

A preliminary study into impression management practices in chairman's statements in South African annual reports: An attribution theory perspective

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. The study replicated research by Clatworthy and Jones (2006) to determine the existence of impression management within chairman's statements. The difference in reporting between profitable and unprofitable companies was analysed in relation to three pre-determined textual characteristics using an attribution theory perspective.

The primary conclusion drawn is that impression management does exist in the chairman's statements of companies listed on the JSE main board. Another finding of the study was that 'extremely unprofitable' companies are less likely to employ impression management. The findings indicate that users of annual reports should be alert to the existence of reporting bias introduced by management and its impact on the usefulness of management commentary in their decision-making.

Professor Yaeesh Yasseen is the Head of the Accounting Division in the School of Accountancy at the University of the Witwatersrand, Johannesburg. His research area extends to the creation of value added knowledge that fosters integrated thinking in both the accountancy profession as well as its stakeholders. Ms Mahdiyyah Moola-Yasseen is a visiting academic in the School of Accountancy at the University of the Witwatersrand, Johannesburg. Her research interests has a focus on improving the usefulness of annual integrated reports to relevant stakeholders. Professor Nirupa Padia is Head of School in the School of Accountancy at the University of the Witwatersrand, Johannesburg. Her research is cross-disciplinary with a unique focus on

INTRODUCTION

Following large corporate collapses such as Enron, Worldcom and African 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 become increasingly important that users, 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 vehicle to communicate this information to users, and has increased in relevance and value as a result of the inclusion of narrative disclosures such as management forecasts and discussions of performance (Bartlett & Chandler, 1997; Beynon, Clatworthy, & Jones, 2004; Clatworthy & Jones, 2006; Clatworthy & Jones, 2001; Courtis, 1998, 2004; Jones, 1994; Smith & Taffler, 1995; Stainbank & Peebles, 2006; Stanton & Stanton, 2002; Stanton, Stanton, & Pires, 2004; Subramaniam, Insley, & Blackwell, 1993). This information is useful to stakeholders in their decision making, including their decisions as to whether either to invest in or divest from the entity (Smith & Taffler, 1992, 2000).

These narrative disclosures are useful in decision-making but may also provide management with an opportunity to introduce bias into their reporting and engage in impression management practices, as these narrative disclosures are often not regulated nor are they audited (Subramaniam et al., 1993). Research has also found that annual reports are to be perceived by users as reflecting managerial performance (Merkl-Davies, Brennan, & McLeay, 2011).

This study replicates research by Clatworthy and Jones (2006), and sets out to establish whether South African companies engage in impression management practices in their narrative disclosures reported in the Annual Report, particularly the chairman's statement.

The chairman's statement was selected for this study as it has been found to be almost universal in annual reports, amongst the most widely read sections of the report and often used by stakeholders in their decision making (Bartlett & Chandler, 1997; Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam et al., 1993). Smith & Taffler, 2001 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, 2001).

To determine whether impression management practices exist, specified textual characteristics of the chairman's report were analysed for profitable and unprofitable companies. 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 hypothesis is studied by analysing three textual characteristics. These are the, length of the chairman's statement; use of passive voice and use of personal references in the chairman's statement. These are discussed in depth in the literature review.

As corporate reporting continues to evolve towards the integration of financial and non-financial disclosures, it is important to assess whether reporting bias and impression management techniques are employed by management. Evidence of these practices in narrative reporting detracts from its usefulness and allow users to discount these disclosures in their decision-making. Similar studies assessing the existence of impression management practices in narrative disclosures have been made 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. Limited studies have been performed in South Africa on impression management practices in narrative disclosures contained within annual reports. This article is structured to follow with a literature review, methodology, results and conclusion and suggestions for areas of future research.

