points and colour, or through the ordering or location of information; (2) emphasis through repetition of information; and (3) reinforcement of information through the use of qualifiers. Cockcroft & Cockcroft

(2005) identify repetition and reinforcement not as visual emphasis but as rhetorical devices used to enhance the persuasive appeal of an argument. Davison (2008) investigates the use of repetition as a rhetorical strategy in BT's annual reports from 1996-2001 as a means of reinforcing what the firm considers to be important issues. Defence documents constitute a highly visual form of corporate communication. The range and combination of visual emphasis techniques evident therein suggest considerable scope for visual manipulation.

RQ2: Is visual emphasis used to enhance attacking and defensive themes in hostile takeover documents?

As observed by Brennan & Gray (2000: 9), the contentious aspect of hostile takeover bids suggests that rhetorical manipulation is likely to be more prevalent in such a non-routine corporate reporting context. Rhetoric as an impression management strategy is the art of persuasive discourse and the one-way flow of argument to influence the reader in favour of a particular perspective (Young, 2003; Basso & Hines, 2007). Cockcroft & Cockcroft (2005) classify rhetorical devices into four categories: (1) lexical choice; (2) schematic devices; (3) sound patterning; and (4) figurative language. Sound patterning and figurative language represent primarily literary persuasive tools and are not considered in this paper. Lexical devices concern the appropriate choice of words or language as persuasive tools (Cockcroft & Cockcroft, 2005). Schematic devices comprise a broad range of rhetorical devices, including repetition and reinforcement (amplification and diminution), antithesis, wordplay, puns and questioning.¹

The purpose of defence documents is to persuade target shareholders to reject the hostile offer. Target company managers present arguments why shareholders should reject the offer. Such arguments are intended to manipulate the perceptions and opinions of shareholders in favour of the actions proposed by target company managers (Young, 2003). Effective arguments are particularly important in hostile takeovers where shareholders are free to choose between acceptance and rejection of the offer. Thus,

¹ Such rhetorical devices have been studied in a corporate reporting context by Thomas (1997), Sydserrff & Weetman (2002), Yuthas, Rogers & Dillard (2002), Amernic & Craig (2004), Craig & Amernic (2004a, 2004b), Bournois & Point (2006), Amernic, Craig & Tourish (2007) and Craig & Amernic (2008).

defence documents as vehicles of argumentation and persuasion are ideal mediums through which to investigate impression management via rhetorical manipulation.

RQ3: Are rhetorical devices used to enhance attacking and defensive themes in hostile takeover documents?

Finally, in respect of each research question (where appropriate), differences in impression management strategies between attacking versus defending sentences, and between successful versus failed bids, are analysed for statistical significance.

3. Research methodology

This section of the paper outlines the selection of the sample and the content analysis methods applied to analysing the hostile takeover defence documents.

3.1 Population and selection of sample cases

The population was identified from offer rejection notifications filed by target companies with the Regulatory News Service of the LSE which is readily available electronically. This involved four stages. Initially, the Regulatory News Service of the LSE was searched for offer rejection notifications filed between 1 January 2006 and 30 June 2008 (the timeframe available on the Regulatory News Service at the time of the research). Next, offer rejection notifications relating to mini-tender offers were excluded. Mini-tender offers represent offers to acquire less than five per cent of target company issued share capital (Gleason, Johnston & Madura, 2007). Similarly, offer rejection notifications relating to contested bids were excluded. A contested takeover bid is defined as one in which there are multiple bidders for the same target at the same time, where target company management is not necessarily opposed to takeover (Pickering, 1978; Holl & Pickering, 1988; Parkinson & Dobbins, 1993). The third stage excludes offer rejection notifications which relate to the same hostile takeover bid. Table 1 summarises the position.

Table 1: UK hostile takeover bids 1 January 2006 - 30 June 2008	
	<i>Number</i>
Offer rejection notifications ¹ per Regulatory News Service (RNS)	39
Offer rejection notifications regarding mini tender offers ²	(1)
Offer rejection notifications regarding contested bids ³ (not deemed hostile)	<u>(1)</u>
Adjusted population of offer rejection notifications	37
Multiple offer rejection notifications relating to the same hostile bid ⁴	<u>(17)</u>
Hostile bids per RNS 1 January 2006 - 30 June 2008	<u>20</u>
Source: Regulatory News Service of the LSE	
¹ Regulatory announcement of offer rejection filed by target company with RNS	
² Offer to acquire less than five per cent of target company's issued share capital	
³ Bid characterised by multiple bidders for same target, where target management not necessarily fundamentally opposed to takeover	
⁴ Constitute multiple rejections of same takeover bid	

Stage four of population identification involves locating the defence documents. Of the 20 hostile takeover bids, defence documents were issued by 12 of the target companies. Thus, the population from which the research sample is drawn consists of 12 defence documents, as presented in Table 2.

Table 2: UK hostile takeover defence documents 1 January 2006 - 30 June 2008	
	<i>Number</i>
Hostile bids per Regulatory News Service (RNS)	20
No defence documents issued ¹	<u>(12)</u>
Bids for which an initial defence document exists	8
Bids for which a second defence document exists	3
Bids for which a third defence document exists	<u>1</u>
Population of defence documents	<u>12</u>
¹ Not all hostile takeover bids result in the publication of a defence document	

3.2 Sample cases, data sources and text analysed

From the population of 12 takeover defence documents, only ten were obtained. In one case, following the successful takeover of the target by the bidding company, the defence document was no longer available in the public domain. In the second case, the contact details provided for the target company proved no longer valid and despite considerable effort, the defence document could not be obtained. As only ten defence documents were analysed, it is not possible to provide statistical generalisations from such a small sample size. Nonetheless, some basic statistical tests are run on the data.

Takeover documents contain technical regulatory material which is not analysed in the research. The study relied on official takeover defence documents and did not consider other disclosure vehicles, particularly press releases, and possibly conference calls. A more holistic analysis would include all disclosures in all forms of document issued during a takeover battle. Table 3 sets out the defence documents and the text therein analysed, comprising the sample. The length, number of sentences and word count shown in Table 3 relate only to the narrative disclosures analysed rather than the complete defence document. Considerable variability is evident between cases. Length varies from a minimum of 12 to a maximum of 24 pages, 108 to 297 sentences and 1,727 to 7,548 words.

