

Relating Impression Management to Behavioural Theory:  
the case of the Preliminary Announcement

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## Abbreviations

ASB	Accounting Standards Board
BERR	UK government department covering Business, Enterprise and Regulatory Reform
BNWP	bad news keywords or phrases
BperC	bad news keyword proportions in full prelim
BW	bad news keywords in full prelim
CLR	Company Law Review
DTI	Department of Trade and Industry
Excel	Proprietary spreadsheet software
FNWP	forward-looking keywords or phrases
FperC	forward looking keyword proportions in full prelim
FSA	Financial Services Authority
FTSE	Financial Times-Stock Exchange index
FTSE100	The 100 highest capitalised UK companies listed on the London Stock Exchange
FTSE250	After the FTSE100, the 250 next highest capitalised UK companies listed on the London Stock Exchange
<FTSE350	Those companies listed on the London Stock Exchange with a market capitalization smaller than FTSE100 and FTSE250
FULL	Full (preliminary announcement)
FW	forward looking keywords in full prelim
GNWP	good news keywords or phrases
GperC	good news keyword proportions in full prelim
GRL	greater loss

GRP	greater profit
GW	good news keywords in full prelim
H(number)	hypothesis (number)
H(number)-A	Alternative hypothesis (number)
HBW	bad news keywords from Highlights
HBWperC	bad news keyword proportions from Highlights
HFW	forward-looking keywords from Highlights
HFWperC	forward-looking keyword proportions from Highlights
HGW	good news keywords from Highlights
HGWperC	good news keyword proportions from Highlights
HIGH	Prelim Highlights
ICAS	Institute of Chartered Accountants of Scotland
incl	including
K-S	Kolmogorov-Smirnov (test)
LSE	London Stock Exchange
LTP	loss to profit
M-W	Mann Whitney test
ns	not significant
NVivo/N6	Proprietary data analysis software
NYSE	New York Stock Exchange
para	Paragraph
plc	Public Limited Company
pp	pages
pptt	parts per ten thousand
pptht	parts per thirty thousand

prelim	preliminary announcement
PTL	profit to loss
prec	preceded
prep	preposition
s.d.	standard deviation
SEC	Securities and Exchange Commission
SML	smaller loss
SMP	smaller profit
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
US	United States

## **Abstract**

### **Relating Impression Management to Behavioural Theory: the case of the Preliminary Announcement**

The aim of this study is to relate in-depth analysis of impression management to behavioural theory as it relates to 'first impressions', with a focus on how these are observed in company preliminary announcements.

Prior research has indicated that managers may wish to leave a 'first impression' in the minds of investors via the use of narrative in corporate reports. The 'prelim', which deals with annual results, is usually the first point of contact provided by the company to investors.

The review of prior research covers: the theoretical background to Impression Management; investigations within Accounting communications which is more empirically based, principally dealing with annual reports; and a review of theory covering Behavioural Economics.

300 prelims are sampled from the announcements on the London Stock Exchange covering company year ends from October 2001 to September 2002. 100 are selected from each of the main FTSE categories with another 100 from smaller quoted companies. Apart from FTSE100, the prelims are chosen on a random basis.

The prelim is analysed in two stages: the full narrative text and the Highlights selected by the directors to represent the full prelim. Two distinct types of content analysis are used. The first, which is used on both full prelim and Highlights, covers a search for keywords related to good news, bad news and forward-looking characteristics. Hypotheses are formed from prior literature and tested on keywords and keyword proportions. The second, used only on Highlights, analyses data using quantitative and non-quantitative categories.

Impression management is found by using a more segmented and therefore deeper analysis. Behavioural theory is shown to be specific to each segment.

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# 1 Introduction, Motivation and Contribution

## 1.1 Introduction and Motivation

*The human understanding when it has once adopted an opinion (either as being the received opinion or as being agreeable to itself) draws all things else to support and agree with it. And though there be a greater number and weight of instances to be found on the other side, yet these it either neglects and despises, or else by some distinction sets aside and rejects, in order that by this great and pernicious predetermination the authority of its former conclusions may remain inviolate.*  
[Bacon, 1620, Aphorism XLVI]

This quotation from Bacon focuses on the main subject of this thesis which is 'first impressions'. The impressions in question arise out of an examination of the existence of impression management within preliminary announcements of UK public limited companies.

Preliminary announcements were first treated as a separate topic when instructions, separate from those related to interim announcements, were provided in a revision of the United Kingdom Licensing Authority 'Yellow Book' in 1993 (Bagshaw, 1999: p.19).

Studies involving 'impression management' within accounting presentations have flourished since the early 1990s (Neu, 1991, 1992; Aerts, 1994; Beattie and Jones, 1992, 1997, 1999, 2000; Graves et al., 1996; McKinstry, 1996). This thesis seeks to contribute to that area of study.

Behavioural economics has provided empirical analysis which accompanies the examination of impression management and its consequences for investor decision-making (Tversky and Gilovich, 1989; Tversky and Fox, 1995; Kahneman and Tversky, 1973, 1979, 2000; Rabin and Schrag, 1999; Camerer, 1995; Thaler, 1990, 1999). The current research will have regard to this previous investigative research, when dealing with 'first impressions'.

The UK Government initiated a review of Company Law soon after taking office in 1997 (CLR1, 1998). Initially, it appeared as though the vanguard of UK annual accounts, the preliminary announcement, was to become the new focus of company reporting (CLR2, 1999, para.20). However, by the time of the final Report (CLR6, 2001), the Review Committee decided that the focus would shift from the preliminary announcement; neither would it become part of UK Company Law (See Chapter 3.4.5).

Also in the late 1990s, Internet-based financial reporting was gaining in popularity on a worldwide basis (Hussey, Guilliford and Lymer, 1998; Ashbaugh, Johnstone and Warfield, 1999) and, in 2000, an Act of the UK Parliament was passed which, for the first time, allowed the Internet to be used to distribute company results (HMSO, 2000).

In 1998, the Accounting Standards Board issued a 'best practice' statement, (ASB, 1998), covering the preliminary announcement and its content from a preparer's point of view.

The objective of this thesis is to contribute to the study of behavioural economic theory as it relates to 'first impressions', with a focus on how these are presented in company prelims.

The importance of this study lies in its recontextualisation of Goffman's 'impression management' in terms of a limited company while, at the same time, interpreting each company's preliminary announcement in terms of behavioural economic theory.

The remainder of this Chapter is organised as follows:

The motivation of this study is described in 1.2. Chapter 1.3 describes the general objectives and research questions of this study. Specific objectives are outlined in 1.4. Chapter 1.5 summarises the research methods employed to meet the objectives. The main contribution and limitations of the current research are detailed in Chapters 1.6 and 1.7 respectively. Finally, the structure and organisation of the thesis is provided in 1.8.

## 1.2 Motivation

The preliminary announcement is the first impression of a company's results for the shareholder. If any impression management takes place within this announcement, it may set up a belief, true or false, that is difficult to change when further information (e.g. the full report and accounts) is later examined.

Prior in-depth studies of UK and international accounting, incorporating institutional factors, are helpful as building blocks for comparative analysis especially in the areas of impression management (Steinbart, 1989; Smith and Taffler, 2000; Beattie and Jones (1997, 2000), Hooghiemstra (2000, 2003)) and behavioural economics (Kahneman and Tversky, 1979; Tversky and Gilovich, 1989; Thaler, 1992; Rabin and Schrag, 1999; Hsee et al., 2005).

Preliminary announcements that are delivered to shareholders via the Internet are a relatively recent innovation (Hussey et al., 1998). This method of delivery tends to involve certain characteristics in the operation of the London Stock Exchange which raises questions about whether or not 'hard copy' research methods involving accounting disclosure are fully relevant. As a result, this UK study has, as part of its motivation, an aim to increase understanding of corporate reporting in a capital market in which preliminary announcements are predominantly made online.

Due to the lag between online delivery of the prelim to shareholders and the 'hard copy' of the annual accounts being available, there may be a possibility of management seeking to create or at least maintain an impression using the content of the prelim. The fact that analysts are privy to the figures not long after the prelim is dispatched (Bagshaw, 1999: vii and *passim*) and may have already formed a professional judgement on the results, does not absolve management of their accountability to the individual shareholder under the Companies Act.

The period of time covered by this research reflects changes that began in 1997. That date is important because it marked the first steps in a review (and eventually a revision) of UK Company Law. Rather than start the research just after the publication of the final report in the summer of 2001, a 'waiting' period was added to allow any, or all, of the Company Law recommendations to be adopted by company management. This means that the data for the current research is selected for those accounts ending in the year to September 2002.

This research, carried out in 2002, is typical of a regime that continued through until 2005. Since 2005 there have been changes, e.g. the UK Listing Rules no longer make the preliminary announcement a part of the requirement for quoted companies (see Chapter 3), however further changes are not covered by this research. Nevertheless, this research will still bring out interesting features that could be considered in further research.

The relatively less litigious reporting environment in the UK (cf. comments by Clatworthy and Jones, 2003: 172) provided another incentive to study prelim disclosure practices, in order to contribute to a theoretical understanding of both the financial and behavioural economic factors which influence the content of voluntary disclosure within the prelim.

Finally, most of the research carried out on year-end accounting disclosures relates to the annual report and accounts and there are few studies that cover preliminary announcements or press releases .

## **1.3 Objectives and research questions**

### **1.3.1 Objectives**

The overall aim of this thesis is to contribute to the study of behavioural economic theory as it relates to 'first impressions', with a focus on how these are presented in company prelims.

This overall aim is specified as two general objectives which are:

GO1: To determine the contribution that behavioural economics makes in explaining the extent and nature of impression management in first impressions.

GO2: To contribute to the analysis of narrative accounting disclosure in relation to preliminary announcements (prelims) of UK public limited companies.

The justification for each of these is further explained below.

*To contribute to the study of behavioural economic theory as it relates to 'first impressions' especially as presented in company prelims.* (overall aim)

There has been significant research into first impressions (e.g. Stangor and Ford, 1992; Pfeifer, 1994; Soll, 1996). Another example is the paper by Rabin and Schrag (1999), which has a strong influence on the current thesis. They show that 'first impressions' are difficult to modify even when it is discovered that the information was erroneous. Because their work involves interpretation of news, a parallel may be drawn with the initial receipt of news in a preliminary announcement. Although, their findings derive from repeated delivery of news, the 'confirmatory bias' conclusions are used to highlight the potential power of impression management within the narrative sections of the prelim, including the Highlights section.

**To determine the contribution that behavioural economics makes in explaining the extent and nature of impression management in first impressions.** (General Objective 1)

There are many studies that attempt to highlight and explain the occurrence of impression management in voluntary accounting disclosure. Most of these have been formed using the context of 'hard copy' annual report and accounts. Some of these conclusions and theories may not apply or may require amendment if they are applied to preliminary announcements, because of the unique timing and lack of presentational content involved.

The intention behind the thesis, is that it will bridge a gap in the study of impression management within year-end financial reporting by focussing on preliminary announcements rather than published sets of accounts.

Content analyses of prelim narratives (utilising computer software) are used to provide evidence of impression management.

**To contribute to the analysis of narrative accounting disclosure in relation to preliminary announcements (prelims) of UK public limited companies (General Objective 2)**

Although there have been previous studies involving impression management and narrative accounting disclosure (e.g. Aerts, 1994: Belgian year-end accounts; Clatworthy and Jones, 2003: UK Chairman's Statement), the current study seeks to contribute to existing research by extending the investigation to UK preliminary announcements of year-end results because of the opportunities afforded for impression management in the first impression created by the voluntary narrative disclosures in that communication.

A review of prior literature is undertaken to derive explanatory factors of disclosure which are also used within prelims. This exercise assists in forming prior expectations about them. In turn, these expectations lead to the formulation of testable hypotheses with respect to size, profitability and change in profitability of the companies generating the prelims.

### **1.3.2 Research questions**

The general objectives lead to three general research questions.

#### *Research Question 1*

How, and to what extent, does behavioural economic theory provide an explanation for the method of presentation of first impressions in the case of preliminary announcements?

#### *Research Question 2*

What is the evidence by extent and by nature of the existence of impression management in first impressions in the case of preliminary announcements?

### *Research Question 3*

What are the links between a company's characteristics and its use of 'good news', 'bad news' and 'forward-looking words' in first impressions in the case of preliminary announcements?

## **1.4 Specific Objectives of the Empirical Study**

The specific objectives of the empirical study align with the general objective and the research questions (Chapter 1.3). The specific empirical objectives aim to assess the level of narrative disclosure variation in the prelim associated with levels of market capitalisation, levels of profitability, and changes in profitability when comparing the previous accounting period.

The main stages of the empirical study are described under two headings: (1) extent of disclosure and (2) nature of disclosure, each of which is subdivided into (a) the full narrative section of the preliminary announcement (which may be termed 'first impressions'), and (b) the Highlights section (which may be termed 'first first impressions')

### (1) Extent of disclosure

This stage investigates whether the use of certain types of words, (i.e. forward-looking, good news, bad news) varies in extent with the corporate characteristics of the company (such as market capitalisation, profitability and change in profitability) for (a) the prelim as a whole and (b) for the Highlights section of the prelim.

### (2) Nature of disclosure

This stage provides analysis of the use of certain words, especially forward-looking words and phrases for (a) the prelim as a whole and (b) for the Highlights section of the prelim. Note that forward-looking details are only likely to be objective and verifiable should they refer to legal contingencies.

#### **1.4.1 Empirical evidence of the extent of disclosure in the prelim (Specific Objective 1 (a))**

Empirical evidence of the variation of disclosure in prelims seeks to portray a better understanding of the content of UK year-end announcements and provide further insights into the extent to which companies achieve or exceed the 'good practice' laid down by the ASB (1998). The extent of disclosure of specific categories of information is expected to reveal indications about the relative trends, frequency and potential inaccuracy of prelim reporting practices. This objective is met by statistical analyses of the occurrence of words having specific qualitative characteristics.

#### **1.4.2 Empirical evidence for the association of company performance and the extent of voluntary disclosure in the prelim (Specific Objective 2 (a))**

Empirical evidence covering the relative associations of characteristics of companies listed on the London Stock Exchange and the extent of impression management (e.g. potential mitigation or diversion) within prelim reporting provides insights into the operation of prelim disclosure. Statistical investigation and the related summary provide more informed analysis of prelims and corporate characteristics which enhances understanding of prelim disclosure.

#### **1.4.3 Empirical evidence for the association of company characteristics and the extent of voluntary disclosure in the Highlights section of the prelim (Specific Objectives 1(b) and 2(b))**

Empirical evidence of the extent of disclosure in prelims seeks to identify potential impression management or obfuscation in the Highlights section. This will provide a better understanding of the content of Highlights and provide further insights into the extent to which companies attempt to control the first impression of the company's performance. The extent of



disclosure of specific categories of information, especially forward-looking words, is expected to reveal indications about the relative trends, frequency and potential inaccuracy of Highlights reporting practices. This specific objective is met by analyses of the use of words having specific qualitative characteristics and is also achieved with the use of statistics.

## **1.5 Summary of Research Methods**

This section presents a brief outline of the main research methods undertaken for this study. The decision to adopt a specific research method reflects assumptions made about ontology, specific epistemological approaches and particular methodologies.