1. LITERATURE REVIEW

1.1 Usefulness of the chairman's statement in the annual report

This study focussed on studying the chairman's statement within the annual reports sampled for evidence of potential impression management practices. The chairman's statement has been identified to be amongst the most widely read sections of the annual report and often used by stakeholders in their decision making (Bartlett & Chandler, 1997; M Clatworthy & Jones, 2006; Courtis, 1998; Subramaniam et al., 1993). The appeal and usefulness of the chairman's statement may be due to a number of factors, one of these being that the narratives contained within the chairman's statement impacts users perceptions of the share price (Abrahamson & Amir, 1996; Clatworthy & Jones, 2006; Clatworthy & Jones, 2001; Kohut & Segars, 1992; Subramaniam et al., 1993). Kohut and Segars (1992) found, in their examination of the content of president's letters, the equivalent of the chairman's statement, that six main themes emerged, namely, environment, growth, operating philosophy, markets, products, and favourable and unfavourable financial references. This is consistent with the results of other studies that found that the chairman's statement typically contains management's review of the past year, as well as projections for the future, and covers topics such as labour relations and resource availability (Clatworthy & Jones, 2006; Subramaniam et al., 1993). Another reason which may explain why chairman's statements 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 (Jones, 1994; Subramaniam et al., 1993). These narrative disclosures are also often not audited. 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. According to the International Auditing and Assurance Standards Board auditors

have no obligation to report on other information outside of the financial statements (IAASB, 2015). The auditor is “required to read the other information to identify material inconsistencies with the audited financial statements” (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. 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, which may have an impact on the audit report (IAASB, 2015).

Stainbank and Peebles (2006) 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.

1.2 Impression management

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. 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). To extend this concept to corporate reporting, the preparation of the annual 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).

The research finds that 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, making them consistent with the desired corporate image. On the other hand, negative organisational or accounting outcomes appear to require explanation to render them legitimate (Stanton et al., 2004). The increased public scrutiny 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, which inevitably leads to falling share prices and reduced investor confidence. The motivation to be perceived favourably is magnified in listed companies and/or capital dependent companies (Aerts, 2005), these companies wish to keep the company in the public eye to ensure access to capital markets and thus there is an increased desire to be interpreted favourably by the users of the annual report.

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 an 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 (Clatworthy & Jones, 2006). Faithful representation, that is, the information is neutral and free from bias, has been identified by the IASB in its Conceptual Framework, as a characteristic of useful information (IASB, 2010).

Research has also 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 impacting on their decision making. A counter argument to this view however 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, 2005). These contradictory findings suggest that 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, rather than negative attributional bias (Aerts, 2005). Defensive impression management may be compared to the concept of "control-protective" impression management techniques and refer to the use of impression management techniques in order to protect an established image when threatened. The techniques employed may involve either admitting fault or denying responsibility by way of excuses, justifications, and so forth (Stanton et al., 2004). This reporting bias may impact adversely on the users' decision making regarding capital allocation (Aerts, 2001; Beynon et al., 2004; Subramaniam et al., 1993).

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; Clatworthy & Jones, 2006; Davidson, Jiraporn, Kim, & Nemeč, 2004). These studies postulated that the causes of these corporate collapses included a combination of fraud and impression management (Brennan & Merkl-Davies, 2013; Clatworthy & Jones, 2006; Davidson et al., 2004).

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 (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, 2005; Beattie & Jones, 2008; Beattie & Jones, 1992, 2002; Clatworthy & Jones, 2006; Courtis, 1998). The areas

on which studies have focused include impression management through the use of graphs (Beattie & Jones, 2008; Beattie & Jones, 1992, 1997, 2002), the use of photographs as well as through accounting narratives (Aerts, 2005; Courtis, 1998, 2004; Hrasky, 2008). These 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 (Clatworthy & Jones, 2006).

1.3 Attribution theory

Impression management may be viewed via the lens of attribution theory. Attribution theory refers to the tendency of management to attribute positive effects and outcomes to the company's own actions (positive attribution bias) 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 (negative attribution bias) (Aerts, 2005).

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) defenses of innocence and (iii) justification (Aerts, 2005). An attributional excuse posits a negative event but denies responsibility and attributes it to external factors (Aerts, 2005). An attributional defense 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, 2005).

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, 2005).

