

**An exploratory study into impression management
practices of chairman's statements in South African
annual reports**



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Declaration

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and Research Report at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere for the purpose of being awarded a degree or for examination purposes at any other University.

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Abstract

The purpose of this study was to determine whether there is a systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies on the JSE main board. This would indicate the existence of impression management in management commentary.

The difference of profitable and unprofitable companies was analysed in relation to six pre-determined textual characteristics.

The primary conclusion drawn is that impression management does exist in the chairman's statements of companies listed on the main board of the JSE. Another finding of the study was that 'extremely unprofitable' companies are less likely to employ impression management. The findings of this research indicate that users of annual reports should be alert to the existence of reporting bias introduced by management in its commentary. Users of the annual report should carefully consider the usefulness of management commentary in their decision making, discounting these disclosures for the use of impression management techniques employed in corporate reporting strategies.

Studies on impression management techniques in narrative disclosures within the annual report have not been piloted in South Africa before. This is the first study of linguistic variation employed in management commentary within the South African context. The study was exploratory in nature and did not set out to identify the causes of impression management being employed within the South African context. Future research may explore this further and may also be extended to determine whether impression management is present in other sections of the annual report and even the integrated report.

Key words: Chairman's statement, impression management, management commentary, reporting bias

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Chapter 1- Introduction

1.1 Purpose of the study

The purpose of this study was to establish whether the profitability of a company influences its corporate reporting strategy. This was established by analysing whether the reporting strategies of profitable companies differ significantly from those of unprofitable companies. This would indicate the presence of reporting bias and impression management in annual reports.

Impression management has its origins in the area of social psychology and is primarily concerned with the study of how individuals present themselves to others, in order to be perceived favourably. Studies have however been performed extending this seemingly benign human trait to company's corporate reporting strategies, particularly annual report disclosures. One such study conducted by Stanton, Stanton, and Pires (2004), found that increasingly, annual reports are seen as an exercise in obfuscation. The study reports that sections of the annual report are allegedly managed to present management in as favourable a light as possible. This is particularly relevant in situations that are described as 'identity threatening' and, in instances of poor performance (Stanton et al., 2004). Another study on this topic was conducted by M Clatworthy and Jones (2006). The aim of their study was to assess the effect of financial performance of an organization on the textual characteristics of the chairman's statement. The study analysed a range of textual characteristics in the chairman's statements of 100 'extremely profitable' companies and 100 'extremely unprofitable' companies listed in the UK to determine if there was a significant difference in the textual characteristics of profitable companies compared to unprofitable companies. The results of the study indicate that impression management techniques are employed in the chairman's statement and from these findings it was deduced that the underlying financial performance of an organization does influence its corporate reporting practices (M Clatworthy & Jones, 2006).

A similar study on the potential use of impression management techniques in management commentary has not been carried out in South Africa previously. This study aimed to replicate the study conducted by M Clatworthy and Jones (2006) within the South African context to determine whether there are significant differences in the

textual characteristics of chairman's statements of profitable and unprofitable companies which may indicate the use of impression management.

This study examined the chairman's statements of all companies listed on the main board of the Johannesburg Stock Exchange (JSE). The sample of chairman's statements of all companies listed on the JSE were scrutinised for the evidence of six predetermined textual characteristics which may be indicative of impression management techniques employed by management.

1.2 Context of the study

Following large corporate collapses such as Enron, Worldcom and Barings Bank as well as the global financial crisis and a continuing depressed global economy, investors face greater uncertainty in the capital markets than ever before. It has therefore become increasingly important that users, and more specifically investors, are provided with accurate reporting of a company's performance and that reporting bias is not introduced to company's corporate reporting strategies. This is to ensure that appropriate capital allocation decisions are made.

The annual report remains the traditional statutory-based vehicle of corporate communication and serves as an important source of information to stakeholders (Bartlett & Chandler, 1997; Courtis, 1998; Stanton et al., 2004). There have been significant changes in the corporate reporting sphere over time which have served to increase the usefulness of the annual report. One of the most significant changes in annual reporting has been the inclusion of narrative accounting disclosures, particularly management forecasts and discussions (Abrahamson & Amir, 1996; Aerts, 2005a).

The inclusion of narrative disclosures are however sometimes considered a means of providing biased information to mislead investors, that is, narrative reporting provides a means of introducing reporting bias into the annual report (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Merkl-Davies, Brennan, & McLeay, 2011; Stanton et al., 2004). Reporting bias entails selecting information to display and presenting that information in a manner that intends to distort readers perceptions of corporate achievements (Brennan & Merkl-Davies, 2013).

Management is motivated to introduce reporting bias into its corporate reporting strategy to create a favourable impression with users. This is because the annual report has been found to be perceived by users as reflective of managerial performance (Merkl-Davies et al., 2011). Annual reports also serve as a vehicle through which management may maintain and/or restore investor confidence and therefore this may serve as further motivation for management to engage in impression management and reporting bias particularly during periods of poor performance (Aerts, 2001). Increasing narrative disclosures have been found to provide management with the opportunity to introduce reporting bias and employ impression management techniques in corporate reporting, with the intention of influencing the perception of users on the performance of the organization (Stanton et al., 2004). Furthermore these narrative disclosures, particularly management commentary is not regulated both in terms of required content to be disclosed by management in its commentary as well as not being required to be audited by the International Standards on Auditing. These factors heighten the attractiveness of management indulging in impression management techniques in its commentary. Chairman's statements present a particularly fertile ground for management to engage in self-serving behavior and employ impression management techniques because the chairman's statement is almost universal; it is often used by stakeholders in their decision making and is amongst the most widely read sections of the annual report (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam, Insley, & Blackwell, 1993).

The introduction of reporting bias and impression management techniques to corporate reporting have been found to render information less useful to investors in their decision making. This is because the IASB in its Conceptual Framework identifies the characteristics of information that is useful and one of the characteristics of useful information is that it faithfully represents that which it purports to represent, that is, the information is neutral and free from bias. Therefore, information to which reporting bias has been introduced does not meet this fundamental characteristic and renders such information less useful to users in their decision making. This may result in incorrect decisions being made by users regarding the allocation of capital within capital markets (Aerts, 2001; Beynon, Clatworthy, & Jones, 2004; Subramaniam et al., 1993).

1.3 Problem Statement

The importance of accurate reporting to users has highlighted the need to determine whether narrative disclosures are in fact neutral and free from bias to render them useful in decision making. This study specifically aimed to determine whether there are significant differences between the reporting strategies of profitable companies compared to unprofitable companies. Reporting strategies have been narrowly defined for the purpose of this study to be management commentary. The existence of significant differences may indicate impression management and reporting bias being introduced which would render these disclosures less useful to users and potentially result in the inappropriate misallocation of capital. The annual reports of all companies listed on the JSE main board were analysed to determine whether there has been an increase or a decrease in profits in 2014 as compared to 2013. The chairman's' statements of all of these companies listed on the main board of the JSE were then examined to determine whether the textual characteristics of profitable companies differed significantly from unprofitable companies. The study tested the following hypothesis:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies on the JSE main board.

The statements were then specifically scrutinised for the evidence of six predefined textual characteristics which are indicative of impression management techniques employed by management. These textual characteristics are:

(a) The length of the Chairman's Statement

Kohut and Segars (1992), have found that profitable companies are more verbose than unprofitable companies, indicating that managers therefore appear keen to elaborate on positive financial performance in the chairman's statement, but prefer to communicate poor financial performance more concisely Kohut and Segars (1992). It is therefore suggested that the length of the chairman's statement may differ depending on the financial performance of the company.

H1a. The chairman's statements of profitable and unprofitable companies will be similar in length.

(b) Use of passive voice

Research undertaken by Thomas (1997), which investigates the choice in sentence construction between active and passive verb choice in chairman's letters finds that companies experiencing poor financial performance make use of more passive sentence construction thereby detaching the writer from the message. It is therefore suggested that the use of passive vs active voice in the chairman's statement will differ depending on the financial performance of the company.

H1b: The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences.

(c) Use of personal references

Prior research has also suggested that profitable companies are more likely to employ personal references than companies which are unprofitable who are inclined to distance themselves from declining profits (Thomas, 1997).

H1c: The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references.

(d) Use of quantitative references

Studies conducted by V Beattie and Jones (2000) have found that profitable companies are significantly more likely to include graphs of key financial variables when compared to unprofitable companies. It is therefore expected that profitable companies will be more likely to report key financial variables than unprofitable companies.

H1d: The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.

(e) Future references

M Clatworthy and Jones (2006), posit that discussion of the future is used by managers of unprofitable companies to deflect from their unfavourable performance whilst

managers of profitable companies are more likely to focus on current results. Therefore it is suggested that companies experiencing poor performance are more likely to discuss the future rather than focus on the current set of results.

H1e: The chairman's statements of profitable and unprofitable companies will focus equally on the future.

(f) Readability

Language has been found to be used to obfuscate the causes of poor performance. Accounting narratives of good performers have been found to be easier to read than the narratives of poor performers (Stanton et al., 2004; Subramaniam et al., 1993).

H1f: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

1.4 Significance of the study

There is an increasing evolution in corporate reporting arena towards the integration of financial and non-financial disclosures. The usefulness of these integrated disclosures to users and stakeholders is reliant to a large extent on whether these disclosures faithfully represent what they purport to represent, that is, the integrity of these disclosures is vital to their usefulness to users and stakeholders. The presence of impression management and reporting bias within these disclosures detracts from the usefulness of these integrated disclosures. It is therefore important to assess whether reporting bias and impression management techniques are employed by management in its commentary on the financial information presented.

Studies have been conducted to test the existence of impression management techniques in corporate reporting strategies primarily in developed economies. These studies have focussed on impression management techniques making use of graphs and photographs as well as on linguistic variation relevant to narrative reporting. No studies have been performed in South Africa on the potential existence of reporting bias and impression management techniques in narrative annual report disclosures. This study will contribute to the body of literature on impression management by analysing whether there is a significant difference in the reporting strategies of

profitable companies compared to unprofitable companies as this may indicate the use of impression management.

The results of this research will be important to users of financial statements as it would indicate to them whether impression management techniques are employed by management. If it is found that management employs impression management techniques, users are better able to discount these disclosures for the reporting bias which may have been introduced.

The results of this research may also inform accounting and auditing standard setting and regulatory bodies in terms of future revisions to standards such as ISA 720 (IAASB, 2015). These bodies may rely on the findings of the research to assess whether disclosure and audit requirements relating to management commentary for preparers and auditors respectively, should be more stringent.

1.5 Limitations of the study

This research study is limited to an analysis of a single section of management commentary within the annual report, the chairman's statement. The study does not consider whether impression management may be evident in the remainder of the annual report. Furthermore, other vehicles of communication between the company and its stakeholders have not been studied. This was deemed sufficient and appropriate as the annual report is considered to be an important source of information to users in informing their decision making (Bartlett & Chandler, 1997; Courtis, 1998; Stanton et al., 2004). Additionally, within the annual report, the chairman's statement has been found to be a section that is often used by stakeholders in their decision making; is almost universal and is amongst the most widely read sections of the annual report (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam et al., 1993).

The study also focusses only on companies listed on the JSE. This was deemed appropriate as it is likely that impression management techniques employed by companies listed on a stock exchange are more likely to have an impact on a broader user group. The research focussed on the annual reports of companies for periods ending in 2014.

1.6 Definition of terms and abbreviations

BC-Basis for Conclusion

CF-Conceptual Framework

ISA-International Standards of Auditing

IASB-International Accounting Standards Board

IIRC-international Integrated Reporting Committee

IFRS-International Financial Reporting Standards

JSE-Johannesburg Stock Exchange

PS-Practice Statement

QC-Qualitative Characteristic

Reporting Strategy- The reporting strategy of an entity has been narrowly defined to comprise the chairman's statement as included in the annual report.

SAICA-South African Institute of Chartered Accountants

Stakeholders- Shareholders, employees, customers, suppliers, society and the natural environment

1.7 Chapter layout

The research study is set out as follows. Chapter two will begin with an analysis of the prior literature on the importance of narrative disclosures in the annual report to users in their decision making. Impression management will then be defined and extended to its application within the corporate reporting context. Prior studies on impression management will be studied and managements' motives and opportunities to engage in impression management will be analysed further. Chapter three will describe the research method employed in conducting the research including the techniques used to analyse the textual characteristics of chairman's statements. Chapter four will analyse the results of the research conducted. Chapter five will conclude the study and include areas for future research.

Chapter 2 Literature Review

This chapter focuses first on understanding the importance of annual reports as a vehicle of communication to the users of such reports. It also examines whether in fact users consider the information contained in the annual report when making investment decisions, in particular the information contained in the chairman's statements.

The chapter then defines the concept of impression management and its application within a corporate reporting context. The review of relevant literature focuses on the different techniques of impression management that may be employed, as well as the potential impact of impression management on users' decision making.

2.1 The usefulness of the annual report

Communication between the management of a company and the company's stakeholders occurs continuously and may take several forms (Courtis, 1998, 2004). Some of these forms include organisational annual reports, CEO speeches, corporate press releases, advertisements, and sustainability and environmental reports (Courtis, 2004; Rutherford, 2005; Tregidga, Milne, & Lehman, 2012). These sources, many of which are available in the public domain, serve as sources of information for the stakeholders of companies in the making of various decisions, including investment decisions (Courtis, 2004; Rutherford, 2005; Tregidga et al., 2012). These sources of information are further augmented by company internet web pages which provide additional information to users to inform their decision making (Courtis, 2004). Of all the sources of information available, the annual report remains the traditional, statutory-based vehicle of corporate communication and has been found to serve as an important source of information to stakeholders (Bartlett & Chandler, 1997; Courtis, 1998; Stanton et al., 2004).

However, the annual report was not always considered to be a useful source of information to stakeholders (Bartlett & Chandler, 1997; Stainbank & Peebles, 2006). This assertion is supported by studies conducted by (Bartlett & Chandler, 1997; Stainbank & Peebles, 2006), who studied the usefulness of the annual report in the 1970s. They found that the annual report was not the preferred source of information for investors (who were, at the time, the primary user group of such reports) nor was it very widely read (Bartlett & Chandler, 1997; Stainbank & Peebles, 2006). Instead,

the studies showed that investors preferred to obtain the information required to facilitate their investment decisions from stockbrokers (Bartlett & Chandler, 1997; Stainbank & Peebles, 2006). The primary reason cited for the annual report not serving as a useful source of information, was that the information contained in these annual reports, as published in the 1970s, did not always meet the information needs of stakeholders (Stainbank & Peebles, 2006). In this regard, Subramaniam et al. (1993) highlight that “the public’s increased desire for financial information about companies, the media’s increased coverage of businesses and the broader definition of investor have changed the ground rules for external corporate communication” (Subramaniam et al., 1993).

Primarily as a result of the increased information needs of users, since then much has been done to change the face of corporate reporting (Bartlett & Chandler, 1997). One of the most significant changes in annual reporting has been the inclusion of narrative accounting disclosures, particularly management forecasts and discussions {Abrahamson, 1996 #133; Aerts, 2005 #138}. As required by statute the contemporary annual report now provides quantitative information while it also provides a comprehensive account of the company’s past corporate achievements, graphs and photographs, as well as narrative disclosures which are centred primarily on managements forecasts and discussions (Abrahamson & Amir, 1996; Courtis, 1998; Stanton et al., 2004).

These changes have also reinforced the evolution of the annual report from a statutory compliance exercise to a document addressing the needs of an evolved user group (Abrahamson & Amir, 1996; Mark Clatworthy & Jones, 2001).

There is widespread evidence that the inclusion of accounting narratives has increased the relevance and value of annual reports to stakeholders and these narratives have become an increasingly important component of financial reporting (Bartlett & Chandler, 1997; Beynon et al., 2004; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Courtis, 1998, 2004; Jones, 1994; Smith & Taffler, 1995; Subramaniam et al., 1993).

Within a South African context, (Flynn, 1987) conducted research on the sources of information valuable to various target groups, namely, institutional investors, financial analysts, company management and information regulators, in order to understand

which sources of information are considered useful to these stakeholders. The findings from the study suggest that, for the last three groups of users, namely, financial analysts, company management and information regulators, the annual report and communications from management were ranked as the most valuable sources of information for their decision making (Flynn, 1987; Stainbank & Peebles, 2006). Institutional investors also ranked annual reports as the most valuable source of information and stockbroker advice as the second most valuable source of information for their decision making (Stainbank & Peebles, 2006).

Stainbank and Peebles (2006) conducted a more recent study in this area to understand the usefulness of the annual report to South African stakeholders. The research aimed to investigate the relative importance of sources of information as perceived by the preparers and users of such information for their investment decisions. The study conducted by Stainbank and Peebles (2006) reported that users ranked company announcements/reports as their second main source of information when making investment decisions and communication with management as their first main source of information. When probed about their perceptions of the importance of information obtained via company announcements/reports, the user group ranked the information contained within the preliminary announcement as containing the most important information relevant to investment decisions (Stainbank & Peebles, 2006). It is thus evident from the above analysis that despite the myriad of communication vehicles used by management, the annual report continues to serve as an important source of information to users for informing their investment decisions. The apparent usefulness of the annual report in respect of decision making is primarily the result of the inclusion of narrative accounting disclosures in the annual report. (Subramaniam et al., 1993)

A further development in the landscape of corporate reporting has been the introduction of the integrated report. It is important to note that, as was made clear in the above discussion, the inclusion of non-financial reporting in annual reports improved the usefulness of such reports and also that this inclusion was recommended by impending corporate governance principles of the time, for example the King Code on Corporate Governance. In 2002, King II specifically proposed that reporting move from the narrow view encompassing organisational performance to a more inclusive “triple-bottom-line” approach to reporting (Solomon & Maroun, 2012)

However, even after the introduction of King II and its emphasis on the disclosure of non-financial information, a number of emerging dynamics necessitated yet another evolution in corporate reporting. These dynamics included the global financial crisis, persistent socio-economic inequality, resource constraints, climate change and mounting allegations of corruption in the public sector, all of which once again required a fundamental shift in existing corporate reporting frameworks (Solomon & Maroun, 2012). This culminated in the introduction of the principles of integrated reporting in King III (IOD, 2009). The integrated reporting initiative renewed the emphasis on “holistic, concise and balanced reporting” (Solomon & Maroun, 2012). An ongoing theme was the importance of the integration of financial and non-financial information but, this time, in the context of integrated reporting and also from the perspective of the preparer. Solomon and Maroun (2012), states that the integration of financial and non-financial information for presentation to users is of paramount importance if modern organisations are to include the principles of stakeholder accountability and sustainable business practice in their operations in any meaningful way (Solomon & Maroun, 2012).

2.2 The usefulness of narrative disclosures

Accounting narratives have become an increasingly important source of information for stakeholders and have also motivated the usefulness of the annual report to the users of such reports (Bartlett & Chandler, 1997; Beynon et al., 2004; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Courtis, 1998, 2004; Jones, 1994; Smith & Taffler, 1995; Subramaniam et al., 1993).

The International Accounting Standards Board (IASB, also referred to hereinafter as “the Board”), issued a practice statement in December 2010 which provided guidance on principles to be followed in preparing management commentary. In the basis for conclusion to the practice statement, paragraph 3 notes that “financial statements do not provide all the information that users need for decision making because the financial statements largely portray the financial effects of past events and do not provide non-financial measures of performance or a discussion of future prospects and plan” (IASB, 2015). Further research which supports this assertion shows that users, both expert and unsophisticated, are looking beyond just the accounting numbers for “enlightenment” (Davison, 2002). Accounting narratives have also been

described as a means of amplifying quantified information in the financial statements (Brennan & Merkl-Davies, 2013).

In addition to providing a context to the financial statements, narrative accounting disclosures have also been found to be useful in predicting future financial performance (Beynon et al., 2004). This information is useful to stakeholders in their decision making, including decisions as to whether either to invest in or divest from the entity. (Smith & Taffler, 1992, 2000b) also found in studies conducted on narrative disclosures that these disclosures may even be useful in predicting bankruptcy (Beynon et al., 2004; Smith & Taffler, 1992, 2000b).

In order to be of use in the decision making of stakeholders, the IASB, in its Conceptual Framework, provides guidance on the characteristics which should be included in corporate reporting if it is to be considered useful.

The objective of general purpose financial reporting, as defined in the IASB's conceptual framework paragraph 2, is "to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers" (IASB, 2015). Clearly this objective requires those preparing the financial reports to exercise their judgement in determining what would be useful to the users. However, the Board has admitted that this objective on its own leaves much to the judgement to be applied by those preparing financial statements and also provides little guidance on how to exercise such judgement. Accordingly, the Board detailed the qualitative characteristics that financial information should possess in paragraph 3.6 of the Basis for Conclusion to the Conceptual Framework in order to meet the main objective of financial reporting. The fundamental qualitative characteristics of useful information include relevance and faithful representation (IASB, 2015). The Board also indicated further qualitative characteristics in paragraph 3.10 of the Basis for Conclusion to the Conceptual Framework, such as comparability, verifiability, timeliness and understandability, which increase the usefulness of the financial information presented (IASB, 2015).

It is clear from the above that for information to be useful, it must faithfully represent what it purports to represent. In addition, in order for information to constitute a

perfectly faithful representation, the conceptual framework states that such information depiction should possess the following three characteristics, namely:

- (i) Completeness
- (ii) Neutrality
- (iii) Freedom from error.

Thus, in order to achieve faithful representation in corporate reporting, the objective is to maximise these qualities. Paragraph QC12-15 of the Conceptual Framework provides further guidance on these characteristics.

- (i) *Completeness*: “A complete depiction includes all information necessary for the user to understand the phenomenon being detected”.
- (ii) *Neutrality*: “A neutral depiction is without bias in the selection or presentation of financial information and is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users”
- (iii) *Freedom from error*: “Information is free from error when it represents what it purports to represent accurately”.(IASB, 2015)

The distinction which the Board makes between fundamental and enhancing qualitative characteristics is not arbitrary, as the Board is of the view that without the two fundamental qualitative characteristics of relevance and faithful representation, information would not be useful and, furthermore, the enhancing qualitative characteristics could not render it useful as stated in paragraph BC3.10 of the Conceptual Framework (IASB, 2010a).

Thus, entities in preparing their financial statements, which typically comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, as well as the Notes to the Financial Statements, should ensure that the statements possess the necessary qualitative characteristics. Management commentary is defined in paragraph 3 of the practice statement, as a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity (IASB, 2010b). The chairman’s statement may be considered, amongst other things, as management commentary. According to the practice statement, management

commentary is important to both the users and reporters of financial statements. For the users it is important in helping them evaluate an entity's prospects, its general risks as well as how it has discharged its stewardship responsibilities while, for entities, management commentary is an important communication tool which both supplements and complements financial statements (IASB, 2010b).