Positivist (or Scientific) research has been widely used in accounting studies. The positivist approach assumes that reality is objective and stable; therefore valid and generalisable conclusions may be deduced from observations. Positivism is adopted in the structured, prior theoretical based, and hypothetico-deductive part of this study in statistically testing some formulated propositions. The research methods consist of the following:

### **1.5.1 Data Collection**

This study makes use mainly of primary sources. Research on primary sources consists of the examination of prelims issued by companies listed on the London Stock Exchange. The main research strategies employed are briefly outlined as follows:

As the London Stock Exchange has three distinct sections, a stratified sample is selected having the same number of companies from each of the three sections. The size of the sample is determined by the size of the FTSE100 category and partly by potential time constraints on the potential analysis that a larger sample might require. The sample consists, therefore, of the prelims of 300 companies listed on the London Stock Exchange in the year to September 2002. Part of the research involves the examination of the Highlights section of the prelim but only 261 of the 300 companies have such a section.

Different types of words are examined; mainly forward-looking, good news and bad news. The method used to examine forward-looking words is similar to that used by Hussainey et al. (2003) and is explained in Chapter 5. For good news words and bad news words, a method similar to that used by Clatworthy and Jones (2003) is used, see also Chapter 5.

### **1.5.2 Measuring Prelim Disclosure**

An unweighted measurement approach is adopted assuming that prelim disclosure items each have the same value as they are assumed to apply to the decision processes of a non-specialist stakeholder. The particular scoring method applied is a dichotomous procedure in that a company is awarded One (1) if it discloses a certain word or phrase and Zero (0) if it does not disclose it.

### **1.5.3 Data Examination and Statistics**

Data are examined by histograms. Non-parametric tests are applied. Continuous independent variables are tested by Kendall rank correlation coefficient. Categorical independent variables are tested by Chi square tests for variables and by Mann-Whitney U for two-category variables.

Three independent variables are tested for association. There are two continuous variables, namely: profitability and change in profitability. The categorical variable is listing status. These apply to both Chapter 5 (Full prelim Narrative) and Chapter 6 (Highlights).

The Highlights are further analysed using the analysis method of Beattie et al. (2004). Four levels of analysis are used. The first and most basic is Time Dimension which divides the data into Historical, Forward-looking and Non-time specific. The second level further divides the data into Financial and Non-financial. The third level introduces Quantitative and Non Quantitative. The fourth level introduces 9 specific topics (e.g. Business Development (BD); Financial Information (FIN); Management Analysis (MA)). These are more fully described in Chapter 4.

## **1.6 Findings**

When the narrative content of the full prelim is analysed, there is clear evidence of impression management being used. Impression management is present in the Highlights section, but, because it is a summary announcement and not primarily a full narrative communication, it may appear to have less gravitas.

## **1.7 Contribution to Knowledge**

This study contributes to knowledge in the following ways.

This study provides an understanding of the relative applicability of behavioural economic theories to announcements coming from a mature Western capital market. Evidence on the structured presentation of both the full narrative content of the prelim and Highlights contribute to further understanding the operation of behavioural theories within investment decision-making and allows an evaluation of theoretical expectations.

It contributes to an analysis of narrative accounting disclosure in relation to preliminary announcements (prelim) of UK public limited companies.

As there have been mixed results from prior profitability studies (see Chapter 5), empirical quantitative results allow a critical evaluation and more comprehensive understanding of the relation between profitability and voluntary disclosure in preliminary announcements delivered by companies from each of the FTSE listing categories.

The current study also makes a contribution towards an analysis of disclosure policy for companies within each of the two main FTSE categories and the companies with a lesser capitalisation.

## **1.8 Limitations**

Suggested limitations of this empirical study are deferred until the concluding Chapter (Chapter 7.7)

## 1.9 Organisation of the Thesis

The thesis, including this introductory Chapter, is organised in 7 Chapters which follow the general objectives of this study, as viewed in Table 1-1.

Table 1.1 General Objectives and Locations

General Objective (GO)	Research Question (RO)	Specific Empirical Objective (SO)	Location
GO1	RQ1	SO1(a), SO1(b), SO2(a), SO2(b)	Chapters 2, 3, 4, 5, 6
GO2	RQ2	SO1(a)	Chapters 2, 3, 4, 5
GO2	RQ3	SO1(b), SO2(a), SO2(b)	Chapters 2, 3, 4, 5, 6

The 7 Chapters of this thesis are concerned with areas outlined as follows:

Chapter 1: Is an introductory outline of the thesis. The Chapter includes the general and specific objectives of this study and the research questions derived from them and the related empirical questions. The motivation for this thesis and a summary of the research methods used are also presented. A brief consideration of contributions and limitations are included. The organisation of the thesis is also reported as a conclusion to the Chapter.

Chapter 2: Locates the theoretical support for this research. Impression management as a disclosure theory is discussed in relation to its explanatory grounds for the operation of voluntary narrative disclosure. Prospect theory is examined as an underpinning motivation for investor behaviour. Accounting research related to the objectives of this study is also discussed.

Chapter 3: Introduces the preliminary announcement (prelim) and describes its rise to prominence in UK annual reporting. The legal and voluntary background to the prelim is presented and also the resultant potential for impression management. This potential informs the third general objective of the current thesis.

Chapter 4: Reports on the methodology employed in the thesis, the consequent development of independent variables and the formulation of testable hypotheses. Expectations on the relevant association with the extent of voluntary narrative disclosure are also presented. Also presented are the research methods followed by this study. Procedures to obtain a sample of listed companies as units for analysis are stated. Research instruments and procedures with particular reference to the examination of disclosure incidence and the measuring process are explained. Finally, the econometrics used in testing the formulated hypotheses are outlined.

Chapter 5: Presents the results of the analyses of the full narrative content of the sample of prelims which are also analysed in terms of the extent and categories of voluntary disclosure. Further conclusions are drawn.

Chapter 6: Presents the results of the analyses of the prelim Highlights section which are analysed in terms of the extent and categories of voluntary disclosure. Conclusions are drawn.

Examines Highlights using a structure which extends the analysis to information categories that complement the narrative analysis already carried out.

Chapter 7: Summarises objectives, research questions and research methods, the main research findings, and reports the main implications, contributions and limitations of this study. Finally, suggestions for further research are presented.

## 2 Literature Review

### 2.1 Introduction

In Chapter 1 the following General Objectives were outlined:

GO1: To determine the contribution that behavioural economics makes in explaining the extent and nature of impression management in first impressions.

GO2: To contribute to the analysis of narrative accounting disclosure in relation to preliminary announcements (prelim) of UK public limited companies.

This Chapter reviews the literature associated with each of these Objectives and provides a basis for the investigation reported in Chapters 5 and 6.

Chapters 2.2 to 2.3 cover the first source of academic support which is located in Sociology, particularly the topic of Impression Management. A review of the Impression Management literature is included, with a view to identifying the particular themes and ideas that are addressed through preliminary announcements. One of the specific considerations is how the impression management literature has developed with an attendant review of the subject's application in various contexts, especially with respect to the current thesis. These two Chapter sections inform GO1 and help to inform GO2.

Chapter 2.4 deals with the second source which lies in the field of Behavioural Economics, in particular Prospect Theory (e.g. Kahneman and Tversky, 1979 and 1992). A preparer-perspective is adopted (rather than a user-perspective, which may be considered for a future investigation). Specifically examined is that part of behavioural economics which may explain how a preparer of prelims anticipates more tacit parts of the user's decision-making process: i.e. loss aversion (e.g. Benartzi and Thaler, 1995), a false interpretation of probabilities (e.g. Camerer, 1987), the endowment effect (e.g. List, 2003) and framing (e.g. Tversky and Kahneman, 1981 and McDermott, 2001). These terms are explained under Chapters 2.4.1 and 2.4.2.

Taken as a whole, Chapter 2.4 helps to inform GO1. In particular, a paper produced by Rabin and Schrag (1999), helps to link GO1 to GO2 by examining 'first impressions' from the perspective of Behavioural Economics.

Chapter 2.5 discusses research relating to impression management already carried out on the Annual Report in the UK (e.g. Beattie and Jones, 1997); also covering auditing studies that have been a source for subsequent research (e.g. Neu, 1991). The discussion contained in Chapter 2.5 is relevant for this thesis not only from the perspective of the accounting narrative but from the graphic/graphical perspective as it shows that impression management occurs in company documents that are used in the prelim in terms of narrative content. Chapters 5 and 6 of this thesis investigate the potential existence of impression management in the preliminary announcement rather than affecting only the Annual Report.

This Chapter section helps to inform GO2.

## **2.2 Theoretical Framework**

### **2.2.1 Aspects of Impression Management**

To allow the current research to proceed, a suitable definition of Impression Management is required<sup>1</sup>. The first potential source is the accounting research which has investigated that particular topic (see Table 2.1).

Each paper is reviewed for a definition of impression management and, as it is unlikely to be purely sociological research into impression management, the source of the definition from prior literature.

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<sup>1</sup> There is no entry/sub entry in the 1989 edition of the Oxford English Dictionary.

**Table 2.1 Locating different definitions of Impression Management used in Accounting Research**

	<b>Paper/Presentation</b>	<b>Source of Impression Management definition</b>
1	Neu, D. (1991)	'defined' (p.299) 'Impression management is used here to denote professional practices that seek to convince uninformed users of the accounting profession's legitimacy. These practices help to create and recreate at the societal level a generalized schema of the trustworthy auditor.'
2	Neu, D., and Wright, M. (1992)	No definition, but citation of (1) above, and Goffman (1959)
3	Aerts, W. (1994)	No definition, but citation of Goffman (1959), Schlenker (1980), and Leary and Kowalski (1990)
4	Graves (1996)	Although acting as a source for (8 , 10, 13, 20, and 21 below) there is no mention of Impression Management
5	Preston, A.M. et al. (1996)	'Impression management represents the use of visual and textual strategies in corporate annual reports to present and highlight only the "facts" or "message" which the company wishes to portray.' (p.119)
6	Beattie, V.A. and Jones, M.J. (1997)	Citation of (5)
7	Neu et al. (1998)	Goffman (1959)
8	Beattie, V.A. and Jones, M.J. (1999)	No definition provided but citation of (1), (4) and (5)
9	Mather, P. et al. (1999)	Citation of (1)
10	Beattie, V.A. and Jones, M.J. (2000)	No definition provided but citation of (4)
11	Hooghiemstra, R.B.H. (2000)	Schlenker, B. (1980)
12	Beattie, V.A. and Jones, M.J. (2002a)	No definition provided but citation of (1)
13	Stanton, P. and Stanton, J. (2002)	No definition provided but citation of (1) and (4)
14	Sydserff, R. and Weetman, P. (2002)	Leary and Kowalski (1990)
15	Clatworthy, M.A. and Jones, M. J. (2003)	No definition provided but citation of Schlenker (1980)



	<b>Paper/Presentation</b>	<b>Source of Impression Management definition</b>
16	Hooghiemstra, R.B.H. (2003)	Leary and Kowalski (1990)
17	Stanton, P. et al. (2004)	No definition provided but citation of Schlenker (1980)
18	Aerts, W. (2005)	No definition provided but citation of Schlenker (1980)
19	Guillamon-Saorin, E. et al. (2005)	Included in their Abstract is the following 'definition': 'Management disclosure practices influence users' perceptions of company performance Agency theory suggests that managers serve their own interests over those of shareholders and manipulate financial reports (Eisenhardt (1989); Pfeffer (1981). This is called impression management.' Also cited are (1), (4) and Schlenker (1980)
20	Ogden, S. and Clarke, J. (2005)	Citation of (1), (2) and (7)
21	Clatworthy, M.A. and Jones, M. J. (2006)	'Impression management can be viewed as the tendency for individuals or organisations to use data selectively so as to present themselves in a favourable light. This may be motivated by management's desire to dictate the corporate reporting agenda and present a positive view of corporate performance. These incentives are present for all firms, but may be particularly evident where performance is poor.' (p.494) Also citation of, (4), (5) and Schlenker (1980)

Reviewing the content and citations of Table 2.1 shows that three distinct but related sources are repeatedly cited. Figure 2.1 illustrates the relationship between these three sources.

**Figure 2.1 Impression management definitional relationships**

Theorists	Direct Citation Researchers
<p><b>Goffman (1959)</b></p> <p>cited more than 60 times by</p>	<p><b>Neu and Wright (1992); Aerts (1994); Neu et al. (1998);</b></p>
<p><b>Schlenker (1980)</b></p> <p>cited more than 50 times by</p>	<p><b>Aerts (1994), (2005); Hooghiemstra (2000); Clatworthy and Jones (2003 2006); Stanton et al. (2004); Guillamon-Saorin et al. (2005);</b></p>
<p><b>Leary and Kowalski (1990)</b></p>	<p><b>Aerts (1994); Sydserff and Weetman (2002); Hooghiemstra (2003)</b></p>

### 2.2.2 Erving Goffman: A Critical Evaluation

Figure 2.1 indicates that Goffman takes precedence over the other Impression Management researchers in terms of both chronology and cumulative citation. For this reason, his work will be examined first. (Schlenker and Leary & Kowalski are discussed further in Chapter 2.3.4).

Although Goffman (1959) deals with research into interpersonal relationships within a small community, he provides a study of impression management which this Chapter will argue is capable of being explored, analysed and translated to research in accounting. Its use hinges on showing that face-to-face encounters are not considered to be a necessary condition for impression management to take place.

Goffman himself progresses from the strictly personal motivation behind impression management. He mentions a series of representations where there is a type of *vicarious* impression management, i.e. where an individual or group present an impression on behalf of another party or organization. The first is the case of the 'junk business' (i.e. conducted by individuals in the scrap metal trade); (see Goffman, 1959; p. 48). A second instance is legal representation (ibid., p. 69-70); a third example is the case of a receptionist on behalf of an organization (ibid., p. 82). From these three persons he moves on to consider groups (ibid. p. 85ff, where the game of Bridge is analysed as a game between two players) acting in unison through one person.

White and Hanson (2002) show how Goffman (1959) may be applied to 'Corporate Identity'. They argue that 'the corporation is a self as the self is a corporation' (ibid., p.290) basing this aphorism on the important distinction that Goffman (1959) himself draws: that there is a distinction between the physical person and the 'self' portrayed by that person.

*In analysing the self, then, we are drawn from its possessor, from the person who will profit or lose most by it, for he and his body merely provide the peg on which something of collaborative manufacture will be hung for a time* (Goffman, 1959: p.245)

The 'Self' is seen by Goffman as a portrayal rather than a person. It is this distinction that allows White and Hanson (2002) and the current thesis to equate 'Self' not only with a human but also with a corporation.

Because it can be applied to more than 'flesh-and-blood' individuals, Goffman's 'definition' of Impression Management is examined in Chapter 2.2.3

### **2.2.3 Goffman's 'Definition' of Impression Management**

Although the term 'Impression Management' does not occur until p.84 of Goffman (1959), he builds up a picture of what should be considered as its components. No distinct definition is provided but the

scene is set for the remainder of the book in this extract from the Introduction:

*...Regardless of the particular objective which the individual has in mind and of his motive for having this objective, it will be in his interests to control the conduct of the others, especially their responsive treatment of him. This control is achieved largely by influencing the definition of the situation which the others come to formulate, and he can influence this definition by expressing himself in such a way as to give them the kind of impression that will lead them to act voluntarily in accordance with his own plan. Thus, when an individual appears in the presence of others, there will usually be some reason for him to mobilize his activity so that it will convey an impression to others which it is in his interests to convey. (ibid. p. 15-16)*

When these comments are related to the rest of the book (i.e. Goffman, 1959), it becomes clear that they are consistently applied to each dramaturgical scene that Goffman outlines; and, although he does not provide the equivalent of a dictionary definition, the paragraph cited from Goffman (1959; p.15-16), when applied to situations that occur within the text, encompass what may pass for one. As Goffman (1959) progresses and eventually by the end of the book, the reference to 'individual' has changed to 'Self' (see Chapter 2.2.2).

Because of the link with Goffman (1959) in the Impression Management papers examined and also his place within current business research (see Table 2.3 below), as is implied in Chapter 2.2.3 his 'definition' is adopted for the purposes of the current study, in particular the analysis that will be presented later in the empirical Chapters.