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; Clatworthy & Jones, 2006; 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, 2005) 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 (2005) 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, 2005). 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, 2005). For example, 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).

Attribution theory aligns with the psychological and sociological perspectives of impression management. The psychological perspective has been previously discussed as management engaging in impression management in anticipation of an evaluation of both their actions and decisions by the stakeholders (Aerts, 1994, 2001, 2005; Brennan & Merkl-Davies, 2013; Clatworthy & Jones, 2006; 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 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. 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 the following predetermined textual characteristics which have been found to be indicative of impression management and reporting bias.

(i) Length of the chairman's statement

The first characteristic which was assessed was 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 suggests

that unprofitable companies are more verbose than profitable companies (Bloomfield, 2008). Bloomfield (2008) 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).

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

(ii) Use of passive voice

The second characteristic which was assessed was the use of passive voice in the chairman's statement. 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 communiqués specifically analysing linguistic structures in a series of management communiqués for a single company over a period of time, that is, when the company was profitable as well as when the company was unprofitable. 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).

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

(iii) Use of personal references

The third characteristic which was assessed was the use of personal references in the chairman's statement. Personal references are references to one's self and include words such as 'I', 'me', 'my' (singular personal references) and collective personal references which includes words such as 'our', 'us' and 'we'. Kuo (1999) suggest 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 and the

application of the attribution theory, management is more likely to associate themselves with positive financial outcomes and results and therefore use more personal pronouns whilst unprofitable companies are more inclined to distance themselves from declining profits and would therefore use fewer personal references (Kuo, 1999; Thomas, 1997).

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

2. METHOD

Quantitative content analysis was applied to determine whether the profitability of a company influences its reporting strategy within the chairman's statement, through the lens of attribution theory, i.e. whether the profitability of a company is consistent with positive or negative attributional bias.

The population comprised all companies listed on the JSE main board trading as at 31 December 2014. The population of companies 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.

It was first established whether companies in the sample were profitable or unprofitable, considering the profit before tax of the company. The profit before tax as per the statement of comprehensive income in 2014 was compared to the profit before tax in 2013 to determine if the company was profitable or unprofitable. 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 chairman's 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. Computer assisted data collection techniques were used to analyse textual characteristics in the chairman's statements.

(i) Length of the chairman's statement

To assess the length of the chairman's statements, two characteristics were analysed, the number of pages of the chairman's statement as well as 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.

(ii) Use of passive voice

The use of passive voice 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. The proofing tool within Microsoft Word was used to calculate this percentage.

(iii) Use of personal references

The chairman’s statements were scrutinized with the assistance of the search function in Microsoft Word for the frequency of predefined personal references, ‘I’, ‘me’, ‘my’, ‘our’, ‘us’ and ‘we’. The data recorded was the frequency of occurrences of the personal references within the chairman’s statement.

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 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. 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. RESULTS

(i) Length of the chairman’s statement

Statistical analysis showed that for the 216 companies analysed the chairman’s statement is on average, 2.5 pages in length and on average comprises 1296 words.

Table 1: Length of chairman’s statement

		N	Mean	Std.Deviation	CV	Minimum	Maximum
Length of the Chairmans Statement: Number 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 the Chairman’s Statement: Number 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

The length of the chairman's statement of profitable companies was found to be on average over 2.5 pages in length and comprising 1343 words. Unprofitable companies were found to be on average under 2.5 pages in length and comprising 1224 words. Chairman's statements of unprofitable companies therefore contain on average 119 words fewer (9.72%) than profitable companies. The Mann-Whitney non-parametric test performed comparing the average length of the chairman's statement- based on number of pages as well as the number of words did not find any significant statistical difference between the profitable and unprofitable companies.

We therefore accept the hypothesis that the chairman's statements of profitable and unprofitable companies are similar in length.

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 whilst the chairman's statement of 'extremely unprofitable' companies was on average 2.4 pages long.