The aim of the practice statement issued by the IASB was to provide a broad framework for the presentation of management commentary that relates to financial statements prepared in accordance with International Financial Reporting Standards (IFRS) (IASB, 2010b). The practice statement is, however, non-binding and, in addition, it is not an IFRS. Accordingly, entities applying IFRS are not required to comply with the practice statement as stated in paragraph IN2 of the practice statement in order to comply with IFRS (IASB, 2010b). The Board noted this and judged that the non-binding practice statement would not result in improvements in financial reporting, although the Board did decide that this non-binding practice statement would provide useful guidance to those preparing financial statements (IASB, 2010b).

The practice statement was prepared on the basis that management commentary is within the boundaries of financial reporting, as it meets the definition of "other financial reporting" as contained in paragraph 7 of the *Preface to International Financial Reporting Standards*. Management commentary is therefore within the scope of the conceptual framework and should be read in that context (IASB, 2010b).

The practice statement, in effect, sets out the principles, qualitative characteristics and elements of management commentary that are required to ensure that the management commentary meets the need to provide *useful* information to users. The Board's intention was that this would help users to make better decisions about providing resources to the entity in question (IASB, 2010a).

With regard to the purpose of management commentary, the practice statement indicates that management commentary should provide users with integrated information in order to contextualise the related financial statements. In addition, this information should explain management's view of what has happened, both the positive and negative circumstances and outcomes, as well as why it has happened and the implications for the entity's future. In essence, management commentary both

complements and supplements the financial information presented (IASB, 2010b). Management commentary should also explain the main trends and factors likely to affect the entity's future performance, position and progress. Thus, management commentary should take into account not only the present but also the past and the future (IASB, 2010b).

The principles to be considered as stated in paragraph 12 in the presentation of management commentary include the following: (i) to provide management's view of the entity's performance, position and progress; and (ii) to supplement and complement information presented in the financial statements (IASB, 2010b). In order to align with these principles, management commentary should include according to paragraph 13 of the practice statement, in addition to forward-looking information, information that possesses the qualitative characteristics as described in the conceptual framework (IASB, 2010b). It is thus clear that the practice statement requires that the information contained in the management commentary should possess the fundamental qualitative characteristics of relevance and faithful representation; that is, the information should be complete, neutral and free from error.

However, despite the IASB's assertions as to what constitutes useful information, a number of studies have found management commentary and narrative accounting disclosures not to be in alignment with these principles. The findings of a study conducted by (Smith & Taffler, 1995) disclosed that information contained in the narrative report sometimes fails to correspond to that contained in the quantified financial information, particularly in instances in which the entity has performed poorly with an unduly optimistic tone being employed (Smith & Taffler, 1995). This undermines the usefulness of management commentary. As discussed above, narrative reporting is an important source of information for stakeholders in their decision making and thus accurate reporting is imperative in order to prevent the misallocation of capital (Aerts, 2001; Beynon et al., 2004; Subramaniam et al., 1993). Therefore, despite the fact that accounting narratives may be of great use to stakeholders, a counter argument may be presented that these narratives are sometimes considered as a means of providing biased information in order to mislead investors (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Merkl-Davies et al., 2011; Stanton et al., 2004). Smith and Taffler (2000b) adopt a stronger view and suggest that narrative disclosures are sometimes

viewed as “undisguised advertisements” or “platforms for preaching management’s philosophies and for touting themselves and their companies”(Smith & Taffler, 2000b). This assertion is supported by Subramaniam et al. (1993), who state that the annual report has sometimes been considered as a marketing tool of the corporation in order to reach various stakeholders and that its purpose extends beyond the statutory requirements of the regulators (Subramaniam et al., 1993).

The negative impact of such biased disclosures may also be exacerbated by both the position and the extent of these disclosures in the annual report. The narrative disclosures provided are often disclosed as textual documents attached to the financial statements at the beginning of the annual report, while the statutory financial statements are included at the end of the annual report (Abrahamson & Amir, 1996; Stanton et al., 2004). This draws attention to the narrative disclosures before the statutory financial statements. In addition, there have many instances where the narrative disclosures have been found to be exceeding the statutory financial information disclosed (M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Jones, 1994; Stanton et al., 2004; Subramaniam et al., 1993). Stanton et al. (2004) have even gone so far as to highlight a possible risk in that the glossy front half of the annual report may in fact override the financial information and statutory disclosures at the end of the report (Stanton et al., 2004). The study conducted by Bartlett and Chandler (1997) on the readership of the annual report found a decline in the readership of the balance sheet and the profit or loss and an increased readership of the narrative disclosures (Bartlett & Chandler, 1997).

Furthermore, in a reporting environment which is characterised by greater public scrutiny than ever before, more institutional controls and the need to create a confident investor public, reporting credibility and consistency become increasingly important (Aerts, 2001). Thus, reporting credibility is fundamental to the effectiveness of accounting narrative disclosure as these narratives are effective only if the message they convey is plausible and the messenger credible (Aerts, 2001). Accordingly, narrative reporting which is biased, self-congratulatory and a marketing exercise is not useful to the investment decisions of users (Milne & Chan, 1999).

2.3 The importance of the chairman's statement

The contemporary annual report contains a number of narrative disclosures including, among others, the chairman's statement as part of management's discussion and analysis. This section aims to understand and analyse the importance of the chairman's statement to users in their decision making. Research conducted into the usefulness of annual reports has indicated that the chairman's statement, and its equivalent, the company president's letter, are often used by stakeholders in their decision making, that both the statement and the letter are almost universal and that they are also among the most widely read sections of the annual report (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Curtis, 1998; Subramaniam et al., 1993).

It is therefore important to further investigate the reasons why the chairman's statement is the most widely read section of the annual report in order to understand the characteristics inherent in the report which appeal to users.

The first and most significant reason may be the fact the studies have found that, due to the information content of chairman's statement, the narratives contained in the chairman's statement often impact on users' perceptions of share price (Abrahamson & Amir, 1996; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Kohut & Segars, 1992; Subramaniam et al., 1993).

Various studies have been conducted on the information content of chairman's statements in order to understand what is commonly reported in these narratives. Kohut and Segars (1992) found, in their examination of the content of the president's letters, that six main themes emerged, namely, environment, growth, operating philosophy, markets, products, and favourable and unfavourable financial references (Kohut & Segars, 1992). This is consistent with the results of studies conducted by Subramaniam et al. (1993), which found that the chairman's letter typically contains management's review of the past year, as well as projections for the future, and covers topics such as labour relations and the availability of resources (M Clatworthy & Jones, 2006; Subramaniam et al., 1993). Information about the environment, growth, operating philosophy and projections for the future comprises information which is not contained in the financial statements of an entity, but which is useful to investors in both their decision making and their assessment of the quality of a company's earnings

(Abrahamson & Amir, 1996). Studies conducted by Abrahamson and Amir (1996); (M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001, 2003; Kohut & Segars, 1992) indicate that the information contained in the chairman's statement, in addition to providing context to the financial statements, also includes useful information about the future performance of the firm, thus providing evidence of a relationship between the performance of the firm and the content of such statements. (Abrahamson & Amir, 1996). Further research carried out by Mark Clatworthy and Jones (2001) found that the content of the chairman's statement may provide useful information to users to enable them to distinguish between healthy companies and failing companies (Mark Clatworthy & Jones, 2001; Kohut & Segars, 1992). This finding was further supported by Kohut and Segars (1992) who, in their study, were able to distinguish between high performing firms and poorly performing firms based on the themes that were emphasised in the president's letter (Kohut & Segars, 1992). The findings of (Smith & Taffler, 2000b) suggest that the information contained in, for example, the chairman's statement and management's discussion and analysis provide almost twice as much information as the annual financial statements, with studies finding that, on average, at least 40% of the information cited by analysts is contained within the narrative disclosures (Smith & Taffler, 2000b).

Another reason which may explain why chairman's statements are read so widely and are deemed to be useful to stakeholders is that regulation does not govern the information that should be contained in them (Abrahamson & Amir, 1996). This allows management to explain annual corporate performance in non-technical language, with this often being the least technical part of the annual report when compared to the financial statements which require a knowledge of accounting in order to be understood (Jones, 1994; Subramaniam et al., 1993). This narrative is therefore particularly useful to the unsophisticated investor for understanding the performance of the entity in question (Jones, 1994; Subramaniam et al., 1993).

Within the South African context, Stainbank and Peebles (2006) conducted a study on the usefulness of corporate annual reports in South Africa. Stainbank and Peebles (2006) asked users to rank 20 different components of the annual report in terms of the thoroughness with which they read that particular component. The components in the survey included both financial and non-financial disclosures, that is, qualitative disclosures, for example the chairman's statement, directors' report, environmental

report, and so forth. The results of this sub-question indicated that users ranked the chairman's statement as the tenth item that they read most thoroughly in the annual report. It should be noted that this item, although ranked tenth of all the components investigated, was the first item ranked which was not required to be disclosed as per IFRS. In other words, users ranked this item as the most important accounting narrative not governed by IFRS that was disclosed (Stainbank & Peebles, 2006). It should also be noted, however, that the study conducted by Stainbank and Peebles (2006) defined users as unit trust managers and that the response rate for the survey was just 17% (Stainbank & Peebles, 2006). However, the results relating to the chairman's statement and the fact that it is both widely and thoroughly read are consistent with global studies on this topic as discussed above and may, therefore, be accepted (Abrahamson & Amir, 1996; M Clatworthy & Jones, 2006; Kohut & Segars, 1992; Smith & Taffler, 2000b; Stainbank & Peebles, 2006).

Despite the lack of regulation of the chairman's statement which may be considered an advantage of the chairman's statement as it makes the statement more useful to users, this lack of regulation may also serve as an opportunity for management to engage in self-serving behaviour. This assertion is supported by research which suggests that the accounting narratives contained in the chairman's statements have traditionally not been audited and continue not to be audited (Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001). In South Africa, auditors adhere to the requirements of the International Standards of Auditing (ISA) when conducting their audits.

ISA 720 provides guidance on 'other information' in documents containing audited financial statements. Other information comprises all information outside of the annual financial statements. It is important to note that auditors have no obligation to report on other information outside of the financial statements (IAASB, 2015). This is according to ISA 720 para 1 (IAASB, 2015). However according to paragraph 2 of the same standard, *the auditor is required to read the other information to identify material inconsistencies with the audited financial statements* (IAASB, 2015). Other information as envisaged by ISA 720 paragraph 5 includes management's report on operations, financial summaries, suchlike, and would, therefore, include the chairman's report (IAASB, 2015). A "material inconsistency" exists when other information contradicts the information in the audited financial statements. A material inconsistency raises

doubt about the audit conclusions drawn and, by extension, the audit opinion expressed (IAASB, 2015). If, on reading such other information, the auditor identifies a material inconsistency, the auditor is required as per ISA 720 paragraph 11 to determine whether an amendment to the annual financial statements or to the other information for the purposes of correction is required (IAASB, 2015). If an amendment is necessary in the audited financial statements and the entity refuses to make such amendments, this may result in a qualified opinion. If, however, the amendment is necessary to the other information and management refuses to make such an amendment, this may result in the inclusion of an emphasis of matter paragraph in the audit report as required by paragraph 12 and 13 of the standard (IAASB, 2015). The standard goes further by stating that the auditor may become aware of a “material misstatement of fact” while reading the other information (IAASB, 2015). A material misstatement of fact is described in paragraph 15 of ISA 720 as information contained in the other information and which is not related to the financial statements but which is incorrectly stated or presented in an incorrect way (IAASB, 2015). If the auditor concludes, after further investigation, that a material misstatement of fact does exist in the other information and management refuses to correct it, the auditor should consider taking further action, including informing the entity in writing of the auditor’s concern and obtaining legal advice on the matter (IAASB, 2015). Therefore, as a result of the fact that the chairman’s statement is not required to be audited, there is an increased chance of management engaging in self-serving behaviour and manipulating and controlling the impressions of others through the disclosures contained in these narratives (M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001).

Based on the widespread reach of the chairman’s statement as well as its usefulness to stakeholders, management may pay specific attention to this section of narrative disclosures and, as regulation does not require that this section be audited, this, in turn, may mean that the chairman’s statement is open to the occurrence of self-serving behaviour (Courtis, 1998).

2.4 Impression Management

The concept of impression management originated in social psychology and is concerned primarily with the study of how individuals present themselves to others in

order to be perceived in a favourable light. (Brennan & Merkl-Davies, 2013; Hooghiemstra, 2000). Thus, as a social concept, impression management may be defined as the “conscious or unconscious attempt to control images that are real or imagined in social interactions” (Stanton et al., 2004). Merkl-Davies et al. (2011) consider impression management to be a “social bias which involves controlling and manipulating the attribution and impressions of others with the aim of being perceived favourably” (Hooghiemstra, 2000; Merkl-Davies et al., 2011). These studies, although they define impression management in different ways, nevertheless have a common theme, namely, that impression management, as a social science, is primarily concerned with how we present ourselves in order to create a favourable perception.

Impression management may be seen to be an understandable human attribute as individuals and companies, when given the opportunity, prefer to portray themselves in a favourable rather than an unfavourable light and to “put their best foot forward” (M Clatworthy & Jones, 2006; Davidson, Jiraporn, Kim, & Nemec, 2004). The tendency to “put our best foot forward” may be intentional or it may be a subliminal unconscious process and, in itself, not be sinister (M Clatworthy & Jones, 2006; Davidson et al., 2004). However, within the context of corporate reporting, this desire “to put our best foot forward” to influence perceptions may be a disservice to stakeholders.

In order to extend the metaphor of “putting one’s best foot forward” to include a corporate reporting context, while the annual report serves as a useful form of information for users, the preparation of this report presents directors with a multitude of challenges including the need to present the historical results of the corporation, promote the brand and reinforce both shareholder value and the broader corporate social responsibility activities (Davison, 2002). In addition to these challenges, the management of an company must present this information to stakeholders in such a way as to create a favourable perception (Stanton et al., 2004). These objectives of management in preparing the annual report may not always be congruent. Management’s desire to be perceived favourably includes the human attribute of “wanting to put your best foot forward” to the company or else management wanting to “put its best foot forward” when reporting to the stakeholders.

There are two primary reasons for management’s desire to present itself favourably. The first and more significant is the fact that annual reports have been found to be

perceived by users as reflecting managerial performance (Merkl-Davies et al., 2011). This is confirmed by Aerts (2005), who have found that positive organisational or accounting outcomes are seen to be a reflection of managerial competence and, therefore, they do not require much further explanation to make them consistent with the desired corporate image. On the other hand, negative organisational or accounting outcomes appear to require explanation to render them legitimate (Aerts, 2005b). The increased public scrutiny following the most recent corporate collapses and higher demands for accountability have served to enhance management's desire to be perceived favourably (Merkl-Davies et al., 2011).

The second reason is that public companies feel compelled to reduce investor uncertainty. Investor uncertainty inevitably leads to falling share prices and reduced investor confidence (Aerts, 2001). Thus, the management of public companies typically tend to minimise negative disclosure surprises (Aerts, 2001) so that investor confidence is maintained and/or restored through the annual report disclosures.

These factors impact on the behaviour of those preparing the annual reports. They try to anticipate the potential undesirable consequences of the information released, for example in the form of unfavourable analyst presentations, credit ratings and management earnings and thus management endeavours to ensure that it is perceived favourably and that the annual report does not include any disclosure surprises which may impact adversely on investor confidence (Merkl-Davies et al., 2011).

Another potential reason for management's wishing to create a favourable perception is discussed by M Clatworthy and Jones (2006) who, in their study on impression management in the chairman's statement, concluded that management wishes to dictate the corporate reporting agenda and also to present a positive view of corporate performance, particularly when such performance has been poor (M Clatworthy & Jones, 2006).

The motivation to be perceived favourably is magnified in listed companies and/or capital dependent companies (Aerts, 2005b). The reason for this is that capital market dependent companies wish to keep the company in the public eye to ensure access to capital markets and thus there is an increased desire on the part of management for the organisation's performance to be interpreted favourably by the users of the

annual report. This desire of management to be perceived favourably is amplified when performance has been poor and there are potential negative organisational and accounting outcomes (Aerts, 2005b). It is also important to note that in instances of poor performance on the part of the company, there is an increased possibility that the interests of shareholders and management will differ (Aerts, 2005b).

While management may be motivated to create a favourable impression of itself and the company, this would not be possible if management did not have an opportunity to create this favourable perception. The increasing narrative disclosures included in annual reports have provided management with the opportunity to influence users' perception of the performance of the company (Stanton et al., 2004). This is because narrative disclosures allow management to "frame" the financial results, report the corporate achievements and facilitate or "mould" the users' perceptions of the company (Stanton et al., 2004), Aerts 2005).

Narrative disclosures, as discussed above provide a particularly effective opportunity for management to influence and mould the users' perception of the company and its performance and, by extension, the users' perception of management (Merkl-Davies et al., 2011).

Management's desire to present itself favourably is, in itself, not necessarily a sinister act. However, within the context of management's motivation to present itself favourably, this practice may have the unintended consequence of misleading the users of the annual report. There is a risk, therefore, that impression management would no longer be a benign, understandable human attribute but instead a contravention of the basic premise of financial reporting, namely, the presentation of financial information fairly and without bias, and thereby dilute the usefulness of the annual report (M Clatworthy & Jones, 2006).

Impression management within corporate reporting may, originate in the role that narrative accounting disclosures play in "framing" accounting results. The framing of accounting results encompasses both the factual financial performance results, as well as the cues in terms of which to interpret these factual results. Aerts (1994) states that "through language, the public is brought to appreciate the world as the actor portrays it" (Aerts, 1994). Aerts (2005b) described the inclusion of accounting narratives in the annual report as a "move from *releasing* facts to *framing and interpreting* these facts"

(Aerts, 2001, 2005b). Thus, while the content of these accounting narratives may include presumed important corporate events and characteristics which may be useful to users in contextualising the financial results reported on, they also contain the cues inserted by management to interpret these outcomes and characteristics. It is in this framing that the potential for opportunistic self-serving behaviour on the part of managers arises (Aerts, 2001).

It is therefore possible that reporting bias may potentially be introduced via these narrative disclosures on the basis of management's underlying motivation to present itself in a favourable light. Reporting bias entails selecting specific information to display and presenting that information in a manner that intends to distort the readers' perceptions of corporate achievements (Brennan & Merkl-Davies, 2013). This reporting bias often takes the form of self-promotional tendencies within the accounting narratives, as these narratives typically represent management's interpretation of the corporate events which have resulted in the organisational and accounting outcomes reported (Aerts, 2001). Thus, impression management occurs when managers select information to display and present that information in a manner intended to distort the readers' perceptions of the outcome being reported on (Godfrey, Mather, & Ramsay, 2003).

Impression management may, in this way, be extended to corporate communication and annual report disclosures because it is in this instance that the company's representatives act as gate keepers for information and, in doing so, affect the audience's opinions and perceptions of the information reported (Stanton et al., 2004). The impression that is conveyed by management may relate to a supposed reality or it may entail either enhancing desirable aspects of the company or obscuring the less desirable aspects in an attempt to create a favourable audience perception (Brennan & Merkl-Davies, 2013).

Increasingly, annual reports are being seen as an exercise in obfuscation with sections of the annual report allegedly being managed to present management in as favourable a light as possible, particularly in situations that may be described as "identity threatening" and also in instances of poor performance (Stanton et al., 2004). As discussed by, Subramaniam et al. (1993), stakeholders examine the annual report for financial information about the corporation, major developments in the past year, as

well as activities planned for the future – all of which have been found to be relevant to the decision-making process of shareholders (Bartlett & Chandler, 1997; Beynon et al., 2004; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Courtis, 1998, 2004; Jones, 1994; Smith & Taffler, 1995; Subramaniam et al., 1993). The accuracy of these reports is therefore vital to users (Subramaniam et al., 1993).

Research has found that users of corporate narrative reports are susceptible to behavioural effects, including a variety of cognitive and social biases which prevent them from assessing reporting bias arising from the manipulation of the presentation and disclosure of information in these reports (Baird & Zelin, 2000; Courtis, 2004; Merkl-Davies et al., 2011). This suggests that the users of annual reports may not be able to identify reporting bias in narrative disclosures and this may then have an impact on their decision making.

A counter argument to this view is presented by Aerts (2005), who states that audiences tend to discount transparent self-promotional behaviour and disclosures, as they generally recognise that reporters tend to exaggerate their achievements. This phenomenon is sometimes referred to as a “self-promotion paradox” (Aerts, 2005b). This argument, which is contradictory to that presented above, suggests that users are in fact able to identify reporting bias and appropriately discount such disclosures in their decision making.

The ability of the user to identify reporting bias should be extended to consider whether users are more easily able to identify positive attributional bias, namely, the attribution of positive outcomes to the company, rather than negative attributional bias, namely, the attribution of negative outcomes to external events (Aerts, 2005b). Research has found that users may not be able to identify negative attributional bias easily and that they are more likely to identify positive attributional reporting bias. Other findings from Aerts’s 2005 study indicate that, while self-promotional behaviour may be discounted by audiences, in its defensive tendencies, self-serving behaviour is more effective in terms of its impact on audience perceptions (Aerts, 2005b). Self-promotional or proactive impression reporting bias is designed to enhance a corporation’s image with the strategic purpose of building a corporate image that is appreciated by the stakeholders and which conveys conformity to the normative rules of the institutional environment (Stanton et al., 2004). On the other hand, defensive impression

management may be compared to the concept of “control-protective” impression management techniques, as described by Stanton et al. (2004). Defensive impression management refers to the use of impression management techniques in order to protect an established image where it is threatened, for example where there are negative accounting or organisational outcomes. The techniques employed may involve either admitting fault or denying responsibility by way of excuses, justifications, etc. (Stanton et al., 2004). Users are more likely to discount self-promotional impression management techniques and less likely to identify negative or defensive reporting bias, i.e. management distancing itself from negative accounting and organisational outcomes (Aerts, 2005b). Negative reporting bias has been found to be effective in influencing audience perceptions (Aerts, 2005b). Despite the conflicting findings discussed above as to whether users are able to identify reporting bias in narrative accounting disclosures, more in-depth studies have found that users are in fact not always able to identify reporting bias particularly when it relates to the use of defensive tendencies and that this reporting bias may well impact adversely on the users’ decision making.

While there has been no direct linkage found between specific corporate narrative disclosures and investment behaviour, any impairment of the usefulness of the disclosures is likely to impede a reader’s ability to interpret these disclosures correctly (Courtis, 2004). Such an impediment may be further understood if we consider that impression management in corporate reporting contravenes the basic premise of faithful representation, specifically with regard to neutrality, as such information is no longer free from bias. Any contravention of this fundamental qualitative characteristic of financial reporting diminishes the usefulness of the information provided to stakeholders in their decision making (IASB, 2015).