Indeed, as may be seen in Table 2.2, if the word 'management' is substituted for 'the individual', Goffman's phrasing can be revisited, revised and suggest a type of impression management that may be found in prelims.

**Table 2.2 Goffman’s ‘definition’ of Impression Management expressed in the context of prelims**

<b>Goffman’s description</b>	<b>Suggested connection to the Preliminary Announcement</b>
the particular objective which the individual has in mind	To maintain or create a favourable impression of the company in the eyes of stakeholders. <sup>2</sup>
His motive for having this objective	To avoid undesirable activity in existing secondary finance or non-activity in the uptake of proposed new finance
it will be in his interests to control the conduct of the others	To retain the allegiance of current stakeholders (perhaps including an increase in their stakeholding) or to attract new stakeholdings.
especially their responsive treatment of him	The disposal of shares based on the latest results
This control is achieved largely by influencing the definition of the situation which the others come to formulate	Management try to manage the impression of the company in the eyes of stakeholders
he can influence this definition by expressing himself in such a way as to give them the kind of impression that will lead them to act voluntarily in accordance with his own plan	By anticipating the way in which stakeholders will react to the news of the actual financial results, management will (a) not comment on figures that are poor (b) divert attention to something that has improved over the accounting period or, (c) portray the future as being something worth waiting for (whether or not the poorer results have been subjected to obfuscation)
there will usually be some reason for him to mobilize his activity so that it will convey an impression to others which it is in his interests to convey	Annual results which existing or potential stakeholders may find unacceptable; perhaps, at the very least, the preservation of their position within the company or group.

### **2.2.4 Addressing Potential drawbacks in using Goffman’s ‘definition’**

The first point to make is that Goffman’s background is one of Sociology and not business. This may suggest that he is more concerned with

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<sup>2</sup> Management may wish to underemphasise results that are better than expected, e.g. as part of a defence against a hostile bid, but this type of impression management is not being considered as part of the current research. It may form part of a later investigation.

continuing, face-to-face encounters than with those that take place via accounting narrative on an annual basis.

*A counter to this is that, when Goffman is applied to Business, and particularly Accounting (see table 2.3), his observations remain relevant when contextualised.*

A second point to consider is that the main part of his work dealing with impression management, Goffman (1959), esp. Chapter 6, is couched in the metaphor of dramaturgy<sup>3</sup> which, arguably, might mirror the activities and speech patterns within an island community more than a principal-agent relationship within a company or group. The suggestion from this is that there is no guarantee that interpersonal impression management equates to commercial impression management.

*A response to this may be that Principal – Agent is still a personal relationship, although groups may be involved rather than simply individuals.*

A third factor is that Goffman wrote in the 1950s which may suggest that his research and conclusions on impression management, i.e. Goffman (1959), ch. 6, no longer stand or that they need to be updated. *A counter to this is that, when Goffman is applied to Business, especially Accounting (see table 2.3), his observations remain timely when contextualised.*

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<sup>3</sup> According to the Shorter Oxford Dictionary, **dramaturgy** is 'A theory which interprets individual behaviour as the dramatic projection of a chosen self.'

**Table 2.3 Discussion of the use of Goffman (1959) in Accounting and Auditing studies**

Item	Source	Field	Goffman (1959) mentioned
1	Neu, D. (1991)	Auditing	(1) ; p.297
2	Neu, D., and Wright, M. (1992)	Auditing	(1) ; p.653
3	Aerts, W. (1994)	Financial Reporting	(1) ; p.341
4	Graves et al. (1996)	Financial Reporting	0
5	Pentland, B.T. and Carlile, P. (1996)	Auditing	(4); p. 272; p. 275; p. 281; p. 283;
6	Neu, D., et al. (1998)	Financial Reporting	(1) ; p.269
7	White and Hanson (2002)	Financial Reporting	(16) considered individually (in Discussion).
8	Hooghiemstra, R.B.H. (2003)	Financial Reporting	(1) ; p.27
9	Power, (2003)	Auditing	0 but note terminology used (in Discussion).
10	Guillamon-Saorin et al. (2005)	Financial Reporting	(1) ; p.3*
11	Skaerbaek, P. (2005)	Financial Reporting	(3) ; p. 387-88; p. 388-89; p. 399
12	Osma and Guillamon-Saorin (2009)	Financial Reporting	(1) ; p.7

Analysis of Goffman citations takes the form of a quotation from the research source (to establish context) and a discussion of the citation and the use to which 'Goffman' has been put. A conclusion is then provided which summarizes the use to which Goffman (1959) has been put and whether or not the use is tenable.

Each part of the analysis refers to Table 2.3 by item number (i.e. 1 to 12); a page reference and quotation from the research source then a brief discussion of how Goffman (1959) has been employed.

1. [p. 297]: Embedded within social expectations are the starting role expectations that individuals bring to new interactions (Goffman, 1959).

These role expectations provide individuals with hypothetical rules of conduct that specify one's obligations (how one is expected to act) and one's expectations (how one expects the other party to act) (Goffman, 1967).

Discussion: Chapter 4 of Goffman (1959) covers 'Discrepant roles' but the 'embedded... starting role expectations' appears to be an attempt to summarize part of Goffman's dramaturgy, as the phrases do not appear in Goffman (1959). That may be why a page number has not been provided.

2. [p.653]: The formation of the Macdonald Commission can be interpreted as an attempt by the profession to provide an alternative discourse to that presented by the Estey Commission. Paraphrasing Goffman's (1959) dramaturgy metaphor:

*This strategy allows the CICA to "set the stage", to select what play will be performed. It also allows the CICA to be the casting director; to select the dialogue, to select the characters and to determine which characters will get speaking and nonspeaking parts. Taken together, control over these facets of the play allows the CICA to enact its preferred story; to define, deny or accept responsibility for the discrediting event as they wish.*

Thus, it appears that the Macdonald Commission allowed the profession to focus attention away from the CCB failure toward a less threatening general issue – in essence changing the topic of discussion away from the source of the potential stigma.

Discussion: As it was not possible to access the report(s) of the Macdonald Commission, it could not be determined whether the 'paraphrasing' was that of the Committee or that of Neu and Wright. In any event, an interpretation of Goffman rather than a direct quotation has been used.



3. [p.341]: Visibility and recent performance have been argued to be factors that motivate self-presentational behaviour. Greater visibility and formal (external) public evaluation (for instance due to quotation on the stock exchange) increase the size of the audience and may heighten the actor's awareness of its public image and consequently may encourage verbal impression management behaviour (Goffman. 1959; Leary & Kowalski. 1990: Morrison & Bies.1991). The more the company's recent performance differs from a desired score. the more top management is likely to be concerned with the consequences of this state of affairs on the image of the company and the more management is motivated to manage impressions ( Leary & Kowalski. 1990: Schlenker. 1980: Staw at al.. 1983). Both motivational factors are expected to influence the size of the accounting bias.

Discussion: The phrase 'verbal impression management' does not occur in Goffman (1959) and it would appear that Aerts (1994) is not citing Goffman (1959) directly but reinterpreting him using a stock exchange as a backdrop.

5. [p. 272] In any kind of face-to-face interaction, individuals engage in some degree of impression management (Goffman, 1959). This is true whether the interaction occurs in public or a highly institutionalized setting (Goffman, 1961).

Discussion: This first of four examples appears to be a safe but not too incisive interpretation of Goffman(1959). As it is the first of four citations, it is likely that the researchers are simply setting the scene.

5. [p. 275] Although most respondents seemed quite candid in their views, and most of the data has a distinctly "backstage" flavor to it (Goffman, 1959)

it would have been desirable to supplement the research with observations of actual audits.

Discussion: The word 'backstage' occurs approximately 80 times in Goffman (1959) but it is on p. 114 that Goffman provides a definition:

*A back region or backstage may be defined as a place, relative to a given performance, where the impression fostered by the performance is knowingly contradicted as a matter of course. There are, of course, many characteristic functions of such places. It is here that the capacity of a performance to express something beyond itself may be painstakingly fabricated; it is here that illusions and impressions are openly constructed. Here stage props and items of personal front can be stored in a kind of compact collapsing of whole repertoires of actions and characters.<sup>7</sup> Here grades of ceremonial equipment, such as different types of liquor or clothes, can be hidden so that the audience will not be able to see the treatment accorded them*

It may be inferred in this second example that the researchers are interpreting the word in a Goffmanesque way in that the revenue officers are likely to be presented with views that are both controlled and may not be completely truthful. Due to the lack of specific page numbers, it is perhaps implied that the reader should be aware of Goffman (1959).

5. [p.281] Performing legal research diverges from the basic face-to-face expression game by introducing "back-stage" activities (Goffman, 1959) that occur during the course of the game. This reinforces the observation that the audit game can be played in multiple settings and by multiple players. This is especially true in the case of larger audits, where teams of auditors are often involved. Nonetheless, legal research is like an uncovering move, because it can provide the revenue agent with justification for reinterpreting the taxpayer's actions or records in a new light.

Discussion: this is the second occurrence of Goffmanesque terminology, the explanation in keeping with the previous word (p.275) but with an apt application of Goffman (1959) to a taxation audit i.e. where a 'self' needs to be presented in such a positive way that the revenue will not query the presentation received by them.

5. [p. 283] This analysis suggests that both taxpayers and revenue agents are engaged in impression management that is vital for the completion of the audit. There are at least two games going on at once because each party to the audit is attempting to maintain a front (Goffman, 1959). The payoffs in these games are not merely economic, because, in addition to the facts of the case, the identity of the participants is at stake. Revenue agents need to live with themselves and keep their jobs, which means that they cannot allow their identity as fair, competent individuals to be undermined. Taxpayers, whether honest or not, have similar needs that extend beyond their pecuniary interest in the outcome of the tax computation. If we accept these objectives as a significant part of the game, it is difficult to imagine computing an optimal strategy for either party.

Discussion: 'Front' is used more than 160 times in Goffman (1959) and is defined on p.32 as:

*It will be convenient to label as 'front' that part of the individual's performance which regularly functions in a general and fixed fashion to define the situation for those who observe the performance. Front, then, is the expressive equipment of a standard kind intentionally or unwittingly employed by the individual during his performance.*

This is the third time that a different description (i.e. front) has been used in describing impression management by the researchers. The scenario appears to suit Goffman's terminology as it is, literally, a 'face-to-face' encounter.

6. [p. 269] Using Goffman's (1959) dramaturgy metaphor, narrative disclosures in annual reports allow managers to stage and direct the play they wish their publics to see, to pick the characters, to select the script and to decide which events will be highlighted and which will be omitted (cf. Neu & Wright, 1992, p. 659). And as the design literature notes, these textually-mediated discourses can be used to send the "right message" (Pettit, 1990) to relevant publics and to "shape the way various publics 'know' or 'feel' about the corporation" (Preston et al., 1996, p. 115).

Discussion: The researchers borrow Goffman's 'dramaturgical metaphor' to interpret 'narrative disclosures in annual reports' without a defense of the transition from 'face-to-face' interactions.

7. There are 16 distinct mentions of Goffman (1959) in this paper. However, only those that relate to the transition from the 'human' self to the 'corporate' self are included here.

7. [p.290] So to develop the application of his work to collective actors such as corporations and to the encounters between corporations and individuals from which reputations emerge, we need to lift that preemptive assumption of 'human nature'. Goffman himself had suggested that possibility. Thus he all but defined the 'self' as far more than an embodied individual:

*In analysing the self...we are drawn from its possessor, from the person who will profit or lose most by it, for he and his body merely provide the peg on which something of collaborative manufacture will be hung for a time. And the means for producing and maintaining selves do not reside inside the peg; in fact these means are often bolted down in social establishments....There will be a team of persons whose activity on stage and in conjunction with available props will constitute the scene from which the performed character's self will emerge, and another team, the audience, whose interpretative activity will be necessary for this emergence. The self is a product of all of these arrangements,*

*and in all of its parts bears the marks of this genesis (Goffman 1959/1974, p. 245).*

Discussion: This quotation from Goffman (1959) is fundamental to the argument that the concept of 'self' can be separated from 'its possessor'. To use a dramaturgical allusion, a part in a play is distinct from the actor who plays or reads it. A comment from Goffman's 1982 presidential address allows a 'behind the scenes' observation:

*Nor do I subscribe to the notion that face-to-face behavior is any more real, any less of an arbitrary abstraction, than what we think of as the dealings between two corporations (Goffman, 1983)*

The implication is that while Goffman did not consider 'dealings between two corporations' to be face-to-face behaviour, he did not consider the latter to be superior as a type of interaction.

7. [p.292] If the self is situational, then the key factor in any face-to-face encounter is *"the maintenance of a single definition of the situation, this definition having to be expressed, and this expression sustained in the face of a multitude of potential disruptions"* (Goffman, 1959/1974, p. 246). On the shift of scale from personal identity to corporate reputation or from face-to-face to textual encounter, the same difficulty should be found in the reports.

Discussion: At first, this comment seems rather contradictory, if the 'textual encounter' is seen as a static announcement that is received in the same way by all recipients. However, if the readers of a company report are seen to be variegated in nature, each is unlikely to receive or interpret a company report in exactly the same way. This situation then equates to Goffman's 'multitude of potential disruptions'.

7. [p.294] 'Strategic' secrets ... are the *"intentions and capacities of a team which it conceals from its audience in order to prevent them from adapting effectively to the state of affairs the team is planning to bring about"* (Goffman, 1959/1974, p. 141).

7. [p.294] 'dark' secrets consist of facts about a team which it knows and conceals and which are incompatible with the image of self that the team attempts to maintain before its audience. Dark secrets are, of course, double secrets: one is the crucial fact that is hidden and another is the fact that crucial facts have not been openly admitted (Goffman, 1959/1974, p. 141).

Discussion: Bearing in mind the transition between personal identity and corporate reputation that White and Hanson (2002) have already argued, these 'strategic' and 'dark' secrets are a development of the impression management which could be carried out by a corporation or a 'team' within the corporation. White and Hanson (2002), given the topic of their paper, may be considering more nefarious manipulation of public opinion. Nevertheless, covert manipulation of financial announcements (i.e. impression management) could also be covered by these 'secrets'.

7. [p.297] Any interaction involves some discrepancy between a constructed impression and the material and processes entailed in its construction. Such a gap, of course, is particularly acute in the case of the discreditable. To describe it, Goffman borrowed the concept of 'dirty work' from interactionist studies of workplaces: *There are many performances which could not have been given had not tasks been done which were physically unclean, semi-legal, cruel, and degrading in other ways; but these disturbing facts are seldom expressed during a performance. ... We tend to conceal from our audience all evidence of 'dirty work,' whether we do this work in private or allocate it to a servant, to the impersonal market, to a legitimate specialist, or to an illegitimate one* (Goffman, 1959/1974, p. 53).

Discussion: White and Hanson (2002) cite Goffman (1959) as support for the belief that it is unlikely that the existence of 'dirty work' will be admitted to an 'audience'.

The use of Impression Management *could* be interpreted as a form of corporate advertising, i.e. making the company or group look as good as possible (cf. McKinstry, 1996; Graves et al., 1996). Alternatively, it *could* be interpreted as a result of 'dirty work' i.e. the manipulation of narrative (by exclusion, repetition, placement or diversion) to convey or maintain a pre-defined performance of the prelim or the prelim Highlights.

8. [p. 27] The primary aim of impression management is to be viewed by others as oneself desires, generally speaking, as favourable as possible. Goffman was one of the first to recognise the importance of impression management in everyday life. In his book, *The presentation of self in everyday life* (1959), he pointed to the importance of impression management for "face-maintenance", i.e. for regulating the perceptions other people have of a person. The importance of face is that it is highly influential in social interactions: they will determine how other people see, and hence treat you.