Table 3: Sample of defence documents 1 January 2006 - 30 June 2008					
<i>Target</i>	<i>Bidder</i>	<i>Year</i>	<i>Length¹ (pages)</i>	<i>Sentences¹ (number)</i>	<i>Word count¹</i>
1. London Stock Exchange	Macquarie Group Ltd	2006	18	203	2,773
2. London Stock Exchange	Macquarie Group Ltd	2006	14	183	3,015
3. NovaGold Resources Inc	Barrick Gold Corporation	2006	19	297	7,548
4. Aer Lingus Group plc	Ryanair plc	2006	22	243	2,938
5. Aer Lingus Group plc	Ryanair plc	2006	13	159	2,362
6. Isotron plc	Synergy Healthcare plc	2006	24	276	3,560
7. London Stock Exchange	NASDAQ Stock Exchange	2006	24	262	3,596
8. London Stock Exchange	NASDAQ Stock Exchange	2007	24	290	4,647
9. London Stock Exchange	NASDAQ Stock Exchange	2007	12	112	1,727
10. Flomerics Group plc	Mentor Graphics Inc	2008	<u>12</u>	<u>108</u>	<u>1,970</u>
			<u>182</u>	<u>2,133</u>	<u>34,136</u>

Source: Regulatory News Service of the LSE

¹Excludes disclaimers, bases of calculation, trading updates, glossaries, appendices, reports and recommendations of financial advisors.

The sample of ten takeover documents relate to six takeover bids. For a better understanding of the cases, some contextual background for each of these six bids is provided in Table 4. The events taking place during the progress of the takeover bids are summarised. Table 4 also records the press and news releases issued during each bid.²

² The chronology of press/news release issues is not reproduced for reasons of length in this paper. However, this chronology shows the interactions between bidders and targets, where one (usually the bidder) issues a press/news release which is immediately met with a responding press/news release from the other side.

Table 4: Contextual background to each takeover bid in the exploratory study

1. Macquarie Group Ltd (Bidder) and London Stock Exchange (Target)

December 2005-February 2006

Rumours of a possible hostile bid for the London Stock Exchange from Australian investment bank Macquarie commenced in August 2005. LSE was at that stage the subject of two other bids, from Deutsche Borse and Euronext. Following a deadline for a bid set by the Takeover Panel, Macquarie made a formal offer in December 2005. In February 2006, Macquarie lapsed its bid, not having raised the price from the original £1.5 billion cash offer. There was extensive media interest in and press coverage of the bid.

In addition to the offer document and two defence documents, eight press releases were issued during the bid – three from Macquarie and five from the LSE.

2. Barrick Gold Corporation (Bidder) and NovaGold Resources Inc (Target)

US company Barrick Gold, the world's largest gold producer, made a US\$1.53 billion all-cash hostile bid for Canadian NovaGold Resources in July 2006. This was the most fiercely contested bid of the six in the sample. At the same time as the hostile bid, both companies competed for takeover of another company, Pioneer Metals Corporation. Barrick Gold was eventually the successful bidder. Court proceedings were used by NovaGold Resources alleging misuse of confidential information and making of material misstatements by Barrick Gold. Barrick Gold requested regulators to examine NovaGold's poison pill takeover defence mechanism. A 10 percent increase in offer price failed to gain acceptance and the bid expired.

In addition to the offer document and one defence document, a total of 39 press releases were exchanged during the bid – 19 from Barrick Gold and 20 from NovaGold.

3. Ryanair plc (Bidder) and Aer Lingus Group plc (Target)

Ryanair plc is an Irish publicly listed company. Aer Lingus Group plc is a former state airline which went public in September 2006, with the Irish government retaining 25% in the company to protect national strategic interests. There has been intense rivalry between Ryanair, Europe's most successful low cost airline carrier, and the state-owned airline since the mid-1980s. Shortly after it went public, Ryanair (led by its larger-than-life CEO Michael O'Leary) unexpectedly acquired 19.2% of Aer Lingus in October 2006 and subsequently launched a takeover bid for Aer Lingus. For Ryanair's hostile bids to succeed, it would need support from the Irish government and its 25% shareholding in the company, and from the employee share ownership trust. There was extensive media interest in this bid, with interventions from politicians in respect of the Irish Government's shareholding, and interventions from Aer Lingus unions in respect of employee shareholdings.

Ryanair issued an offer document, while Aer Lingus issued two defence documents. Aer Lingus's website includes no press releases in respect of this bid, although there is some evidence from press reports of the airline releasing at least one statement during the bid. Ryanair's website no longer contains press releases for 2006. However, judging from press reports, at least three press releases were issued during the bid.

4. Synergy Healthcare plc (Bidder) and Isotron plc (Target)

Synergy Healthcare made a £143 million hostile approach for Isotron. This was a low-key hostile bid attracting relatively little newspaper coverage.

In addition to the offer document and defence document, three press releases were issued during the bid – two from Synergy Healthcare plc and one from Isotron.

Table 4: Contextual background to each takeover bid in the exploratory study (continued)

5. NASDAQ Stock Exchange (Bidder) and London Stock Exchange (Target)

NASDAQ, which had made a failed bid in March 2006, launched a second hostile bid for the London Stock Exchange in November 2006 at the same price as the first bid of £2.7 billion. The bid price represented a huge premium over Deutsche Borse's earlier 2004 hostile bid. The bid received extensive newspaper coverage and was subject to political comment. The bid was vigorously fought, with allegations by NASDAQ that data in LSE's takeover defence document was misleading. NASDAQ's bid failed as it did not attract shareholder support and the bid price was not increased.

In addition to the offer document and three defence documents, ten press releases were issued during the bid – two from NASDAQ and seven from the LSE.

6. Mentor Graphics Inc (Bidder) and Flomerics Group plc (Target)

US rival Mentor Graphics launched a hostile bid for UK Flomerics in May 2008. Flomerics then opened bid talks with a possible white knight alternative which did not progress. Using a spoiling tactic at Flomerics AGM, Mentor Graphics voted down three resolutions. In July 2008 Mentor Graphics increased its offer, which Flomerics accepted.

In addition to the offer document and defence document, four press releases were exchanged during the bid – three from Mentor Graphics and one from Flomerics.

Table 5 shows that four of the six bids failed (i.e., that the defence by the target was successful), while two bids succeeded. Of the two bids that succeeded, the bid price increased in both cases, pointing to success by the target if bid price is the measure of success. It is not clear whether the mere putting up of a defence, as opposed to what was said in the defence documents, influenced these outcomes.