The impact of impression management on corporate reporting disclosures has been extended to explain the causes of corporate collapses such as those of Enron and Worldcom (Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Davidson et al., 2004). These studies postulated that the causes of these corporate collapses included a combination of fraud and impression management (Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Davidson et al., 2004). Davidson et al. (2004) also reported that a number of Wall Street investment banks had been accused

by the security regulators of using excessive impression management techniques in the reports of their clients (Davidson et al., 2004).

The preceding discussion provides evidence that impression management may have serious economic consequences for both investors and other stakeholders. Impression management may obscure economic results and may also impede the decision making of stakeholders. The latter may then result in reducing the effectiveness of decision making and in incorrect strategic responses (Aerts, 2005b; Davidson et al., 2004).

The importance of management presenting a view of the company's performance which is free from bias has also been highlighted in a study conducted by Stainbank and Peebles (2006). While their study focused primarily on the usefulness of the annual report, a further question posed to the user group surveyed provided insight into what the group believed to be the most important reason for standard setting and the regulation of narrative disclosures. The study found that 75% of the user group surveyed was of the opinion that the most important reason for standard setting and the regulation of disclosure was to "ensure that management does not suppress unfavourable information" (Stainbank & Peebles, 2006). This result supports the view that impression management and the suppression of unfavourable information reported in the annual report constitutes a disservice to the needs of users.

In short, impression management, if successful, undermines the quality of financial reporting and may further result in the unfair transfer of wealth from shareholders to managers as well as incorrect capital allocations (Brennan & Merkl-Davies, 2013; Merkl-Davies et al., 2011).

Impression management may be viewed from various perspectives. These perspectives align closely with the theories underpinning impression management. This section focuses on the perspectives of impression management, as well as the theories with which these perspectives align.

This review analyses three specific perspectives, namely, the economic perspective, the psychological perspective and the sociological perspective (Brennan & Merkl-Davies, 2013).

The economic perspective aligns with the agency principle (as discussed below). In essence, according to agency theory, managers are assumed to have the opportunity to exercise judgement in order to alter financial reports to mislead stakeholders about the underlying financial performance of the company particularly when there is a conflict of interest between the interests of management and the interests of users. Negative organisational and accounting outcomes creating a conflict between the interests of managers and the interests of stakeholders. This is because stakeholders wish to understand the true underlying financial performance of the company to inform the users decision making whilst management wishes to present information on the performance of the entity in the most favourable light to persuade stakeholders to maintain their relationships with the company despite its poor performance. The economic perspective states that managers may be motivated by increased compensation to manipulate outsiders' perceptions of financial performance and prospects in order to divert attention from negative outcome (Brennan & Merkl-Davies, 2013).

The psychological perspective introduces the social relations inherent in the decision context (Brennan & Merkl-Davies, 2013). Brennan and Merkl-Davies (2013) posit that annual reports serve as an accountability mechanism designed to address the concerns of external parties and that, under these conditions of accountability, managers engage in impression management in anticipation of an evaluation of both their actions and decisions by the stakeholders (Brennan & Merkl-Davies, 2013). The psychological perspective aligns with both attribution theory and self-serving bias (Aerts, 1994, 2001, 2005b; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2003).

The sociological perspective regards impression management as resulting from structural constraints imposed either by different stakeholder groups or by society at large. Thus, in effect, impression management is seen as either a response to concerns on the part of stakeholders about a controversial event or as arising from inconsistencies between organisational and/or societal norms (Brennan & Merkl-Davies, 2013). The sociological perspective aligns with both attribution theory as well as agency theory.

The theories to which these perspectives align are attribution theory and agency theory.

Attribution theory

This first of the theories explored is attribution theory. In the context of this report, attribution theory refers to the tendency of management to attribute positive effects and outcomes to the company's own actions whilst distancing themselves from negative outcomes and attributing such negative outcomes to external events, for example the economy, business climate, political climate and strike environment (Aerts, 2005b).

As discussed above, in view of the fact that the annual report may be seen as a reflection of management's performance, management is more likely to attribute positive organisational results and outcomes to the company's own actions and negative outcomes to external events. Numerous studies have been conducted in this area of attributional framing or organisational outcomes by various researchers (Aerts, 1994, 2001; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2003). These studies have all found strong evidence of management engaging in this practice of attributional framing. These studies generally regard the asymmetrical causal attributions as an explicit form of impression management (Aerts, 2005b) and indicate that management may be prompted to manipulate the perceptions of users and shareholders to divert attention away from the financial distress (Brennan & Merkl-Davies, 2013).

On the other hand, Aerts (2005b) argues that attributional bias may be the result of either informational processes or impression management processes and that it would be simplistic to conclude that, as has been postulated by much of the organisational and management literature on the topic, these are merely a result of impression management practices (Aerts, 2005b). The informational model claims that people typically intend or expect to arrive at favourable outcomes and, therefore, attribution bias is less of a consequence of impression management and indicative of such expectation (Aerts, 2005b).

For example, as discussed by (Aerts, 2001), people usually intend or expect to be successful and, thus, when positive achievements are commented on in accounting narratives, their own actions and decisions are more salient or evident to them rather

than to external factors which may have also contributed to the positive achievements (Aerts, 2001).

Abrahamson and Park (1994) found that the greater the decline in the financial performance of an entity, the more negative outcomes that were disclosed. This is consistent with the results of Abrahamson and Amir (1996), who found that the information contained in the president's letter was, in general, consistent with that presented in the annual financial statements (Abrahamson & Amir, 1996). This provides further support for the argument that attributional bias may be a result of informational processes rather than impression management processes.

Negative attribution bias has been further disaggregated into three basic attributional explanations, each suitable to different organisational contexts. These explanations include (i) attributional excuses, (ii) defences of innocence and (iii) justification (Aerts, 2005b).

An attributional excuse posits a negative event but denies responsibility and instead attributes the negative event to external factors. For example, denying responsibility for a negative outcome may be implied by commenting on the negative outcome occurring despite internal events or actions which should have prevented this (Aerts, 2005b).

An attributional defence of innocence adopts a similar approach to an attributional excuse, while attributional justification accepts responsibility for a negative outcome, but at the same time reduces its negative impact by diverting attention away from the negative outcome and rather focusing on its transient nature as a step towards achieving a greater positive outcome (Aerts, 2005b).

In a similar vein, positive attributional bias may be employed in more than one way. Attributional bias in the form of acclaiming techniques is one way of employing positive attributional bias and involves the attribution of positive outcome to oneself or the organisation. Often positive attribution bias may take the form of attributional enhancements in terms of which positive outcomes are framed within the context of a negative external environment. For example, "despite the negative external environment ... the entity has described positive outcomes" (Aerts, 2005b).

Thus, in essence, in this context attribution theory postulates that positive accounting and organisational outcomes are attributed to management and the organisation, while negative organisational outcomes are attributed to external factors. This theory aligns with the psychological and sociological perspectives of impression management.

Agency theory

The second theory in terms of which impression management is explored is agency theory. Negative outcomes in an organisation's performance often give rise to conflict between the interests of shareholders and those of management (Brennan & Merkl-Davies, 2013). In a public company, a conflict of interest arises when there is a negative accounting or organisational outcome as the interests of managers and those of shareholders generally diverge. This may result in management actively employing impression management techniques and behaving opportunistically (Aerts, 2005b). When viewed in terms of agency theory, impression management considers managerial behaviour as being subject to social bias arising from the presence of others whose behaviour management is trying to anticipate, for example bias arising from the presence of stakeholders whose behaviour management is trying to anticipate (Merkl-Davies et al., 2011).

A further argument supporting agency theory has been discussed previously, namely, if management is incentivised to reduce investor uncertainty in order to stabilise share prices, managers may exercise judgement and alter financial reports in order to mislead certain stakeholders about the underlying economic performance of the company (Brennan & Merkl-Davies, 2013). Merkl-Davies et al. (2011) further argue that managers may exploit information asymmetries in order to mislead users about the financial performance and prospects of an organisation (Merkl-Davies et al., 2011). This manifests itself in reporting bias, namely, reporting on events more favourably than they should be reported (Merkl-Davies et al., 2011).

Where impression management hurts shareholders this may represent an agency cost (Davidson et al., 2004). It has been suggested that managers introduce reporting bias in order to benefit from increased compensation, particularly with regard to increased stock options (Brennan & Merkl-Davies, 2013; Courtis, 2004).

Impression management may, thus, be conceptualised as managerial manipulation of shareholders' perceptions of financial performance and, hence, agency theory (Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001, 2003). As discussed above, this theory closely aligns with the economic perspective.

Studies on impression management were initially conducted by psychologists although, since that time, a number of studies have been conducted on impression management within the context of business and accounting (M Clatworthy & Jones, 2006). These studies focused initially on earnings management and have, over time, expanded to focus on the non-financial disclosures contained within annual reports (Aerts, 1994, 2001, 2005b; Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 2002; M Clatworthy & Jones, 2006; Curtis, 1998)

The areas on which studies have focused include impression management and the use of graphs (Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 1997, 2002) and impression management through the use of photographs in annual reports while a number of studies have addressed impression management through accounting narratives (Aerts, 2005b; Curtis, 1998, 2004; Hrasky, 2008). In addition, studies have also been conducted on impression management in the managerial manipulation of earnings (Tweedie & Whittington, 1990), as well as social and environmental accounting (Aerts, 2005b; V Beattie & Jones, 2000; Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 1997, 2002; Brennan, Guillamon-Saorin, & Pierce, 2009; Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001, 2003; Gardner & Martinko, 1988; Godfrey et al., 2003; Hooghiemstra, 2000; Merkl-Davies et al., 2011; Neu, Warsame, & Pedwell, 1998; Ogden & Clarke, 2005; Stanton et al., 2004).

Impression management studies have focused on a common thread of investigating the way in which management uses information(narrative or pictorial) in corporate annual reports in order to project a self-interested view of a company's performance (M Clatworthy & Jones, 2006).

The literature on impression management focuses primarily on two aspects, namely, the use of graphs and photographs and, secondly, the use of literary devices. It has been suggested that entities may use graphs and photographs to influence the

perceptions of the users of financial statements and also to present an impression of management which may be more favourable than reality (V Beattie & Jones, 2000; Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 1997, 2002; Tregidga et al., 2012). (Hrasky, 2008) analysed the use of graphs and photographs in the sustainability reports of listed companies in Australia to investigate whether there was a difference in the use of graphs and photographs in respect of companies which were more sustainability driven compared to those companies that were not sustainability driven. The research found that companies that were more sustainability driven made use of more graphs while both groups of companies made equal use of photographs. The researcher attributed this to the role that photographs play in directing the attention of users and concluded that companies that are less sustainability driven attempt to display legitimacy symbolically through the use of more photographs and fewer graphs while companies that were more sustainability driven pursued legitimacy through actual impact and achievements (Tregidga et al., 2012).

Similar research which has been conducted within the realm of imagery suggests that images and symbols are often used to guide the interpretation of particular outcomes (Stanton et al., 2004). In addition, there have been studies conducted on the use of graphs and photographs in annual reports. Photographs have been found to persuade and distract readers from other information contained in the report and also enhanced the credibility to the report (Stanton et al., 2004)[FIND ARTICLE].

On the other hand, financial graphs have been found to often be distorted in order to enhance perceptions of management's performance. Thus, as compared to photographs, graphs are more likely to enhance good news and minimise bad news (V Beattie & Jones, 2000; Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 1997, 2002). Studies conducted on the use of graphs as an impression management tool have found that graphs are often used to project a more favourable view of the corporation than is warranted and that, in some instances, they materially distort the underlying financial performance in the company's favour (V Beattie & Jones, 2000; Vivien Beattie & Jones, 2008; Vivien Beattie & Jones, 1992, 1997, 2002)).

A study conducted by Godfrey et al. (2003) focused on impression management through the use of graphs, in particular at the time of CEO changes in a number of Australian listed companies. Consistent with the hypotheses of the researchers the

findings suggested that impression management techniques are often employed in the use of graphs. Specifically in the year of the CEO changes there was limited evidence found of downward impression management of the key financial variables depicted graphically, while in the year after the new CEO appointments, evidence was found of upward impression management of the key financial variables depicted graphically (Godfrey et al., 2003).

Therefore the studies discussed above suggest that impression management may be used in annual reports via the use of both graphs and photographs.

The other area in which substantial impression management research has been conducted is the use of narrative disclosures in the various sections of the annual report as an impression management technique. Prior studies have been conducted on corporate social reporting and environmental reporting. The underlying theme that emerged from these studies was that companies engage in corporate social reporting in order to influence the perceptions of stakeholders (Hooghiemstra, 2000; Neu et al., 1998). These studies on the disclosure of accounting narratives within the context of social and environmental accounting found that companies are more likely to stress the positive rather than the negative aspects of environmental disclosure and, hence, they employ impression management practices (Deegan & Rankin, 1999).

Linguistic variation in the annual report is another impression management technique that may be employed. A study conducted on accounting narratives found that, in order to maintain a public image and to protect management against criticism, linguistic variation is often employed (Stanton et al., 2004). Linguistic variation encompasses a variety of techniques including the choice of words used (i.e. positive words vs negative words), the frequency with which these words are used, the length of and complexity of sentences and future-oriented words. Brennan (2012) studied the way in which the language used in the CEO's letters to stakeholders may enhance the corporate reputation. In addition, Brennan (2012) found that company size and visibility have a positive influence on the extent to which corporate reputation is associated with the language choice of the CEO in the letters to stakeholders. However, these findings contradict the findings other studies conducted on the same topic (Tregidga et al., 2012).

The word frequency in accounting narratives was investigated by Hildebrandt and Snyder (1981). In particular, they investigated the “polyanna principle”, that is, positive words are used more than negative words, in the chairman’s letter to shareholders. The results indicated that, regardless of the profitability of the company, more positive words were used in the chairman’s letters than negative words (Rutherford, 2005). The results obtained by Rutherford (2005) were consistent with the results of the previous study; that is, more positive words were used in the chairman’s statement than negative words. Rutherford’s (2005) study also found that the polyanna effect was more marked in poorly performing companies as opposed to their better performing counterparts (Rutherford, 2005).

In their study, Abrahamson and Amir (1996) investigated the relationship between the proportion of negative words in the chairman’s statement and subsequent performance. They found that relatively high negativity in the chairman’s statement was associated with poor performance in the current year while it was also a predictor of poor performance. (Abrahamson & Amir, 1996). Abrahamson and Park (1994) conducted a study using the same sample as Abrahamson and Amir had done in 1996. They found that the more external directors there were on the board of a company, the more negative words were used, while in cases in which these external directors had large shareholdings in the company, fewer negative words were used (Abrahamson & Park, 1994).

Smith and Teffler (2000) studied the relationship between content of the chairman’s statement and its predictions of corporate distress and failure. They subsequently found a positive relationship between the use of certain words such as, for example, overdraft, loans, disposal and no dividends, and subsequent corporate failure. As a result they concluded that the information contained in the chairman’s statement may serve as an indicator of corporate failure (Smith & Taffler, 2000b). A study conducted by Stanton et al. (2004) examined the annual report of a large retailer which had experienced a year of particularly poor performance in order to determine whether the “front half” of the annual report, including the chairman’s statement and CEO report, would present a more favourable impression of the performance than was actually the case. However, the study found that the narrative disclosures did not present a more favourable impression of the financial performance (Stanton et al., 2004).

In the past there appear to have been no studies on impression management practices conducted in South Africa. It is, thus, anticipated that this research study will contribute to the global body of literature on this phenomenon. In addition, this study will further contribute to the existing body of literature on whether impression management practices are observed in the chairman's statement in the annuals report of companies listed on the JSE main board.

The study focused on accounting narratives, particularly the chairman's statement, as a vehicle for impression management. The literature has shown that the chairman's statement is potentially useful to investors in the investment decisions they make (Abrahamson & Amir, 1996; Baird & Zelin, 2000; Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2003; Courtis, 1998, 2004; Kohut & Segars, 1992; Smith & Taffler, 2000b; Stainbank & Peebles, 2006). The usefulness of these disclosures would, however, be affected if impression management were employed and the statements presented favourable rather than unfavourable information and also used biased language to enhance the public's impression (M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001, 2003).

The purpose of this study was to investigate whether the financial performance of a company influences its corporate reporting strategy. This study replicates a similar study which was done by M Clatworthy and Jones (2006) on a sample of companies listed in the UK. The value added by their study was to contribute to the academic literature on impression management and to benefit users of annual reports in the UK who rely on the chairman's statement for information (M Clatworthy & Jones, 2006). This study was also more recently conducted on a sample of companies in China (Cen & Cai, 2013). This study contributes similarly to the body of literature on impression management and benefits users of the annual report in South Africa who rely on the chairman's statement when making decisions.

The problem investigated was postulated as a null hypothesis H1:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies on the JSE main board.

The general hypothesis was studied by analysing the chairman's statements of all companies within the sample, for six predetermined textual characteristics. These textual characteristics were also analysed for in the study carried out by M Clatworthy and Jones (2006). These characteristics have been suggested to be indicative of impression management and reporting bias. The characteristics studied in the chairman's statement were:

- (a) Length of the statement
- (b) Use of passive voice
- (c) Inclusion of personal references
- (d) Inclusion of quantitative references
- (e) Future references
- (f) Readability of the statement

(a) Length of the chairman's statement

The content of the chairman's statement as well as the writing style adopted by management will impact the length of the chairman's statement. Kohut and Segars (1992) have found that profitable companies are more verbose than unprofitable companies, indicating that managers therefore appear keen to elaborate on positive financial performance in the chairman's statement, but prefer to communicate poor financial performance more concisely. (Kohut & Segars, 1992)

A counter argument presented by Bloomfield (2008) is that unprofitable companies are more verbose than profitable companies (Bloomfield, 2008). Bloomfield (2008) explains this by applying the principles of attribution theory as discussed in the literature above. This theory suggests that management is motivated to attribute poor performance and bad news to causes other than itself, i.e. management wishes to distance itself from poor accounting performance and outcome (Bloomfield, 2008). Bloomfield (2008) therefore suggests that unprofitable companies are more likely to use longer sentences more complex words in an attempt to attribute bad news to causes other than poor management (Bloomfield, 2008). This would require more explanations therefore longer and more complex sentences to tie these events to performance (Bloomfield, 2008).

These studies suggest that the financial performance of a company influences the writing style adopted by management in its commentary. This sub-problem will be tested by investigating the following null hypothesis:

H1a. The chairman's statements of profitable and unprofitable companies will be similar in length.

(b) Use of passive voice

Passive voice is defined as a grammatical construction where the noun of the sentence which would be the *object* of a sentence written in the active voice is rather the *subject* of the sentence written in the passive voice. For example, within the context of corporate reporting, a sentence written in the active voice would read '*our staff went on strike during the year and this resulted in a loss of profits*'. This sentence, when written in the passive voice would read, '*the company experienced loss of profits due to strike action by employees*'. The use of passive voice in commentary can therefore lead to writing in which the sources or agents are not clear (Clerehan, Moodie, & Searcy, 2005). This in turn leads to commentary which is tedious to read as the reader loses sight of the agent and the writing becomes dominated by the events and occurrences and focusses less on management and its actions (Clerehan et al., 2005).

Research undertaken by Thomas (1997) investigates the transitivity structure in a sample of management communiques. The study specifically analysed linguistic structures in a series of management communiques for a single company over a period of time. The communiques were studied when the company was profitable as well as when the company was unprofitable (Thomas, 1997). One of the linguistic structures studied was the choice in sentence construction between active and passive verb choice and thematic structure in the president's letters. The research found that when the company was unprofitable, the accounting narratives made use of more passive sentence construction thereby detaching the writer from the message (Thomas, 1997). This study carried out by (Thomas, 1997) indicates that the financial performance of the company influences management's use of the passive voice in its commentary. The intention of management has been suggested to be a means of distancing management from the poor results.

The researcher tested the following hypothesis to study this concept further:

H1b. The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences.

(c) Use of personal references

Personal references are references to one's self and include words such as 'I', 'me', 'my'. These may be referred to as first person singular personal references. Within an company environment, personal references by management includes words such as 'our', 'us' and 'we', first person plural references. (Kuo, 1999) have conducted research on the use of personal pronouns within journal articles to explore how writers position themselves in relation to the subject matter being discussed (Kuo, 1999). It follows that an increased use of personal pronouns indicates a closer relationship between the writer and the subject material. To extend the use of personal pronouns to corporate reporting literature, findings from research conducted by Thomas (1997) suggest that profitable companies are more likely to use personal references when compared to unprofitable companies (Thomas, 1997). The reason for this is that management is more likely to associate themselves with positive financial outcomes and results and therefore use more personal pronouns to indicate a closer relationship between the writer, being management and the subject matter (Kuo, 1999; Thomas, 1997). Unprofitable companies are more inclined to distance themselves from declining profits and would therefore use fewer personal references to achieve this distance (Thomas, 1997). This is consistent with the principles of attribution theory as studied by Aerts (2005b) which finds that managers are more likely to attribute good organisational and accounting outcomes with their own actions or actions of the company whilst managers are more likely to attribute negative organisational and accounting outcomes to external events.

These studies suggest that the underlying financial performance of a company influences management's use of personal pronouns in its corporate reporting. This was tested by studying the following hypothesis:

H1c: The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references.

(d) Use of quantitative references

The annual report contains a combination of financial and non-financial disclosures, i.e. quantitative and qualitative disclosures which are reported on. Quantitative disclosures are typically contained within the annual financial statements and qualitative disclosures, excluding note disclosures required by IFRS are typically found within the management commentary section of the annual report or the 'front half'. Quantitative information is sometimes included within the management commentary however as management commentary is not regulated in terms of required content, this is not always included (IASB, 2015). V Beattie and Jones (2000) have studied the inclusion of quantitative references in the annual report in the form of graphs of key financial variables. Their study found that profitable companies are more likely to include quantitative information in the 'front half' of the report when compared to unprofitable companies. The study by V Beattie and Jones (2000) suggests that management's disclosure of quantitative references in the form of graphs may be influenced by the underlying financial performance of the company.

This study extends the work of V Beattie and Jones (2000) and analyses chairman's statements of profitable and unprofitable companies to determine the extent of quantitative references included and whether the financial performance of the company influences the reporting of quantitative results. The hypothesis tested was:

H1d: The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.

(e) Future references

The content of the chairman's statement has been studied and found to include in addition to managements review of the past year, the chairman's statement also contains projections for the company's future Subramaniam et al. (1993). The extent of future references included in the chairman's statement however varies.

One view presented by M Clatworthy and Jones (2006) is that unprofitable companies are likely to focus more on the future than the present and therefore would include more references to the future. They argue that discussion of the future is used by managers of unprofitable companies to deflect from their unfavourable performance. M Clatworthy and Jones (2006) This hypothesis is supported by Lis findings which suggest that management uses more future-oriented words when performance is poor, which may be an indication of misdirection, i.e. an attempt to direct attention away from current poor performance and rather focus on future performance. Based on these findings, profitable companies are more likely to focus on current results and therefore include fewer references to the future in their commentary.