Discussion: A definition of impression management is given without citation. Citing Goffman (1959) after the definition may lead a reader to infer that the definition originates in that work. 'Face-maintenance' is an interpretation of Goffman (1959) not a citation as the phrase does not occur in that work.

9. The following incidence of words might suggest a theoretical link to Goffman (1959) but Goffman is neither cited or mentioned:

The word 'backstage' is mention four times; front or front stage is mentioned twice; 'face' is also mentioned twice; interactions or interaction ritual is mentioned four times.

Discussion: Presumably because of the Goffmanesque language used in this research, Skaerbaek (2005; p.390) suggests that Power utilizes Goffman's 'dramaturgical perspective' but this is an implication as, despite the similar

terminology, there is no internal evidence that such a utilization has taken place. White and Hanson (2002) are not cited in the paper: the terminology used cannot, therefore, be said to support Goffman(1959) applied to a corporate self.

10. [p. 3] From this perspective, managers use corporate voluntary disclosures (for example, press releases) to present a self-interested view of corporate performance. Goffman (1959:240) uses a metaphor to explain the process of managing information, '*Narrative disclosures in annual reports allow managers to stage and direct the play they wish their public to see, to pick the characters, to select the script and to decide which events will be highlighted and which omitted*'. The current study focuses on potentially misleading practices.

Discussion: Unfortunately, the (mis)quotation from Goffman (1959), was taken from Neu et al. (1998) which is one of the dangers of writing 'after the style of' Goffman.

11. [p.387-88] In explicating reporting behaviours, Erving Goffman's Frame Analysis (1974) may be apt because his sociology is developed to study the strategies of how one presents one's self to others. In his dramaturgical sociology (Goffman, 1959) he uses the theatre metaphor, creating ideas using comparisons to performers, audiences and especially to the strategic conduct of performers in their efforts to perform impressively. However, in Frame Analysis, Goffman plays down the importance of the theatre metaphor and develops the idea of social interaction as being organised by primary frameworks as the one to guide behaviour. In his study of everyday life he introduces how primary frameworks in active constructions may turn into different meanings and understandings, perhaps blurring our interpretations of everyday life. Applying such an orientation to the study of reporting practices is apt because it provides an opportunity to be better informed



regarding the thoughts and actions of those who produce annual reports as a means of presenting themselves to others.

Discussion: Goffman (1959) is mentioned almost as an aside. The main argument is based on Goffman's 1974 work which argues from a perspective of a 'primary framework'. This idea may be worth pursuing but an investigation of the validity of 'applying such an orientation to the study of reporting practices' is beyond the scope of the current thesis.

11. [p. 388-89] Using Goffman's dramaturgical sociology (Goffman, 1959) to study why the University chose to produce different reports with very different appearances is especially suitable because it deals with the issue of how performers project certain images of themselves in order to look good in the eyes of a select, powerful audience. He uses a dramaturgical setting to describe how audiences do their best to get beyond the performance, actively seeking to establish whether the performance is sincere or perhaps a misrepresentation. While Goffman's dramaturgical principles can be aptly applied to a general understanding of annual reports as something to be suspicious of, they also leave Goffman's view of 'reality' and 'misrepresentation' vulnerable to post-modern critique.

Discussion: Skaerbaek cites White and Hanson (2002) on page 390 but appears to assume that the reader is familiar with their argument (see discussion on point 7). Having not offered an argument of his own, he appears to 'beg the question' when he states that 'Goffman's dramaturgical principles can be aptly applied to a general understanding of annual reports...'

11. [p. 390] Power suggests that Goffman's dramaturgical perspective may be of assistance in the study of 'paperwork' such as annual reports because it: *even in electronic form, mediates the front and back stage of a practice as an active*

*process of erasing mess and of scripting a rational, defensible and legitimate 'face'* (Power, 2003, p. 386).

Discussion- This is an assumption by Skaerbaek who attributes Power's statement to Goffman: although the terminology is similar, Goffman is not cited in Power (2003) – see discussion on point 9.

## 12.[p.7] 2.1. *Impression management in accounting*

The origin of impression management research is generally attributed to Goffman (1959). Goffman explains impression management as the way in which managers manage impressions of themselves on their audiences. Impression management serves the basic psychological human need of self-presentation (Schlenker, 1980). Hooghiemstra (2000, p. 60) defines it as a field of study "*within social psychology studying how individuals present themselves to others to be perceived favourably*". From this broad perspective, both individuals and organizations can try to bias the information they provide in an attempt to manipulate the image third parties have of them (Leary and Kowalski, 1990).

Discussion: While the comment 'Goffman explains... on their audiences' may be defended from the text of Goffman (1959), there appears to be a transition from 'individuals' to 'both individuals and organizations' with no argument for the new inclusion as Leary and Kowalski, 1990, has no such argument.

## Conclusion

Of the twelve Accounting/ Auditing research papers, only those four dealing with Auditing have an *a priori* claim for the use of Goffman (1959). Pentland and Carlile (1996) deal with taxation audits where there is usually a face-to-face encounter, allowing unambiguous citation of Goffman (1959). Arguably, two other auditing papers (Neu, 1991; Neu and Wright, 1992) could record

the possibility of a mixture of 'encounters', both personal and representational. It could be argued that both types are covered in Goffman (1959), but the case is not as strong as Pentland and Carlile (1996). The fourth auditing study (Power, 2003) uses Goffman-like language but, other than that, there is no citation of Goffman (1959).

In the four Auditing studies there is little evidence of the application of Goffman (1959) to a corporate 'Self'. Therefore their use of Goffman (1959) is not considered as being germane to this thesis.

The other eight papers deal with financial reporting which, by definition, is more concerned with 'corporate self'. However, there is no argument provided in six of the papers (3, 4, 6, 8, 10, and 12) for a transition from personal to corporate self when using Goffman (1959): by the indiscriminate citation of Goffman (1959), there appears to be an assumption that impression management is transferable between both types of 'self' without providing justification.

Only two of the twelve papers (7 and 11) provide a basis for using Goffman (1959) in terms of a corporate 'self' or identity. Arguing from Goffman (1959) itself, a most convincing and theoretically robust basis is proposed by White and Hanson (2002) which is both cited and assumed in his argument by Skaerbaek (2005). Based on the evidence of the corporate validity of Goffman's (1959) 'Self' supplemented by a declaration made in Goffman (1983), the appropriateness of a 'corporate self' is established and is used throughout the remainder of the thesis.

The following Chapter section examines more closely Goffman's dramaturgy and how it may be related to the current thesis.

### **2.2.5 Goffman's Dramaturgy**

Goffman has been described as a symbolic interactionist, (Tseelon (1992, p.116). 'Symbolic interactionism sees the self as a set of ideas acquired and maintained in relationships with others. The individual is seen in a person-made (symbolic) environment which he or she shares with others, and which is composed of social objects defined in terms of agreed on behaviour or plans of action ...Through interaction with others and the manipulation of symbols, a "world" is constructed.' (Locatelli and West, 1996, p.14).

Goffman uses the symbols of 'dramaturgy' as the encompassing metaphor for the social scientific research found in his 1959 work.

While Chapter 6 in Goffman (1959) deals with impression management specifically, there are several dramaturgical terms used in other chapters of Goffman (1959) that could apply directly to an investigation of GO2 (See Chapter 1). These metaphors or 'notions' are defined in this Chapter section and the possibility of applying them to primary communications from directors to shareholders are explored both currently and later in the discussion. If a connection can be made between Goffman (1959) and the communication that takes place in preliminary announcements, this will be a major step in establishing the existence of impression management in company announcements. The terms discussed here, in relation to the current research, are:

- Front
- Idealised front
- Initial projection
- Collective representation

### **How Goffman's 'Front' may relate to the current research**

Early in Goffman (1959) the author brings the term 'front' to the reader's attention. In p.28 he proffers a brief definition of the term: '*put[ing] on [a] show 'for the benefit of other people'*'. Later, on p.32, he uncovers another level associated with the word: *Front...is the expressive equipment of a standard kind intentionally or unwittingly employed by the individual during his performance.* Note that Goffman does not use either term in a pejorative sense.

For the purposes of the current research, in an attempt to apply 'front' to corporate financial communication, there are at least two scenarios which have been identified in prior research where:

1. A 'front' could be equated to an impression which suggests that financial results are better than those of the previous period (to management, analysts or 'the shareholder') but are not. This may be due to the fear of disinvestment by investors or non-recommendation by analysts (e.g. Skinner, 1994; Cornell, 2001).
2. A 'front' may exist where an attempt is made to divert attention away from an 'unsatisfactory' set of figures/events by the use of obfuscatory narrative (e.g. Courtis, 2004).

The next term to be examined in this Chapter section is 'Idealised Front' and may be considered to be a more specific development of the term 'Front'.

### **How Goffman's 'Idealised Front' may relate to the current research**

Goffman (1959), p.43, extends the use of a 'front' to situations where there is...

*'the tendency for performers to offer their observers an impression that is idealized in several different ways.'* He stresses the ceremonial aspect of a repeated presentation, where people expect a standardised front.

An example of this, as far as a quoted company is concerned, may be a tendency for some company executives to report good news instead of bad, for example, evidence found by Abrahamson and Park (1994), from a

US perspective and Clatworthy and Jones (2003, 2006) from a UK perspective. This notion will be examined and developed in the empirical Chapters later in the thesis. The third term is 'Initial Projection' and is considered in Chapter 2.2.7.3.

### **How Goffman's 'Initial projection' may relate to the current research**

A more substantial quote is given here as this term applies to more than one Chapter of the current research.

*'In noting the tendency for a participant to accept the definitional claims made by the others present, we can appreciate the crucial importance of the information that the individual initially possesses or acquires concerning his fellow participants, for it is on the basis of this initial information that the individual starts to define the situation and starts to build up lines of responsive action. The individual's initial projection commits him to what he is proposing to be and requires him to drop all pretences of being other things. As the interaction among the participants progresses, additions and modifications in this initial informational state will of course occur, but it is essential that these later developments be related without contradiction to, and even built up from, the initial positions taken by the several participants. It would seem that an individual can more easily make a choice as to what line of treatment to demand from and extend to the others present at the beginning of an encounter than he can alter the line of treatment that is being pursued once the interaction is under way.'* (pp 21 - 22)

Although the idea of 'first impressions' will be examined more closely when the subject of Highlights in the preliminary announcement is presented, prior research has shown that that companies may try to maintain a favourable portrayal of:

**Image**, (McKinstry, 1996; Preston et al.,1996, by the placement of colour photographs). **Results**, (Beattie and Jones,2002, through the use of potentially misleading graphs) and **The disclosure of environmental liabilities** and the expression of environmental commitment to the environment, (Bansal and Clelland, 2004).

Although part of this prior evidence does not relate to narrative announcements, the conclusion of that research is indicative of the fact that impression management may be taking place in certain areas of the reporting process.

The fourth and last example is a development of the first two and is considered in Chapter 2.2.7.4 under the heading of 'collective representation'.

### **How Goffman's 'collective representation' may relate to the current research**

Once more, the words of Goffman (1959) are a good starting point:

*'In addition to the fact that different routines may employ the same front, it is to be noted that a given social front tends to become institutionalized in terms of the abstract stereotyped expectations to which it gives rise, and tends to take on a meaning and stability apart from the specific tasks which happen at the time to be performed in its name. The front becomes a 'collective representation' and a fact in its own right.'* (p 37)

If the above definition is adapted to a business context, there is a suggestion that there may be a tendency for company results, regardless of their level of 'success', to be presented in a good light. The analysis of data for each of the major narrative sections within the preliminary announcement will seek to show that there is statistical evidence to suggest that this takes place.

### **2.3 Reinterpreting prior literature through a Goffman lens.**

From a consideration of the above, and Goffman (1959) as a whole, the suggestion appears to be that the impression given, or persona portrayed, by an individual is almost always in the control of that individual, changes to the front only being made when adverse feedback is received. It is also clear that the front (or 'act') is unlikely to be the individual's true nature due to the fear of non-acceptance. The following details suggest a correspondence between individuals and groups (i.e. company management) by examining against a corporate backdrop, some of the terms used by

Goffman. In Chapters 2.3.1 and 2.3.2. there is a reinterpretation of the terms 'front' and 'idealised version of the front' in terms of accounting research. Chapter 2.3.3 suggests a link between 'front' and 'first impressions' while there is an examination in Chapter 2.3.4 of the work of theorists who presented research into impression management subsequent to Goffman.

### **2.3.1 Front**

Goffman used the term 'Front' (supra) but for the purposes of financial reporting research, it is suggested that an equivalent term would be 'corporate identity'. Lee, 1994; McKinstry, 1996, in the UK, Graves, Flesher and Jordan, 1996, in the US, suggest that companies are moving from reporting historical financial data to providing more of a corporate brochure. This 'drift' appears to be encouraged by two factors:

(1) the 'competition' amongst quoted companies, on both sides of the Atlantic, to rank highly in privately sponsored Annual Reports listings (e.g. those held by Accountancy Age in the UK). And (2) the 'competition' for places in an analyst's portfolio (e.g. Bhushan, 1989; Marston, 1997; Hussain, 2000).

### **2.3.2 Idealised version of the Front**

Research has shown that the 'Idealised version of the front' may be maintained by not reporting certain unfavourable results. For example, Chan and Milne (1999) approached the 'idealised version of the front' from the perspective of environmental information. They found that poor environmental performance was not disclosed unless there was an enforcing legal requirement. Investors tended to react strongly and negatively against the poor environmental performer for both long and short-term investment: there was a tendency to disinvest in the companies that Chan and Milne describe as 'environmental sinners'.

There appears to be a greater incentive for the management of 'failing firms', rather than 'non-failing' firms, to adopt accounting policies that will mask performance problems according to Sharma and Stevenson



(1997). On the other hand Stocken (2000) suggests that due to the penalties associated with a lack of credibility as far as voluntary disclosure is concerned, managers will tend not to mislead investors in their communications: provided the truthfulness of the assertions can be substantiated via the accounting report.

In short, there appears to be the suggestion of an almost involuntary Impression Management constraint on disclosure if it is perceived by management to be harmful to either themselves or the company. This would fit in with, even if does not mirror, the 'idealised version of the front'.

### **2.3.3 Link between 'Front' and First Impressions**

When a 'front' is portrayed to an 'audience', the first impression given may determine how future interactions are interpreted by both parties. The importance of 'first impressions' is investigated by Rabin and Schrag, (1999). They show that individuals appear to have a bias built into their reasoning processes. The authors define this as a 'confirmatory bias' which leads people to interpret new information as a reinforcement of pre-existing beliefs or hypotheses. They further show that tenacious holding of initial hypotheses can lead to either a misplaced confidence that one course of action is superior to another or even that something is true when evidence may be adduced that it is, in reality, false. The authors combine the concepts of Agency and Signalling in their proof. The former concept is presented in a minor way (e.g. p.27) but the latter extensively throughout the paper. An examination of the text reveals that their work is based on logic rather than on laboratory tests which means that their findings should apply to simple decision processes involving principals, agents and the signalling that takes place between them. One of the more important proofs is found in Rabin and Schrag (1999, Appendix 1) which concludes: *'This means that the probability of misreading is independent of the strength of the signal.'*

If their study is applied to prelims (as a signal or a group of signals), it may be that voluntary narrative need not supplement the accounting figures but

may successfully communicate a signal that differs from a reasonable reading of the figures. This is explored in Chapters 5 and 6, especially with respect to forward-looking words.

