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The use of impression management practices in the chairman's statements in South African annual reports: An agency theory perspective

ABSTRACT

Impression management is the study of how individuals present themselves to be perceived favourably. Using agency theory, this article investigates impression management practices, influenced by the company's underlying performance, that may be present in the chairman's statements in annual or integrated reports of Johannesburg Stock Exchange listed companies in South Africa. This research uses content analysis and specifically focuses on the identification and measurement of three pre-determined textual characteristics referenced in these chairman's statements. There is reasonable evidence to suggest that management employs impression management strategies that are dependent on the level of a company's performance. In addition, while variability in readability was not found to be a strategy used to manage impressions, the overall readability of the chairman's report was found to be relatively difficult and this, in turn, may affect the ability of stakeholders to benefit from the information it contains. This study is limited to the analysis of a single section of narrative reporting (the chairman's statement) and, as such, does not consider any impression management practices that may be present in the rest of the annual or integrated report as well as in other communications between stakeholders and the company in question. It is anticipated that the results will be of importance to professional accountancy bodies, users and preparers considering the negative perception of the accounting profession owing to recent scandals. This is also one of the first studies to explore the use of impression management practices in South Africa and the linguistic variation employed in management commentary within a South African context, thereby contributing to the readability of the chairman's statements.

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INTRODUCTION

Recent accounting scandals involving the Steinhoff retail group, VBS Mutual Bank and alleged Gupta-related companies have brought the accounting profession into disrepute and created doubt about the adequacy of South Africa's principles of corporate governance and the application of corporate reporting principles (Coetzer & Judin, 2018; Klein, 2018; Mabindla, 2018). The prevailing levels of fraud and corruption in South Africa have highlighted the need for greater transparency in reporting (Reintjes, 2018). Transparent reporting may allow companies, among other things, to explain their business model in a coherent manner and enable stakeholders to make informed decisions about a company's ability to create value (Lange, 2018). A balanced report is a report which is able to convey information to a wide audience in a manner that is easy to read and understand and which may be used in decision-making (Buitendag, Fortuin, & De Laan, 2017; Pashalian & Crissy, 1952; Rahman, 2014). The dynamics of corporate reporting have changed over time, with markets around the world focusing on more detailed disclosures which present not only financial disclosures, but also non-financial information, in a manner that promotes a company's corporate strategy to a range of stakeholders (Buitendag et al., 2017; Ernst & Young, 2012; IoDSA, 2016; Holt, Yasseen, & Padia., 2015; Padia & Yasseen, 2011; Phala, Yasseen, Padia, & Mohamed, 2018; Rensburg & Botha, 2014).

This increased use of narrative reporting provides management with the opportunity to overcome the information asymmetries which may exist in an agency relationship between management and investors (Merkl-Davies & Brennan, 2007). It may, however, also provide management with the opportunity to introduce biased information into company communications, which may, in turn, mislead readers (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; Clatworthy & Jones, 2006; Keusch, Bollen, & Hassink, 2012; Melloni, Stacchezzini, & Lai 2016; Merkl-Davies & Brennan, 2007; Merkl-Davies, Brennan, & McLeay, 2011; Stanton, Stanton, & Pires, 2004). Corporate reporting bias entails the selection of what information to present and the presentation of such information in a manner that is intended to distort the readers' perceptions of corporate achievements (Brennan & Merkl-Davies, 2013). Management may be motivated to introduce reporting bias into its corporate reporting strategy to favourably impress the audience of such information.

Numerous studies have shown that the chairman's statement may be useful to investors in their decision-making process (Abrahamson & Amir, 1996; Baird & Zelin, 2000; Bartlett & Chandler, 1997; Clatworthy & Jones, 2006; Clatworthy & Jones, 2003; Courtis, 1998, 2004; Kohut & Segars, 1992; Smith & Taffler, 2000; Stainbank & Peebles, 2006). This study focuses on the chairman's report of South African listed companies – a section of the integrated report (IR) of a company or, in cases where the integrated report may not have been prepared, the annual report of a company.