Kohut and Segars (1992) however hypothesise differently. They hypothesise, (but do not find) that companies with favourable performance will discuss the future more than companies with unfavourable performance (Kohut & Segars, 1992). Whilst Kohut and Segars (1992) did not find any significant evidence supporting this hypothesis, Miller 2002, in a study conducted on the subject, finds evidence of companies with long term poor future prospects switching to disclosing shorter terms prospects (Bloomfield, 2008; Li, 2008).

These findings suggest that the financial performance of company influences the extent of future references included in its management commentary. The chairman's statement was tested for the following hypothesis:

H1e: The chairman's statements of profitable and unprofitable companies will focus equally on the future.

(f) Readability

The chairman's statement has been described being 'designed to provide an easy-to-read narrative of the year' (Mark Clatworthy & Jones, 2001). It has been deduced above that chairman's statements are widely read and particularly useful to users in their decision making. One of the reasons supporting the usefulness of the chairman's statement is that regulation does not govern what information should be disclosed (Abrahamson & Amir, 1996). Management is therefore able to explain annual corporate performance in non-technical language and is probably the least technical

part of the annual report when compared to the financial statements which require a knowledge in accounting, to be understood (Jones, 1994; Subramaniam et al., 1993). This narrative is therefore particularly useful to the unsophisticated investor to understand the performance of the company (Jones, 1994; Subramaniam et al., 1993). Chairman's statements may therefore be deduced to be the section of the annual report that is easiest to read.

A number of studies have been carried out to test this deduction. Courtis (1998) carried out a study on the chairman's statement to test the readability of the chairman's statement and to determine whether variability exists in different passages of the statement (Courtis, 1998). His results found that variability does exist in the chairman's statement with the first 100 words of the chairman's statement being the easiest to read and the readability progressively getting more difficult to read. His study further sought to understand whether the variability in readability was due to management's desire to obscure bad news within the chairman's statement, however did not find conclusive evidence of this (Courtis, 1998).

Li (2008) also conducted a study on the relationship between annual report readability and the underlying performance of the company. Li's study used the Fog index and the length of the annual report to assess readability. The research found that firms who have improved earnings have annual reports which are easier to read and vice versa. (Li, 2008)

These studies suggest that the readability of the chairman's statement is influenced by the underlying financial performance of the company. The hypothesis below was investigated to determine whether the financial performance of the company influences the readability of the chairman's statement.

H1f: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

2.5 Conclusion

The above analysis has shown that communication between the management of a company and the company's stakeholders occurs constantly and in many forms and despite the various sources of information available, research has shown that the

annual report remains the traditional, statutory-based vehicle of corporate communication which serves as an important source of information to stakeholders (Bartlett & Chandler, 1997; Courtis, 1998; Stanton et al., 2004).

There have been significant changes in corporate reporting over time, with these changes serving to increase the usefulness of the annual report. One of the most significant changes in annual reporting has been the inclusion of narrative accounting disclosures, in particular management forecasts and discussions (Abrahamson & Amir, 1996).

There is widespread agreement that the inclusion of accounting narratives has increased the relevance and value of annual reports to stakeholders and these narratives have become an increasingly important aspect of financial reporting (Bartlett & Chandler, 1997; Beynon et al., 2004; M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001; Courtis, 1998, 2004; Jones, 1994; Smith & Taffler, 1995; Subramaniam et al., 1993). Within the suite of narrative disclosures provided, research has shown that the chairman's statement, and its equivalent, the president's letter, are often used by stakeholders in their decision making; they are also almost universal and are among the most widely read sections of the annual report (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam et al., 1993). There are various reasons why these reports are among the most widely read in the annual report, including the fact that they are among the easiest to read and that regulation does not govern the information which should be presented in the chairman's statement (Abrahamson & Amir, 1996). Auditors are also not expected to provide assurance on these disclosures currently.

There is therefore an increased chance of management engaging in self-serving behaviour in order to manipulate and control the impressions of others through the disclosures in these narratives (M Clatworthy & Jones, 2006; Mark Clatworthy & Jones, 2001). This supports a counter argument presented to the usefulness of annual reports, to the effect that these narratives are sometimes considered as a way of providing biased information with the aim of misleading investors (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Merkl-Davies et al., 2011; Stanton et al., 2004).

The concept of impression management originates in social psychology and is primarily concerned with the study of the way in which individuals present themselves to others in order to be perceived in a favourable light (Brennan & Merkl-Davies, 2013; Hooghiemstra, 2000).

This concept of impression management may be extended to the corporate reporting context. Management uses annual reports to communicate the performance of the company to the stakeholders, including investors. As with individuals who “wish to put their best foot forward”, management (a group of individuals) also wishes to present itself in the most favourable light. This desire on the part of management to be perceived favourably is motivated primarily by two factors, the first of which is the fact that public companies are motivated to reduce investor uncertainty and thereby minimise negative disclosure surprises (Aerts, 2001). The second factor underlying management’s desire to present the company and, by extension, itself in the most favourable light is the fact that annual reports reflect managerial performance (Merkl-Davies et al., 2011). The heightened demand for accountability and increased public scrutiny motivate management’s desire ensure that the annual reports present performance in a favourable light (Merkl-Davies et al., 2011).

Within the context of corporate reporting, this desire to “put our best foot forward” in order to influence perceptions may be a disservice to stakeholders (Aerts, 2001, 2005b). The framing of the financial results may introduce an element of reporting bias into management’s attempt to present itself favourably (Brennan & Merkl-Davies, 2013).

The introduction of reporting bias into narrative disclosures reduces the usefulness of such disclosures to stakeholders.

Chapter 3- Research Method

3.1 Research methodology

The purpose of this research is to determine whether the financial performance of a company influences its corporate reporting strategies. The study aims to determine whether the profitability of a company motivates its management to introduce reporting bias into management commentary. To achieve this purpose, the chairman's statements of listed companies on the JSE were analysed for the six pre-determined textual characteristics discussed in chapter 2. The data collected was numerical and was analysed to explore possible correlations between the financial performance of the company and the textual characteristics contained in the chairman's statement. The research approach is therefore quantitative because the analysis of the chairman's statements yielded quantitative information which was statistically analysed (Bryman & Bell, 2011; Leedy & Ormrod, 2005).

The study aimed to test six hypotheses relating to textual characteristics in chairmans' statements. The testing of hypotheses in a research study is another trait of a quantitative research design (Neuman, 2011).

It should be noted that the purpose of the study is not to determine cause-and-effect relationships between the variables. Therefore even though the study explores possible correlation between financial performance and corporate reporting strategy, correlation in itself does not indicate causation and the results should not be interpreted as such (Leedy & Ormrod, 2005).

3.2 Research design

The purpose of the study was achieved by analysing chairmans' statements for six pre-determined textual characteristics which may be indicative of impression management techniques employed. This method of analysing the chairmans' statements falls within the ambit of content analysis. Content analysis has been defined by Berelson (1952) as 'a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding' (Berelson, 1952; Stemler, 2001). The patterns identified in the elements of the text are then analysed to reveal underlying meanings and possible relationships between the

data (Berelson, 1952; Stemler, 2001). Content analysis has been identified as the research method of choice for questions concerning communications because, using content analysis techniques, the content of the communication is transformed through objective and systematic categorisation into data that can be summarised and compared (Holsti, 1969).

Content analysis contains aspects of both qualitative and quantitative methodologies (Holsti, 1969). The type of content analysis carried out, i.e. qualitative or quantitative is dependent on the objective of the study, the nature of the data collected and its analysis (Marsh & White, 2006). This study employs a quantitative content analysis approach because the purpose of the study was to test hypotheses, the text data was coded into explicit categories and then described using statistics (Hsieh & Shannon, 2005).

A quantitative content analysis study involves a series of steps to move from the research problem through to meaningful results. These steps and their application to the study have been described below:

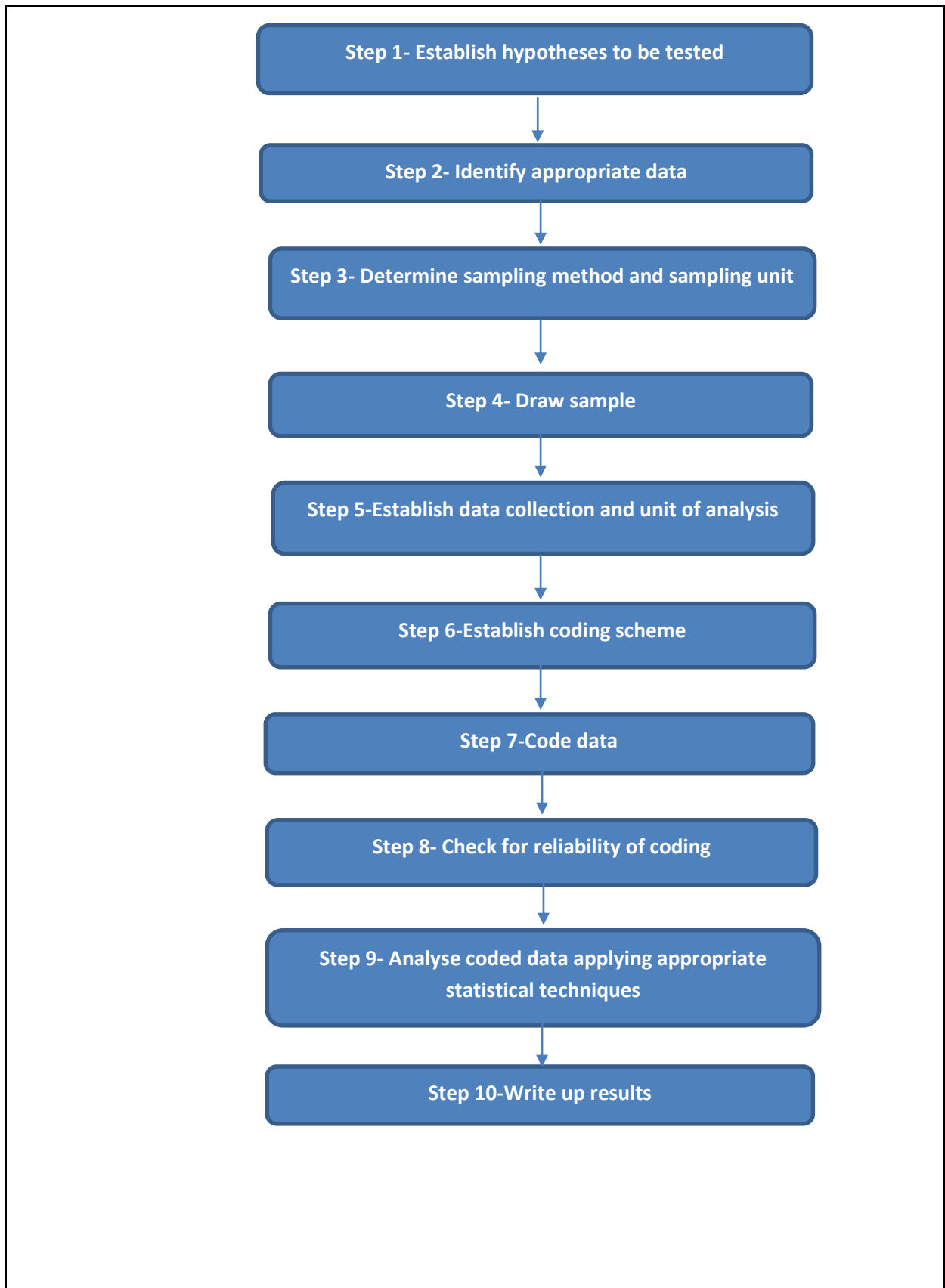


Table 1-Quantitative content analysis process (Marsh & White, 2006)

Step 1- Identify the hypotheses to be tested

The objective of quantitative content analysis is to test hypotheses from what is already known about the research problem. The hypotheses are not developed during the study but rather before the study (Marsh & White, 2006). This study replicates a similar study conducted by M Clatworthy and Jones (2006), with the purpose of assessing whether the financial performance of an organization influences its corporate reporting strategies.

The hypothesis tested was:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies listed on the JSE main board.

To achieve this purpose, M Clatworthy and Jones (2006) identified six textual characteristics which, if present in management commentary may be used to employ impression management. These six characteristics were replicated and tested as individual hypotheses in the study conducted.

The textual characteristics as well as the hypotheses developed to test these characteristics have been depicted below:

Purpose of the study: <i>H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies listed on the JSE main board.</i>	
Textual Characteristic	Hypothesis
(a) Length of the chairman's statement	<i>H1a: The chairman's statements of profitable and unprofitable companies will be similar in length.</i>
(b) Passive voice	<i>H1b: The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences.</i>
(c) Personal references	<i>H1c: The chairman's statements of profitable and unprofitable companies will</i>

	<i>contain a similar number of personal references.</i>
(d) Quantitative references	<i>H1d: The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.</i>
(e) Reference to the future	<i>H1e: The chairman's statements of profitable and unprofitable companies will focus equally on the future.</i>
(f) Reading ease	<i>H1f: The chairman's statements of profitable and unprofitable companies will have similar readability scores.</i>

Table 2: Hypotheses tested

Step 2: Identify appropriate data

As discussed in step 1, the study conducted replicated a similar research study carried out by M Clatworthy and Jones (2006). The original research study analysed the chairman's statements for a sample of companies listed in the UK to test the hypotheses detailed in step 1.

This study, replicated the hypotheses of the study conducted by the original study and studied the chairmans' statements as included in the annual reports of the companies included in the sample.

Step 3: Determine the sample and sampling unit

The purpose of the study was to determine whether the financial performance of a company influences its corporate reporting strategy for companies listed on the JSE main board. The population therefore comprises all companies listed on the JSE main board trading as at 31 December 2014. The population of companies listed on the main board of the JSE was then scanned to identify companies which have been subsequently delisted from the main board, companies who have been suspended from the main board as well as all companies which do not have a chairman's statement reported in the annual report. These companies are excluded from the population and the remainder of the companies listed on the JSE main board constitute the sample to be studied.

The unit of sampling is therefore the chairman's statement of each individual company listed on the JSE main board as at 31 December 2014 that has not been excluded for reasons detailed above.

Step 4: Draw sample

Details of all companies listed on the JSE as at 31 December 2014 were obtained from the JSE website (<https://www.jse.co.za/current-companies/companies-and-financial-instruments>). Additionally the researcher contacted the JSE to obtain a list of all companies listed on the main board of the JSE as at 31 December 2014. There were 302 companies listed on the JSE as at 31 December 2014 as issuers of equity instruments. These companies were scanned to identify all companies which had been subsequently delisted or suspended. The delisted and suspended companies were excluded from the study as their annual reports were no longer available publicly. The companies listed as at 31 December 2014 were also inspected to identify all companies which had listed for the first time in 2014 and who had not yet published their first set of publicly available annual reports. These companies were also excluded from the study. The annual reports of the remainder of the companies were then scanned to identify instances where the annual report did not contain a chairman's statement. Companies which did not have an annual report were further excluded from the study.

The annual reports of the remaining 216 companies were downloaded from the internet. The chairman's statements were then extracted from the annual reports.

Steps 5-8: Establish data collection, unit of analysis and coding scheme

The hypothesis tested was:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies listed on the JSE main board.

It was first established whether companies in the sample were profitable or unprofitable. To determine whether a company was profitable or unprofitable, the profit before tax of the company was considered. The profit before tax as per the statement

of comprehensive income in 2014 was compared to the profit before tax in 2013. If the profit before tax had increased from 2013 to 2014, the company was categorised as a profitable company. Conversely if the profit before tax had decreased from 2013 to 2014, this company was categorised as an unprofitable company.

A further analysis was then performed on the 50 most profitable companies ('extremely profitable') and the 50 least profitable companies ('extremely unprofitable') in the sample. The 50 most profitable companies were identified as those with a highest increase in profit before tax from 2013 to 2014. The 50 least profitable companies were identified as companies within the sample with the greatest decrease in profit before tax from 2013 to 2014.

The chairmans' statements were then analysed to determine whether there is a systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies in the sample. The chairmans' statement were converted into Word documents to allow for computer-aided content analysis. Microsoft Word 2013 includes a feature which allows a document to be converted from PDF to Word. Some of the chairmans' statements were locked for conversion and could not be converted from pdf to Word. In these instances the chairmans' statements were transcribed into Word to allow for the computer aided content analysis.

Computer assisted data collection techniques were then employed to analyse textual characteristics in the chairman's statements. Computer-aided content analysis refers to the use of software programs to facilitate the analysis of textual data. Computer aided textual analysis has a number of advantages over manual coding methods including allowing a larger data set to be analysed, increased reliability in the data obtained, a faster method to complete the study and a lower cost attributed to obtaining the data (Bryman & Bell, 2011).

The textual characteristics were analysed as follows:

(a) Length of the chairman's statement

The first textual characteristic studied was the length of the chairman's statement to test the hypothesis that *the chairman's statements of profitable and unprofitable companies will be similar in length*.

To investigate this characteristic, the chairman's statements were analysed for two features. The first characteristic of the chairman's statement that is captured is the number of pages of the chairman's statement. The second characteristic recorded was the number of words in the chairman's statement. The word count functionality in Microsoft Word was used to determine the number of words in the chairman's statement. The number of pages as well as the number of words were recorded as an absolute number.

An illustrative example of the data collected has been included below:

Number	Company	Length of the chairman's statement	
		Number of pages	Number of words
1	ABC Limited	2 pages	1356 words

Table 3- Illustrative example: Length of the chairman's statement

(b) Passive voice

The second textual characteristic explored was the use of passive voice in the chairman's statement. The hypothesis tested was whether *the chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences*. This was analysed by determining the percentage of passive sentences in the chairman's statement as a percentage of total sentences in the chairman's statement. Information on this characteristic was obtained using the proofing tool within Microsoft Word which calculates the percentage of sentences in the passive voice contained within an analysed piece of writing. The passive voice was recorded as a percentage.

An example of the output obtained from Microsoft Word has been included below:

Readability Statistics	
Counts	
Words	424
Characters	2403
Paragraphs	14
Sentences	25
Averages	
Sentences per Paragraph	2.5
Words per Sentence	16.2
Characters per Word	5.4
Readability	
Passive Sentences	4%
Flesch Reading Ease	30.0
Flesch-Kincaid Grade Level	13.1
OK	

Table 4- Illustrative example:% passive sentences

An illustrative example of the data collected has been included below:

Number	Company	Percentage of passive sentences
1	ABC Limited	4%

Table 5-Illustrative example:% passive sentences

(c) Personal references

The third textual characteristic analysed was the number of personal references contained within the chairman's statement. Information was obtained to test the hypothesis of whether the *chairman's statements of profitable and unprofitable companies will contain a similar number of personal references*. To test the hypothesis, the chairman's statements were scrutinized for certain predefined personal references. Personal references which were scanned for were 'I', 'me', 'my', 'our', 'us' and 'we'. The chairman's statements were analysed to determine how many

times each of these personal references appeared in a single statement. The search function of Microsoft Word was used to determine the frequency of each of the personal references in the chairman's statement. The data recorded was the frequency of occurrences of the personal references within the chairman's statement.

An illustrative example of the data collected has been included below:

Number	Company	Personal references- Frequency of:					
		I	me	my	our	us	we
1	ABC Limited	1	0	1	3	1	6

Table 6- Illustrative example: Number of personal references

(d) Quantitative references

The fourth textual characteristic that was examined was the presence of quantitative references within the chairman's statement. The hypothesis analysed was whether the *chairman's statements of both profitable and unprofitable companies contain an equal number of quantitative references*. The chairman's statement was inspected for all quantitative references related to the financial performance of the company for the period. It was further analysed for the following specific quantitative references, profit before tax, revenue, earnings per share and dividends.

The chairman's statement was analysed to identify for each quantitative reference whether the 2014 and 2013 absolute values were disclosed. It was also scanned for disclosure of the percentage change in the quantitative reference from 2013 to 2014. Data was coded as 1 or 0. '1' was recorded where the information was disclosed and '0' was recorded when the information was not disclosed.

An illustrative example of the data collected has been included below:

Number	Company	Quantitative references											
		Profit before tax			Revenue			Earnings per share			Dividends		
		2014	2013	% change	2014	2013	% change	2014	2013	% change	2014	2013	% change
1	ABC Limited	1	0	1	1	1	1	0	0	0	1	1	1

Table 7-Illustrative example: Use of quantitative references

The table above illustrates that in the chairman's statement of ABC Limited, profit before tax in 2014 has been disclosed. The company has not reported its profit before tax in 2013 in the chairman's statement but has recorded the change in profit before tax from 2013 to 2014 as a percentage. Company ABC Limited has also disclosed in its chairman's statement, its revenue and dividends in 2013 and 2014 as well as the change in revenue expressed as a percentage. Company ABC Limited has not disclosed any information on its Earnings per Share.

(e) References to the future

The fifth textual characteristic which was studied was references to the future included within the chairman's statement. This was analysed to determine *whether the chairman's statements of profitable and unprofitable companies make equal reference to the future*. To test the hypothesis the chairman's statement was inspected for the number of future references included in the narrative. To determine the unit of analysis for future references it was considered that individual future words have no meaning by themselves, without a sentence or sentences for context. Therefore sentences were used as the unit of analysis as these are more reliable. Sentences which included future words were therefore considered to be references to the future for the purpose of this study. These were manually counted by the researcher.