Complementary to Rabin and Schrag (1999) is a body of research which shows that people's choices between risky prospects does not conform to expected utility theory. There is a tendency to give more weight to low probabilities and less to higher (especially Kahneman and Tversky, 1979). The implication from the results of the research is that the sample size selected by the (usually) non-professional decision-maker is too small to be able to reach a tenable statistical decision. An example of this would be where a person tosses a coin three times and obtains three heads. They may illogically believe that there is more chance of a tail being obtained in the next throw. Taking the use of this terminology into account, there are ex ante implications for prelims: Restricted or incomplete information in the first section of a prelim may cause hypotheses to be formed which are not easily dislodged (even with more information presented in the remaining part of the prelim) and investment decisions may be made based on the impression given. Such a section may be the Highlights section (analysed in Chapter 6) in that it is a type of self-contained executive summary within the Prelim (where it is present). This method of presentation may suggest that the information is in some way complete, although it has been ostensibly summarised.

#### **2.3.4 Subsequent important impression management theorists**

##### **Schlenker (1980)**

Schlenker (1980) attempts to write an introduction to Impression Management which unites the work carried out by the symbolic interactionists (e.g. Goffman, see Chapter 2.2.2) and the work done by experimental social psychologists. There appears to be a representation of Goffman (1959) with little additional theory added but with a suggested taxonomy of usage, the basics of which are employed in Chapters 5 and 6.

Schlenker (1980) regresses from Goffman's 'Self' back to 'individuals'; however, he uses the terms associative and dissociative (p. 105 ff) to describe reactions that are evoked in individuals by desirable outcomes and undesirable outcomes respectively. From the opposite perspective (p.161 ff), he introduces the concept of 'acclaiming' which originates in people putting themselves forward as being wholly responsible for desirable events.

In keeping with the usage of Schlenker (1980), the term 'dissociative' is used in Chapters 5 and 6 of the current thesis to describe attempts made by management to distance themselves from certain, usually poorer, financial results. The term 'acclaiming' is used in the same chapters to describe attempts by management to emphasise certain, usually better, financial results.

#### **Leary and Kowalski (1990)**

Leary and Kowalski (1990) present a literature review of Impression Management using a two-tier perspective that differs from Goffman and Schlenker. *Impression motivation* and *impression construction* (Leary and Kowalski, 1990, p.35) are the terms used to describe the components of Impression Management. The first term (involving three factors, *ibid.* p.36) describes the 'why?' of Impression Management and the second (involving five factors, *ibid.* p.36) describes the 'how?' This appears to be a development of Goffman (1959) at least from an experimental perspective. However, given the rather restricted situation that exists within a principal-agent relationship (i.e. that exists within a UK plc), the Impression Management tends to be restricted to questions of 'what?', 'where?' and 'when?' for which a 'yes/no' style of questioning is more suited. This means that Leary and Kowalski's development of Goffman is not particularly suitable for the current research.

#### **2.3.5 Conclusion on major Impression Management researchers**

Figure 2.1 suggests that not only Schlenker (1980) but also Leary and Kowalski (1990) consulted the works of Goffman (1959) as part of their research. In depth examination of these three cited works suggests that

Goffman explains more of the individual components which combine to create the practice of impression management; and it is therefore with his 'definition' that the current thesis proceeds.

Chapter 2.4 deals with nine behavioural theories which help to locate and explain the occurrence of impression management, particularly within prelims.

## **2.4 Behavioural Theories**

There are four specific behavioural theories (S1 to S4) which help to identify impression management in prelims and, in turn, contribute to an explanation of its occurrence.

### **Specific theories**

- S1 Halo and reverse halo effect
- S2 (Myopic) loss aversion
- S3 Procrastination (Intertemporal choice)
- S4 Von Restorff effect

### **2.4.1 Discussion of Specific theories**

S1 The Halo (or Reverse Halo effect) exists where the quality of one attribute of a company is assumed by the observer to share the same or a similar quality level with other attributes of similar importance (O'Donnell and Schultz, 2005; Brown and Perry, 1994).

An implication for prelims is that a Halo effect may be set up or maintained by the strategic use of narrative. For example, the use of 'acclaiming' impression management in large or profitable companies may create or reinforce the image that a company is likely to always make profit or remain independent or large. Similarly, 'dissociative' impression

management may be used to distance a large or profitable company from a poor profit performance.

Identification of 'acclaiming' impression management will be undertaken in both larger companies (e.g. FTSE100) and those companies whose performance has improved since the previous year. Prelims of larger and more profitable companies will also be scrutinised for evidence of 'dissociative' impression management in the under-reporting of bad news.

S2 *Myopic loss aversion is the combination of a greater sensitivity to losses than to gains and a tendency to evaluate outcomes frequently.* Thaler et al. (1997; p.647)

Rabin and Thaler (2001) show that myopic loss aversion also suggests that different decisions may be made depending on the most recent financial results affecting the investment. That is, if the company's performance has improved, the investor may make a different decision depending on the type of improvement that takes place i.e. whether the company makes a smaller loss, moves from a loss to a profit or makes a higher profit.

As far as prelims are concerned, companies may use 'dissociative' language in connection with poor performance to avoid a bad impression being left in the minds of investors.

S3 According to Frederick et al. (2001), procrastination or, more widely defined, intertemporal choice originated with Rae (1834). A more tractable version is found in Samuelson (1937) where it is described as discounted utility (also known as the D-U model).

One of the main constituents of the D-U model is that new alternatives presented to an individual tend to be integrated into plans that are already formulated. However, in the same way that Prospect theory bypasses changes in lifelong wealth for short-term decisions (Kahneman and Tversky, 1992), modern interpretations of intertemporal choice treat each new opportunity as stand-alone (Frederick et al., 2001).

An implication for prelims is that, depending on the language used, the latest announcement may be seen by investors as unconnected with the rest of their portfolio (if they have one). This type of segregation allows procrastination to be introduced by presenting forward-looking prospects in such a way that attention is diverted from current poorer results.

Prelims will be scrutinised for the presence of forward-looking announcements especially in connection with the existence of bad news.

S4 This behavioural theory takes its name from Hedwig von Restorff who originally conceptualised it in a paper published in 1933 (in German). Despite never being publicly translated into English, works by Wallace (1965) and Hunt (1995) capture the essential nature of the theory.

Von Restorff conducted experiments on the recognition of differences within lists which used a combination of symbols and numbers as individual items within each list. However, if the list could be scanned before participants noticed the anomaly within the list, i.e. the 'oddball' was placed somewhere in the middle of the list, 'perceptual salience' i.e. a recognition that something was 'different' would be used to identify the item concerned without the need to employ memory. She found that she could eliminate 'perceptual salience' by moving the 'oddball' item towards the beginning of the list when the ability to recognise the item would depend more on memory of the item rather than on just being different from the other items in the list. She showed with repeated experiments that when compared to other items in a list, 'oddball' items placed at the beginning of a list stuck in the memory of participants.

Interpreted for prelims, it states that if the directors want a fact to be remembered it should stand out from the rest of the announcement by being placed at the beginning. In the case of a prelim, a comment made at the beginning of the announcement (e.g. a 'headline' statement) might be enough to ensure that it is remembered.

Statements or assertions announced as 'headlines' at the beginning of prelims will be examined for the existence 'acclaiming' or 'dissociative' impression management.

## **2.5 Prior Empirical Research into Impression Management**

### **2.5.1 Introduction**

There has been a growing body of research based upon the reasons for and the content of voluntary disclosures in the accounting literature (e.g. Aerts, 1994; Jones and Shoemaker, 1994; Botosan, 1997; Beattie et al., 2000, 2002). Where voluntary disclosures, especially narratives, are concerned there is the danger of bias creeping into the delivery. This bias may be the result of apparent obfuscation or it may be unintentional; nevertheless, controls need to be put in place to ensure that investors (and others) are not misled by what has been termed "impression management" (see Chapter 2.3 and Schlenker, 1980; Neu 1991 and 1992; Beattie and Jones, 1998 ff.).

It has been suggested that the wrong impression may be left if, for example, a graph does not reflect the underlying information in the correct way (Tufte, 1983, 1990, 1996; Jones and Beattie, 2002). However, on examining narrative disclosures, a different problem arises. There is no equivalent of 'Graph Theory' against which narratives may be measured, controlled or corrected. That is why a 'content analysis' type of investigation needs to be carried out - to determine whether or not there is a bias in voluntary narrative reporting. It has also been suggested that the preparers of annual reports may be influenced, in the content and presentation of voluntary narrative reporting, by whether it has been a 'good' year or a 'bad' year (Adelberg, 1979; Bettman and Weitz, 1983; Aerts, 1994).

Discretionary narrative disclosures from a content analytical perspective, in particular the Chairman's Statement, were examined by Smith and Taffler (1992, 2000). They concluded (2000) that the Chairman's

statement includes significant information with regard to the financial health of a company, '...once the narrative is appropriately analysed.' (p 639). Their research is not a study of impression management per se, but suggests that where information is delivered in a way which may confuse the non-specialist, intentional obfuscation cannot be ruled out.

Companies that consistently perform well are likely to employ more prestigious market analysts. Prior research has established that there may be a link between earnings announcements and analysts (Day, 1986; Lang and Lundholm, 1996; Ho and Harris, 2000; Bowen, Davis, Matsumoto, 2002) and, as far as the UK is concerned, investment analysts appear to be the historic reporting audience of the plc (e.g. Marston, 1996, 1999). The desire to retain an analyst's services may be connected to the incidence in a prelim of 'good news', some of which may be a result of impression management.

### **2.5.2 Empirical research into Impression Management from an Accounting Perspective**

Given the number of empirical papers dealing with accounting and impression management, Appendix 2.1 contains a table that presents a brief review and main conclusions of papers that are relevant to the current research from the perspective of narrative reporting or of impression management, or both.

Some of the studies included in Appendix 2.1 deal with graphs or graphics. While they are important in establishing the existence of impression management in annual reports, they are not the main focus of the current thesis. Prelims are principally concerned with narrative reporting and studies of that type which are included in Appendix 2.1 are discussed in this Chapter section with particular reference to the current thesis.

A positivist methodology is the predominant choice for most of the papers in Appendix 2.1 that deal with narrative reporting. As may be seen from the rationale supplied in Chapter 4, this is the methodology adopted for the current thesis.



Most of the papers included in Appendix 2.1 deal with annual reports and it appears that there is a trade-off between the part of the annual report that is being examined and the sample size. Adelberg (1979), for example, examines four narrative sentences from annual reports but has evidence supplied from a combination of over 3,000 accountants and analysts. At the opposite end of the trade-off spectrum Beattie et al. (2004) examines the narrative sections of the full annual report of 11 companies from the same FTSE sector.

Calculations covering sample size are made relating to the current thesis and included in Appendix 4.1. Also included in Chapter 4 is the justification for a research method which removes as much interpretation as possible until the resulting data have been collated. This means that the papers dealing with attribution (e.g. Clatworthy and Jones, 2003; Aerts, 2005) while providing necessary input to this thesis, move beyond the research method of this study.

The use of behavioural theories to identify the existence of impression management in the current thesis (see Chapter 2.4.4) avoids the use of user interpretation. This thesis seeks the identification of impression management from a preparer's perspective (see Chapter 4). Omitting user impressions means that potential confusion between intended and actual impressions is avoided.

### **2.5.3 Conclusions on Prior Empirical Research into Impression Management**

There appears to be evidence to suggest that some form of impression management is taking place in annual reports and the current research seeks to extend that to preliminary announcements of UK plcs.

Although some of the papers reviewed cover graphs and graphics, the current research only deals with narrative reporting. Of those papers dealing with narrative reporting, there are some whose implicit methodology and stated methods are considered relevant for this thesis:

(a) Clatworthy and Jones (2003, 2006) focus on Chairman's Statements. Their list of words used to assist in determining whether narrative is used in a good/positive comment or a bad/negative comment is incorporated in empirical work in Chapters 5 and 6.

(b) Part of the investigation of Hussainey et al (2003) deals with an examination of reported narrative relating to the future. Their list of words is also used in empirical work in Chapters 5 and 6.

(c) Hussainey et al. (2003), and Beattie, McInnes and Fearnley (2004), because of their use of computer software in content analysis, are also cited in Chapter 4 which covers Methodology and Methods.

## **2.6 Prior empirical research into voluntary disclosure**

To allow the formation of testable hypotheses in later empirical Chapters, prior research into some major determinants of voluntary disclosure is discussed in this Chapter section.

### **2.6.1 Structural Variable: Size**

Usually used as a control variable, *size* is the first metric to be examined. In this thesis, however, size is not considered as a control but is defined in terms of market capitalisation which, in turn, is determined by the FTSE indices used with reference to the London Stock Exchange. The expectation is that there are differences in the extent of disclosure made each FTSE index, i.e. FTSE100, FTSE250 and <FTSE350 companies, respectively.

A link between company size and the extent of annual disclosure has been found on more than one occasion (e.g. Buzby, 1975; Cooke, 1991; Wallace et al., 1994; Meek et al., 1995; Street and Gray, 2002; Tauringana and Mangena, 2006), and will be used to formulate hypotheses on the basis of company size.

### **2.6.2 Performance Variable: Profitability**

It might be expected that there is always a monotonic relationship between profitability and voluntary disclosure but that may not

necessarily be the case. There is research which establishes a positive relationship (e.g. Singhvi and Desai, 1971; Tauringana and Mangena, 2006); and research where the results are considered to show neither a positive nor a negative relationship (e.g. Wallace et al., 1994; Raffournier, 1995; Inchausti, 1997). Unless there is ample evidence to the contrary, the assumption is made in later empirical Chapters that there is a positive association between profitability and the level of disclosure.

### 2.6.3 Performance Variable: Change in Profitability

The logical assumptions made under this heading depend on whether there is an increase or a decrease in the level of profit or loss from the previous year. Table 2.4 outlines the expectations:

**Table 2.4 Expected reporting results from a change in profitability**

<i>Profit or Loss Movement</i>	<i>Expectation1</i>	<i>Expectation2</i>
Greater profit	increase in good news	decrease in bad news
Smaller profit	decrease in good news	increase in bad news
Loss to Profit	increase in good news	decrease in bad news
Profit to loss	decrease in good news	increase in bad news
Smaller loss	increase in good news	decrease in bad news
Greater loss	decrease in good news	increase in bad news

As forward-looking announcements may or may not be objective, they are not included in expectations at this stage.

## 2.7 Conclusion

To date, there has been little research carried out on preliminary announcements and even less using content analysis from an impression management perspective. Also, there has been little published research on the application of behavioural economics to accounting announcements. This thesis is an attempt to fill these gaps. The research involves UK quoted companies at a time when changes to company law were afoot, i.e. in the year to October 2002. Keeping all this in mind, the literature was reviewed in

preparation for an investigation of the existence of impression management within the prelims of UK plcs.

The concept of 'impression management' was examined from empirical Accounting Research. As the definitions used (See Table 2.1) did not appear to be complete, Goffman (1959) was reviewed and a definition was adopted from that source (see Chapter 2.2.3). In addition, the terminology used in Goffman (1959) was revisited in terms of extant accounting research and a correspondence was established. Goffman (1959) was also reinterpreted by White and Hanson (2002) who argued the case to identify Goffman's 'Self' with 'corporate identity' which allowed the thesis to develop. Also examined were the developments of Goffman found in the writings of Schleicher (1980) and Leary and Kowalski (1990). Although both of these seek to develop Goffman (1959), Schleicher (1980) categorises impression management using terms such as 'acclaiming' and 'dissociative' which will be useful for the empirical Chapters of this thesis (i.e. 5 and 6).

Four individual Behavioural theories were examined in an attempt to identify the methods of locating and identifying impression management within Prelims. These are used extensively in Chapters 5 and 6 (i.e. Prelims and Prelim Highlights, respectively).