Regarding the users of the annual report, Rensburg and Botha (2014) noted that the stakeholder group of a company may be extensive and thus companies tend to focus their attention on the investors. However, considering ongoing corporate reforms and the notion of integrated thinking in the King IV Report, the provision of information to a wider stakeholder group and the effective management of such communications are important (De Villiers & Sharma, 2017; Du Toit, 2017). The annual reports or IRs that are presented by a company should enable the stakeholders to make informed assessments both of a company's performance and its short, medium, and long-term prospects (IoDSA, 2016).

This article drew its inspiration from the study conducted by Yasseen, Moola-Yasseen, and Padia (2017) – the first South African study which replicated the study by Clatworthy and Jones (2006) – to examine impression management practices in the chairman's statements from an attributional theory perceptive. This study was exploratory in nature, the purpose of which was to explore and analyse, using an agency theory perspective, the chairman's statement contained in the annual reports or integrated reports of both profitable and unprofitable South African listed companies for the use of three pre-determined textual characteristics. The three predetermined textual characteristics studied included the number of key financial indicators and quantitative references; the number of future references; and the readability of the chairman's statements. An assessment of these textual characteristics allowed the researchers to determine whether impression management techniques are employed within a given narrative and whether this use is motivated by the underlying performance of the company. Profitable companies in the context of the study refer to those companies that experienced an increase in profit before tax (PBT) from 2013 to 2014, while unprofitable companies refer to those companies that experienced a decrease in PBT from 2013 to 2014.

It was felt that a study of the possible impression management practices which may be employed in the chairman's report would be of interest to investors as well as to firms, a broader stakeholder group and the JSE, regarding the manner in which corporate reporting in the form of accounting narratives may be improved. In addition, the study may be of use to company chairmen themselves in terms of the manner in which they communicate with stakeholders. From an academic point of view, the results of this study present new findings in respect of impression management practices in the corporate reporting arena.

The next section of this article provides an overview of the relevant literature on impression management. Thereafter the research methodology is presented. This is then followed by the presentation and analysis of the results, conclusions drawn, the limitations of the study and the implications of the findings for future research.

1. IMPRESSION MANAGEMENT

The transfer of information in corporate reporting occurs by means of a variety of methods which may include quantitative information, narratives, pictures and graphs (Bayerlein, 2010). The manipulation of these presentations may manifest as impression management. Impression management is a social concept which focuses primarily on the study of the way in which individuals present themselves to others to be perceived in a favourable light (Brennan & Merkl-Davies, 2013; Hooghiemstra, 2000). It may be defined as the "conscious or unconscious attempt to control images that are real or imagined in social interactions" (Stanton et al., 2004).

Impression management may be seen to be an understandable human attribute, as individuals and companies prefer to portray themselves in a favourable rather than an unfavourable light (Clatworthy & Jones, 2006; Davidson, Jiraporn, Kim, & Nemec, 2004). This desire to be perceived in a favourable light may be intentional or may be a subliminal, unconscious process and, in itself, may not be sinister (Clatworthy & Jones, 2006; Davidson et al., 2004). Nevertheless, it is important for investors and other stakeholders to be aware of possible reporting bias that may be introduced by management and how such bias may impact on their perception of the information contained in corporate reports (Merkl-Davies & Brennan, 2007; Yasseen et al., 2017).

Initial studies on impression management in the accounting arena focused on earnings management but have, over time, expanded to focus on the non-financial disclosures contained in annual reports (Aerts, 1994, 2001, 2005; Beattie & Jones, 2008; Beattie & Jones, 1992, 2002; Clatworthy & Jones, 2006; Courtis, 1998). An overview of the accounting literature on impression management reveals a variety of practices that may be employed in corporate reporting such as thematic manipulation (for example, the use of positive or negative words or phrases): syntactical manipulation (for example, the use of complicated language in order to obfuscate) and performance comparisons (Brennan et al., 2009; Merkl-Davies & Brennan, 2007; Merkl-Davies et al., 2011). Given these various approaches, many impression management practices have focused on ways in which to hide negative information and promote positive information (Brennan et al., 2009; Melloni, Caglio, & Perego, 2017; Melloni et al., 2016).