Table 5: Outcome for each bid			
<i>Bidder and Target</i>	<i>Defence document</i>	<i>Outcome of bid</i>	<i>Bid price increase (Original price, New price and date of increase)</i>
1. Macquarie Group Ltd and London Stock Exchange	DD 19/1/2006 ①	Fail	None
	DD 17/2/2006②	Fail	None
2. Barrick Gold Corporation and NovaGold Resources Inc	DD 12/8/2006③	Fail	\$14.50-\$16.00 <small>8/11/2006</small>
3. Ryanair plc and Aer Lingus Group plc	DD 3/11/2006④	Fail	None
	DD 1/12/2006⑤	Fail	None
4. Synergy Healthcare plc and Isotron plc	DD 15/11/2006⑥	Succeed	762.6p-839.5p <small>6/12/2006</small>
5. NASDAQ Stock Exchange and London Stock Exchange	DD 19/12/2006⑦	Fail	None
	DD 18/1/2007⑧	Fail	None
	DD 5/2/2007⑨	Fail	None
6. Mentor Graphics Inc and Flomerics Group plc	DD 27/5/2008⑩	Succeed	£1.04-£1.22 <small>2/7/2008</small>
Key: DD – Defence document			
Sources for this table: (i) Bidder and target company websites; (ii) News services such as from Reuters; (iii) Various news reports accessed through ABI Inform/Proquest and Lexis Nexis (News and Business)			

3.3 Content analysis

Manual content analysis is used to analyse the narrative disclosures in the ten defence documents. Subjectivity of coding is recognised by Deegan & Rankin (1996), Milne & Adler (1999) and Guthrie et al. (2004) as one of the limitations of content analysis. The research methodologies and coding categories adopted are supported by a detailed set of coding instructions.³ Sentences are chosen as the recording units for thematic analysis, rather than keywords or statements, for two reasons. The first is due to the importance of contextual meaning when interpreting keywords (Milne & Adler, 1999). Identification of themes through keywords alone is less likely to lead to an accurate categorisation than would be achieved if themes are identified in the context of sentences. Secondly, although the possibility of multiple themes within a single sentence suggests that statements are a more sensitive unit of analysis, the increased subjectivity surrounding the identification of statements has negative implications for the reliability of the coding process. A degree of analytical sensitivity is sacrificed for improved reliability. Stand-alone phrases in the defence documents are also included in the definition of a sentence for the purpose of this research.

³ A copy of the detailed coding instructions are available from the authors on request.

The theme of each sentence is then coded as either attacking or defensive, or following Lang & Lundholm, (2000), neutral. Neutral sentences include sentences which urge rejection of the hostile bid, but which do not provide justification by means of either an attack on the bid or bidding company, or a defence of the target company. A similar dichotomous classification to Clatworthy & Jones (2003) is adopted to code attacking and defensive sentences into nine categories according to the subject of the attack or defence. An attacking sentence is one which represents an attack on: (1) the offer; (2) the bidding company; or (3) bidding company management. A defensive sentence is one which represents a defence of: (4) the target company; (5) target company management; or (6) target company performance. In addition, positive sentences regarding: (7) target company future prospects; (8) the market in which the target company operates; and (9) target company investments, are classified as defensive, as they are deemed to represent an implicit defence of the target company. Illustrative sentences coded as attacking and defensive according to the subject of the attack or defence are presented in Example 1.

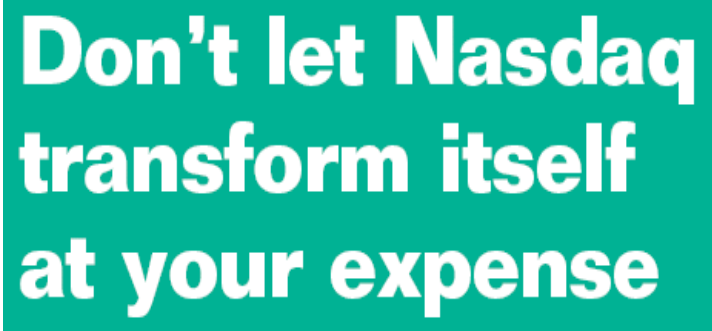
Example 1: Attacking and defensive sentences coded by subject of attack /defence

	<i>Subject of attacking or defensive sentence</i>	<i>Example</i>
A t t a c k i n g	1 Offer	<i>“Mentor Graphic’s 104p offer undervalues your company”</i> (Flomerics defence document 2008, p. 2)
	2 Bidding company	<i>“We believe Mentor Graphics has not taken our latest trading update into account in valuing the company”</i> (Flomerics defence document 2008, p. 3)
	3 Bidding company management	<i>“Ryanair does not possess the appropriate experience in managing, and demonstrates a hostile attitude towards, a unionised workforce and has no experience in managing a long-haul business”</i> (Aer Lingus plc defence document 2006, p.5)
D e f e n s i v e	4 Target company	<i>“Flomerics has a pedigree of long-established market leadership backed up by the strength of its product portfolio”</i> (Flomerics defence document 2008, p. 5)
	5 Target company management	<i>“We have an experienced management team which has returned shareholder value year on year by growing the business”</i> (Flomerics defence document 2008, Letter from the Chairman)
	6 Target company performance	<i>“Since 2004 we have achieved revenue growth year on year, from £10.2million to £16.3million in 2007”</i> (Flomerics defence document 2008, Letter from the Chairman)
	7 Target company future prospects	<i>“Flomerics intends to invest in its future and continue to expand its presence globally in order to gain market share and drive growth and profitability”</i> (Flomerics defence document 2008, p. 5)
	8 Target company markets	<i>“The world electronic thermal management software market is expected to grow by 10% per year over the next 5 years</i> (Flomerics defence document 2008, p. 6)”
	9 Target company investments	<i>“The acquisition of NIKA has allowed Flomerics to access a wider industry base and establish relationships with leading mechanical computer aided design vendors”</i> (Flomerics defence document 2008, p. 5)

Source: Flomerics plc defence document 2008; Aer Lingus plc defence document 2006

The visual emphasis of attacking and defensive sentences is classified using ten forms of visual emphasis. Defence documents often employ several visual forms simultaneously, thus necessitating an adaptation of the methodology employed by Brennan et al. (2009). Attacking and defensive sentences are coded into one of three categories: (1) most-emphasised; (2) next-most-emphasised; or (3) least-emphasised. Most-emphasised text is defined as: (1) headline; (2) sub-heading; (3) large font. Next-most-emphasised text is defined as: (4) bullet point; (5) quotation marks; (6) capital letters; (7) bold; (8) use of colour; (9) italics; or (10) underline. Finally, plain text with no visual emphasis is categorised as least emphasised text. Example 2 illustrates

attacking sentences coded as most-emphasised, next-most-emphasised and least-emphasised.