Number	Company	Future References
1	ABC Limited	65 words

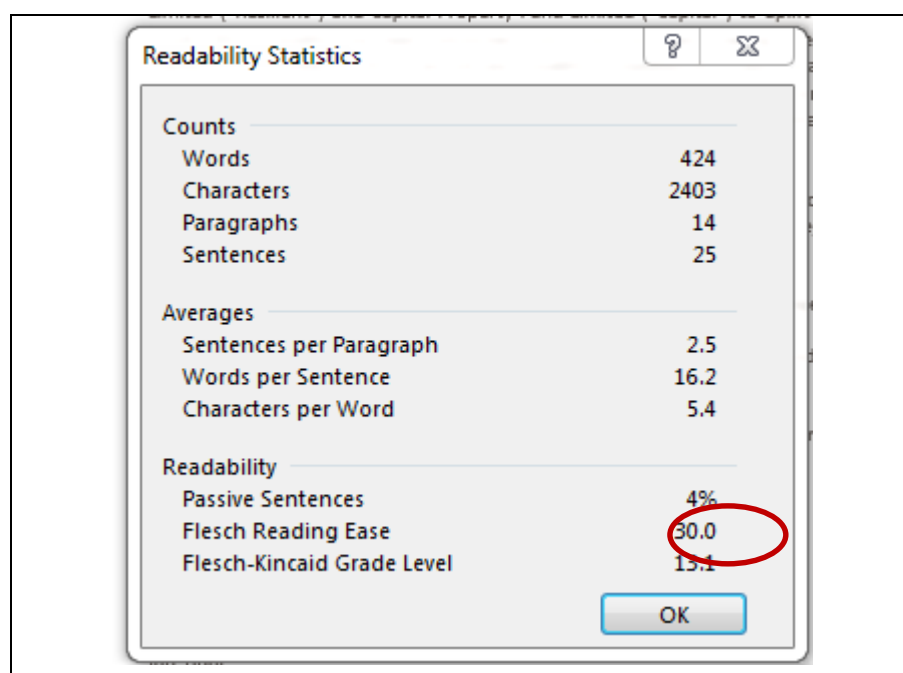
Table 8-Illustrative example: Future references

(f) Readability scores

The final textual characteristic studied was the readability of the chairman's statement. The readability was analysed to investigate *whether profitable and unprofitable companies had similar readability scores*. Studies on readability have typically taken one of two forms. The one type of study on readability assesses the understandability of the text and typically employs 'sophisticated psycholinguistic and socio-linguistic' techniques (Mark Clatworthy & Jones, 2001; Courtis, 1998). The second type of study

assesses the syntactical complexity within narrative disclosures (Mark Clatworthy & Jones, 2001; Courtis, 1998). In the second type of study an increase in syntactical complexity is indicative of narratives which are more difficult to read and vice versa (Mark Clatworthy & Jones, 2001; Courtis, 1998).

This study assessed the readability of chairman's statement from the perspective of syntactical complexity and aimed to understand whether the syntactical complexity varies between profitable and unprofitable companies (Mark Clatworthy & Jones, 2001). To determine the readability of the chairman's statement, the Flesch reading ease score was calculated. The most popular measure of syntactical complexity and readability is the Flesch readability formula which was devised by Rudolph Flesch in 1948 (Mark Clatworthy & Jones, 2001; Courtis, 1998). A readability formula uses 'counts of language variables in order to provide an index of probable difficulty for readers' and does not require participation by readers (Subramaniam et al., 1993). The Flesch test is based on the McCall- Crabbs Standard Test Lessons in reading and comprehensions and uses the co-efficients of regression from two linguistic features, average sentence length in words and a syllable count which is expressed as the number of syllables per 100 words.(Mark Clatworthy & Jones, 2001) The Flesch test is computerized and is available on Word packages. The proofing tool built into Microsoft Word was used to calculate the readability score of the chairman's statement. An illustrative example has been included below:



Readability Statistics	
Counts	
Words	424
Characters	2403
Paragraphs	14
Sentences	25
Averages	
Sentences per Paragraph	2.5
Words per Sentence	16.2
Characters per Word	5.4
Readability	
Passive Sentences	4%
Flesch Reading Ease	30.0
Flesch-Kincaid Grade Level	13.1

Table 9- Illustrative example: Readability statistics-Flesch Reading ease

Number	Company	Readability score
1	ABC Limited	30

Table 10- Illustrative example: Readability score

Step 9-10: Analysis of data

In quantitative content analysis the coding scheme is determined *a priori*, i.e. before coding begins (Marsh & White, 2006). After the results were obtained, the data relating to each hypothesis was summarized and presented as descriptive statistics. The descriptive analysis indicates the textual characteristics found in the chairman's statements studied. These results can be found in Chapter 4.

The characteristics are described in terms of each hypothesis tested, that is:

- (a) Length of the statement
- (b) Use of passive voice
- (c) Inclusion of personal references
- (d) Inclusion of quantitative references
- (e) Future references
- (f) Readability of the statement

The data was then tested for normality to determine whether to use parametric or non-parametric statistical methods to test for a significant difference between the textual characteristics of profitable companies compared to unprofitable companies. The Mann-Whitney test was then used to determine if there is a significant difference between the textual characteristics in the chairman's statements of profitable companies compared to unprofitable companies. The Mann–Whitney *U* test also referred to as the Wilcoxon rank-sum test is a nonparametric test. The Mann-Whitney *U* test is used to compare differences between two independent groups when the dependent variable is either ordinal or continuous, but not normally distributed. This test is especially sensitive to population differences in central tendency and therefore is the most appropriate statistical method to test the hypotheses of this study (Howell, 2011).

3.3 Validity and Reliability

It is important when conducting research that objectivity and integrity is maintained. The research should therefore be designed to ensure that objectivity and integrity is maintained. In a quantitative study objectivity and integrity are achieved by minimizing the researcher's subjectivity in the study (Neuman, 2011). The issue of objectivity and integrity is addressed by using objective technology, well documented standard techniques and making objective numerical measures. These studies are also easily replicable thereby ensuring the study is valid (Neuman, 2011).

Reliability and validity are further concepts which are critical to the success of a research study. Measurement reliability means that the numerical results produced do not vary because of characteristics of the measurement process or the measurement instrument itself (Neuman, 2011). This study replicates a method employed by M Clatworthy and Jones (2006) in a similar study which focused on UK listed companies (M Clatworthy & Jones, 2006). Replication of a study improves the reliability of a study (Neuman, 2011).

Reliability in the context of the study will be achieved in two ways. As a large amount of data is collected via the use of Microsoft Word, i.e. computer-aided techniques, the data does not require any level of subjectivity hence may be considered reliable. Content analysis techniques involving quantitative disclosures (selectivity, performance comparisons) were therefore not tested for reliability as these disclosures are considered to be capable of more objective coding and eliminate inconsistencies between human coders. Additionally, data will be collected from chairman's statements of companies listed on the JSE, increasing the reliability of the data collected. These will ensure that the study will achieve stability, i.e. the analysis will remain unchanged; the study may be reproduced and the data collected is accurate.

Validity refers to the appropriateness of the conclusions reached from the data obtained. It depends largely on the researcher's ability to maintain intercoder reliability, which refers to agreement among coders about interpretation of a text. Data collected manually, i.e. future-oriented references will be confirmed via intercoder agreement achieved. A sample of 20 chairman's statements will be selected and analysed independently by two coders. The first coder is the researcher whilst the second coder is the supervisor who has extensive experience in analysing non-financial reporting

disclosures. The results will be compared and differences will be teased out to ensure consistent coding of the entire sample. Differences between the results obtained by the 2 coders will be further analysed to understand reasons for the difference. This method has been analysed by prior studies of Chairman's statements (Mark Clatworthy & Jones, 2003).

Additionally the researcher has vast experience in analysing annual reports, thereby increasing the validity of data collected.

Chapter 4- Analysis of Results

The study was carried out to determine whether the underlying financial performance of a company influences its corporate reporting strategy. The aim of the research was to determine whether there is a significant difference between the textual characteristics of chairman's statements of profitable and unprofitable companies. This would indicate that reporting bias is introduced via the use of impression management techniques and that the underlying financial performance of a company may influence the reporting strategy of the company.

To investigate the problem statement and determine whether the company's reporting strategy is influenced by the underlying financial results, the study tested the following hypothesis:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies on the JSE main board.

This hypothesis was tested by firstly studying all companies on the JSE and determining whether they are profitable or unprofitable. The chairman's statements of all these companies (profitable and unprofitable) were then scrutinized for six predefined textual characteristics. The textual characteristics which were investigated have been previously studied by M Clatworthy and Jones (2006) in a similar study and have been posited to be indicative of impression management.

These textual characteristics were tested as sub-problems which indicated whether the problem statement was accepted or rejected. The sub-problems investigated have been discussed further below.

The population and sample studied were all companies listed on the JSE as at 31 December 2014. Details of all companies listed on the JSE as a 31 December 2014 were obtained from the JSE website (<https://www.jse.co.za/current-companies/companies-and-financial-instruments>). Additionally the researcher contacted the JSE to obtain a list of all equity issuers listed on the main board of the JSE as at 31 December 2014. There were 302 equity issuers listed on the main board of the JSE. These companies were investigated to identify all companies which had been subsequently delisted or suspended. These companies were excluded from the

study as their annual reports were no longer available publicly. The companies listed as at 31 December 2014 were also inspected to identify all companies which had listed for the first time in 2014 and who had not yet published their first set of publicly available annual reports. These companies were excluded from the study. The annual reports of the remainder of the companies were then scanned to identify instances where the annual report did not contain a chairman's statement. Where it was noted that there was no chairman's report in the annual report the researcher investigated the annual report further to understand possible reasons for this. It was found that in some instances a chairman's statement was not included in the annual report because:

- The company did not have a chairman. This resulted from the recent resignation or retirement of the chairman and a new chairman had not yet been appointed.
- The company did not have an independent chairman and therefore a chairman's report was not provided.
- The company only had a single associate/subsidiary interest in another listed company and therefore did not prepare a chairman's statement as its financial performance was solely dependent on the financial performance of the listed investee.

In South Africa, the King Code on Corporate Governance (King III) requires that companies appoint an independent chairman. Companies who have not complied with the King Code are required to explain why they have not. The code however does not require that a chairman's statement be included in the annual reports (IOD, 2009). After excluding these occurrences from the population, the sample of listed companies studied was 216. Of these 216 companies, 132 companies had an increase in profit before tax from 2013 to 2014 and 84 companies experienced a decrease in profit before tax from 2013 to 2014. Therefore 132 companies were categorized as profitable whilst 84 companies were categorized as unprofitable.

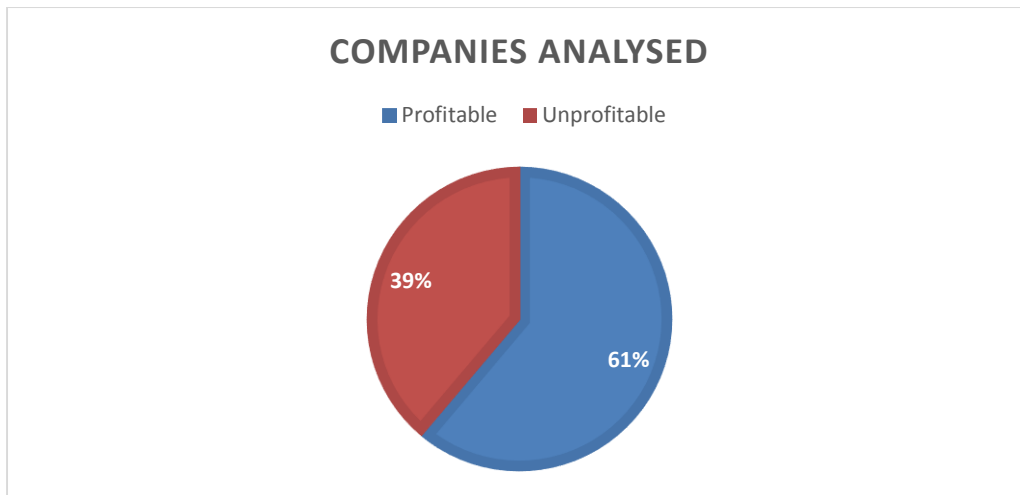


Figure 1-Listed companies studied

The chairman's statements of these 216 companies were analysed for the six pre-determined textual characteristics.

Annexure A lists the 216 listed companies studied.

4.1 Length of the chairman's statement

The first sub-problem analysed was the length of the chairman's statement in the annual reports.

H1a. The chairman's statements of profitable and unprofitable companies will be similar in length.

The length of the chairman's statement was measured in two ways. The number of pages over which the chairman's statement extended was one measure used and the number of words in the chairman's statement was the other measure used to ascertain the length of the statement.

Profitable companies vs unprofitable companies

Statistical analysis showed that for the 216 companies analysed the chairman's statement is on average, 2.5 pages in length ($n = 2.509$) and on average comprises 1296 words ($n = 1296.00$).

		N	Mean	Std. Deviation	CV	Minimum	Maximum
Length of Chairman Statement: No of words	Profitable	132	1342.23	863.115	0.6430	102	4981
	Unprofitable	84	1223.36	670.003	0.5477	272	3668
	Total	216	1296.00	794.092	0.6127	102	4981
Length of Chairman Statement: No of pages	Profitable	132	2.598	1.5720	0.6051	1.0	13.0
	Unprofitable	84	2.369	1.1489	0.4850	1.0	8.0
	Total	216	2.509	1.4240	0.5676	1.0	13.0

Table 11-Length of chairman's statement

The length of the chairman's statement of profitable companies was found to be on average over 2.5 pages in length (n=2.598) and comprising 1343 words (n= 1342.23). Unprofitable companies were found to be on average under 2.5 pages in length (n=2.369) and comprising 1224 words (n=1223.36). Chairman's statements of unprofitable companies therefore contain on average 119 words fewer than profitable companies. This represents a difference of approximately 9.72%. A Mann-Whitney non-parametric test performed comparing the average length of the chairman's statement- based on number of pages, of profitable companies compared to unprofitable companies and did not find any significant statistical difference between the two groups. The Mann-Whitney non-parametric test was then performed comparing the average length of the chairman's statement- based on number of words, of profitable companies compared to unprofitable companies and did not find any significant statistical difference between the length of chairman statements of profitable and unprofitable companies in terms of the word count.

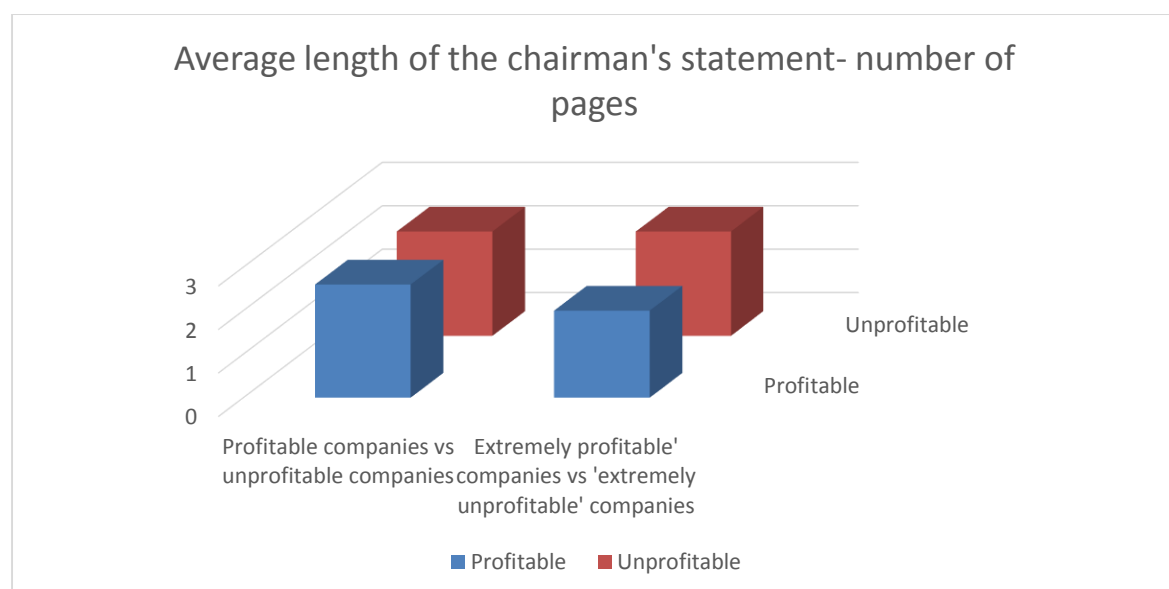


Figure 2-Average length of the chairman's statement- number of pages

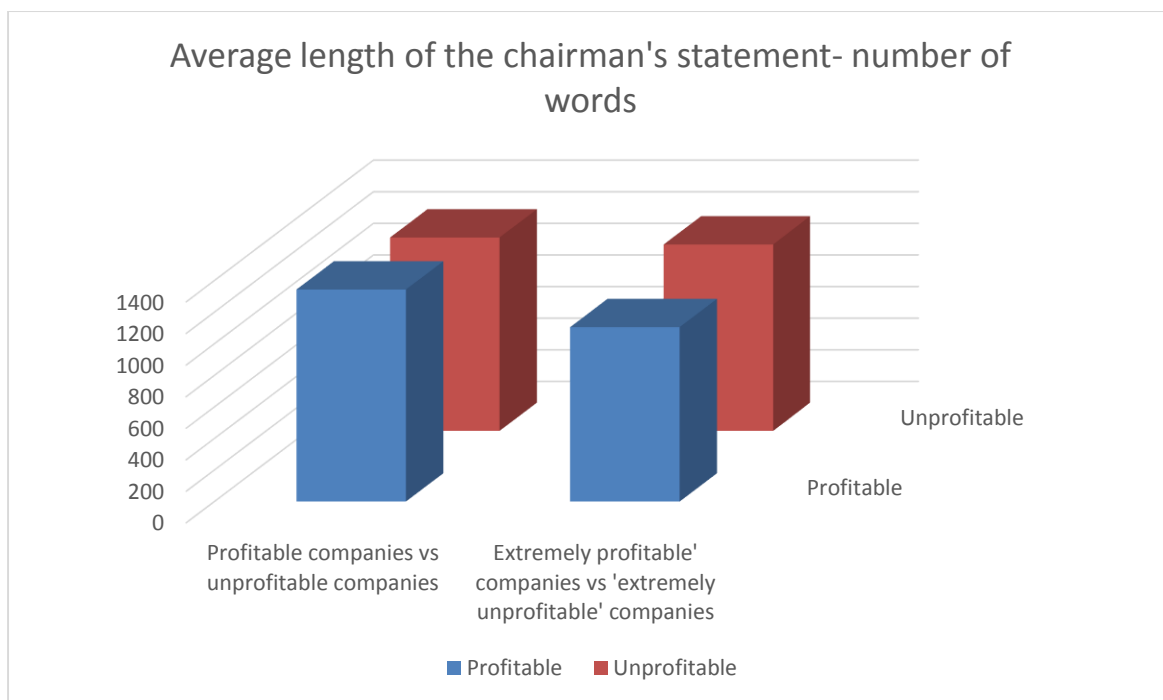


Figure 3-Average length of the chairman's statement-number of words

'Extremely profitable' companies vs 'extremely unprofitable' companies

The chairman's statement of 'extremely profitable' and 'extremely unprofitable' companies was studied and it was found that the chairman's statement of 'extremely profitable' companies was on average 1.94 pages long (n=1.940) whilst the chairman's statement of 'extremely unprofitable' companies was on average 2.4 pages long (n=2.400).

	Incl (Top&Bottom50)	N	Mean	Std. Deviation	CV	Minimum	Maximum
Length of Chairman Statement: No of words	Profitable	50	1054.54	592.467	0.5618	302	2688
	Unprofitable	50	1179.52	800.288	0.6785	102	3680
	Total	100	1117.03	703.332	0.6296	102	3680
Length of Chairman Statement: No of pages	Profitable	50	1.940	.9348	0.4819	1.0	5.0
	Unprofitable	50	2.400	1.2778	0.5324	1.0	8.0
	Total	100	2.170	1.1376	0.5242	1.0	8.0

Table 12-Length of chairman's statement 'extremely profitable' companies and 'extremely unprofitable' companies

An analysis of the word count of 'extremely profitable' companies compared to 'extremely unprofitable' companies found that the former contain on average 1055 words (n=1054.54) whilst the latter, i.e. 'extremely unprofitable' companies contain on average 1180 words (n=1179.52). 'Extremely profitable' companies therefore on average use 125 words more in their chairman's statements compared to 'extremely

unprofitable' companies. This equates to a difference of approximately 11.85% in the word count of the chairman's statements. (M Clatworthy & Jones, 2006), in their study of chairman's statements of 'extremely profitable' companies and 'extremely unprofitable' companies in the UK found that, on average the length of the chairman's statements of 'extremely profitable' companies was 827 words whilst the length of the chairman's statements of 'extremely unprofitable' companies was on average 901 words long (M Clatworthy & Jones, 2006). In a similar study conducted on Chinese listed companies, Cen and Cai (2013) found that the average length of chairman's statements of 'extremely profitable' and 'extremely unprofitable' companies in China were 1897 words and 1712 words respectively. (Cen & Cai, 2013)

The Mann Whitney non-parametric test found that when comparing the length of the chairman's statement based on the number of pages the groups differ significantly at the 5% level of significance, $z = -1.998$, $p < .05$. The unprofitable companies (MR=55.93) use more pages in their chairman's statement than profitable companies (MR=45.07). However no significant difference was noted for the number of words in the chairman's statements of profitable companies compared to unprofitable companies.

Findings from the study conducted by M Clatworthy and Jones (2006) therefore suggest that the, on average, the chairman's statement of 'extremely unprofitable' companies is marginally longer in length than the chairman's statements of 'extremely profitable' companies (M Clatworthy & Jones, 2006). The difference in length is however not statistically significant. These conclusions suggest that 'extremely unprofitable' companies are no more verbose than 'extremely profitable companies'. The findings from the Chinese study conclude that the length of chairman's statements of 'extremely profitable' companies are significantly longer in length than the length of chairman's statements of 'extremely unprofitable' companies (Cen & Cai, 2013). The study carried out by the Chinese therefore suggests that 'extremely profitable' companies are more verbose in their chairman's statement compared to 'extremely unprofitable companies'.

The findings of this study are therefore consistent with those of M Clatworthy and Jones (2006) as even though 'extremely unprofitable' companies use on average marginally more words than 'extremely profitable' companies, statistically there is no

significant difference between the two groups. Furthermore, even though the results find that there is a significant difference in the length of the chairman's statement of 'extremely profitable' companies compared to 'extremely unprofitable' companies when studying the number of pages, no significant difference was noted for the difference between the two groups from the perspective of the number of words. Therefore the significant difference between the lengths of the chairman's statement expressed as the average number of pages cannot be interpreted to mean that 'extremely unprofitable' companies are more verbose than 'extremely profitable' companies as the word count is not significantly different between these categories.

The findings of this study are inconsistent with those of Cen and Cai (2013) and Kohut and Segars (1992) who find that the chairman's statements of profitable companies are more likely to be more verbose than those of unprofitable companies indicating that managers are more keen to elaborate on positive financial performance in the chairman's statement and prefer to communicate poor financial performance more concisely (Kohut & Segars, 1992). The marginal difference in the length of the chairman's statement expressed in terms of word count between 'extremely profitable' and 'extremely unprofitable' companies supports the theory of Bloomfield (2008) that management of unprofitable companies are more likely to be more verbose as management may wish to attribute the poor performance of the company to external events. This would require more explanations from management and therefore longer and more complex sentences to tie these events to performance. (Bloomfield, 2008)

Conclusion

This study firstly analysed the length of the chairman's statement of profitable and unprofitable companies in terms of both number of pages as well as number of words contained in the statement. The aim of the analysis was to determine if there is a significant difference in length of the chairman's statements between profitable and unprofitable companies and therefore whether the profitability of the company influences the length of its chairman's statement. The findings of the statistical analysis conclude that there is no significant difference between the length of the chairman's statement of profitable companies and unprofitable companies both in terms of

number of pages constituting the chairman's statement as well as word count of the chairman's statement.