2. AGENCY THEORY

Studies on impression management within corporate reporting have explored the concept predominantly through the agency theory (Merkl-Davies & Brennan, 2007). At the heart of the agency theory is a relationship that contains a principal and an agent who exhibit cooperative behaviour but who may have different attitudes towards risk and the achievements of goals (Eisenhardt, 1989). Eisenhardt (1989) identified two perspectives of the agency theory – the positivist perspective and the principal-agent perspective. This study adopts the positivist approach. Research from the positivist perspective has typically identified situations in which the principal and the agent are likely to have conflicting goals and then described governance mechanisms that limit the assumed self-serving behaviour of the agent (Eisenhardt, 1989).

Within the context of discretionary management disclosure practices, management may be assumed to be driven by self-serving behaviour (Abrahamson & Park, 1994; Godfrey et al., 2003; Smith & Taffler, 2000). Negative organisational and accounting outcomes create a conflict between the interests of managers and those of shareholders, thereby prompting managers to engage in impression management to manipulate outsiders' perceptions of financial performance (Aerts, 2005). When management engages in self-serving behaviour information asymmetries may be created which make the monitoring of management's behaviour difficult, hence the need for governance mechanisms to help this process of monitoring (Bendickson, Muldoon, Liguori, & Davis, 2016).

Although studies (Abrahamson & Amir, 1996; Baird & Zelin, 2000; Bartlett & Chandler, 1997; Clatworthy & Jones, 2006; Clatworthy & Jones, 2003; Courtis, 1998, 2004; Kohut & Segars, 1992; Smith & Taffler, 2000; Stainbank & Peebles, 2006) have shown that the main users of chairman's statements are investors, Rowbottom and Lymer (2010) noted that the widespread availability and the ease of accessing online annual reports allow the information contained in these online reports to serve as a relevant source of company information to a wide variety of stakeholders.

The usefulness of disclosures in a corporate form of communication, such as the chairman's report, would, therefore, be affected if impression management practices were employed by presenting favourable rather than unfavourable information and using biased language to enhance the reader's impression of the report (Clatworthy & Jones, 2006; 2001; 2003).

3. KEY CONSTRUCTS

The chairman's statements of all the companies in the sample were analysed for three predetermined textual characteristics. These characteristics have been suggested to be indicative of impression management and were also analysed as part of the study carried out by Clatworthy and Jones (2006). The characteristics that were analysed in this study and the hypotheses developed to test these characteristics are discussed below.

3.1 Use of quantitative references (a)

The annual report contains a combination of financial and non-financial disclosures, i.e. quantitative and qualitative disclosures. Quantitative disclosures are typically contained in the annual financial statements while qualitative disclosures, excluding the note disclosures required by International Financial Reporting Standards (IFRS): are typically found in the management commentary section of the annual report (IASB, 2010).

Beattie and Jones (2000) studied the inclusion of quantitative references in the annual report in the form of graphs depicting key financial variables. Their study found that, as compared to unprofitable companies, profitable companies are more likely to include quantitative information in the management commentary of the report, suggesting that management's disclosure of quantitative references may be influenced by the underlying financial performance of the company. The chairman's statements of both profitable and unprofitable companies were analysed to determine both the extent of the quantitative references included and whether the financial performance of the company influenced the reporting of quantitative results. The following null hypothesis was developed and tested:

> H1a: The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators and quantitative references.