Table 2: Length of chairman's statement 'extremely profitable' companies and 'extremely unprofitable' companies

		N	Mean	Std.Deviation	CV	Minimum	Maximum
Length of the Chairmans Statement: Number of words	Extremely Profitable	50	1054.54	592.467	0.5618	302	2688
	Extremely Unprofitable	50	1179.52	800.288	0.6785	102	3680
	Total	100	1117.03	703.332	0.6296	102	3680
Length of the Chairman's Statement: Number of pages	Extremely Profitable	50	1.940	0.9348	0.4819	1.0	5.0
	Extremely Unprofitable	50	2.400	1.2778	0.5324	1.0	8.0
	Total	100	2.170	1.1376	0.5242	1.0	8.0

An analysis of the word count of 'extremely profitable' companies compared to 'extremely unprofitable' companies found that the former contain on average 1055 words whilst the latter, i.e. 'extremely unprofitable' companies contain on average 1180 words. 'Extremely profitable' companies therefore on average use 125 words more (11.85%) in their chairman's statements compared to 'extremely unprofitable' companies.

The Mann Whitney non-parametric test found that the length of the chairman's statement based on the number of pages the groups differ significantly at the 5% level of significance, ($z = -1.998$, $p < .05$) and that unprofitable companies (Mean Ranks=55.93) use more pages in their chairman's statement than profitable companies (Mean Ranks=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. We therefore accept the hypothesis that the chairman's statements of extremely profitable and extremely unprofitable companies are similar in length.

The findings of this study are consistent with those of Clatworthy and Jones (2006) that on average, the chairman's statement of 'extremely unprofitable' companies is marginally longer in length than the chairman's statements of 'extremely profitable' companies however the difference is not statistically significant. The findings of this study are however inconsistent with those of the study conducted by Cen and Cai (2013) who 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 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; Cen & Cai, 2013).

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 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).

(ii) Use of passive voice

Statistical analysis, per table 3 below, showed that for the 216 companies analysed, the use of passive sentences ranged from 0% passive sentences used to 43% passive sentences used in relation to total number of sentences in the chairman's statement. The chairman's statement contains on average, 16.30% passive sentences. Profitable companies were found to use on average 15.38% passive sentences in their chairman's statements and unprofitable companies were found to use on average 17.74% passive sentences in their chairman's statements.

Table 3: Use of passive voice expressed as a percentage of the total number of sentences used

		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%

The Mann-Whitney non-parametric test performed on the use of passive voice by profitable and unprofitable companies finds a significant difference between the two groups at the 10% level of significance.

Table 4: % of Passive Voice reflected in the chairman's statements for profitable/unprofitable companies

	Is the company profitable/unprofitable	N	Mean Rank	Sum of Ranks
% Passive sentences	Profitable	132	101.99	13462.50
	Unprofitable	84	118.73	9973.50
	Total	216		
	Mann-Whitney U	Wilcoxon W	Z	Asymp Sib. (2-tailed)
% Passive sentences	4684.500	13462.500	-1.921	0.55

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).

The chairman's statement of 'extremely profitable companies', per Table 5 below contained, on average 28.82% passive sentences whilst those of 'extremely unprofitable' companies were found to contain, on average 5.38% 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 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).

Table 5: % of Passive Voice reflected in the chairman’s statements for ‘extremely profitable/unprofitable’ companies

	Is the company extremely profitable/unprofitable	N	Mean Rank	Sum of Ranks
% Passive sentences	Extremely Profitable	50	75.50	3775.00
	Extremely Unprofitable	50	25.50	1275.00
	Total	100		
	Mann-Whitney U	Wilcoxon W	Z	Asymp Sib. (2-tailed)
% Passive sentences	.000	1275.000	-8.639	0.000

This result suggests that when companies are ‘extremely profitable’, they are less likely to attribute the success of organization to themselves and are more likely to adopt the use of passive sentences and companies which are ‘extremely unprofitable’ are less likely to write in the passive voice. This is inconsistent with the results found by Clatworthy and Jones (2006) who find no statistically significant difference between the two groups. 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.