35 empirical studies were examined in an attempt to ascertain the existence of impression management in the production of graphs and, more importantly, narrative within annual reports. Most of the papers were of assistance in contributing to both methodology and method. In particular, Clatworthy and Jones, 2003 (Paper 27), was developed in both scope and extent. The scope involved the replacement of a single statement (the Chairman's Statement) with the full preliminary announcement; the empirical investigation covered an extended examination of all 'improving' and 'declining' comparative results. Both of these developments are intrinsic to the contribution to knowledge made by this thesis

## Appendix 2.1 Summary of Empirical impression management Research in Accounting

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
1	Adelberg, 1979, USA	Narrative sections of the Annual Report (1974 and 1975)	16 corporations x 4 'messages' (1. Non-standard format footnotes 2. Standard format footnotes 3. Qualified audit reports 4. Management analyses)	1536 Certified Public Accountants (CPAs) and 1536 (Chartered Financial Analysts (CFAs)	Cloze Readability then using a Pearson Product-Moment correlation on the results	Does readability vary with EPS change ?	The level of understandability of the type of message varied directly with the change in earnings per share from 1974 to 1975 to a statistically significant degree for 1. and 3. Comment on Findings: Although not impression management per se, there is a suggestion that different levels of earnings link directly to the readability of annual report narratives.
2	Taylor and Anderson, 1986, USA	Graphs from Annual Reports	Seven pairs of Graphs	An indeterminate number of 'commercial loan officers at banks all over the United States.'	The loan officers were asked for their perceptions of company performance (with no access to financial statements or the other graph in the pair)	Personal perception of performance based on graphs	The results <b>didn't</b> show that adjustment of a graph's external shape...is likely to mislead users of financial data (p. 135). Comment on Findings: The results run contrary to most other empirical graph work. However, the evidence is one of 'perception' rather than 'scientific' therefore adds to the methodological contention for positivism in data analysis (see Chapter 4).

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
3	Neu, 1991, Canada	... a review of institute publications ... for ten years, in-depth interviews, ... discussions ... as well as ad hoc ... observation for a period of three years	Case study of Canadian public accounting profession over a 10 year period	One	Questionnaires	Different types of content analysis	Impression management is used to foster the good reputation of CAs. The uninformed see the same impression management as protectionist in nature. Comment on Findings: These results are limited in scope and are based on questionnaires (i.e. qualitative rather than quantitative).
4	Beattie and Jones, 1992, UK	Graphs from Annual Reports (March 1989)	Heuristic	240	Inclusion or exclusion of graphs based on EPS (Profit on ordinary activities after tax (increase or decrease)) Similarly for Favourable vs. Unfavourable measurement distortion	Chi <sup>2</sup> test	Its main findings are that (1) graphs are widely used, (2) companies with 'good' performance are significantly more likely to use graphs, (3) measurement distortion is significant, and (4) the effect of measurement distortion is generally to portray the company's performance more favourably. Comment on Findings: If thesis expectations are met (see Chapter 4), these 'graph' results should be confirmed by 'narrative' prelims.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
5	Neu and Wright, 1992, Canada	Articles pertaining to the Canadian Commercial Bank from an electronic database search of the Canadian Periodical's Index (1985 - 1988)	A single case study of the Canadian Commercial Bank	One	Stigma management	Documentary Interpretation	Stigma management strategies assist in diffusing legitimacy challenges. Comment on Findings: If Stigma management strategies may be equated with 'dissociative' impression management, this research would be an indication of possible results from prelims or prelim highlights; although the evidence here is not extensive.
6	Beattie and Jones, 1994, UK	Annual Reports of Charities (i.e. Not for Profit organisations) (most up-to-date reports by 1991)	Heuristic graphs	47	Anticipated visual perception of statement users	Descriptive statistics coupled with mathematical analysis of pie charts in particular	No evidence is found that graph usage is contingent upon either the existence of a surplus/deficit or admin expense level Comment on Findings: The results here are unlikely to have any effect on the narrative investigation in the current thesis.
7	Abrahamson and Park, 1994, USA	Annual Reports (1989)	President's Letter	1,118	Frequency of Negative Words in President's Letters	Means, Standard Deviations, Correlation, Regression (problem with multi-collinearity)	The greater the decline in ... and lower the financial performance, the greater the disclosure of negative organizational outcomes in the president's letter . Comment on Findings: These results would suggest that there may be a positive result from the testing in Chapters 5 and 6.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
8	Aerts, 1994, Belgium	Voluntary Annual Reports (1983)	Narrative Sections	50	Coding of narratives for attributional content ...	Descriptive statistics, t-test, ANOVA, correlation	On average, companies attributed positive effects more to internal (79%) than to external sources. A more balanced picture was obtained for negative effects. Comment on Findings: Although concerned with attribution, the results suggest that narrative reporting may be influenced by management depending on the message they wish to portray;
9	Graves et al., 1996, USA	Annual Reports (1928 - 1957)	Heuristic Graphic images	14 companies (x 3 years) = 42 (p.79)	Picture use in annual reports	Interpretation of the use of images in the light of accompanying narrative	visual design in U.S. annual reports constitutes a form of rhetoric asserting the "truth claims" of the reports. Such truth claims relate not only to the values expounded in the text or projected in the pictures, but to those residing in the accounts themselves. Comment on Findings: Although graphics are the main focus in this paper, their use suggests impression management in annual reports which would support a contention that it is likely to take place in narrative form in prelims.



	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
10	McKinstry, 1996, UK	Burton Group's Annual Report (1930 - 1994)	Heuristic Graphic images	40	Examination of narrative and design and the company's use of a presentation 'formula'	Historical review	<p>the self advertisement of boards and companies is not subject to regulation; however, it derives much of its credibility from the regulatory basis of the audited statements that accompany it, while at times, putting a gloss on the underlying realities they contain. (p.110).</p> <p>Comment on Findings: If this 'gloss' is a reflection of management's desire to portray a 'good image' it would support the existence of the 'affirming' type of impression management mentioned in section 2.4.</p>
11	Pentland and Carlile, 1996, USA	Records of Interviews with Revenue Agents (1987)	Non-accounting narratives	142	Narrative analysis in the context of an 'expression game'	See conclusion; no specific method advocated	<p>The tax audit interaction appears to be unique to the properties and constraints of each audit. (p.284).</p> <p>Comment on Findings: There is no specific finding that may be applied to the current research.</p>

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
12	Preston et al., 1996, USA	Images within annual reports	Selected graphics (to coincide with Baudrillard, 1983) <sup>4</sup>	Four annual reports (PepsiCo, Northern Telecom, Progressive, Corporation, Tambrands)	Use of graphics to convey an intended corporate message (their 'first way of seeing')	Interpretation of images in the light of accompanying narrative	Our intention is to <b>open a critical dialogue</b> focusing upon the images in annual reports with the recognition that these images are an important means by which corporations seek to represent themselves to various publics. Comment on Findings: The coverage is not of sufficient size to make a significant contribution to the work contained in this paper.
13	Beattie and Jones, 1997, USA and UK	Annual Reports (1990)	Heuristic Graphs	176 (USA - 85; UK - 91)	evidence of graphical information manipulation in the form of selectivity. measurement distortion. and presentational enhancement.	Hypothesis testing using a two-tailed t-test of the difference between means (graph usage between US and UK) chi-square tests of independence between topic graphed and country.	... General support for hypothesis 3 that companies in both countries would use interpretative shading to enhance users' perceptions of performance. Companies were more likely to include graphs when performance increased rather than decreased. both in terms of EPS and the particular variable graphed. Companies were also more likely to exaggerate rather than understate time trends. giving a generally more favourable view of performance than was warranted by the data.

<sup>4</sup> Baudrillard, J., Simulations (New York: Semiotext(e), 1983).

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
13							Comment on Findings: Although based on graphs, the results are in support of the general expectations of impression management
14	Courtis, 1997, Hong Kong	Annual Reports (1992-93 Sample 1 and 1994-95 Sample 2)	Heuristic Graphs	Sample 1 - 140 Sample 2 - 114	Different indices of measurement distortion were used to identify the nature and incidence of misleading graphs. ...	Basic statistical analysis of results (i.e. no attempt to extrapolate results)	That 52% of all graphs presented do not conform to orthodox construction techniques is a significant and alarming finding of the study. Comment on Findings: The results suggest that management may display data in a way that has more to do with appearance than an accurate representation of the underlying results.
15	Neu et al., 1998, Canada	Annual Reports (1982 - 1991)	Environmental Reports	330 observations from 33 companies (2 Chemical, 10 Mineral Extraction, 15 Oil and Gas, and 6 Forestry)	The relation of the Number of 'environmental' words to profit/not profit (1/0) and a debt/equity ratio, firm size etc.	Multiple regression	The concerns of shareholders as measured by PROFIT were associated with increased levels of environmental disclosures during unprofitable years (i.e. the coefficient is -51.29). But this did not hold for debt/equity ratio. Comment on Findings: The disclosures associated with profitability tend to support the potential for impression management.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
16	Beattie and Jones, 1999, Australia	Annual Reports (1991)	Heuristic Graphs	100 top cos in ASE	evidence of graphical information manipulation in the form of selectivity, measurement distortion, and presentational enhancement.	Chi square tests	Evidence is found that graph use is contingent upon favourable performance. A range of design strategies are employed which is consistent with the adoption of an impression management schema.
17	Mather et al., 1999, Australia	IPO Prospectuses (prior to 31/12/1993)	Heuristic Graphs	484	Selectivity of graphs. ... Consistent with prior studies, H1 is tested using the chi-square test.	Chi square test	Results show that firms enjoying improving profit performance are significantly more likely to include graphs of key financial variables in their prospectuses than firms suffering deteriorating profit performance. Comment on Findings: Although dealing with graphs, this evidence tends to lend support to the existence of impression management in annual reports.
18	Arndt and Bigelow, 2000, USA	Annual Reports of Hospitals (Massachusetts, 1982-1989)	Narrative analysis and Questionnaires to Hospital CEOs	78	Narrative coding/content analysis for excuses, justifications, disclaimers and concealment	Bilateral narrative analysis with little statistical summary	All hospitals in the study used a type of defensive impression management exclusively in presenting the new corporate structure. Comment on Findings: The narrative suggests evidence of impression management.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
19	Beattie and Jones, 2000, 6 countries	Annual Reports (1993)	Heuristic Graphs	300	[inter alia] association of graph inclusion /distortion with company performance	One-tailed chi square test	Overall, this study suggests that, in certain countries, financial graphs are used selectively and exhibit measurement distortion. This ... gives a more favourable view of financial performance than is actually warranted which supports the expected use of impression management that may be found within prelims.
20	Clarke and Murray, 2000, UK	Annual Reports of Investment Trusts (date not specified)	Chairmen's survey	63 responses (covering 84 trusts)	Perceptions of overall contribution of Chairmen's Statements in the annual report	Basic statistics based on Likert Scale	There were no statistically significant differences between sample and population members on the basis of turnover or annual percentage change in profit. Comment on Findings: Use of perception response and Likert Scale means that any results are going to be of limited use in the current research.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
21	Godfrey, Mather and Ramsay, 2000, Australia	Annual Report (1992-1998)	CEO changes	63	Reporting profit differences in the year of resignation and the next year (appointment of another)	Mann-Whitney	Change in the Net Profit/Total Assets ratio is significant (10%) ...; The mean unexpected accruals is negative in the year of a CEO change and is significantly different from zero ( $p < 0.10$ ); As H2a predicts, in the period following a CEO change, the mean unexpected accruals are positive, and significantly different from zero ( $p < 0.01$ ). Comment on Findings: Use of statistical evidence and non-trading influences on the reporting of accounting results supports the current research.
22	Hooghiemstra, 2000, Netherlands and International perspective	Annual Reports (Shell 1995 - 1999)	Environmental Reports	5	Examination of a case study in dealing with corporate image in the light of ecological problems	Review rather than statistical analysis	[not very convincing] both the corporate communication as well as, e.g., the legitimacy perspective view corporate social reporting as a means to influence people's perceptions. Comment on Findings: Although this may fall into line with expectations, results limited to case study, in turn, limits their applicability and scope.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
23	Aerts, 2001, Belgium	Annual Reports (1983-90)	Narrative section (Report of the Board of Directors)	176 (the same 22 companies, for the most part, over 8 years)	Existence of 'attributional' statements [assertive and defensive egocentric biases; assertive and defensive accounting biases; length attributions; density attributions]	Content analysis and coding of 'attributional statements' followed by regression analysis of how they vary over an eight year period	Overall the results confirm a significant degree of consistency in the attributional content of accounting narratives over time. Evidence of an inertial effect of company listing status and performance history was convincingly present as to the assertiveness aspects of attributional behaviour and as to the differential use of accounting language in the explanation of financial Accounting outcomes. Comment on Findings: Although much of the paper deals with 'attribution' there is robust statistical evidence of relevant research which are directly applicable to the current research.
24	Beattie and Jones, 2002a, 6 countries	Annual Reports	Heuristic Graphs	50 reports from each country	IM not mentioned	Two-tailed chi; one-tailed t-test	Comment on Findings: Paper mainly descriptive - not entirely relevant to IM studies

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
25	Beattie and Jones, 2002a, UK	Graphs	Graphs constructed with differing levels of distortion	52	Visual perception of differences in graph slope (Likert Scale)	t-tests	Suggestion that the vast majority of users would not notice a 5 per cent level of measurement distortion whereas a 20 per cent level and above would be noticed. At the 10 per cent level, evidence is mixed. Comment on Findings: Although not dealing with narrative, there is evidence of impression management being used in graphs in UK companies.
26	Beattie and Jones, 2002b, UK	Annual Reports (yr to 31/3/89)	Graphs used in Annual Reports (yr to 31/3/89)	[Section 1 and 2 - 52 2 <sup>nd</sup> Year students] Section 3 - 240	Graph Slope parameters	Correlation (sales at 5% level)	Financial graphs with large slope parameters are likely to be perceived as portraying stronger growth than those with small slope parameters. Comment on Findings: See comments on 25.