Example 2: Attacking sentences coded according to degree of visual emphasis	
<i>Most-emphasised</i>	 <p>(p. 23)</p>
<i>Next-most-emphasised</i>	Do not let Nasdaq undermine the value of your investment <p>(p. 18)</p>
<i>Least-emphasised</i>	It does not even offer you the standalone value of your company. <p>(p. 2)</p>
Source: London Stock Exchange defence document, January 2007	

This study considers the use of two schematic devices (repetition and reinforcement) and two lexical devices (verbal form and engagement). It is possible that repetition and reinforcement is used by management to highlight the information considered most effective in persuading shareholders towards its advocated actions. Repetition is analysed in three ways: (1) the extent of repetition, (2) the type of information repeated and (3) whether repetition serves to place greater emphasis on the themes of attack or defence. The methodology is similar to that adopted by Brennan et al. (2009). Repetition is defined as the reiteration of the same piece of information within the defence document. A piece of information is deemed to be repeated even when there is slight variation in one or two words in the sentence. Repetition is illustrated in Example 3.

Example 3: Repetition of information within a defence document

Sentence: “It disregards our unique strategic position” (p. 1)

Repetition 1: “Macquarie’s offer disregards our unique strategic position in global capital markets and our strong growth prospects” (p. 2)

Repetition 2: “It disregards our unique strategic position” (p. 4)

Source: London Stock Exchange defence document, January 2006

Rhetorical reinforcement of sentences through the use of qualifiers has the potential to emphasise the arguments. The methodology is adapted from that described by Brennan et al. (2009). Each attacking and defensive sentence is coded according to the number of times keywords are reinforced with a qualifier. A keyword is a word associated with the subject of an attacking or defensive sentence, while a qualifier is a word associated with a keyword to add prominence and emphasis through reinforcement. Example 4 shows instances of reinforcement of attacking and defensive sentences.

Example 4: Reinforcement of attacking and defensive sentences through use of qualifiers

	<i>Sentence</i>	<i>Number of reinforcements</i>	<i>Qualifier</i>
A t t a c k i n g	“ <i>The offer undervalues Flomerics’ market positioning</i> ” (p. 6)	0	N/A
	“ <i>Mentor Graphics’ <u>unsolicited</u> offer of 104p per share ignores our own belief in the financial prospects and growth potential of the business</i> ” (p. 2)	1	‘unsolicited’
	“ <i>The Flomerics board, which has been so advised by Jefferies, believes that the offer is <u>wholly inadequate</u></i> ” (Letter from the Chairman)	2	‘wholly’; ‘inadequate’
D e f e n s i v e	“ <i>We have grown the business’ cash balance by approximately £3million since the end of December 2007 to approximately £5.9million</i> ” (Letter from the Chairman)	0	N/A
	“ <i>Your management believes that Flomerics has built up a <u>substantial</u> reputation for quality of service, customer service and innovation</i> ” (p. 6)	1	‘substantial’
	“ <i>We, the Flomerics board, are making <u>determined</u> efforts to ensure that you can realise the <u>true</u> value and potential of your investment</i> ” (Letter from the Chairman)	2	‘determined’; ‘true’

Source: Flomerics defence document 2008

The analysis of verbal form seeks to investigate whether the most forceful verbal form, such as the imperative, is used in appeals to shareholders. All sentences are identified in which the target company instructs or appeals to shareholders: (1) to reject the offer; (2) to take no action in relation to the offer; and (3) not to accept the offer. Example 5 provides an illustration. Following Masocha & Weetman (2007), verbs in the sentences so identified are coded as prescriptive, descriptive, or permissive. This study expands these three coding categories to include the additional verbal form of imperative, resulting in six coding categories for verbal form. Illustrative verbal forms are presented in Example 6.

Example 5: Appeals issued by target company for shareholders to reject hostile takeover bid

<i>Appeal</i>	<i>Example</i>
1. Reject the offer	“ <i>You should reject the offer</i> ” (p. 3)
2. Take no action in relation to the offer	“ <i>Accordingly, the participating directors unanimously recommend that you take no action in relation to the offer</i> ” (p. 5)
3. Do not accept the offer	“ <i>Do not complete any form of acceptance</i> ” (p. 22)

Source: Aer Lingus defence document 2006

Example 6: Illustrative examples of verbal form (in descending order of forcefulness)

<i>Verbal form</i>	<i>Example</i>
1. Imperative (direct command)	<u>Reject</u> the offer (LSE defence document, January 2006 p. 1); <u>Take no action</u> (LSE defence document, January 2006, p. 4);
2. Prescriptive active (should)	<i>You <u>should reject</u>...the offer</i> (LSE defence document, January 2006 p. 4); <i>If you have already tendered shares to Barrick's offer, <u>you should WITHDRAW</u> them</i> (NovaGold Resources Inc defence document, 2006, front page);
3. Prescriptive passive (should be)	<i>The offer <u>should be rejected</u></i> ; ¹ <i>No action <u>should be taken</u></i> ¹
4. Descriptive active (present tense)	<i>Your Board <u>recommends</u> that you reject Macquarie's offer</i> (LSE defence document, January 2006 p. 2);
5. Descriptive passive (present tense passive)	<i>Shareholders <u>are advised</u> to reject the bid</i> ¹
6. Permissive (could, may)	<i>Shareholders <u>could</u> reject the bid</i> , ¹ <i>Shareholders <u>may</u> reject the bid</i> ¹

¹ As shown in Table 12, there were no examples of this verbal form in the ten defence documents in this research

The final rhetorical device examined concerns shareholder engagement by target company management. The use of personal pronouns to motivate and create a sense of solidarity with shareholders has been considered by Bournois & Point (2006). This study adopts a similar approach in relation to the use of the personal pronoun ‘your’ as a rhetorical device for enhancing shareholders’ sense of ownership of the company and accordingly, their engagement in the decision to accept or reject the offer. Seven keywords referring to the target company or its management are identified: (1) company; (2) firm; (3) entity; (4) management (team); (5) managers; (6) directors; and (7) board (of directors). These keywords preceded by the personal pronoun ‘your’ are

coded as ‘engaging’, while keywords which are not preceded in this manner are coded as ‘non-engaging’. Example 7 demonstrates instances of keywords coded as ‘engaging’ or ‘non-engaging’.