The study was then extended to analyse the chairman's statement of 'extremely profitable' and 'extremely unprofitable' companies within the sample. The statistical findings of this analysis conclude that with regard to the number of pages contained in the chairman's statement, there is a significant difference in the length of the chairman's statement of 'extremely profitable' companies and 'extremely unprofitable' companies. The chairman's statements of 'extremely unprofitable' companies were found to be longer than those of 'extremely profitable companies'. This may suggest that management of companies which have performed extremely poorly are more verbose than those that have performed extremely well. This however is not necessarily the case as there was no significant difference between the lengths of the chairman's statement of the two groups when analysed from the perspective of the number of words.

The significant difference in length when analysing the number of pages may be due to the inclusion of more imagery or photographs. Stanton et al. (2004), in their study of the use of photographs in annual reports find that photographs may be used to persuade and distract readers from other information in the report and to provide credibility to the report (Stanton et al., 2004). This was however not the subject of this study and may be an area for future research.

The findings of this study relating to the length of the chairman's statement, both in terms of number of pages as well as word count, fail to reject the hypothesis that the length of chairman's statement of profitable companies and unprofitable companies will be similar in length. This suggests that there is no significant difference between the length of the chairman's statement of profitable and unprofitable companies in relation to their underlying financial performance.

When studying for a significant difference in the length of the chairman's statement of 'extremely profitable' and 'extremely unprofitable' companies, there is evidence of a significant difference in terms of number of pages of chairman's statements of the two groups however there is no evidence of significant difference in length based on word count. These results are therefore ambiguous and do not clearly reject the hypothesis

that the length of the chairman's statement of 'extremely profitable' companies and 'extremely unprofitable' companies will be similar in length.

There is no evidence that the underlying financial performance of the company influences the length of the chairman's statement as no significant difference has been found in the length of the chairman's statement of profitable companies compared to unprofitable companies as well as when comparing 'extremely profitable' companies to 'extremely unprofitable' companies.

4.2 Passive voice

The second textual characteristic which was tested was the use of passive voice in the chairman's statements of profitable companies compared to unprofitable companies and then of 'extremely profitable' companies compared to 'extremely unprofitable' companies. Literature suggests that the use of passive voice vs active voice in the chairman's statement will differ depending on the financial performance of the company (Thomas, 1997). The hypothesis tested was:

H1b. The chairman's statements of profitable and unprofitable companies will contain a similar proportion of passive sentences.

Profitable companies vs unprofitable companies

Statistical analysis showed that for the 216 companies the use of passive sentences ranged from 0% passive sentences used to 43% passive sentences used. The chairman's statement contains on average, a proportion of 16.30% passive sentences (n= 16.2963%). This means that on average, in the chairman's statement, 16.30% of sentences have been written in the passive voice rather than the active voice.

Profitable companies were found to use on average 15.38% (n=15.3788%) passive sentences in their chairman's statements and unprofitable companies were found to use on average 17.74% (n= 17.7381%) passive sentences in their chairman's statements. Unprofitable companies therefore use on average 2.36% more passive sentences than profitable companies.

		N	Mean	Std. Deviation	CV	Minimum	Maximum
%Passive Sentences	Profitable	132	15.3788%	8.68668%	0.5648	0.00%	41.00%
	Unprofitable	84	17.7381%	9.33076%	0.5260	0.00%	43.00%
	Total	216	16.2963%	8.99536%	0.5520	0.00%	43.00%

Table 13-Use of passive voice

To determine whether there is a significant statistical difference between the use of passive sentences of profitable companies and unprofitable companies, the results of the Mann-Whitney non-parametric test performed find a significant difference between the two groups at the 10% level of significance.

	Is the company profitable/unprofitable	N	Mean Rank	Sum of Ranks
%Passive Sentences	1 Profitable	132	101.99	13462.50
	2 Unprofitable	84	118.73	9973.50
	Total	216		

	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
%Passive Sentences	4684.500	13462.500	-1.921	.055

Table 14-% Passive sentences

These results show that, on average, unprofitable companies use more passive sentences than profitable companies. This finding is consistent with research conducted by (Thomas, 1997) which found that an unprofitable company is more likely to use passive sentence construction with the aim of detaching the writer from the message.(Thomas, 1997)

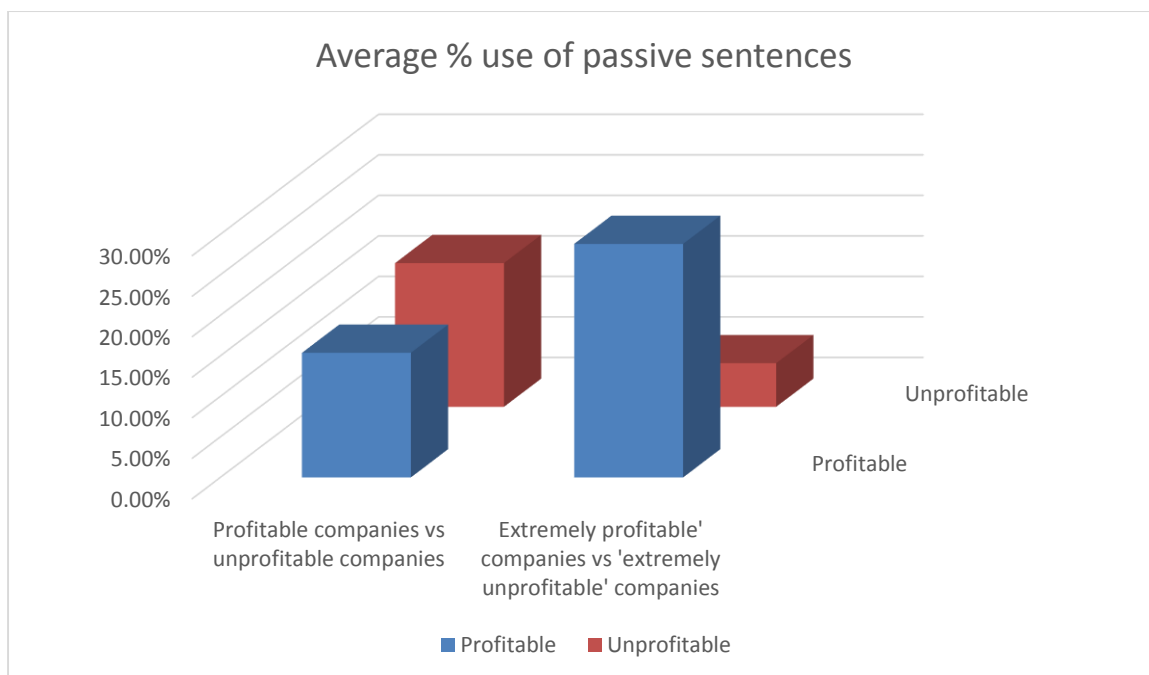


Figure 4-Average % use of passive sentences

'Extremely profitable' vs 'extremely unprofitable'

The chairman's statement of 'extremely profitable' companies were found to contain, on average 28.82% (n=28.8200%) passive sentences whilst the chairman's statements of 'extremely unprofitable' companies were found to contain, on average 5.38% (n=5.3800%) passive sentences. Therefore 'extremely profitable' companies were found to use on average, 23.44% more passive sentences in their chairman's statements compared to 'extremely unprofitable' companies.

The Mean Whitney non-parametric test found that when comparing the use of passive voice in the chairman's statement of 'extremely profitable' companies to the passive voice of 'extremely unprofitable' companies the groups differ significantly at the .1% level of significance, $z = -8.639$, $p < .001$. The 'extremely profitable' companies (Mean Ranks=75.50) disclose using more passive sentences than 'extremely unprofitable' companies (Mean Ranks=25.50).

	Is the company profitable/unprofitable (TopBottom50)	N	Mean Rank	Sum of Ranks
%Passive Sentences	1 Profitable	50	75.50	3775.00
	2 Unprofitable	50	25.50	1275.00
	Total	100		

	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
%Passive Sentences	.000	1275.000	-8.639	.000

Table 15-% Passive sentences

This result suggests that when companies are ‘extremely profitable’ they are more likely to write in the passive voice and companies which are ‘extremely unprofitable’ are less likely to write in the passive voice. This is inconsistent with the results found by M Clatworthy and Jones (2006). Their study finds that profitable companies in the UK use, on average, 25.8% passive sentences in their chairman’s statements whilst unprofitable companies use 26.8% passive sentences. Their study also found that whilst there is a 1% difference in the average usage of passive sentences by profitable companies compared to unprofitable companies, this finding is not statistically significant. The study conducted by Cen and Cai (2013) also finds no significant difference in the level of use of passive sentences in the chairman’s statements of ‘extremely profitable’ and ‘extremely unprofitable’ Chinese companies.

The results of this study which find that ‘extremely profitable’ companies are more likely to write in the passive voice compared to ‘extremely unprofitable’ companies is also inconsistent with the results found for use of passive voice by profitable companies compared to unprofitable companies.

These results may be explained within the context of an argument presented by Aerts (2005b) which suggests that audiences tend to discount transparent self-promotional behavior and disclosures as they generally recognise that reporters tend to exaggerate their achievements, sometimes referred to as a ‘self-promoters paradox’. (Aerts, 2005b) Their findings conclude that users are more likely to identify positive attributional reporting bias. This may explain why ‘extremely profitable’ companies are less likely to attribute the success of organization to themselves and are more likely to adopt the use of passive sentences. Furthermore ‘extremely unprofitable’ companies were found to use fewer passive sentences on average (n=5.38%) than unprofitable companies (n=17.38%) in their chairman’s statements. This also suggests that ‘extremely unprofitable’ companies are less likely to misattribute poor performance to external events. This finding is inconsistent with findings of Thomas (1997) and presents an area of future research.

Conclusion

The second textual characteristic which was studied in the chairman's statement was the extent of use of passive sentences by profitable companies compared to the extent of use in unprofitable companies. The aim was to determine if there was a difference in the extent of use of passive sentences between these two groups which may indicate that the underlying profitability influences the use of passive sentences.

The results of the analysis found that at the 10% level of significance there is a significant difference between the use of passive sentences by the two groups. Unprofitable companies used more passive sentences in their chairman's statements than profitable companies. This result may be explained by reference to Thomas (1997) who states that management of unprofitable companies are more likely to make use of passive sentences in an attempt to distance themselves from the poor performance of the company. (Thomas, 1997) At the 10% level of significance it can therefore be concluded that there is a difference in the use of passive sentences by profitable companies and unprofitable companies. The hypothesis therefore can be rejected at this level.

However findings of the analysis of 'extremely profitable' and 'extremely unprofitable' companies present results which are unexpected and inconsistent with the findings for profitable and unprofitable companies. The findings of the analysis of the use of passive sentences by 'extremely profitable' companies compared to 'extremely unprofitable' companies suggest that 'extremely profitable' companies make use of more passive sentences than 'extremely unprofitable' companies. These findings are indicative of management possibly not attributing the cause of the 'extreme profitability' to itself but rather also to external events which have contributed, for example, the increase in demand for the product, etc. Furthermore, Aerts (2005b) suggests that users of financial statements are able to discern management's transparent self-promotional behaviour and users are able to discount this (Aerts, 2005b). The hypothesis can therefore be rejected when comparing 'extremely profitable' companies to 'extremely unprofitable' companies.

Overall it is concluded that there is a significant difference in the extent of use of passive sentences by companies that have been profitable as well as 'extremely profitable' compared to unprofitable and 'extremely unprofitable' companies respectively.

4.3 Personal references

The third hypothesis tested was the use of personal references in the chairman's statements of profitable companies compared to unprofitable companies and 'extremely profitable' companies compared to 'extremely unprofitable' companies to determine whether the underlying financial performance of the company influences its use of personal pronouns in the chairman's statement.

H1c: The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references.

Profitable companies vs Unprofitable companies

Statistical analysis showed that for the 216 companies analysed the chairman's statement contains on average 21 personal references (n=20.27). However as per the table below it can be seen from the co-efficient of variation that there is significant variation in the use of personal references by reporters in their chairman's statements. This means that a large number of chairman's statements included personal references which were different to the average of 21. The personal references which were scanned for were 'I', 'me', 'my', 'our', 'us' and 'we'. On average the chairman's statement uses the personal references 'our' and 'we' more than any of the others and uses 'me' and 'my' the least. The chairman's statements were found to include on average 15 references to 'our' (n=14.85) and 11 references to 'we' (n=10.12).

		N	Mean	Std. Deviation	CV	Minimum	Maximum
Number of personal references	Profitable	132	21.65	20.347	0.9398	0	124
	Unprofitable	84	17.85	16.608	0.9304	1	71
	Total	216	20.17	19.031	0.9435	0	124

Table 16-Average number of personal references used

A deeper insight into the use of personal references by profitable companies and unprofitable companies finds that profitable companies included on average 22 (n=21.65) personal references compared to unprofitable companies who have used on average 18 (n=17.85) personal references. A difference between the average frequencies of personal references of profitable companies compared to unprofitable companies is therefore noted with profitable companies disclosing on average 4 more personal references compared to unprofitable companies. The standard deviation (profitable companies std deviation =20.347; unprofitable companies std deviation=16.608) and co-efficients of variation (profitable companies co-efficient of variation=

0.9398; unprofitable companies co-efficient of variation= 0.9304) suggest that there is a wide spread in personal references used by companies in their chairman's statements. The results of the Mann-Whitney test however did not find significant difference in the use of personal references between the two groups.

The personal references used most frequently by both profitable and unprofitable companies are 'our' and 'we'. There is however a difference in how many times these are referred to on average in the chairman's statement of profitable companies compared to unprofitable companies. Profitable companies were found to include the use of 'our' in their chairman's statement on average 16 times (n=15.84) whilst unprofitable companies were found on average to use 'our' 14 times (n=13.30). With regard to the usage of 'we', both profitable and unprofitable companies were analysed and found to include 'we' in their chairman's statement on average 11 times (profitable companies n=10.04 and unprofitable companies n=10.25). Whilst there is a marginal difference between the use of personal pronouns in the chairman's statements of profitable companies compared to unprofitable companies, the results of the Mann-Whitney non-parametric test performed found no significant difference between the two groups.

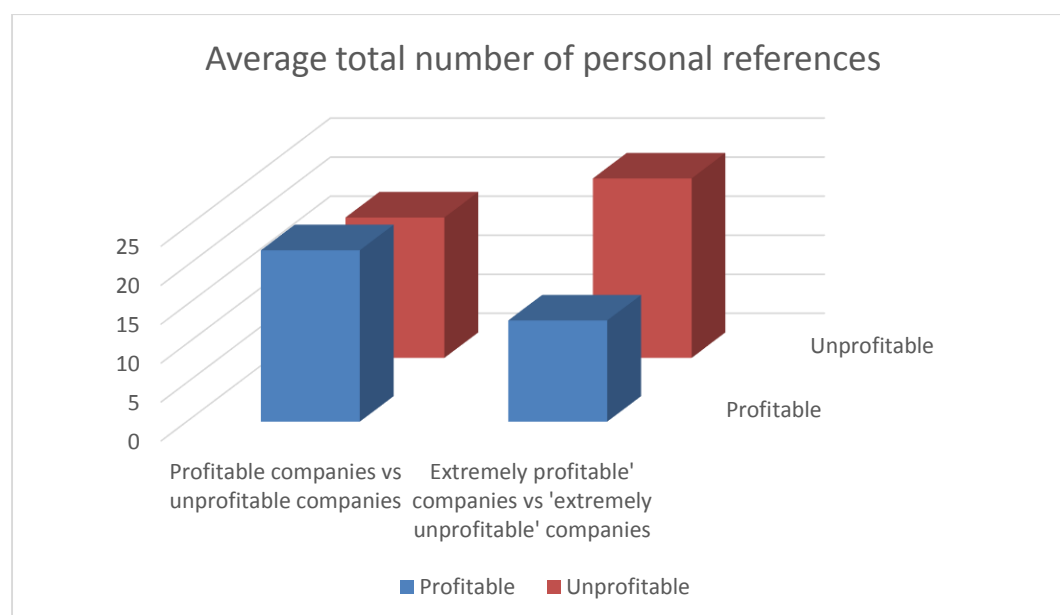


Figure 5- Average total number of personal references

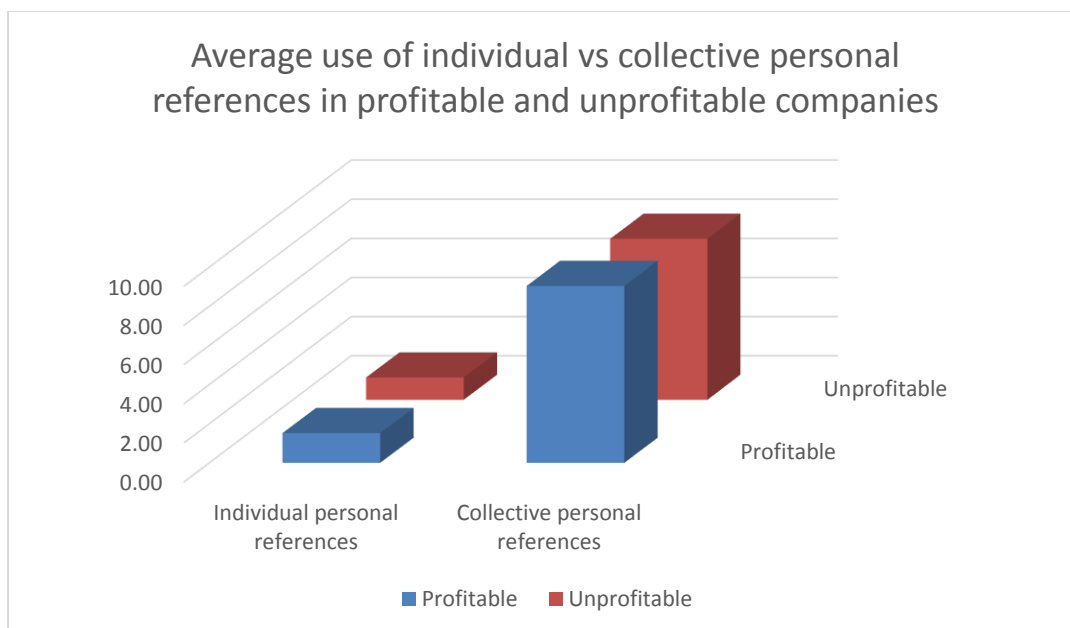


Figure 6-Average use of individual vs collective personal references in profitable and unprofitable companies

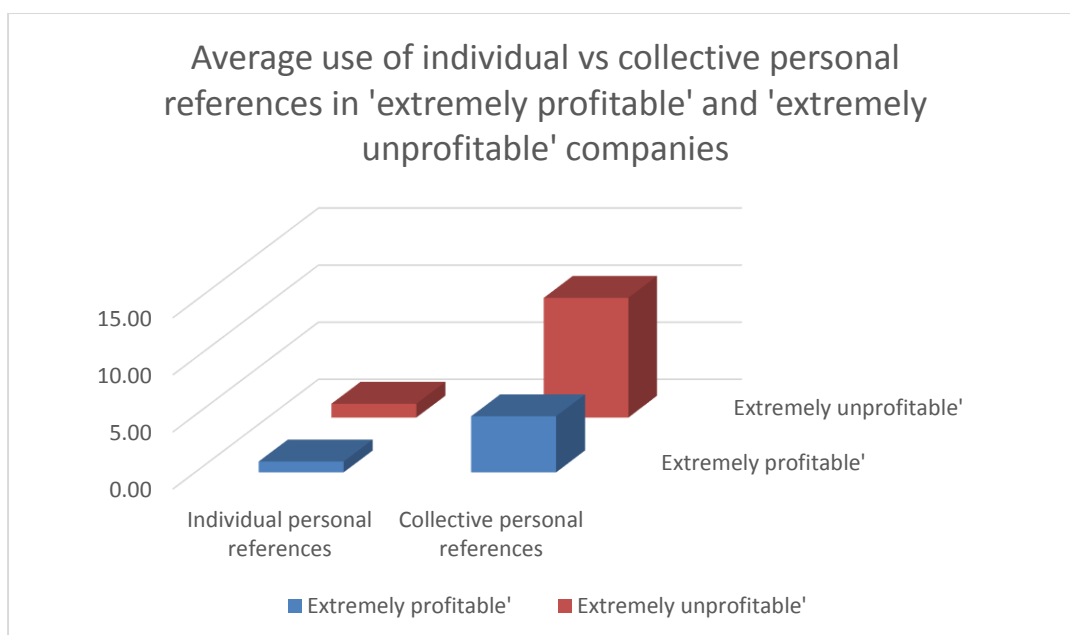


Figure 7-Average use of individual vs collective personal references in 'extremely profitable' and 'extremely unprofitable' companies

'Extremely profitable' companies vs 'extremely unprofitable' companies

The test was then extended to the chairman's statements of 'extremely profitable' companies and 'extremely unprofitable' companies. The chairman's statement of 'extremely profitable' companies was found to contain on average 13 personal

references (n=12.10) whilst the chairman's statements of 'extremely unprofitable' companies contain on average 23 personal references (n=22.70). Therefore it can be seen that on average 'extremely profitable' companies use fewer personal references compared to 'extremely unprofitable' companies. 'Extremely profitable' companies also use fewer personal references compared to profitable companies above, who, on average use 22 personal references in their chairman's statements. The results of the Mann-Whitney test found that the groups ('extremely profitable' and 'extremely unprofitable') differ significantly at the .5% level of significance ($z = -3.002$, $p < .005$). The 'extremely profitable' companies (Mean Ranks=41.80) disclose using less personal references than 'extremely unprofitable' companies (Mean Ranks=59.20).

This again is inconsistent with findings by M Clatworthy and Jones (2006) whose study confirmed that, for companies listed in the UK, 'extremely profitable' companies do use more personal references compared to 'extremely unprofitable' companies. This finding was however significant at the 10% level of significance. The Chinese study conducted found no significant difference between the use of personal references in the chairman's statements of 'extremely profitable' companies and 'extremely unprofitable' companies. Prior research has also suggested that profitable companies are more likely to employ personal references than companies which are unprofitable who are inclined to distance themselves from declining profits (Thomas, 1997).

The finding of this study, whilst inconsistent with the findings of both M Clatworthy and Jones (2006) and Cen and Cai (2013), is consistent with the findings on hypothesis 2 above. 'Extremely profitable' companies in South Africa use more passive sentences and fewer personal references when compared to 'extremely unprofitable' companies. These findings are indicative of management possibly not attributing the cause of the 'extreme profitability' to itself but rather also to external events which have contributed, for example, the increase in demand for the product, etc. This may be reflective of culture in South Africa of not attributing success relating to 'extreme profitability' to oneself, and represents an area of future research.