	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
27	Clatworthy and Jones, 2003, UK	Annual Reports (1997)	Chairman's Narratives	100	Quantity of good news and bad news related to company performance	Two-tailed t-test	<p>Companies with improving performance concentrate on good news rather than bad. However, declining performers do not discuss and analyse the nature of, and reasons for, poor performance. At best, they discuss both good and bad news equally; at worst they focus on good news.</p> <p>Comment on Findings: Use of keywords for both good news and bad will be a prime input for the current research. Methodology and methods are similar especially with the use of improving and declining company performance. However, both of these categories may need to be expended to locate and identify examples of impression management.</p>

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
28	Hooghiemstra, 2003, Netherlands, Japan and USA	Annual Report (1994 - 2000)	Letters to shareholders (or, in absentia, management reports)	278 i.e. 2 reports for 139 companies (35,52,52)	Incidence of Causal attribution	Count regression Logit regression	Despite that managers in general engage in self-serving attributional biases when they explain company results, he sees cultural differences arising between the three countries. Comment on Findings: The results provide evidence for announcement of good and bad news.
29	Beattie, McInnes and Fearnley, 2004, UK	Annual Reports (Food Distribution), 1999	Narrative portions	11	Amount and spread dimensions of disclosure quality	Regression; Pearson correlations	SubH (Herfindahl index for 79 sub-topics) significant at 5% level when compared with NonEmp (number of Non-empty sub-topics). Comment on Findings: Although limited in the number and class of company examined, the results suggest that a similar type of investigation carried out in the current thesis may provide a more extensive and complementary analysis.
30	Courtis, 2004, Hong Kong	Annual Report, Interim Report and Prospectus (1997)	Narrative sections	60	Low reading ease scores and high variability (using Flesch)	Chi square and Wilcoxon Z	... Weak evidence of an association between obfuscation and 'bad' news. The overall conclusion ... and 1998 findings ... there is no systematic evidence to indicate that obfuscation is being used as a tool to deliberately deceive readers.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
30							Comment on Findings: The deals principally with readability but the results do not provide further evidence of the existence of impression management within accounts.
31	Stanton et al., 2004, Australia	Annual Report	One retailer (June 2001 y/e)	120 (students: 90 accounting 30 marketing))	Likert scale on impressions of 3 different levels of the same report (a modified concise report; the concise report; and the full report)	Ranked average and ANOVA	No significant differences between any of the groups suggesting that the perception of the retailer's performance was the same for each of the three levels of report [4 hypotheses] Comment on Findings: Use of Likert Scale and 'impressions' means that this paper adds little to the current thesis.
32	Aerts, 2005, Belgium	Annual Report (1997)	Size, profitability level, group structure	95 listed 92 unlisted	Comments related to change in financial performance	t-tests; regression analysis	Listed companies use more attributional statements than unlisted .... Not biased towards positive news: ... Listed companies exhibited a higher degree of defensiveness in explaining negative accounting outcomes. (These statements were qualified - see page 514) Comment on Findings: The research involving the change in financial performance will be of prime importance for the thesis.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
33	Guillamon-Saorin et al., 2005, Spain and the UK	Annual Results Press Release (ARPR) (2000)	Keywords (see Clatworthy and Jones, 2003)	172 (71 Spanish, 101 UK)	The number of positive and negative keywords in relation to the length of the press release	t-test	Evidence supporting the selectivity of positive qualitative information (keywords and statements) and positive quantitative information (amounts in general and the best profit figure in particular) rather than negative information to be included in the ARPR is very strong. Comment on Findings: Although not having the robustness of preliminary announcements, the press releases examined in this paper will help to support the current research carried out on a purely UK population.
34	Ogden and Clarke, 2005, UK	Annual Reports of Water Companies (1990-1998)	Narrative sections	78 (6 years x 10 plus 2 years x 9)	10 themes relating to customers	Basic averages; interpretation of content analysis	The above analysis has demonstrated the variety of ways in which the water plcs deployed both assertive and defensive impression-management techniques in their corporate reports in pursuit of the new organizational legitimacy they wished to acquire. Comment on Findings: Good examples of different types of impression management used to convey the desires of management.

	Name, Date, Country	Instrument	Type of Item(s)	Sample size	Instrumental measurement of IM	Method Regression etc.	Findings that may have relevance for the current thesis
35	Clatworthy and Jones, 2006, UK	Annual Report (1995 or 1996)	Chairman's Statement	100 (top 50 and bottom 50 ranked in terms of change in profit before taxation)	Verbosity; Use of personal pronouns; inclusion of key financial variables	Two-tailed t-test + median test	The direction of five out of six results is consistent with the presence of impression management in the chairman's statement. ... Comment on Findings: Results are very much in line with paper 27.

## **3 The Preliminary Announcement in UK Corporate Communication**

### **3.1 Introduction**

The literature review (see Chapter 2) indicates the need to examine the structure and the content of preliminary announcements. This Chapter examines the structure, content and the place of preliminary announcements, in UK financial reporting. It also reviews major policy documents that have been produced with respect to them. The Chapter is, therefore, a necessary step towards answering the research questions and achieving the general objectives presented in Chapter 1.

There are two main themes that run through this Chapter. The first is the content of the preliminary announcement and the second is the changing focus on the preliminary announcement and its timing by policy makers.

A working definition of 'preliminary announcement' is provided in Chapter 3.2. This is followed by Table 3.1 which traces a timeline of the preliminary announcement, covering both origin and significant developments. The basic format of the preliminary announcement is covered in Chapter 3.3 while Chapter 3.4 outlines the practice, potential and problems associated with the preliminary announcement, in particular its treatment in the Company Law Review. Chapter 3.5 details how this Chapter helps with the planning of the rest of the research.

### **3.2 Definition of Preliminary Announcement:**

To place the preliminary announcement in its historical setting, a working definition is now provided:

*Preliminary figures: a company's full-year results, declared as a prelude to the publication of the annual report and accounts.*

This short definition is provided by Keasey, Hudson and Littler, 1998, p.307, and will be developed when empirical research on preliminary announcements is presented in Chapters 5 and 6.

Although there has not been an official pronouncement by the Financial Services Authority regarding the exact meaning of ‘preliminary announcement’, the above working definition is in accord with a brief statement on the content of preliminary statements made by them (FSA, 2005, section 9.7.2).

To place the preliminary announcement in its historical context, its origin and development is presented in Table 3.1.

**Table 3.1 Origin and Development of the preliminary Announcement**

Date	Event
1830	Company announcements were...pinned up on noticeboards in the Stock Exchange for the first time. <sup>1</sup>
1960a	The “Enunciator” screen, displaying headlines electronically replaced the noticeboards on the Exchange floor. <sup>1</sup>
1960b	Key announcements from ‘Bellwether and SE30’ companies (which would become FTSE100) began to be projected onto a screen on the Exchange floor. <sup>1</sup>
1986	The Exchange enabled market users to view full text announcements on the Company News Service (CNS) and summaries on the Edited Text News Service (ETNS). <sup>1</sup>
1988a	The Exchange split its news services into two distinct services... The full text service was re-named Regulatory News Service (RNS) and remains the London market’s official news outlet. <sup>1</sup>
1988b	Direct Input Provider (DIP) was introduced, enabling companies to deliver announcements to RNS electronically and, via RNS, to key vendor and market audiences. <sup>1</sup>
1992	The Financial Reporting and Auditing Group (FRAG) of the ICAEW issued a technical release (26/92) concerning preliminary statements. The main concern of the release was the apparent expectation gap which had developed with regard to the audit status of preliminary announcements. (Beasley et al., 1997. p.136)
1993a	A Revision to Admission to Listing (of the London Stock Exchange) in which the former Listing Rules moved away from the practice of considering preliminary announcements and half-yearly (interim) reports in combination.
1993b	The London Stock Exchange Listing Rules (then, paragraph 12.40) which required the publication of a preliminary announcement, were amended to require that auditors ‘agree’ to the issue of the preliminary announcement, in order to prevent potentially misleading announcements being made against the wishes of auditors. (Bagshaw, 1999, p.4)
1998a	Accounting Standards Board (1998) offered examples of ‘best practice’ for the publication of preliminary announcements
1998b	Proposed review of Company Law announced
1998-2001	Various reports of Company Law Review published

<sup>1</sup> <http://www.londonstockexchange.com/en-gb/products/irs/rns/aboutrns/ourhistory.htm> [accessed 22 September 2008]

Date	Event
2001	Final report of Company Law Review published; the Committee was unwilling to make the preparation of a preliminary announcement part of company law (CLR6, 2001, ch.8, p 24)
2005	Company Law Reform Bill published. Provisions for delivery to its website where a listed company produces a preliminary announcement (clause 407) .
2006	Companies Act 2006 published. No details included regarding preliminary announcements
2007a	EU Transparency Directive becomes Law in the UK. [Mostly implemented through Companies Act 2006]
2007b	Based on Transparency Directive, FSA Listing Rules amended, changing the publication of a preliminary announcement from a requirement (FSA, 2005, section 9.7.1) to a voluntary basis (FSA, 2008b, section 9.7A.1)

The rules which apply to the current study are those which were in force at the end of September 2002. The only major change that was added after this date was changing the status of UK prelims from mandatory to voluntary, which, according to Deloitte (2009) has had little, if any, effect on the publication of prelims.

### **3.2.1 History of the preliminary announcement**

The first unofficial preliminary announcement was posted on the notice board of the London Stock Exchange in 1830. Although published from that time onwards, their format only moved towards an electronic format in 1960 when the 'Enunciator' replaced the noticeboards. In 1986, the London Stock Exchange allowed market users to view, for the first time, full text announcements on their Company News Service. It would be another six years after that until preliminary announcements came into focus again when, in February 1992, The Financial Reporting and Auditing Group (FRAG) of the ICAEW issued a technical release concerning preliminary statements. The main concern of that release was the apparent expectation gap which had developed with regard to the audit status of preliminary announcements. (Beasley et al., 1997. p.136).

In the following year, the London Stock Exchange Listing Rules were amended to require that auditors 'agree' to the issue of the preliminary announcement, in order to prevent potentially misleading announcements being made against the wishes of the auditors. (Bagshaw,1999, p.4)



The prospects surrounding the treatment of the preliminary announcement appeared to be favourable when the first stage of the CLR1 (1998) was published; by the publication of the final report, CLR6 (2001), the prospects were decidedly less favourable.

Chapter 3.4.2 describes the preliminary announcement's changing fortunes during the period of the Company Law Review i.e., from 1998 to 2001.

### **3.2.2 Summary of the Preliminary announcement's Progress**

Until the publication of the final report of the Company Law Review (CLR6, 2001), it appeared as though the preliminary announcement and its content were likely to acquire a position of singular importance with respect to the disclosure of UK quoted company results (cf CLR4, 2000, para 5.23<sup>2</sup>).

However, the planned conversion of the preliminary announcement into a statutory statement (CLR6, 2001, para. 8.72) was considered, after consultation, to be impractical. The main reason given for this was that 'the market's needs and those of small shareholders would not be served by the same information set.' (para 8.72 *ibid.*).

Although it was not to become Law, the preliminary announcement was still at the centre of recommendations for publication and circulation (CLR6, 2001, paras 8.80 to 8.99); however, despite the apparent interest in preliminary announcements, their *'regulation...in terms of whether they should be required and what should be their form, content and timing, should remain a matter for markets and market regulators.'* (CLR6, 2001, para 8.89).

This delegation of responsibility prevented any further consideration of the preliminary announcement either in succeeding White Papers (Company Law Review, 2002, 2005) or the legislation eventually emanating from the Company Law Review<sup>3</sup>.

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<sup>2</sup> Which contains the statement (inter alia) [if the prelim were made Law] 'In effect statutory prelims would then become the document to which all shareholders are automatically entitled.'

<sup>3</sup> i.e. the Companies Act (2006) which has only indirect references to preliminary statements (e.g. s.1270) most involving penalties incurred under a Financial Securities and Markets Act (2000).

### **3.3 Basic Format of the preliminary announcement**

The basic content of the preliminary announcement usually comprises two distinct portions: the full narrative section of the preliminary announcement (as analysed in Chapter 5) and the Highlights section, which approximates to an executive summary of the preliminary announcement (as analysed in Chapter 6).

### **3.4 Preliminary announcements: Practice, Potential and Problems**

Bagshaw (1999) wrote that the content of preliminary announcements, despite their significance, was subject to very little control (p.19). Since 1998, there have been isolated attempts both to address policy implications of the preliminary announcement, and also to consider its importance as a medium for company announcements. In many of the instances discussed in Chapters 3.4.1 to 3.4.8, there appears to be a dichotomy between appreciating the inherent value of the preliminary announcement and an apparent reluctance to promote it to a position of prominence in the field of company announcements.

#### **3.4.1 Preliminary Announcements (ASB, 1998)**

In terms of the information technology that was available when first published, Accounting Standards Board (1998) – hereafter, ASB, 1998 - offered examples of ‘best practice’. As long as there is, apparently, no policy of continuing revision of this Statement, the ‘examples’ must be reinterpreted against a background of the availability of constantly improving communication media (e.g. internet access).

There is also an implication that the division between preliminary announcements and interim accounts, introduced by the London Stock Exchange in the amendment to the Listing Rules in 1993 (see Chapter 3.2.1), still had not fully liberated the preliminary announcement, at least from the Accounting Standards Board’s perspective. The precedence still accorded to the ‘interim’ report may be observed in:

*The Exchange requires companies to include in their preliminary announcement at least the items required by it for a half-yearly report (i.e. interim report).*

ASB, 1998, Introduction.

i.e. the division between the Interim and the Prelim occurred in 1993 (see Chapter 3.2.1) but the above comment appears to make the content specification of the preliminary announcement once more depend on the 'Interim'.

A retrospective assessment of ASB, 1998, might suggest an ambivalence regarding the right of the investor to receive full information, although at the time of its original issue it may have been considered an advantage to investors to be presented with only the key aspects of a company's performance.

The following list (ASB, 1998, para. 23) illustrates this apparent restriction in the preliminary announcement's recommended contents:

- A **summarised** profit and loss account
- A statement of recognised gains and losses (FRS 3)
- A **summarised** Balance Sheet
- A **summarised** Cash Flow Statement

(emphases added)

It is also suggested (ASB, 1998, para. 26) that the information be presented in a **succinct**<sup>4</sup> manner.

In the Foreword, Sir Sydney Lipworth had stated:

*Preliminary announcements are relied upon to provide timely, **sufficient** and accurate information to ensure an orderly and efficient market.*

If the word 'succinct' is interpreted in a restrictive sense, there would be a dichotomy involving the use of the word 'sufficient' in the foreword and 'succinct' in paragraph 26. It could also be argued that the tension between reporting to Analysts (i.e. reporting that is *sufficient*) and reporting for the individual shareholder (e.g. reporting that is *succinct*) will continue to exist

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<sup>4</sup> according to the Shorter OED (1999), succinct means characterised by verbal brevity and conciseness

until a single method of reporting results that can satisfy both sets of users is adopted.

### **3.4.2 The possibility of Impression Management in the preliminary announcement**

The Accounting Standards Board addressed the dangers inherent in producing a preliminary announcement that is not 'balanced'.

The word '*balanced*' occurs three times within ASB (1998), once in terms of balancing the cost of preliminary announcement preparation against the benefit to be received by its publication (para. 9). The other two times it is used in the sense of *unbiased*:

1. An important feature of a preliminary announcement is a **balanced** narrative commentary that
  - explains the reasons for significant movements in key indicators and
  - indicates perceived trends within the business. (para 27)
2. ...The commentary is not intended to be as comprehensive as an operating and financial review (OFR). However, management should consider whether key issues normally referred to in the OFR should be included within the preliminary announcement (*albeit in less detail and focusing on areas of change*) in order to provide a **balanced** view and help users gain a better understanding of the company's business. (para 29)

From the use of this word, it would appear that the Accounting Standards Board had considered that there may be a possibility of bias or obfuscation in the preliminary announcement (regardless of the user-group) unless a measure of control was exercised by the preparers.

### **3.4.3 Distribution (of the preliminary announcement)**

Under the above heading, particularly in ASB, 1998, paras. 4 to 7, a suggested bias towards investment analysts is clear. Although some of the following points are still partly true, the technological background has

changed since the statements were made and it may be that the 'good practice' should be revised.

Financial analysts and institutional shareholders are put forward as the main targets of preliminary announcements (ASB, 1998, para. 4). While that is still true, there is a contrast with the 'other' shareholders. ASB, 1998, para. 6 states that it is not mandatory for preliminary announcements to be sent to shareholders; true in 1998, but the following statement in para. 6 is now surely an anachronism:

*'Other shareholders are less likely to be in a position to take advantage of the information on a timely basis.'*

An agreement with this comment really depends on taking a very restricted view of what is covered by *take advantage...on a timely basis*.

ASB, 1998, Paragraph 7 states:

*'Receiving a preliminary announcement after the market has reacted to that information is of limited use.'*

Again, this presumes a restricted use for the preliminary announcement, particularly biased in favour of analysts. On a positive note, ASB, 1998, para. 7 ends with an encouragement to use the internet to reach a wider audience<sup>5</sup>. But on a negative note, suggestions are made by which interested parties may receive details of the preliminary announcement, two of which are dependent on first receiving the interim announcement and the other two assume that sufficient detail may be obtained either in the press or by telephone! (ASB, 1998 para 8.)