3.2 Future reference (b)

The content of the chairman's statement has been found to include, in addition to management's review of the past year, projections of the company's future (Subramaniam, Insley, & Blackwell, 1993). The extent of future references included in the chairman's statement may vary according to a company's underlying financial performance, with Clatworthy and Jones (2006) arguing that unprofitable companies likely focus more on the future than the present and, therefore, they would tend to include more references to the future. The discussion of the future is used by the managers of unprofitable companies to deflect attention from their unfavourable performance while the managers of profitable companies are more likely to focus on current results (Clatworthy & Jones, 2006). Li (2008) also argued 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, instead, to focus on future performance. It was suggested by Clatworthy and Jones (2006) and Cen and Cai (2013): that the use of more future references by unprofitable companies may be intended to share their future plans with shareholders to persuade them that the company has optimistic prospects.

In contrast, Kohut and Segars (1992) hypothesised that companies with favourable performances may be more likely to discuss the future than companies with unfavourable performance but did not find any significant evidence supporting this notion.

Based on the discussion above, the financial performance of a company may influence the extent to which future references are included in its management commentary. The chairman's statement was tested for the following null hypothesis:

> H1b: The chairman's statements of profitable and unprofitable companies will focus equally on the future.

3.3 Readability (c)

One of the factors which contributes to the usefulness of the chairman's statement is the fact that regulation does not govern the content of the information that should be disclosed in such a statement (Abrahamson & Amir, 1996). Management should be able to explain annual corporate performance in non-technical language while the chairman's statement may be considered to be an easy-to-read narrative of the financial results of the year (Clatworthy & Jones, 2001).

The readability of financial reports is important if readability is used by managers to hide adverse news about the company (Li, 2008). It is imperative that financial reporting information is communicated in such a way that the financial data is adequate and comprehensible and that the accounting narrative is easily comprehensible. One would expect the textual complexity of the narrative section in the chairman's report to reflect the ability of the financial statement users and investors to comprehend such information. In situations where the structure, wording or style of narratives create reading difficulty, or the narratives go beyond the comprehension of readers, this may lead to the obfuscation of negative news (Bayerlein, 2010) which, in turn, may dilute the user's reaction to such negative information (Wang, Hsieh, & Sarkis, 2018). The presence of obfuscation may be indicative of the presence of impression management. If the representations given in an annual report are beyond the ability to comprehend of the target audience, this may result in a misrepresentation of the information presented, which, in turn, may compromise the decision-making process.

In almost all cases, however, studies that have focused on the readability of annual reports have found that annual reports demonstrate a relatively difficult level of readability (Courtis, 1998; Clatworthy & Jones, 2001; Moreno & Casasola, 2016; Smith & Taffler, 1992). Several studies have explored readability and, in particular, the relationship between readability and organisational performance with the notion being tested being that negative outcomes will result in annual reports being more difficult to read opposed to positive outcomes. Certain studies, such as those by Subramanian et al. (1993): Li (2008) and Melloni et al. (2017) found a positive association between performance and readability. On the other hand, other studies, such as those of Courtis (1998): Jones (1988) and Rutherford (2003) did not find a positive association between profitability and readability. Within the South African context an extremely limited number of studies have explored the readability of the narrative sections of corporate reports. To the researchers' knowledge, only du Toit (2017) has investigated readability, although his study focused on integrated reports published by JSE listed companies and without reference to organisational performance.

Based on the above, the notion that performance affects readability was extended to the South African context, with readability being tested using readability scores. The following null hypothesis was formulated and tested:

> H1c: The chairman's statements of profitable and unprofitable companies will demonstrate similar readability scores.

4. METHODOLOGY

This study adopted a positivist, quantitative methodology and employed the technique of content analysis to detect the use of impression management practices in the chairman's reports of JSE listed companies in South Africa for the financial years ending 2014. Quantitative content analysis is a technique which is often used for the interpretation of written corporate communication. Although the method is rooted in the communication sciences, it has become popular in various other disciplines, including business ethics, and its application is useful in interpreting and understanding the content of corporate communication (Lock & Seele, 2015; White & Marsh, 2006). In accounting research several studies have used quantitative content analysis as a method with which to study narrative disclosures (Clatworthy & Jones, 2006; Lock & Seele, 2015; Merkl-Davies & Brennan, 2007; Yasseen et al., 2017).