'Extremely profitable' and 'extremely unprofitable' companies were also found to use the personal reference 'our' and 'we' more than any of the other personal reference. 'Extremely profitable' companies used 'our' on average 9 times (n=8.46) compared to 'extremely unprofitable' companies who used 'our' 18 times (n=17.34) in their

chairman's statements. The Mann-Whitney test found that the groups ('extremely profitable' and 'extremely unprofitable') differ significantly at the 1% level of significance, $z = -2.752$, $p < .01$. The 'extremely profitable' companies (Mean Ranks=42.53) disclose using less references to "our" than 'extremely unprofitable' companies (MR=58.47).

The use of 'we' by 'extremely profitable' companies was on average 6 ($n=5.48$) whilst 'extremely unprofitable' companies used 'we' 13 times ($n=12.42$) in their chairman's statements. The Mann-Whitney test also found that at a 0.5% level of significance ($z = -2.843$, $p < .005$), 'extremely profitable' companies (MR=42.28) disclose using less references to "we" than 'extremely unprofitable' companies (MR=58.72) $z = -2.843$, $p < .005$.

Conclusion

The third hypothesis tested was the use of personal references in the chairman's statements of profitable and unprofitable companies and 'extremely profitable' and 'extremely unprofitable' companies respectively. Results of the use of personal references by profitable companies compared to unprofitable companies found that whilst profitable companies use marginally more personal references compared to unprofitable companies there is no significant difference between the two groups. However the results of the analysis on the use of personal references by 'extremely profitable' companies compared to 'extremely unprofitable' companies found a significant difference between the two groups. The findings conclude that 'extremely profitable' companies use fewer personal references compared to 'extremely unprofitable' companies. These findings are inconsistent with those of M Clatworthy and Jones (2006), but are consistent with the findings of hypothesis 2 above.

When comparing the use of personal references in the chairman's statements of profitable companies compared to unprofitable companies there is insufficient evidence of a significant difference between the two groups. The hypothesis therefore cannot be rejected. However when comparing the use of personal references in the chairman's statements of 'extremely profitable' companies compared to 'extremely unprofitable' companies, a significant difference is noted and the hypothesis may be rejected.

The use of individualistic personal references ('I', 'me' and 'my') compared to collective personal references ('our', 'us' and 'we') found that 'our' and 'we' are the most used personal references whilst individualistic personal references were utilised the least. This is consistent with findings of both M Clatworthy and Jones (2006) along with Cen and Cai (2013). M Clatworthy and Jones (2006), expresses interest in this finding stating that even though the chairman's statement is a corporate document, it is signed by an individual. Cen and Cai (2013), suggest that the similar finding amongst Chinese listed companies may be reflective of Chinese collectivism culture. This represents an area of future research.

4.4 Quantitative references

The fourth textual characteristic which was studied was the disclosure of quantitative references. Studies conducted by V Beattie and Jones (2000), have found that profitable companies are significantly more likely to include graphs of key financial variables when compared to unprofitable companies (V Beattie & Jones, 2000). It is therefore expected that profitable companies will be more likely to report key financial variables than unprofitable companies. The hypothesis tested was:

H1d. The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.

Profitable companies vs unprofitable companies

Statistical analysis showed that for the 216 companies analysed the chairman's statement includes on average 3 quantitative references (n=2.50). Where quantitative references have been included, the most common references included were to revenue and/or dividends. Profitable companies were found to include on average 3 quantitative references (n=2.95) whilst unprofitable companies were found to include on average 2 quantitative references (n=1.80). Both profitable and unprofitable companies most often disclosed revenue and dividends when quantitative information was disclosed.

		N	Mean	Std. Deviation	CV	Minimum	Maximum
Total no of quant disclosures	Profitable	132	2.95	3.397	1.1515	0	15
	Unprofitable	84	1.80	2.521	1.4006	0	12
	Total	216	2.50	3.131	1.2524	0	15

Table 17-Number of quantitative references

However from the table above it can be seen that the standard deviation relating to both profitable companies as well as unprofitable companies indicate that there is significant differences in the total number of quantitative disclosures provided by companies in the chairman's statements. Within the sample, profitable companies disclosed a minimum of 0 quantitative references and a maximum of 15 references whilst unprofitable companies disclosed a minimum of 0 and a maximum of 12 quantitative references.

Findings of the Mann-Whitney test found a significant difference between the numbers of quantitative references disclosed by profitable companies compared to unprofitable companies. The analysis found that the groups differ significantly at the 5% level of significance ($z = -2.441$, $p < .05$). The profitable companies (Mean Ranks=116.44) disclose more quantitative information than unprofitable companies (Mean Ranks=96.02).

Furthermore, the Mann Whitney test found that the profitable and unprofitable groups differ significantly at the .1% level of significance, $z = -3.576$, $p < .001$ with regard to disclosure of dividend information. The profitable companies (Mean Ranks=118.67) disclose more dividend information than unprofitable companies (Mean Ranks=92.52).

	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Number of Dividends items	4201.500	7771.500	-3.576	.000
Total no of quant disclosures	4496.000	8066.000	-2.441	.015

Table 18-Number of quantitative references

These findings are therefore in line with expectations that profitable companies are more likely to disclose quantitative references compared to unprofitable companies.

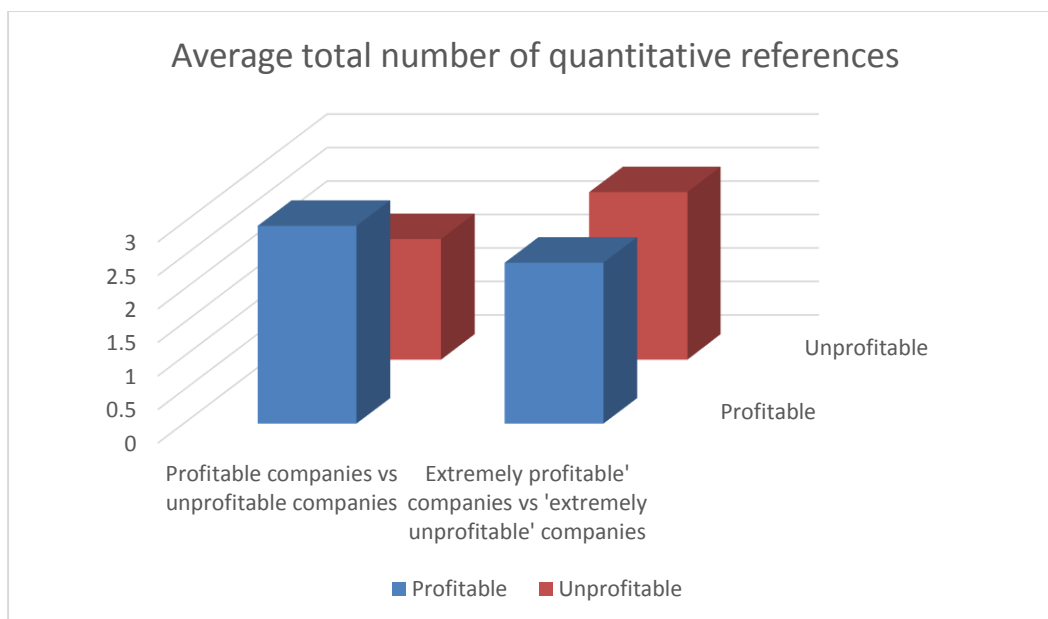


Figure 8-Average total number of quantitative references

'Extremely profitable' companies vs 'extremely unprofitable' companies

The findings relating to 'extremely profitable' and 'extremely unprofitable' companies respectively, suggest that both 'extremely profitable' and 'extremely unprofitable' companies report on average 3 quantitative references. The mean score for 'extremely profitable' companies was 2.40 and for 'extremely unprofitable' companies was 2.50. Revenue and dividends were consistently found to be the most likely quantitative reference disclosed. Applying the Mann-Whitney test, no significant difference was found between the two groups in terms of their disclosure of quantitative references.

The findings that profitable companies use more quantitative references than unprofitable companies is consistent with findings of the Cen and Cai (2013), which found that profitable companies do have a tendency to use more quantitative references compared to companies who have experienced poor performance. This has been suggested by Cen and Cai (2013), to indicate management's motivation to report clearly on positive results and create ambiguity or overlook negative results. This is also consistent with findings of M Clatworthy and Jones (2006), who concluded that extremely profitable companies use on average more quantitative references than extremely unprofitable companies.

Additional findings

The chairman's statements were also inspected for any other quantitative disclosures which were included. It was noted that other quantitative information relating to Headline earnings is most commonly disclosed. Headline earnings is a South African specific measure required by the JSE Listings Requirements. Disclosure of headline earnings is not a requirement of International Financial Reporting Standards (IFRS) nor is it a divergence from IFRS. Instead, according to the SAICA Circular issued relating to headline earnings, it is a way of dividing the IFRS reported profit between re-measurements that are more closely aligned to the operating/trading activities of the company, and the platform used to create those results. Headline earnings, based on these principles, has been used in South Africa since 1995 (SAICA, 2013).

The disclosure of headline earnings as a measure of profitability is therefore common to South African listed companies and this study finds that it is commonly disclosed in their chairman's statements.

Conclusion

The fourth textual characteristic analysed was the disclosure of quantitative references in the chairman's statements of profitable and unprofitable companies and 'extremely profitable' and 'extremely unprofitable' companies respectively. The study found a significant difference in the disclosure of quantitative references by profitable and unprofitable companies respectively with profitable companies disclosing more quantitative references. This may be explained by reference to (Cen & Cai, 2013) who suggest that this may indicate management's motivation to report clearly on positive results and create ambiguity or overlook negative results. This further supports the findings of V Beattie and Jones (2000), who conclude that profitable companies are more likely to include graphs of key financial indicators. The hypothesis can therefore be rejected when comparing profitable companies to unprofitable companies as the disclosure of quantitative references does in fact differ.

The findings relating to 'extremely profitable' companies and 'extremely unprofitable' companies however do not present a significant difference in the use of quantitative references. This means that on average 'extremely profitable' companies are likely to include a similar number of quantitative references as 'extremely unprofitable'

companies. This finding is inconsistent with the conclusion reached for profitable companies and unprofitable companies. This finding, together with those concluded for hypothesis two and three above suggest that when companies experience 'extreme profitability' or 'extreme unprofitability' they are less likely to employ impression management techniques.

4.5 References to the future

The fifth hypothesis tested was the extent of future references in the chairman's statements of profitable and unprofitable and 'extremely profitable' and 'extremely unprofitable' companies respectively. M Clatworthy and Jones (2006) , have suggested that discussion of the future is used by managers of unprofitable companies to deflect from their unfavourable performance whilst managers of profitable companies are more likely to focus on current results. Therefore it is suggested that companies experiencing poor performance are more likely to discuss the future rather than focus on the current set of results.

H1e: The chairman's statements of profitable and unprofitable companies will focus equally on the future.

'Profitable companies vs unprofitable companies'

The unit of data collection of future references was sentences whilst the unit of analysis of future references were number of words contained within the sentence. Statistical analysis showed that for the 216 companies analysed, the chairman's statement includes on average 171 future words (n=170.18). Profitable companies include on average 173 future references whilst unprofitable companies include on average 167 future words (n=166.64). The standard deviation and co-efficient of variation included below indicate the spread of the results and find that there is great variation in the number of future words disclosed by both profitable and unprofitable companies.

		N	Mean	Std. Deviation	CV	Minimum	Maximum
Number of future words	Profitable	132	172.43	170.201	0.9871	0	866
	Unprofitable	84	166.64	148.811	0.8930	0	663
	Total	216	170.18	161.887	0.9513	0	866

Table 19-Future references

From the table above it can be seen that there is no significant difference between the future references used by profitable companies compared to unprofitable companies. This is consistent with the results of the Mann-Whitney test. This is inconsistent with the expectation that unprofitable companies will refer more to the future compared to profitable compared.

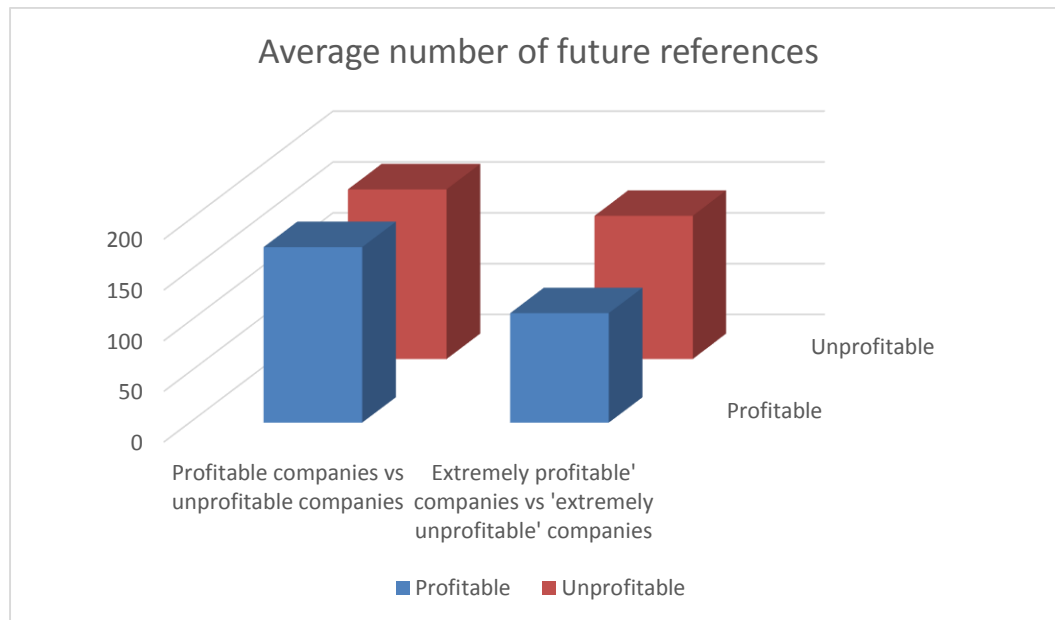


Figure 9-Average number of future references

‘Extremely profitable’ companies vs ‘extremely unprofitable’ companies

When comparing the mean future references contained in the chairman’s statements of ‘extremely profitable’ companies compared to ‘extremely unprofitable’ companies, the analysis found that ‘extremely profitable’ companies included on average 108 future references ($n=107.44$) whilst ‘extremely unprofitable companies’ included on average 141 future references ($n=140.66$). On average therefore ‘extremely unprofitable’ companies use 33 more references to the future compared to ‘extremely profitable’ companies. However the results of the Mann-Whitney test did not find a significant statistical difference between the two groups.

These findings are inconsistent with those of Cen and Cai (2013), who found a significant difference in the use of future references by most profitable and least profitable companies. Cen and Cai (2013), findings concluded that least profitable companies used significantly more future references compared to most profitable companies. M Clatworthy and Jones (2006), also find, at the 10% level of significance,

that unprofitable companies use more future references than profitable companies. M Clatworthy and Jones (2006) and Cen and Cai (2013), discuss their findings and suggest that the use of more future references by least profitable companies may be to share their future plans with shareholders to persuade them that a bright future exists for the company.

Conclusion

The fifth hypothesis tested was the extent of future references in the chairman's statements of profitable companies and unprofitable companies and 'extremely profitable' companies compared to 'extremely unprofitable' companies respectively. The findings of this study do not find conclusive evidence that unprofitable and 'extremely unprofitable' companies use more future references in their chairman's statements compared to profitable companies and 'extremely profitable' companies respectively. The hypothesis therefore cannot be rejected there is no significant difference in the use of future references by profitable companies compared to unprofitable companies and 'extremely profitable' companies compared to 'extremely unprofitable' companies.

4.6 Readability scores

The sixth textual characteristic which was analysed was the readability of the chairman's statements of profitable companies compared to unprofitable companies and 'extremely profitable' companies compared to 'extremely unprofitable' companies. Language has been found to be used to obfuscate the causes of poor performance and the accounting narratives of good performers have been found to be easier to read than the narratives of poor performers (Stanton et al., 2004; Subramaniam et al., 1993). The hypothesis tested was:

H1f: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

'Profitable companies vs unprofitable companies'

Statistical analysis showed that for the 216 companies analysed the chairman's statement readability score was on average 32 (n=31.552). The readability score is a score out of 100 with a higher score indicates text which is easier to read. Therefore on average chairman's statements are difficult to read.

Profitable companies on average achieve a readability score of 32 (n=31.418) whilst unprofitable companies achieved an average score of 32 (n=31.763) as well. There is no significant difference between the two groups in terms of readability. This is further evidenced by the low co-efficient of variation which can be seen in the table below. This is supported by the findings of the Mann-Whitney test which found no significant difference between the readability of profitable and unprofitable companies.

		N	Mean	Std. Deviation	CV	Minimum	Maximum
Total Chairmans Statement: Readability	Profitable	132	31.418	6.7669	0.2154	12.3	58.8
	Unprofitable	84	31.763	7.2778	0.2291	17.2	66.5
	Total	216	31.552	6.9554	0.2204	12.3	66.5

Table 20-Readability scores

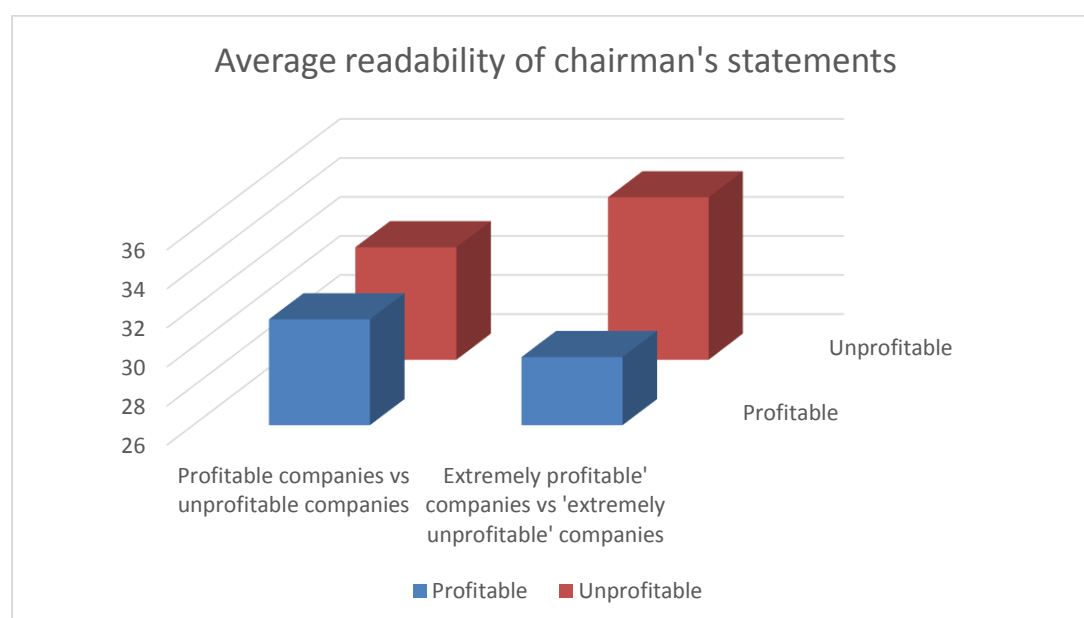


Figure 10-Average readability of chairman's statements

'Extremely profitable' vs 'extremely unprofitable' companies

The chairman's statements of 'extremely profitable' companies achieved on average a readability score of 29 (n=29.488) and the readability scores of 'extremely unprofitable' companies was found to be on average 34 (n=34.328). There is therefore a difference of 5 points between the reading ease of 'extremely profitable' companies and 'extremely unprofitable' companies. However the difference of 5 points suggests that when companies are 'extremely profitable', their writing style renders the chairman's statement less readable than when companies are 'extremely unprofitable'.

The Mann Whitney non-parametric test found that when comparing the readability chairman's statement of 'extremely profitable' companies to the readability of 'extremely unprofitable' companies the groups differ significantly at the .5% level of significance, $z = -3.375$, $p < .005$. The 'extremely profitable' companies' (Mean Ranks=40.71) chairman statement is less readable than that of 'extremely unprofitable' companies (Mean Ranks=60.29).

These findings are inconsistent with the expectation that the readability scores of unprofitable and 'extremely unprofitable' companies will be lower than those of profitable and 'extremely profitable' companies. A lower readability score indicates text which is more difficult to read.

These findings are consistent with Courtis (1998), who found that whilst variability in readability scores does exist, no conclusive evidence has been found of this being an attempt by management to obfuscate bad news. The findings are however contrary to Li (2008), who found that an improvement in financial performance did in fact improve the readability of the annual report.

Conclusion

The sixth hypothesis tested was the readability of the chairman's statement of profitable companies compared to unprofitable companies and 'extremely profitable' companies compared to 'extremely unprofitable' companies. The findings suggest that the chairman's statement is difficult to read. No significant difference was noted relating to readability of profitable companies compared to unprofitable companies. This is an interesting finding as there is no regulation which determines what is required to be disclosed in the chairman's statements. Management is therefore able to explain the annual corporate performance of the company in non-technical language. The chairman's statement has therefore been suggested to be the least technical part of the annual report and possibly the easiest to read (Jones, 1994; Subramaniam et al., 1993). The finding that the chairman's statement is difficult to read begs the question of its usefulness particularly to the unsophisticated investor (Jones, 1994; Subramaniam et al., 1993). The usefulness of the chairman's statement and other pieces of management commentary to unsophisticated users is an opportunity for future research. This result finds no conclusive evidence to reject the

hypothesis that there is no significant difference between the readability of the chairman's statement of profitable companies compared to unprofitable companies.

Findings of the analysis of readability of 'extremely profitable' companies compared to 'extremely unprofitable' companies suggest a significant difference between the two groups. The chairman's statement of 'extremely profitable' companies were found to be significantly more difficult to read compared to the chairmans' statements of 'extremely unprofitable' companies. Findings of this analysis do provide evidence to reject the hypothesis however the reasons for the anomaly are an area for future study.

Overall analysis

Profitable companies vs unprofitable companies

The study found evidence of significant difference in the textual characteristics of chairman's statements of profitable and unprofitable companies for two out of the six hypotheses. These were: the use of passive sentences and the extent of quantitative references in the chairman's statements. It was found that unprofitable companies use on average more passive sentences than profitable companies. This is consistent with the literature which suggests that management of companies which have performed poorly wish to distance themselves from the poor results and are more likely to use passive sentences in their commentary. Profitable companies were found to include significantly more quantitative references compared to unprofitable companies, particularly disclosure of revenue and dividends were noted. This is consistent with the literature which suggests that management of profitable companies are more likely to present quantitative reference to key financial variables compared to unprofitable companies.