Example 7: Engagement of references to target company or its management			
	<i>Sentence</i>	<i>Keyword</i>	<i>Engagement</i>
1	“ <i>Macquarie wants <u>your company</u> on the cheap</i> ” (p. 10)	‘company’	Engaging
2	“ <i><u>Your board</u> continues to recommend strongly that you reject Macquarie’s ill-considered offer</i> ” (p. 2)	‘board’	Engaging
3	“ <i>The success of our strategy and <u>the management team’s</u> ability to capitalise on our unique strategic position will ensure an excellent outcome for the current financial year</i> ” (p. 3)	‘management team’	Non-engaging
4	“ <i><u>The directors</u> will not be accepting the offer in respect of their own shareholdings</i> ” (p. 4)	‘directors’	Non-engaging
Source: London Stock Exchange defence document February 2006			

3.4 Reliability of the coding process

According to Milne & Adler (1999), there are two issues concerning reliability of the coding process: (1) the reliability of the coding instrument and (2) the reliability of the coded data set. Defence documents were separately coded by two of the authors, following the coding instructions². Krippendorff (2004) advocates a degree of inter-coder reliability of 80 per cent. Concordance was achieved in 82 per cent of cases, averaged across the analysis of the six impression management tactics examined, with any discrepancies resolved through discussion. Coding in respect of visual emphasis, verbal form and engagement resulted in a high degree of concordance. However, the subjectivity associated with the coding of the subjects of the attacking and defensive themes, the reinforcement of the sentences and the repetition of information resulted in a lower percentage of agreement between the researchers, which required further discussion.

4. Results

Table 6 provides some descriptive statistics summarising the data, highlighting the considerable variability between the ten takeover documents, as evidenced by the ranges

between minimums and maximums and the standard deviations. It is possible that variations arise because practices differ depending on whether target company management wishes to reject the bid, rather than achieve an increase in offer price.

Table 6: Descriptive statistics on the impression management strategies in narrative disclosures					
	<i>No.</i>	<i>Average</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Standard Deviation</i>
Subject of theme (see Tables 7 & 8)	<i>sentences</i>				
Attacking sentences	640	64.0	23	127	31.41
Defensive sentences	<u>1,019</u>	101.9	27	169	44.87
Total attacking or defensive sentences	1,659				
Neutral sentences	<u>474</u>	47.4	23	147	36.69
Total sentences in takeover documents	<u>2,133</u>				
Visual emphasis (see Table 9)					
Most-emphasised	390	39.0	17	58	13.30
Next-most-emphasised	674	67.4	38	124	24.14
Least-emphasised	<u>595</u>	59.5	8	89	28.89
	<u>1,659</u>				
	<i>No.</i>				
Repetition (see Table 10)	<i>repetitions</i>				
Attacking themes	190	19.0	6	58	18.04
Defensive themes	<u>234</u>	23.4	1	38	10.51
	<u>424</u>				
	<i>No.</i>				
Reinforcement (see Table 11)	<i>reinforcements</i>				
Attacking themes	512	51.2	20	105	24.81
Defensive themes	<u>1062</u>	106.2	22	183	51.70
	<u>1,574</u>				
	<i>No.</i>				
Verbal form (see Table 12)	<i>sentences</i>				
Imperative	157	15.7	1	27	9.55
Prescriptive active	4	0.4	0	1	0.52
Prescriptive passive	0				
Descriptive active	36	3.6	1	14	3.78
Descriptive passive	1	0.1	0	1	0.32
Permissive	<u>0</u>				
	<u>198</u>				
	<i>No.</i>				
Engagement (use of 'your') (see Table 13)	<i>references</i>				
Engaging	90	9.0	0	23	7.29
Non-engaging	<u>226</u>	22.6	6	95	26.64
	<u>316</u>				

4.1 Thematic manipulation (RQ 1)

A total of 2,133 sentences were counted across the ten defence documents. The thematic analysis is presented in two ways. First, Table 7 provides results on a case-by-case basis, which provides further evidence on the variability in reporting practices between cases. Second, Table 8 analyses themes by bid outcome. Table 7 shows that 78 per cent of sentences in defence documents either attack bidding companies or defend target companies. Arguments which present the target company in a favourable light are more likely than those in which the bidding company is portrayed negatively. Defensive sentences comprise 61 per cent and attacking sentences comprise 39 percent of the attack/defensive sentences. Differences between failed bids and those that succeeded are significant. Similar results are obtained when outcome is defined as bid price increase/no increase. However, given the small sample size, it is not possible to draw robust conclusions from these results.

Tables 7 and 8 shows that defensive sentences invoke arguments based on six different subjects, while attacking sentences denounce only three different subjects. This suggests that the range of persuasive arguments based on defensive themes is greater than attacking themes. This may indicate greater breadth of defensive arguments, or more focussed arguments in attacking sentences. Alternatively, target company managers have greater knowledge of the target company than of the bidding company, and accordingly the range of defensive arguments reflects this. Most defensive sentences defend the target company and the target company performance, but practice is varied in the ten defence documents. The Aer Lingus takeover documents emphasise target company future prospects as does the second and third LSE/NASDAQ takeover documents. The first LSE/NASDAQ takeover document defends the target company market. While attacking sentences account for only 39 per cent of all attacking and defensive sentences, sentences attacking the hostile offer account for 25 per cent of all sentences. However, while most target companies' attacking sentences focus on the offer price, there is some variability in practice with both the Aer Lingus takeover documents and the second LSE/NASDAQ takeover document focussing on the bidding company.