Only companies listed on the JSE main board that were trading as at 31 December 2014 were selected as the population for the study. All the companies within the population were manually verified and cross-checked to the JSE listings to identify companies which may have been subsequently delisted from the main board, companies which may have been suspended from the main board and companies which may not have had a chairman's statement reported in the annual report. This resulted in a final sample of 216 companies.

The companies in the sample were then categorised as either profitable or unprofitable with reference to the PBT figure. More specifically, a company was categorised as profitable if the PBT had increased from 2013 to 2014. If the PBT had decreased from 2013 to 2014, the company was categorised as unprofitable. Using this method, of the 216 companies that made up the sample, 132 companies were categorised as profitable and 84 were categorised as unprofitable. In addition, the 50 most profitable companies in the sample were identified with reference to the highest increase in PBT from 2013 to 2014 and were termed extremely profitable. The 50 least profitable companies in the sample were also identified using the greatest decrease in profit before tax from 2013 to 2014 and were termed extremely unprofitable. The categorisation of companies as either profitable or unprofitable and as extremely profitable or extremely unprofitable was done for ease of reference. It must be noted that the terms were not used to suggest that unprofitable or extremely unprofitable companies were non-profit organisations or that the entities had necessarily suffered a loss.

Each chairman's statement in the sample was converted to a Microsoft Word 2013 document, with each chairman's statement being considered as the sampling unit (White & Marsh, 2006). The unit of analysis and coding scheme for each hypothesis is described below, together with an explanation of the way validity and reliability were established.

4.1 Quantitative references

The unit of analysis constituted the quantitative reference which was defined as a reference relating to the financial performance of the company in question. Quantitative references were manually identified and categorised by the researchers into quantitative references relating to revenue, PBT, earnings per share, dividends or "other", for the current and prior periods respectively. Quantitative references relevant to these categories were coded as 1 or 0. In respect of each reference, a score of 1 was given in instances where the report contained the reference, irrespective of the number of times the reference appeared while a score of 0 was given in instances where the report contained no disclosure of the reference in question. The nature of quantitative references that were categorised as "other" were recorded for further analysis.

4.2 References to the future

The unit of analysis of a future reference was defined as word that referred to an occurrence related to a period still to come. It was considered that individual future words have no meaning on their own, without a sentence or sentences for context. Accordingly, the unit of data collection of future references comprised sentences while the unit of analysis of future references comprised the number of words contained in the sentence. Future references were manually counted by the researcher.

4.3 Readability scores

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 (Clatworthy & Jones, 2001; Courtis, 1998). The researchers were aware that there are concerns that readability scores, such as the Flesch reading ease score, are simplistic. Nevertheless, the Flesch formula is an acceptable indicator of the readability of passages on the part of a target audience (Courtis, 1998). In fact, it is one of the suggested tests of the readability of material that is intended for adult readers, for example, corporate communication narratives (Du Toit, 2017). Moreover, several studies have been conducted on the readability of annual reports using the Flesch reading ease formula (see Du Toit, 2017; Li, 2008; Linsley & Lawrence, 2007; Loughran & McDonald, 2014; Wang et al., 2018;).

4.4 Statistical methods applied to the coded data

The coded data was captured on a spreadsheet in order to test for normality, to determine whether to use either parametric or non-parametric statistical methods to test for a significant difference between the textual characteristics of profitable companies as compared to unprofitable companies. The Mann-Whitney test was used to determine whether there was a significant difference between the textual characteristics in the chairman's statements of profitable companies as compared to unprofitable companies. The Mann-Whitney U-test is used to compare the 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 the central tendency and, therefore, was deemed to be the most appropriate statistical method to test the hypotheses in the study (Howell, 2011).