'Extremely profitable' companies vs 'extremely unprofitable' companies

Findings from the analysis of textual characteristics of chairman's statements of 'extremely profitable' companies compared to 'extremely unprofitable' companies however were interesting and often inconsistent with expectations. A significant difference was noted between the two groups for three out of the six characteristics; use of passive sentences, use of personal references and readability of the chairman's statement. The statistics revealed that 'extremely profitable' use more passive sentences, fewer personal references and have a smaller readability score (that is are

more difficult to read). Whilst these findings are inconsistent with expectations that profitable companies are more likely to use fewer passive sentences, more personal references and be easier to read, they are internally consistent. This is because the use of passive sentences and personal references both suggest the attribution of a company's performance to oneself rather than external occurrences and events. Therefore if the chairman's statement uses fewer personal references, it would be expected that more passive sentences are used. Also, the readability score is impacted by the number of passive sentences. The use of passive sentences has been found to render a piece of text more difficult to read. Therefore the inclusion of more passive sentences would result in an expectation of text which is more difficult to read. The findings are consistent with this.

Chapter 5-Conclusion

5.1 Conclusion of the study

Following large corporate collapses such as Enron, Worldcom and Bearings Bank as well as the global financial crisis and a continuing depressed global economy, investors face greater uncertainty in the capital markets than ever before. It has therefore become increasingly important that users, and more specifically investors, are provided with accurate reporting of a company's performance and that reporting bias is not introduced to company's corporate reporting strategies. This is to ensure that appropriate capital allocation decisions are made.

Considering the increasing evolution in the corporate reporting arena towards the integration of financial and non-financial disclosures it is important to assess the usefulness of these additional disclosures. The inclusion of these narrative disclosures are however sometimes considered a means of providing biased information to mislead investors, that is, narrative reporting provides a means of introducing reporting bias into the annual report (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Merkl-Davies et al., 2011; Stanton et al., 2004). Reporting bias entails selecting information to display and presenting that information in a manner that intends to distort readers perceptions of corporate achievements(Brennan & Merkl-Davies, 2013). The presence of impression management and reporting bias within these disclosures detracts from the usefulness of these integrated disclosures. It is therefore important to assess whether reporting bias and impression management techniques are employed by management in its commentary on the financial information presented.

The purpose of this study was to determine whether a significant difference exists between the textual characteristics in chairman's statements of profitable companies compared to unprofitable companies. Evidence of a difference would be indicative of impression management techniques being employed and would suggest that the underlying financial performance of the company influences its reporting strategy, that is, its management commentary.

Studies have been conducted to test the existence of impression management techniques in corporate reporting strategies primarily in developed economies. These studies have focussed on impression management techniques making use of graphs and photographs as well as on linguistic variation relevant to narrative reporting. No studies have been performed in South Africa on the potential existence of reporting bias and impression management techniques in narrative annual report disclosures. This study will contribute to the body of literature on impression management by analysing whether there is a significant difference in the reporting strategies of profitable companies compared to unprofitable companies as this may indicate the use of impression management.

The results of this research will be important to users of financial statements as it would indicate to them whether impression management techniques are employed by management. If it is found that management employs impression management techniques, users are better able to discount these disclosures for the reporting bias which may have been introduced.

The study focussed on the chairman's statements of all companies listed on the main board of the JSE. The chairman's statements were studied to test the following hypothesis:

H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies listed on the JSE main board.

It was first established whether companies in the sample were profitable or unprofitable. The study was extended to determine whether companies were 'extremely profitable' or 'extremely unprofitable'. The 50 most profitable companies were identified as those with a highest increase in profit before tax from 2013 to 2014. The 50 least profitable companies were identified as companies within the sample with the greatest decrease in profit before tax from 2013 to 2014.

The chairmans' statements of all of these companies were then analysed to determine whether there is a systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies in the sample. The

following six textual characteristics were tested for significant difference between profitable and unprofitable companies.

Purpose of the study: <i>H1: There is no systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies listed on the JSE main board.</i>	
Textual Characteristic	Hypothesis
(a) Length of the chairman's statement	<i>H1a: The chairman's statements of profitable and unprofitable companies will be similar in length.</i>
(b) Passive voice	<i>H1b: The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences.</i>
(c) Personal references	<i>H1c: The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references.</i>
(d) Quantitative references	<i>H1d: The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.</i>
(e) Reference to the future	<i>H1e: The chairman's statements of profitable and unprofitable companies will focus equally on the future.</i>
(f) Reading ease	<i>H1f: The chairman's statements of profitable and unprofitable companies will have similar readability scores.</i>

Table 21-Hypotheses tested

Profitable companies vs unprofitable companies

The study found evidence of significant difference in the textual characteristics of chairman's statements of profitable and unprofitable companies for two out of the six hypotheses. These were: the use of passive sentences and the extent of quantitative references in the chairman's statements.

The results of the analysis found that at the 10% level of significance there is a significant difference between the use of passive sentences by the two groups. Unprofitable companies used more passive sentences in their chairman's statements than profitable companies. The study also found a significant difference in the disclosure of quantitative references by profitable and unprofitable companies respectively, with profitable companies disclosing more quantitative references.

The findings therefore suggest that there is a systematic difference between the textual characteristics of information in the chairman's statements of profitable companies and unprofitable companies listed on the main board of the JSE. This indicates that impression management techniques are employed by management in their corporate reporting. Unprofitable companies are more likely to use passive sentences in their management commentary when compared to profitable companies. The use of passive sentences has been suggested by Thomas (1997) to be managements' attempt to distance themselves from the poor performance of the company(Thomas, 1997). This is consistent with attribution theory which refers to the tendency of management to attribute positive effects and outcomes to the company's own actions whilst distancing themselves from negative outcomes and attributing such negative outcomes to external events, for example the economy, business climate, political climate and strike environment (Aerts, 2005b).

Unprofitable companies are also less likely to include specific quantitative results in their commentary. This may be explained by reference to (Cen & Cai, 2013) who suggest that this may indicate management's motivation to report clearly on positive results and create ambiguity or overlook negative results. This further supports the findings of (V Beattie & Jones, 2000) who conclude that profitable companies are more likely to include graphs of key financial indicators.

The study therefore concludes that there are significant differences in the textual characteristics of the chairman's report of profitable companies compared to unprofitable companies and therefore finds evidence of impression management in the chairman's statement of companies listed on the main board of the JSE.

The reason for the use of impression management is that the annual report has been found to be perceived by users as reflective of managerial performance (Merkl-Davies et al., 2011). Management is therefore motivated to engage in self-serving behaviour

and introduce reporting bias into its commentary. Annual reports also serve as a vehicle through which management may maintain and/or restore investor confidence and therefore this may serve as further motivation for management to engage in impression management and reporting bias particularly during periods of poor performance (Aerts, 2001). Furthermore management commentary is not regulated both in terms of required content to be disclosed by management in its commentary as well as not being required to be audited by the International Standards on Auditing. The practice statement issued by the IASB on the principles to be followed in preparing management commentary are not authoritative guidance and therefore non-compliance with the statement does not result in non-compliance with IFRS.

These factors heighten the attractiveness of management indulging in impression management techniques in its commentary. Chairman's statements present a particularly fertile ground for management to engage in self-serving behavior and employ impression management techniques because the chairman's statement is almost universal; it is often used by stakeholders in their decision making and is amongst the most widely read sections of the annual report (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam et al., 1993).

The use of impression management however is a disservice to users of the annual report as it renders information less useful and may result in incorrect decisions being made by users regarding the allocation of capital within capital markets (Aerts, 2001; Beynon et al., 2004; Subramaniam et al., 1993).

'Extremely profitable' companies vs 'extremely unprofitable' companies

The analysis of textual characteristics of chairman's statements of 'extremely profitable' companies compared to 'extremely unprofitable' companies revealed interesting findings which were not always consistent with expectations. A significant difference was noted between the two groups for three out of the six characteristics; use of passive sentences, use of personal references and readability of the chairman's statement.

The findings of the analysis of the use of passive sentences by 'extremely profitable' companies compared to 'extremely unprofitable' companies suggest that 'extremely profitable' companies make use of more passive sentences than 'extremely

unprofitable' companies. With regard to the use of personal references, the statistics suggest that 'extremely profitable' companies use fewer personal references compared to 'extremely unprofitable' companies. These findings are inconsistent with those of M Clatworthy and Jones (2006). Finally, the Mann Whitney non-parametric test revealed that when comparing the readability chairman's statement of 'extremely profitable' companies to the readability of 'extremely unprofitable' companies the groups differ significantly at the 5% level of significance. The chairman's statements of 'extremely profitable' are more difficult to read than those of 'extremely unprofitable' companies.

The statistics therefore revealed that 'extremely profitable' companies use more passive sentences, fewer personal references and have a smaller readability score (that is, are more difficult to read) than 'extremely unprofitable companies. There is therefore a difference between the textual characteristics of the chairman's statements of 'extremely profitable' companies and 'extremely unprofitable' companies.

These findings are inconsistent with expectations deduced from the literature which suggest that profitable companies are more likely to use fewer passive sentences than unprofitable companies. Literature has also suggested that profitable companies are more likely to make use of personal references compared to unprofitable companies and that the readability scores of unprofitable companies will be lower than those of profitable companies as a result of management's desire to obfuscate bad news.

The findings of this study in relation to 'extremely profitable' companies and 'extremely unprofitable' companies are inconsistent with expectations deduced from the literature, however they are internally consistent. This is because the use of passive sentences and personal references both suggest the attribution of a company's performance to oneself rather than external occurrences and events. Therefore if the chairman's statement uses fewer personal references, it would be expected that more passive sentences are used.

The use of more passive sentences and fewer personal references by 'extremely profitable' companies may be indicative of management not wanting to attribute the cause of the 'extreme profitability' solely to itself but rather also to external events which have contributed to the positive results. Furthermore, (Aerts, 2005b) suggests that users of financial statements are able to discern management's transparent self-

promotional behaviour and users are able to discount this.(Aerts, 2005b) Also, the readability score is impacted by the number of passive sentences. The use of passive sentences has been found to render a piece of text more difficult to read. Therefore the inclusion of more passive sentences would result in an expectation of text which is more difficult to read.(Clerehan et al., 2005)

The study therefore concludes that there are significant differences in the textual characteristics of the chairman's report of 'extremely profitable' companies compared to 'extremely unprofitable' companies. However the differences in textual characteristics are not evident of impression management, that is, they are not evident of management introducing reporting bias with the intention of presenting itself in a favourable light. This is evident because the chairman's statements of 'extremely unprofitable' companies were not significantly different to the chairman's report of 'extremely profitable' companies in terms of *H1a- length of the chairman's statement*, *H1d-use of quantitative references* and *H1e- use of future words*. The findings were statistically significant for *H1b-use of passive sentences*, *H1c-use of personal references* and *H1f-readability scores*. However as discussed above, the significant differences were not indicative of management attempting to present itself favourably to users by distancing itself from the poor financial results or obfuscating the bad news. Management of 'extremely unprofitable' companies are therefore less likely to employ impression management techniques.

This may due to a number of factors. Research suggests that a combination of fraud and impression management contributed to corporate collapses and that regulators are increasingly observant of impression management practices (Brennan & Merkl-Davies, 2013; M Clatworthy & Jones, 2006; Davidson et al., 2004). Whilst these events have occurred outside of South Africa, South African reporters are aware of these events and are therefore conservative in their reporting. Furthermore in South Africa it is possible that chairmen may be Chartered Accountants. Chartered Accountants in South Africa are required to comply with the Code of Ethics as issued by SAICA. The principles included within the Code of Ethics include remaining objective, maintaining integrity and displaying professional behaviour. Chartered Accountants in South Africa are therefore required to uphold these principles. South Africa has also been acclaimed as having strong corporate governance principles. This may serve as

incentive to prevent management and particularly chairmen from engaging in overt impression management techniques particularly when performance of the company is extremely poor as this may be seen to be against the Code of Ethics. These are however areas which may be studied further in future.

The findings of the study which suggest that management of 'extremely unprofitable' companies are less likely to employ impression management techniques is consistent with findings of (Abrahamson & Park, 1994). Abrahamson and Park (1994) found that the greater the decline in the financial performance of an entity, the more negative outcomes that were disclosed.

It is therefore concluded that there is a systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies on the JSE main board. This indicates that impression management techniques are employed by management. However findings also suggest that whilst there also is a systematic difference in the textual characteristics of information in the chairman's statement of 'extremely profitable' and 'extremely unprofitable' companies on the JSE main board, these findings do not suggest the existence of impression management. The results suggest that 'extremely unprofitable' companies are less likely to indulge in impression management.

5.2 Areas of future research

This research study was limited to an analysis of a single section of management commentary within the annual report, the chairman's statement. The study does not consider whether impression management may be evident in the remainder of the annual report. Furthermore, other vehicles of communication between the company and its stakeholders have not been studied. These are areas where further research may be carried out. The purpose of this study was exploratory with the aim of determining whether there is a systematic difference in the textual characteristics of information in the chairman's statement of profitable and unprofitable companies in South Africa. The study did not aim to determine the causes for the differences identified. The study may be extended to further understand the reasons for the differences identified. Further studies can focus on aspects such as the impact of South African culture on corporate reporting strategies.

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Annexure A- Companies listed on the JSE Main Board as at 31 December 2014 ¹

ABSA BANK LTD	MURRAY & ROBERTS HOLDINGS LIMITED
ACCELERATE PROPERTY FUND LTD.	MUSTEK LIMITED
ACCENTUATE LIMITED	NAMPAK LIMITED
ADAPTIT HOLDINGS LIMITED	NASPERS LIMITED
ADCORP HOLDINGS LIMITED	NEDBANK GROUP LIMITED
ADVANCED HEALTH LIMITED	NETCARE LIMITED
ADVTECH LIMITED	NICTUS LIMITED
AECI LIMITED	NIVEUS INVESTMENTS LIMITED
AFRICAN MEDIA ENTERTAINMENT LIMITED	NORTHAM PLATINUM LIMITED
AFRICAN OXYGEN LIMITED	NU-WORLD HOLDINGS LIMITED
AFRIMAT LIMITED	NUTRITIONAL HOLDINGS LIMITED
AFROCENTRIC INVESTMENT CORPORATION LIMITED	OCEANA GROUP LIMITED
AH-VEST LIMITED	OCTODEC INVESTMENTS LTD
ALARIS HOLDINGS LIMITED	OMNIA HOLDINGS LIMITED
ALLIED ELECTRONICS CORPORATION LIMITED	ONELOGIX GROUP LIMITED
AMALGAMATED ELECTRONIC CORPORATION LIMITED	ORION REAL ESTATE LIMITED
ANCHOR GROUP LIMITED	PALLINGHURST RESOURCES LIMITED
ANGLO AMERICAN PLATINUM LIMITED	PEREGRINE HOLDINGS LIMITED
ANGLOGOLD ASHANTI LIMITED	PETMIN LIMITED
ANSYS LIMITED	PICK N PAY HOLDINGS LIMITED
ARB HOLDINGS LTD.	PIONEER FOOD GROUP LIMITED
ARGENT INDUSTRIAL LIMITED	PPC LIMITED
ARROWHEAD PROPERTIES LIMITED	PRIMESERV GROUP LIMITED
ASCENDIS HEALTH LIMITED	PROTECH KHUTHELE HOLDINGS LIMITED
ASCENSION PROPERTIES LIMITED	PSG FINANCIAL SERVICES LIMITED
ASPEN PHARMACARE HOLDINGS LIMITED	PSG GROUP LIMITED
ASSORE LIMITED	PSV HOLDINGS LIMITED
ASTRAL FOODS LIMITED	PURPLE GROUP LIMITED
ASTRAPAK LIMITED	QUANTUM FOODS HOLDINGS LIMITED
ATTACQ LIMITED	RAND MERCHANT INSURANCE HOLDINGS LIMITED
AVENG LIMITED	RANDGOLD & EXPLORATION COMPANY LIMITED
AVI LIMITED	RARE HOLDINGS LIMITED
BARLOWORLD LIMITED	RAUBEX GROUP LIMITED
BAUBA PLATINUM LIMITED	RBA HOLDINGS LIMITED

¹ The listed companies included within the sample exclude companies which were delisted or suspended subsequent to 31 December 2014. The companies studied also exclude those which were listed in 2014 and for which an annual report was not yet prepared. Companies for which a chairman's statement is not prepared were also excluded from the population.

BEIGE HOLDINGS LIMITED	RCL FOODS LIMITED
BELL EQUIPMENT LIMITED	REBOSIS PROPERTY FUND LIMITED
BLUE LABEL TELECOMS LIMITED	REDEFINE PROPERTIES LIMITED
BOWLER METCALF LIMITED	REMGRO LIMITED
BRIMSTONE INVESTMENT CORPORATION LIMITED	RESILIENT PROPERTY INCOME FUND LIMITED
BSI STEEL LIMITED	REUNERT LIMITED
BUILDMAX LIMITED	REX TRUEFORM CLOTHING COMPANY LIMITED
CAPITAL PROPERTY FUND LIMITED	RHODES FOOD GROUP HOLDINGS LIMITED
CARGO CARRIERS LIMITED	ROLFES HOLDINGS LIMITED
CASHBUILD LIMITED	ROYAL BAFOKENG PLATINUM LIMITED
CHEMICAL SPECIALITIES LIMITED	SA CORPORATE REAL ESTATE FUND
CHROMETCO LIMITED	SABLE METALS AND MINERALS LIMITED
CITY LODGE HOTELS LIMITED	SABVEST LIMITED
CLICKS GROUP LIMITED	SACOIL HOLDINGS LIMITED
CLOVER INDUSTRIES LIMITED	SAFARI INVESTMENTS (RSA) LTD
COMAIR LTD	SANTOVA LIMITED
CONSOLIDATED INFRASTRUCTURE GROUP LIMITED	SAPPI LIMITED
CORONATION FUND MANAGERS LIMITED	SASFIN HOLDINGS LTD
CROOKES BROTHERS LIMITED	SASOL LIMITED
CURRO HOLDINGS LIMITED	SENTULA MINING LIMITED
DATACENTRIX HOLDINGS LIMITED	SEPHAKU HOLDINGS LTD
DATATEC LIMITED	SHOPRITE HOLDINGS LIMITED
DELTA PROPERTY FUND LIMITED	SIBANYE GOLD LIMITED
DIPULA INCOME FUND LIMITED	SILVERBRIDGE HOLDINGS LIMITED
DISTELL GROUP LIMITED	SOUTH AFRICAN COAL MINING HOLDINGS LIMITED
DRDGOLD LIMITED	SOUTH OCEAN HOLDINGS LIMITED
ECSPONENT LIMITED	SOVEREIGN FOOD INVESTMENTS LIMITED
EFFICIENT GROUP LIMITED	SPANJAARD LIMITED
ELLIES HOLDINGS LIMITED	SPUR CORPORATION LIMITED
ENX GROUP LIMITED	STANDARD BANK GROUP LIMITED
EQSTRA HOLDINGS LTD.	STEFANUTTI STOCKS HOLDINGS LIMITED
ESOR LIMITED	STEINHOFF INTERNATIONAL HOLDINGS LIMITED
EXXARO RESOURCES LIMITED	STELLAR CAPITAL PARTNERS LIMITED
FAMOUS BRANDS LIMITED	SUN INTERNATIONAL LIMITED
FINBOND GROUP LIMITED	SUPER GROUP LIMITED
FORTRESS INCOME FUND LIMITED	SYCOM PROPERTY FUND
FOSCHINI GROUP LIMITED (THE)	SYNERGY INCOME FUND LIMITED
GLOBAL ASSET MANAGEMENT LTD	TASTE HOLDINGS LIMITED
GRAND PARADE INVESTMENTS LIMITED	TELEMASTERS HOLDINGS LIMITED

GRINDROD LIMITED	TELKOM SA SOC LIMITED
GROWTHPOINT PROPERTIES LIMITED	TEXTON PROPERTY FUND LIMITED
HARMONY GOLD MINING COMPANY LIMITED	THE BIDVEST GROUP LIMITED
HOLDSPORT LIMITED	THE PIVOTAL FUND LIMITED
HOMECHOICE INTERNATIONAL P.L.C.	THE SPAR GROUP LIMITED
HOSKEN CONSOLIDATED INVESTMENTS LTD	TIGER BRANDS LIMITED
HOWDEN AFRICA HOLDINGS LIMITED	TONGAAT HULETT LIMITED
HUDACO INDUSTRIES LIMITED	TOTAL CLIENT SERVICES LIMITED
HULAMIN LIMITED	TRADEHOLD LIMITED
HYPROP INVESTMENTS LIMITED	TRANS HEX GROUP LTD
IFA HOTELS & RESORTS LIMITED	TRANSPACO LIMITED
ILIAD AFRICA LIMITED	TREMATON CAPITAL INVESTMENTS LIMITED
ILLOVO SUGAR LIMITED	TRENCOR LIMITED
IMBALIE BEAUTY LIMITED	TRUWORTHS INTERNATIONAL LIMITED
IMPALA PLATINUM HOLDINGS LIMITED	TSOGO SUN HOLDINGS LIMITED
INFRASORS HOLDINGS LIMITED	VALUE GROUP LIMITED
INGENUITY PROPERTY INVESTMENTS LIMITED	VERIMARK HOLDINGS LIMITED
INSIMBI REFRACTORY AND ALLOY SUPPLIES LIMITED	VISUAL INTERNATIONAL HOLDINGS LIMITED
INTERWASTE HOLDINGS LIMITED	VODACOM GROUP LTD
INVESTEC PROPERTY FUND LIMITED	VUKILE PROPERTY FUND LTD
ITALTILE LIMITED	VUNANI LIMITED
JSE LTD	W.G. WEARNE LIMITED
KAP INDUSTRIAL HOLDINGS LIMITED	WESCOAL HOLDINGS LTD
KAYDAV GROUP LIMITED	WESIZWE PLATINUM LIMITED
KEATON ENERGY HOLDINGS LIMITED	WILSON BAYLY HOLMES - OVCON LIMITED
KUMBA IRON ORE LIMITED	WINHOLD LIMITED
LEWIS GROUP LIMITED	WOOLWORTHS HOLDINGS LIMITED
LIBERTY HOLDINGS LIMITED	WORKFORCE HOLDINGS LIMITED
LIFE HEALTHCARE GROUP HOLDINGS (PROPRIETARY) LIMITED	YORK TIMBER HOLDINGS LTD.
MASONITE (AFRICA) LIMITED	ZCI LIMITED
MASSMART HOLDINGS LTD	ZEDER INVESTMENTS LIMITED
MAZOR GROUP LIMITED	
METAIR INVESTMENTS LIMITED	
MMI HOLDINGS LTD	
MONDI LTD.	
MONEYWEB HOLDINGS LIMITED	
MPACT LIMITED	
MR PRICE GROUP LIMITED	
MTN GROUP LIMITED	