Table 7: Case-by-case attacking and defensive thematic analysis

	1. LSE - Macquarie (Failed)		2. LSE- Macquarie (Failed)		3.NovaGold- Barrick Gold (Failed)		4. Aer Lingus- Ryanair (Failed)		5. Aer Lingus - Ryanair (Failed)		6. Isotron- Synergy Healthcare (Succeeded)		7. LSE -NASDAQ (Failed)		8. LSE- NASDAQ (Failed)		9. LSE- NASDAQ (Failed)		10. Flomerics -Mentor Graphics (Succeeded)		Total	
Sentences	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
<u>Attacking sentences</u>																						
1. Offer	24	14%	32	20%	91	61%	20	10%	19	15%	111	45%	34	16%	25	11%	34	42%	18	21%	408	25%
2. Bidding company	10	6%	25	16%	5	3%	55	28%	24	18%	15	6%	14	6%	55	24%	11	14%	5	6%	219	13%
3. Bidding management	<u>0</u>	<u>0%</u>	<u>1</u>	<u>1%</u>	<u>0</u>	<u>0%</u>	<u>3</u>	<u>2%</u>	<u>0</u>	<u>0%</u>	<u>1</u>	<u>1%</u>	<u>0</u>	<u>0%</u>	<u>0</u>	<u>0%</u>	<u>8</u>	<u>10%</u>	<u>0</u>	<u>0%</u>	<u>13</u>	<u>1%</u>
	34	20%	58	37%	96	64%	78	40%	43	33%	127	52%	48	22%	80	35%	53	66%	23	27%	640	39%
<u>Defensive sentences</u>																						
4. Target company	25	15%	27	17%	20	13%	46	23%	39	30%	48	20%	22	10%	22	9%	5	6%	17	20%	271	16%
5. Target management	3	2%	2	1%	18	12%	1	1%	7	5%	3	1%	7	3%	5	2%	2	3%	5	6%	53	3%
6. Target performance	45	27%	43	28%	2	1%	35	18%	19	14%	29	12%	77	35%	59	25%	7	9%	20	23%	336	20%
7. Target future prospects	24	15%	12	8%	14	10%	33	17%	23	17%	6	2%	1	1%	36	16%	9	11%	3	4%	161	10%
8. Target markets	20	12%	8	5%	0	0%	0	0%	1	1%	16	6%	47	22%	25	11%	1	1%	8	9%	126	8%
9. Target investments	<u>15</u>	<u>9%</u>	<u>6</u>	<u>4%</u>	<u>0</u>	<u>0%</u>	<u>2</u>	<u>1%</u>	<u>0</u>	<u>0%</u>	<u>17</u>	<u>7%</u>	<u>15</u>	<u>7%</u>	<u>5</u>	<u>2%</u>	<u>3</u>	<u>4%</u>	<u>9</u>	<u>11%</u>	<u>72</u>	<u>4%</u>
	132	80%	98	63%	54	36%	117	60%	89	67%	119	48%	169	78%	152	65%	27	34%	62	73%	1,019	61%
Total attacking/defensive sentences	166	100%	156	100%	150	100%	195	100%	132	100%	246	100%	217	100%	232	100%	80	100%	85	100%	1,659	100%
Neutral sentences	<u>37</u>		<u>27</u>		<u>147</u>		<u>48</u>		<u>27</u>		<u>30</u>		<u>45</u>		<u>58</u>		<u>32</u>		<u>23</u>		<u>474</u>	
Total sentences	203		183		297		243		159		276		262		290		112		108		2,133	

Note: Highlighted readings are outlier cases

Attacking and defensive sentences devoted to an attack/defence of bidding/target company management account for only one per cent and three per cent of the total, respectively. This result is unexpected for two reasons. Firstly, the nature of a hostile takeover bid, which is launched by bidding company management and aggressively rejected by the target company, would imply that the target company would seek to undermine and discredit those specifically responsible for its initiation (bidding company management). Secondly, it would be expected that in promoting a favourable impression of the target company, management would attempt to associate itself with the positive organisational performance described throughout the defence documents. The most common defensive arguments are those premised upon a defence of target company performance, or of the target company itself. Target company future prospects and developments within target company markets are also frequently presented as reasons for rejection of the hostile bid.

Table 8: Thematic analysis by outcome of bid				
Subject of theme	Successful bids		Failed bids	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
	<i>sentences</i>		<i>sentences</i>	
Attack	150	45%	490	37%
Defence	181	55%	838	63%
Total attacking/defensive sentences	331	100%	1,328	100%
Pearson chi-square test 7.927 (d.f. 1) Significance 0.005**				
Attack				
1. Offer	129	86%	279	57%
2. Bidding company	20	13%	199	41%
3. Bidding company management	1	1%	12	2%
Total attacking sentences	150	100%	490	100%
Pearson chi-square test 41.985 (d.f. 2) Significance 0.000**				
Defence				
4. Target company	65	36%	206	25%
5. Target company management	8	4%	45	5%
6. Target company performance	49	27%	287	34%
7. Target company future prospects	9	5%	152	18%
8. Target company markets	24	13%	102	12%
9. Target company investments	26	15%	46	6%
Total defensive sentences	181	100%	838	100%
Total attacking/defensive sentences				
Pearson chi-square test 42.835 (d.f. 5) Significance 0.000**				
** Significant at < 1%				

4.2 Visual emphasis (RQ 2)

Table 9 shows that most attacking and defensive sentences contain some form of visual emphasis. For attacking sentences, plain text (least-emphasised) accounts for only 29 per cent of all sentences, with the remaining 71 per cent of attacking sentences coded as either most-emphasised or next-most-emphasised. This compares with 60 per cent of all defensive sentences containing some form of visual emphasis, with plain text sentences accounting for 40 per cent. Thus, defensive sentences are less likely to contain any form of visual emphasis than attacking sentences. Such a finding is interesting in the context of the results of the thematic analysis which indicated that attacking arguments are less likely. Therefore, while arguments premised upon a defence of the target company are more frequent in the defence documents, they are subject to less visual emphasis than the less frequent attacking sentences.