4.5 Validity and reliability

This study used the same approach employed by Clatworthy and Jones (2006) to enhance the reliability of a study (Neuman, 2011). A combination of software-based coding and human coding was employed as this was considered to be sufficient given the complexity of identifying, for example, quantitative references or future-orientated words (Lock & Seele, 2015). Coding schemes were developed by the researchers of this study who had experience in analysing annual reports, thereby increasing the validity of the data collected. Items were coded in the same manner by the coders. In addition, the data collected manually (future references) was confirmed via an intercoder agreement which was reached (Lock & Seele, 2015). A sample of 20 chairman's statements was selected and analysed independently by two coders. The results were then compared to ensure consistent coding of the entire sample, while the differences were analysed to understand the reasons for the differences. The use of coding software in the form of the Microsoft Word 2013 feature was used to calculate the Flesch reading ease score, which reduced the level of subjectivity and increased the reliability of the study.

5. RESULTS

5.1 Quantitative references

Table 1 presents the results of the quantitative references in the chairman's statements that were analysed. The profitable companies were found to include an average of 3 quantitative references (n = 2.95) while the unprofitable companies were found to include an average of 2 quantitative references (n = 1.80). It was found that both the profitable and the unprofitable companies tended most often to disclose revenue and dividends as quantitative information.

Table 1: Total number of quantitative references disclosed in chairman's statements

	Categorisation of company	Number of companies	Mean	SD	CV	Min	Max
Total number of quantitative references	Profitable	132	2.95	3.397	1.1515	0	15
	Unprofitable	84	1.8	2.521	1.4006	0	12
	Total	216	2.5	3.131	1.2524	0	15

SD = Standard deviation; CV = Coefficient of variation

It is evident from Table 1 above that the standard deviation (SD) relating to both profitable companies and unprofitable companies indicated that that there was a significant difference in the total number of quantitative disclosures provided by companies in the chairman's statements. The profitable companies in the sample disclosed a minimum of 0 quantitative references and a maximum of 15 references while the unprofitable companies disclosed a minimum of 0 and a maximum of 12 quantitative references.

In addition, the Mann-Whitney test revealed that there was a significant difference between the numbers of quantitative references disclosed by profitable companies as compared to unprofitable companies. The analysis found that the groups differed significantly at the 5% level of significance ($z = -2.441$, $p < 0.05$): with profitable companies (mean ranks = 116.44) disclosing more quantitative information as compared to unprofitable companies (mean ranks = 96.02).

Regarding the disclosure of information on dividends, the Mann Whitney test found that the profitable and unprofitable groups differed significantly at the 0.1% level of significance,

($z = -3.576$, $p < 0.001$): with the profitable companies (mean ranks = 118.67) disclosing more dividends information than the unprofitable companies (mean ranks = 92.52).

The findings relating to the extremely profitable companies and the extremely unprofitable companies, respectively, suggested that both categories of companies reported an average of 3 quantitative references. The mean scores for each category of company were also found to be similar, with the average for extremely profitable companies being 2.40 and for extremely unprofitable companies 2.50. Revenue and dividends were consistently found to be the most likely quantitative reference disclosed. The results of the Mann-Whitney test revealed no significant difference between the two groups in terms of their disclosure of quantitative references.

In addition, quantitative information relating to headline earnings was most commonly disclosed. Headline earnings is a South African-specific measure required by the JSE Listings Requirements. According to the SAICA Circular issued in relation 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 a company and the platform used to create such results (SAICA, 2015).

5.2 References to the future

Table 2 presents the results in respect of the number of future references used in the chairman's statements. It was found that profitable companies included an average of 173 future references while unprofitable companies included an average of 167 future words ($n = 166.64$). The results of the Mann-Whitney test found no significant difference between the future references used by profitable companies as compared to unprofitable companies.