These results support the ‘self-promoters paradox’ presented by Aerts (2005) which suggests that audiences tend to discount transparent self-promotional behavior and disclosures as they generally recognise that reporters tend to exaggerate their achievements (Aerts, 2005). 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. As the findings are mixed, this presents an area for future research.

(iii) Use of personal references

Statistical analysis showed that the chairman’s statements analysed contain on average 21 words that are personal references. However as per table 6 it can be seen from the co-efficient of variation (CV = 0.9435) that there is significant variation in the use of personal references in the chairman’s statements analysed. 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’ and 11 references to ‘we’.

Table 6: Average number of personal references used

		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

A deeper insight into the use of personal references by profitable companies and unprofitable companies finds that profitable companies included on average 22 personal references compared to unprofitable companies who have used on average 18 personal references. The results of the Mann-Whitney test however did not find significant difference in the use of personal references between the two groups.

The chairman's statement of 'extremely profitable' companies was found to contain on average 13 personal references whilst the chairman's statements of 'extremely unprofitable' companies contain on average 23 personal references. 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 fewer personal references than 'extremely unprofitable' companies (Mean Ranks=59.20).

This is inconsistent with findings by 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 study conducted by Cen and Cai (2013) 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 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 (Mean Ranks=42.28) disclose using less references to "we" than 'extremely unprofitable' companies (Mean Ranks=58.72) $z = -2.843$, $p < .005$.

4. CONCLUSION

The research found no significant statistical difference between the average length of the chairman's statement - based on number of pages as well as the number of words between profitable and unprofitable companies. For 'extremely profitable' and 'extremely unprofitable' companies, there is a significant difference in the length of the chairman's statement when studying the number of pages, however there is no significant difference noted between these companies with respect to word count. 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 study also found that, on average, unprofitable companies use more passive sentences than profitable companies, however when companies are 'extremely profitable', they are less likely to attribute the success of organization to themselves and are more likely to adopt the use of passive sentences compared to 'extremely unprofitable' companies. No significant difference was noted in the use of personal references between profitable and unprofitable companies, however the study found that 'extremely profitable' companies disclose fewer personal references than 'extremely unprofitable' companies.

These findings are inconsistent with expectations deduced from the literature which suggests that unprofitable companies are more likely to more passive sentences and fewer personal references than unprofitable companies to attribute the negative outcome and results with external events, 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. These findings relating to 'extremely unprofitable' companies being less likely to engage in impression management

techniques is consistent with findings of Abrahamson and Park (1994), who found that the greater the decline in the financial performance of an entity, the more negative outcomes that were disclosed (Abrahamson & Park, 1994).

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.

Whilst there are significant differences in the use of passive sentences and personal references between 'extremely profitable' and 'extremely unprofitable' companies, the differences in textual characteristics are not evident of management engaging the principles of attribution theory and applying impression management. This may be due to a number of factors including cultural 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; Clatworthy & Jones, 2006; Davidson et al., 2004). Whilst these events have occurred outside of South Africa, South African reporters and users of annual reports are aware of these events which may encourage South African reporters to be conservative in their reporting. In South Africa it is possible that chairmen may be IFAC members or members of IFAC member bodies and would therefore be required to comply with the IFAC Code of Ethics. These principles include the requirements to remain objective, maintain integrity and display professional behaviour. South Africa has also been acclaimed as having strong corporate governance principles (Vaughn & Ryan, 2006) which 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.

This study focused on identifying impression management practices in chairman's statements by analysing textual characteristics of the narrative report. An area for further research is to assess whether impression management practices and reporting bias is evident in other sections of the annual report or the integrated report. The findings of this study regarding the use of passive voice and personal references by unprofitable and 'extremely unprofitable' companies were inconsistent with those of Clatworthy and Jones (2006). The reasons for these differences within the South African corporate reporting environment can be further explored. The literature review notes that chairman's statements have been found to be amongst the most important non-IFRS, narrative disclosures for users (Stainbank & Peebles, 2006). In South Africa, a large percentage of the population and users are not first-language English speakers. A future area of research is to determine the readability of the chairman's statement.

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