Table 9: Visual emphasis, thematic analysis and outcome of bid								
<i>Visual emphasis category</i>	Attack		Defence		Successful bids		Failed bids	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Most-emphasised	172	27%	218	22%	71	18%	410	23%
Next-most-emphasised	284	44%	390	38%	195	51%	612	35%
Least-emphasised	<u>184</u>	<u>29%</u>	<u>411</u>	<u>40%</u>	<u>118</u>	<u>31%</u>	<u>727</u>	<u>42%</u>
	<u>640</u>	<u>100%</u>	<u>1,019</u>	<u>100%</u>	<u>384</u>	<u>100%</u>	<u>1,749</u>	<u>100%</u>
	Pearson chi-square test 29.186 (d.f. 2)				Pearson chi-square test 21.056 (d.f. 2)			
	Significance 0.000**				Significance 0.00**			
** Significant at < 1%								

4.3 Rhetorical manipulation (RQ 3)

The results of each of the four methods of rhetorical analysis are presented below. Table 10 shows that information serving a primarily defensive purpose accounts for 55 per cent of repetition, while that invoked for purposes of attack accounts for 45 per cent. However, the majority of repetitions in NovaGold, Isotron and the third LSE/NASDAQ defence documents repeat attacking themes. Appeals to shareholders to reject the hostile takeover bid, and attacks on the offer of the bidding company, represent the most frequently repeated pieces of information, accounting for 53 per cent of all repetitions. Attacks on the offer account for 26 per cent of all repetitions. A further 24 per cent of all repetitions concern positive information in respect of the target company (11 per cent) and its performance (13 per cent). Attacks on the bidding company comprise six

per cent of all repeated information. The remaining 17 per cent of repeated information has a theme of defence (16 per cent), with factual information accounting for one per cent of all repetitions. Few repetitions pertain to either target or bidding company management. Thematic analysis reveals that the range of defensive arguments is greater than for attacking themes, simply reflecting the greater scope for repetition of information in arguments premised upon a defence of the target company.

Table 10: Repetition, thematic analysis and outcome of bid						
<i>Type of information</i>	Successful bids		Failed bids		Total bids	
	<i>No. repetitions</i>	<i>%</i>	<i>No. repetitions</i>	<i>%</i>	<i>No. repetitions</i>	<i>%</i>
Attacking themes	64	50%	126	42%	190	45%
Defensive themes	<u>63</u>	<u>50%</u>	<u>171</u>	<u>58%</u>	<u>234</u>	<u>55%</u>
	<u>127</u>	<u>100%</u>	<u>297</u>	<u>100%</u>	<u>424</u>	<u>100%</u>
Pearson chi-square test 2.285 (d.f. 2) Significance 0.131						

Table 11 reveals that attacking sentences are less likely to be reinforced than defensive sentences, with 47 per cent of attacking sentences containing no reinforcement, compared with 38 per cent of defensive sentences. However, the majority of repetitions in NovaGold and the third LSE/NASDAQ defence documents reinforce attacking themes. Thus, there are some similarities in the pattern of repetition and reinforcement. Of the attacking sentences, 48 per cent contain either one or two reinforcements, while the figure in respect of defensive sentences is 52 per cent. Three or more reinforcements per sentence account for only five per cent of attacking and ten per cent of defensive sentences, respectively. Although the findings suggest that defensive sentences are more likely to be reinforced at five of the six levels of reinforcement, the results indicate that the majority of both attacking and defensive sentences contain some form of reinforcement through the use of qualifiers. Of the attacking sentences, 53 per cent are reinforced at least once through the use of a qualifier, increasing to 62 per cent for defensive sentences. This suggests that reinforcement, as a method of adding emphasis to attacking and defensive sentences, is a commonly used technique in the ten defence documents analysed.

Table 11: Reinforcement, thematic analysis and outcome of bid

Attack				Defence		
<i>Frequency of reinforcements</i>	<i>No. sentences</i>	<i>% sentences reinforced</i>	<i>No. reinforcements</i>	<i>No sentences</i>	<i>% sentences reinforced</i>	<i>No reinforcements</i>
0	299	47%	0	387	38%	0
1	219	34%	219	372	36%	372
2	90	14%	180	159	16%	318
3	21	3%	63	61	6%	183
4	8	1%	32	23	2%	92
5	1	1%	5	9	1%	45
6	1		6	6		36
7	1		7	2	1%	14
	<u>640</u>	<u>100%</u>	<u>512</u>	<u>1,019</u>	<u>100%</u>	<u>1,060</u>
Pearson chi-square test 21.890 (d.f. 7) Significance 0.003**						
Success				Failure		
<i>Frequency of reinforcements</i>	<i>No. sentences</i>	<i>% sentences reinforced</i>	<i>No. reinforcements</i>	<i>No sentences</i>	<i>% sentences reinforced</i>	<i>No reinforcements</i>
0	125	38%	0	561	42%	0
1	121	37%	121	470	35%	470
2	63	19%	126	186	14%	372
3	14	4%	42	68	5%	204
4	7	2%	28	24	2%	96
5	1	0%	5	9	1%	45
6	0	0%	0	7	1%	42
7	0		0	3	0%	21
	<u>331</u>	<u>100%</u>	<u>322</u>	<u>1,328</u>	<u>100%</u>	<u>1,250</u>
Pearson chi-square test 9.520 (d.f. 7) Significance 0.217						

Of the 198 sentences containing an appeal or instruction by the target company to reject the bid, Table 12 reveals that 82 per cent of the verbs contained therein are in the most forceful imperative form. Unexpectedly, descriptive active is second most common verbal form, accounting for 16 per cent of all appeal sentences. NovaGold and Flomerics primarily use descriptive active. In each of these cases, the bidder is a US firm. Prescriptive active, the next-most forceful verbal form after imperative, accounts for only two per cent of sentences.

Table 12: Verbal form of appeals to reject the hostile bid and outcome of bid

<i>Verbal form</i>	Sentences containing an appeal for rejection					
	Successful bids		Failed bids		Total bids	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
	<i>sentences</i>		<i>sentences</i>		<i>sentences</i>	
Imperative ¹	10	63%	161	83%	171	82%
Prescriptive active ²	0	0%	4	2%	4	2%
Prescriptive passive ³	0	0%	0	0%	0	0%
Descriptive active ⁴	6	37%	28	15%	34	16%
Descriptive passive ⁵	0	0%	0	0%	0	0%
Permissive ⁶	0	0%	0	0%	0	0%
	<u>16</u>	<u>100%</u>	<u>193</u>	<u>100%</u>	<u>209</u>	<u>100%</u>

Pearson chi-square test 5.923 (d.f. 2) Significance 0.052

¹ Reject the offer

² Shareholders should reject the offer

³ The offer should be rejected

⁴ The board advises shareholders to reject the offer

⁵ Shareholders are advised to reject the offer

⁶ Shareholders may reject the offer

Table 13 shows most references to the target company or its management have no added rhetorical emphasis through the use of the personal pronoun ‘your’. This result is unexpected. Of the 316 keyword references identified, 72 per cent were coded as ‘non-engaging’, indicating that they do not enhance the sense of engagement of the shareholder in the decision-making process. However, the number of keywords coded as engaging (28 per cent) indicates that while impression management through rhetorical engagement is not as prevalent as expected, it cannot be eliminated as a potential impression management strategy.