Table 2: Total number of future words used in the chairman's reports

	Categorisation of company	**Number of companies**	**Mean**	**SD**	**CV**	**Min**	**Max**
Total 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

When comparing the mean score of future references contained in the chairman's statements of extremely profitable companies and that of extremely unprofitable companies, the analysis found that the former included an average of 108 future references ($n = 107.44$) while the latter included an average of 141 future references ($n = 140.66$). It was therefore found that, on average, the most profitable companies used more references to the future as compared to the most unprofitable companies. However, the results of the Mann-Whitney test did not find a significant statistical difference between the two groups.

5.3 Readability scores

Table 3 presents the readability scores of the chairman's statements. Both the profitable and unprofitable companies were found to have similar readability scores of 31.4 and 31.8 respectively. The readability score is a score out of 100 with a higher score indicating that text is easier to read as compared to a lower score which indicates that text is more difficult to read. A score of 32 would, on average, indicate that the chairman's statements were difficult to read.

Table 3: Readability scores of chairman's statements

	Categorisation of company	Number of companies	Mean	SD	CV	Min	Max
Readability score	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

It was found that the chairman's statements of extremely profitable companies achieved, on average, a readability score of 29 (n = 29.488) while the readability scores of extremely unprofitable companies were found, on average, to be 34 (n = 34.328). The Mann Whitney non-parametric test found that, when comparing the readability of the chairman's statements of extremely profitable companies to the readability of the chairman's' statements of extremely unprofitable companies, the groups differed significantly at the 0.5% level of significance ($z = -3.375$, $p < 0.005$. The chairman's statements of the extremely profitable' companies (mean ranks = 40.71) were, therefore, less readable than those of the extremely unprofitable companies (mean ranks = 60.29).

5.4 Analysis of results

5.4.1 Use of quantitative references

The hypothesis that profitable and unprofitable companies would disclose the same number of quantitative references was rejected as, in fact, the disclosure of quantitative references did differ significantly between profitable and unprofitable companies, with the profitable companies disclosing more quantitative references as compared to the unprofitable companies. This finding is consistent with existing literature (Beattie & Jones, 2001; Smith & Taffler, 2000) and may be explained as management's motivation to report clearly on the positive results and to create ambiguity to ensure that negative results are overlooked – a notion supported by Cen and Cai (2013).

In relation to the extremely profitable companies and the extremely unprofitable companies, the findings did not reflect a significant difference in the use of quantitative references. This finding was inconsistent with the conclusion reached for profitable companies and unprofitable companies. It may be the case that, when companies experience either extreme profitability or extreme unprofitability, management is less likely to employ impression management techniques. Existing literature (Abrahamson & Park, 1994; Yasseen et al., 2017) also found evidence which supports the notion that companies which experience either extreme profitability or extreme unprofitability are less likely to conduct impression management practices as compared to other companies. Yasseen et al. (2017) posit that cultural factors and an awareness of fraud and impression management may encourage South African managers to be conservative in reporting.

5.4.2 Use of future references

It was not possible to reject the hypothesis that profitable and unprofitable companies disclosed the same level of future references as there was not a significant difference between the future references disclosed by profitable companies and unprofitable companies, nor between extremely profitable companies as compared to extremely unprofitable companies.

The non-rejection of the hypothesis was found to be contrary to existing literature (Cen & Cai, 2013; Clatworthy & Jones, 2006; Li, 2008). It is interesting to note that Li (2008) found that the sections of the annual report that are more difficult to read include, among others, more future-orientated discussion. This study detected no difference between the readability of profitable and unprofitable companies.

Based on these results, it would appear that there is no manipulation, based on company performance, on the part of the management of South African listed companies through the use of future references. Kohut and Segars (1992) noted that future events are uncertain and, thus, the results of this study may lend credence to the notion that management may not feel confident about disclosing information about an uncertain future which may, in turn, be a strategic communication decision in itself.