Table 13: Engagement and outcome of bid

References to target company/management¹ <i>Engagement (use of ‘your’)</i>	Successful bids		Failed bids		Total bids	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
	<i>references</i>		<i>references</i>		<i>references</i>	
Engaging	16	30%	74	28%	90	28%
Non-engaging	<u>38</u>	<u>70%</u>	<u>188</u>	<u>72%</u>	<u>226</u>	<u>72%</u>
	<u>54</u>	<u>100%</u>	<u>262</u>	<u>100%</u>	<u>316</u>	<u>100%</u>

Pearson chi-square test 0.042 (d.f. 2) Significance 0.837

¹ Company; firm; entity; management (team); managers; directors; board (of directors)

5. Discussion and conclusions

This research was undertaken to investigate the incidence, extent and implications of selected impression management strategies in the hostile takeover defence documents of target companies listed on the LSE. The use of rhetoric and argument in hostile takeover documents provides insights into behaviour and motives of managers in the heat of such battles. While the overall evidence of the impression management was strong in respect of thematic, visual and rhetorical manipulation, results in relation to the particular emphasis of attacking and defensive arguments were mixed. The thematic analysis of the defence documents studied revealed the majority of sentences in the defence document to be associated with the two themes of attack and defence. Within the attacking and defensive sentences, arguments premised upon a theme of defence were found to be the most prevalent. Managers used defensive themes most, so the maxim “attack is the best form of defence” is not supported by these research findings. While self-interest might motivate these defences, evidence of explicit self-interest is at a minimum in terms of defence of target company managers, with most defences focussing on the target company and its performance. Attacking themes are primarily focussed on the bid price, with little attacking of the bidding company and even less of its management.

However, the results of the visual emphasis analysis appeared to offer a redress for this, with attacking sentences found to be awarded a greater degree of visual emphasis than those considered defensive. This was then contradicted by the results of the rhetorical analysis of the schematic devices of repetition and reinforcement, which found defensive sentences to be subject to proportionally more repetition and reinforcement than those which adopt a primarily attacking theme. Nonetheless, in spite of this inability to draw a definitive conclusion, the results point to extensive use of impression management through the thematic, visual and rhetorical manipulation of both the attacking and defensive sentences. Taking account of the additional use of visual emphasis and rhetorical techniques, it would appear that efforts to persuade are considerable and are not often seen in other financial reporting contexts. Further evidence of impression management is suggested by the strength of the results in respect of the verbal form of target company appeals to shareholders, and in the increasing use of engagement by target companies which issued more than one defence document in response to the same hostile takeover bid.

The audience for disclosures in takeover documents is not restricted to shareholders. Managers of the bidding company are likely to carefully read and analyse the narratives. If these disclosures are brought to the attention of the media they can have a strong public relations effect. However, it is also possible that the rhetoric in these public documents is a façade, and does not reflect the power struggle and conflicting accounts of the transaction behind the scenes, as Ng and de Cock (2002) found in their analysis of one hostile bid.

5.1 Policy implications of research findings

Current UK regulatory requirements governing defence documents allow considerable flexibility and choice in the disclosures in takeover documents. Advantage may be taken of this flexibility. The accuracy of claims made in corporate documents is an issue, particularly so during hotly fought takeover bids. Table 4 revealed that the target NovaGold litigated against hostile bidder Barrick Gold for making material misstatements. Allegations concerning inaccurate information have been made in the more recent 2008 hostile takeover bid of Aer Lingus and Ryanair.⁴ Regulators need to consider the imposition of stricter information and presentation obligations and minimum disclosure standards in hostile takeover defence documents. Should auditors be required to report on the truth and fairness of the information contained in defence documents? Should the role of reporting accountants and financial advisors be expanded to require them to consider the objectivity of the messages and information in takeover documents? Similar recommendations might be made to those in the *Operating and Financial Review* (Accounting Standards Board, 1993), which requires, *inter alia*, that operating and financial reviews should be balanced and objective and should refer to comments or statements made in previous documents published by the company.

⁴ “O’Leary said Aer Lingus chairman Colm Barrington and other board members misled investors with claims made in a defence document last December that the airline was profitable and was growing its short- and long-haul businesses.” *Irish Times* 9 May 2009. Ciaran Hancock.

5.2 Suggestions for further research

This research is restricted to formal defence documents issued during takeover bids. Further extensive verbal jousting, tit-for-tat and ‘war of words’⁵ between bidder and target is seen in press releases. Future research could consider a wider variety of disclosure vehicle beyond defence documents, including in particular press releases. The content analysis methodology applied could examine the exchanges between both parties and the interaction effects of narratives in one party’s documents on the subsequent responses in the other party’s documents, possibly tracking themes and the build up of arguments chronologically from document to document. The Barrick Gold-NovaGold hostile bid in this paper with 41 documents issued during the bid, would be a suitable bid in which to carry out such analysis.

Do managers of bidding companies employ the same impression management techniques in their attack documents as the management of target companies employ in their defence documents? Impression management techniques employed by bidding companies and target companies in the offer and rejection documents, respectively, might be compared. A further expansion of such a study could consider which techniques are more successful in influencing the actions of shareholders. The outcome of the bid is readily observable and hence it would be possible to identify trends relating to the effectiveness of specific impression management strategies.

This research takes a supply side approach, only considering impression management from a management perspective. The question remains – is impression management effective or is it filtered out by users as management hyperbole? Prior research examines this user-orientated perspective either through share price reaction studies or through experiments. Such share price reaction studies and experiments have been conducted in routine financial reporting contexts (for a summary of this literature, see panels C and D, Table 2, Merkl-Davies and Brennan 2007). Building upon the findings in this paper, these approaches could usefully be extended to non-routine contexts such as hostile takeover bids.

⁵ We thank one of the reviewers for this phrase, and for suggestions in relation to this opportunity for further research.

5.3 Concluding comment

The evidence from this research, together with the implications thereof for the outcomes of takeover bids, and the consequent repercussions for shareholder wealth and industry structure, suggests that impression management within hostile takeover defence documents should remain a priority for future study.

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