5.4.3 Readability of chairman's statements

The hypothesis that profitable and unprofitable companies have similar readability scores was not rejected as there was no conclusive evidence that there was a significant difference between the readability of the chairman's statement of profitable companies as compared to unprofitable companies. In contrast, the chairman's statements of extremely profitable companies were found to be significantly more difficult to read as compared to the chairman's statements of extremely unprofitable companies. These findings were somewhat surprising as they were found to be inconsistent with the existing literature and provide evidence that the levels of readability of corporate narratives improve as companies perform better. Overall, it would appear that management tends not behave opportunistically to hide adverse information by varying the level of readability of the chairman's' statement.

It was observed that, overall, in respect of the readability of the chairman's statement, the chairman's statements of profitable and unprofitable companies were difficult to read.

This result was of interest to the researchers as there is no regulation which determines what is required to be disclosed in the chairman's statements. Management should, therefore, be able to explain the annual corporate performance of the company in non-technical language. Accordingly, it has been suggested that the chairman's statement is the least technical part of the annual report and, possibly, the easiest to read (Jones, 1994; Subramaniam et al., 1993). Thus, the finding that the chairman's statement is difficult to read does raise a question about its usefulness, particularly in respect of unsophisticated readers (Jones, 1994; Subramaniam et al., 1993). South Africa is unique in that it has 11 official languages and, therefore, 11 possible mother tongues used by the readers of the chairman's report. This makes the understandability of company communication even more important.

4. CONCLUSION

The aim of this study was to determine whether management would be motivated, from an agency theory perspective, to adopt impression management practices in the chairman's statements of a company, given the underlying financial performance of the company.

The study found a significant difference between profitable and unprofitable companies in one of three textual characteristics tested, namely, the number of quantitative references. This result may be an indication of attempts by management to use quantitative references in the chairman's report to highlight positive results rather than negative results. This result expands on the findings by Yasseen et al. (2017) who found evidence of impression management practices being employed in the chairman's statements of listed companies in South Africa. On the other hand, the results in relation to readability did not indicate the use of impression management practices through the variability of the readability of the chairman's reports although they did indicate an overall relatively difficult level of readability. If the content of the chairman's statement is influenced by the company's performance through practices such as the use of quantitative references, and its content is presented in a narrative that is difficult to read and understand, the fact that these disclosures are not audited becomes all the more important (Smith & Taffler, 2000): and the need to regulate narratives in chairman's statement is reinforced (Wang et al., 2018).

The study found that the chairman's reports of extremely profitable companies were significantly more difficult to read as compared to the chairman's' statements of extremely unprofitable companies. While reasons for this anomaly require further research, this result may actually provide evidence that management disclosure is more consistent with functional accountability rather than impression management practices.

Overall, when the results of this study are considered in conjunction with those of Yasseen et al. (2017): there is reasonable evidence which may reinforce the argument that management uses narratives to create a more favourable view of company performance and to manage impressions. There is, however, also evidence that the management of listed companies in South Africa do not actively exploit the agency relationship to create and manage favourable impressions. With recent corporate scandals shining the spotlight on the effectiveness of corporate governance, despite these results relating to reporting practices in 2014 annual or integrated reports, these results are somewhat comforting as it would appear that the members of management of South African companies are committed to upholding the principles of good corporate governance. When looked at from a positivist agency perspective, the results may also suggest that governance mechanisms in place are effective in minimising agency costs. It is possible that evidence of South African companies presenting biased information in chairman's statement is an application of what Bendickson et al (2016) referred to as "honest incompetence".

This study is not without limitations, with the main limitation of the study being that it explored a single section of narrative reporting in the annual or integrated report. The detection of impression management practices was carried out with reference to three predetermined textual characteristics only. Considering these limitations, the study has brought to the fore other areas of future research, namely:

1. Whether impression management practices are evident in other sections of a company's annual report or integrated report and/or whether such practices are evident in other forms of corporate communications.
2. The usefulness of the chairman's statement and other forms of management commentary in relation to unsophisticated users could be explored.
3. The existence of impression management practices in the chairman's statement or other sections of the annual or integrated report, in the years immediately preceding and/or following the corporate scandals that have been exposed in South Africa in 2017 and 2018.

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