### **3.4.4 Company Law Review - Summary**

On 4 March 1998 a proposed review of Company Law was announced. The aim was to create a business framework which was cost effective, efficient, modern and simple. There were a few different investigations and consultations, two white papers (2002, 2005) and draft legislation, which eventually became the Companies Act 2006.

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<sup>5</sup> This happened substantially with the passing of the Companies Act 2006 (HMSO (2006) Schedule 5 Part 3)

### 3.4.5 Company Law Review – Detailed Examination

As one of the proposed changes to company reporting, The Company Law Review Committee initially set the reporting of the preliminary announcement to be 70 days after the year end (CLR4, 2000, paras 5.23, 26). Along with the timing, the Committee invited comment from interested parties about whether or not the preliminary announcement should become part of UK Company Law (CLR4, 2000, Question 5.2, p.163).

Two facts emerged from the responses to this invitation. The first was that there was a division of opinion with respect to the adequacy of the 70 day time period<sup>6</sup> (CLR4, 2000, Responses – to Question 5.2).

Second, from the evidence of the respondents, 50% favoured the preliminary announcement becoming part of Company Law. Some respondents suggested, however, that its control be left in the hands of the UK Listing Authority, later to become part of the FSA<sup>6</sup>, (CLR4, 2000, *ibid.*).

The evidence for the preliminary announcement **not** becoming part of UK company legislation was provided by the ASB, ICAEW and the Law Society along with all of the larger accountancy firms and some of the medium-sized ones.

Proposals for the preliminary announcement becoming Law was put forward by some of the professional bodies (e.g. ICAS and ICAEW) and also by a few academics (e.g. Fearnley from Portsmouth, Jones from Cardiff)

The argument against the preliminary announcement becoming Law appeared to win out in the end because the Company Law Review/Reform Committee seemed to favour allowing the Accounting Standards Board/Stock Exchange to deal with the content of the preliminary announcement (CLR2, 1999, p.33)<sup>7</sup>.

Despite initially including a requirement for a listed company to produce 'a statutory statement of preliminary results' (CLR4, 2000, ch5\_1, p.13), after

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<sup>6</sup> See Appendix 3.1 for analysis of Responses

<sup>7</sup> It may be that a move towards the delegation to the Accounting Standards Board of the statutory powers of the DTI in relation to content and disclosure matters could be beneficial in allowing far more flexibility in the system of accounting and reporting. The Stock Exchange, for example, already has delegated powers in certain areas which has taken some rigidity out of the system.

considering the evidence received (see Appendix 3.1), the Committee were unwilling to make the preparation of a preliminary announcement part of company law (CLR6, 2001, ch.8, p 24)

The Company Law Reform Bill (2005) was produced as a result of the final deliberations of the Company Law Review committee. It had provisions for delivery to its website where a listed company produces a preliminary announcement (clause 407) but appeared to restrict the content of the preliminary announcement as follows,

*Clause 407 (4) A preliminary statement of the company's annual results means information published before publication of the company's annual accounts and reports that is or purports to be -*

- (a) a balance sheet as at the end of the financial year, or*
  - (b) a profit and loss account for the financial year,*
- whether on an individual or a consolidated basis.*

The availability of corporate communications by website has been retained in the Companies Act 2006 (esp. HMSO, 2006, Schedule 5 part 3) but the preliminary statement production is removed. There is therefore no direct reference to a preliminary statement of results in the Companies Act 2006.

### **3.4.6 Admission to Listing [until Jan 2007]**

Until the publication of the UK equivalent of the Transparency Directive (see Chapter 3.4.9), the regulations covering admission to the Stock Exchange (FSA (2005)) contained a section dealing with preliminary announcements (LR 9.7). Apart from the timing of publication, which was 'as soon as possible' but 'within 120 days' (9.7.1), the preliminary announcement should already have been 'agreed with the company auditors' (implying that it should have been audited) (9.7.2(1)(a)) which should have been a safeguard against misstatement, if not bias. Once more, the preliminary announcement content appeared to be dependent on the data required at the interim ('half-yearly') announcement stage (9.7.2(1)(b) and 9.9).

Between the above details and 9.7.2(2) (dividend details), there was a statement:

*[9.7.2(1)(d)] include any significant additional information necessary for the purpose of assessing the results being announced,*

the tenor of which is admirable but, rather like similar instructions for the interim announcement, lack of specific examples of the 'additional information' does not provide indication of what was in the mind of the FSA when they drafted this instruction.

### **3.4.7 Thinking 'small'**

On the one hand, the Accounting Standards Board considered that preliminary announcements were aimed at 'expert users' (ASB, 2000, p.22); nevertheless, in line with their prior recommendation (1998), the Board suggested that preliminary announcements should be made available within 60 days of the year end (ASB, 2000, p.31) and should be available on the company's website within the same time period. The former condition would tend to favour the 'expert user' but the use of the Internet for the latter condition would suggest a wider audience, i.e. 'non-expert'.

Although no follow-up appears to have taken place as a result of this publication, the thread running through publications leading to the Companies Act (2006) (i.e. the Company Law Review, 2001, and one of the resulting White Papers (Company Law Review, 2005) appears to be one of 'think small', presumably a reference to companies other than those that are quoted. By implication, this moves the focus away from 'expert users' and, as a consequence, the preliminary announcement from a prime consideration for reporting purposes.

### **3.4.8 Companies Act 2006**

When issued, The Companies Act 2006 did not prescribe the issue of a preliminary announcement, following the recommendation of CLR6 (2001). This is also in agreement with a subsequent piece of legislation, the Transparency Directive, which is discussed in Chapter 3.4.9.



### 3.4.9 Transparency Directive

A Transparency Directive from the European Union became part of UK Law on 20 January 2007. As a result of that legislation, the Financial Services Authority replaced Listing Rules 9.7 with 9.7A which states:

*9.7A.1 If a listed company prepares a preliminary statement of annual results:*

*(1) the statement must be published as soon as possible after it has been approved by the board;*

*(2) the statement must be agreed with the company's auditors prior to publication;*

*(3) the statement must show the figures in the form of a table, including the items required for a half-yearly report, consistent with the presentation to be adopted in the annual accounts for that financial year;*

*(4) the statement must give details of the nature of any likely modification that may be contained in the auditors report required to be included with the annual financial report; and*

*(5) the statement must include any significant additional information necessary for the purpose of assessing the results being announced.*

As far as the Listing Rules are concerned, it appears that there is no longer a requirement to produce a preliminary announcement: therefore, the time period changes from 120 days (see Chapter 3.4.9) to 'as soon as possible after it has been approved by the Board'. The change in time period effectively links the 'old' date of the preliminary announcement publication with the current requirement for the final accounts, i.e. 120 days (FSA, 2008a, para 4.1.3).

On the other hand, the London Stock Exchange (2006) outlines three reasons why the preliminary announcement should still continue:

*First, investors are very much in favour of them. Second, companies are used to publishing them and their systems are geared up to do so. Third, if they are preparing their annual results and discover a material piece of information, they will have to make an announcement without delay. Companies that do choose to*

*publish preliminary statements will be required to meet the existing content standards.* (para 3.4)

The third point is connected to European Union (2003) which, inter alia, deals with insider information. The UK equivalent is published as HMSO (2005) and appears under the heading of *Market Conduct* in FSA (2008c).

### **3.5 Setting the scene for the current research**

The sample of preliminary announcements will be examined in the light of ASB (1998) which remains both current and voluntary and the most recent ASB document issued in connection with the preliminary announcement.

The preliminary announcement sample selection will be taken from those plcs whose year-end falls in the period October 2001 to September 2002, to allow time for a full reflection of the Company Law Review arising from CLR6 (2001).

As the narrative content of the preliminary announcement is readily divisible into two distinct sections (i.e. Highlights and the remaining narrative sections), each should be analysed separately. The full prelim is examined in Chapter 5 and the Highlights are examined in Chapter 6.

The method of content analysis will be used to explore and document the nature and extent of data contained in the preliminary announcement

To ensure that both FTSE categories and the smaller companies are covered, a sample of prelims will be chosen from each. To permit conclusions to be drawn from a reasonably-sized sample, 100 companies are drawn from each of the three categories.

The preliminary announcement may have become optional (FSA, 2008b, para 9.7.A.1) but there is no doubt in the mind of the regulators that it is a necessary production of the UK plc. (London Stock Exchange, 2006, para 3.4). Given that latter fact, there is a need to examine the preliminary announcement in terms of Highlights and the full narrative to discover whether or not impression management is taking place at a statistically significant level.

## Appendix 3.1 Company Law Review question relating to the production of prelims

Taken from CLR4 (2000).

Question 5.2 Do you agree that:

- (a) listed companies should be required by statute to prepare and publish on a website a statement of preliminary results to give a fair statement of the results and financial position, this being done as soon as practicable and in any event within 70 days of the year end?

	Respondent	Statutory Publication		Website Publication		Timing	
		Yes	No	Yes	No	70 days	Not 70 days
1	B G Strand	Yes		Yes		Yes	
2	GLB Pitt	Yes		Yes		Yes	
3	Buddenbrook Consultancy	Yes		Yes		Yes	
4	York Place Company Services Ltd	Yes		Yes(*)		Yes	
5	J Brady	Yes			No	Yes	
6	ICSA	Yes		Yes(*)		Yes	
7	FAG Kay		n/a		n/a		n/a
8	JN Stevens	Yes		Yes		Yes	
9	KFJ Slade	Yes		Yes(*)		Yes	
10	ICAS	Yes		Yes			asap
11	Grant Thornton		Not addressed		Not addressed		various
12	Abbey National	Yes		Yes		Yes	
13	Accounting Standards Board		FSA		Not addressed	Yes	
14	Labour Finance and Industry Group	Yes		Yes		Yes	
15	Law Society		FSA		FSA		Not addressed

16	Pannell Kerr Forster		We have considerable reservations				
17	ACCA	Yes			Needs futher consideration	Yes	
18	ICAEW		FSA		FSA		FSA
19	Arthur Andersen		FSA		FSA		FSA
20	CBI		FSA		Not mandatory		
21	E Sternberg		Best practice		Best practice		Best practice
22	Railpen Investments		FSA		Encouraged		encouraged
23	IoD		Further work		Further work		Further work
24	Deloitte and Touche		FSA/ASB		Facilitate rather than require		FSA/ASB
26	Halifax plc		No - too much detail for non-specialist	Yes			Not addressed
27	GKN plc		Not addressed		Encourage rather than require		FSA
28	Law Society of Scotland	Broadly in agreement		Broadly in agreement			Doubts about timescale
29	London Society of Accountants	Yes			FSA		FSA
30	Kingston Smith		Encouraged		Encouraged		Not addressed
31	PriceWaterhouse Coopers		A relevant devolved body	Yes			FSA
32	Faculty of Advocates		FSA		Not addressed		Not addressed
33	KPMG		No		asap		No
34	Jordans	Yes		Yes		Yes	
35	S Fearnley and R Brandt, University of	Yes		Yes		Yes	

	<b>Portsmouth</b>						
<b>36</b>	<b>Ernst and Young</b>		<b>FSA/ASB</b>		<b>voluntary</b>	<b>Yes</b>	
<b>37</b>	<b>Advisory Committee on Business and the Environment, DETR</b>		<b>Unclear which problem is being addressed</b>		<b>Unclear which problem is being addressed</b>		<b>Unclear which problem is being addressed</b>
<b>38</b>	<b>SOSCA Technical Advisory Committee</b>	<b>Yes but not AIM</b>		<b>Yes but not AIM</b>		<b>Yes but not AIM</b>	
<b>39</b>	<b>UK Shareholders' Association</b>	<b>Yes</b>		<b>Yes</b>		<b>Yes</b>	
<b>40</b>	<b>The Association of International Accountants</b>	<b>Yes</b>		<b>Yes</b>		<b>Yes</b>	
<b>41</b>	<b>Trades Union Congress</b>	<b>No objection</b>		<b>No objection</b>		<b>No objection</b>	
<b>42</b>	<b>Provident Financial</b>		<b>Not convinced of need</b>		<b>Not convinced of need</b>		<b>Not convinced of need</b>
<b>43</b>	<b>Building Societies Association</b>		<b>No</b>		<b>No</b>		<b>Not addressed</b>
<b>44</b>	<b>Young Fabians</b>	<b>Yes</b>			<b>Not addressed</b>	<b>Yes</b>	
<b>45</b>	<b>Company Secretarial Department of Babcock International Group PLC</b>		<b>FSA</b>		<b>FSA website</b>		<b>90 days</b>
<b>46</b>	<b>Alliance &amp; Leicester plc</b>		<b>Not addressed</b>	<b>YES</b>			<b>In a timely manner</b>
<b>47</b>	<b>Proshare (UK)</b>	<b>General support</b>		<b>General support</b>			<b>Time period might</b>

	<b>Ltd</b>						<b>be a bit tight</b>
<b>48</b>	<b>National Association of Pension Funds</b>		<b>FSA</b>		<b>Encouraged not required</b>		<b>Not addressed</b>
<b>49</b>	<b>Association of Investment Trust Companies</b>	<b>Yes</b>		<b>Yes</b>		<b>Yes</b>	
<b>50</b>	<b>Rio Tinto</b>	<b>Yes</b>		<b>Yes</b>		<b>Yes</b>	
<b>51</b>	<b>British Broadcasting Corporation</b>		<b>FSA</b>		<b>FSA</b>		<b>FSA</b>
<b>52</b>	<b>BDO Stoy Hayward</b>	<b>Yes</b>		<b>Yes</b>			<b>unrealistic</b>
<b>53</b>	<b>H Langley</b>	<b>In general, I agree</b>		<b>In general, I agree</b>		<b>In general, I agree</b>	
<b>54</b>	<b>CRIF</b>	<b>Yes but with required content kept to a minimum</b>		<b>Yes</b>		<b>Yes</b>	
<b>55</b>	<b>Hermes Investment Management Ltd</b>		<b>No</b>	<b>Yes</b>			
<b>56</b>	<b>British Bankers' Association</b>		<b>FSA</b>		<b>Not addressed</b>	<b>Achievable</b>	
<b>57</b>	<b>Barclays Global Investors Ltd</b>		<b>Not addressed</b>		<b>Legislation not appropriate</b>		<b>Not addressed</b>
<b>58</b>	<b>Pensions Investment Research Consultants Ltd</b>	<b>Yes</b>		<b>Yes</b>		<b>Yes</b>	
<b>59</b>	<b>Local Authority Pension Fund Forum</b>	<b>Yes</b>		<b>Yes</b>			<b>Not addressed</b>

60	Chartered Institute of Management Accountants	Yes		Yes			Not addressed
61	Environment Agency		Not addressed	Yes			Not addressed
62	Prof Mike Jones	Yes but more than basic			Not addressed		Not addressed
63	Institute of Chartered Accountants in Ireland		Not addressed		Not mandatory		FSA
64	Association of British Insurers		No		No		Not addressed
65	The Chartered Insurance Institute	Yes		Yes		Yes	
66	Dr D Purdy		No		No		Up to 90 days

(\* with reservations  
Summary

	Statutory Publication		Website Publication		Timing	
	Yes	No/Not addressed	Yes	No/Not addressed	70	Not 70
No of Respondents	33	35	33	35	27	41
Occurrence of FSA		13 FSA		6 FSA		8 FSA
Occurrence of 'not addressed'		6 Not addressed		6 Not addressed		13 not addressed

## Appendix 3.2 Archived Documents: Company Law Review

Because of the change from DTI to BERR in 2007, many of the access addresses have altered or disappeared. The following table may help to locate documentation:

Document	Publication Date	Hard Copy Reference	Internet Address for File [accessed 30/9/08] or details where internet access is no longer available
Responses to White Paper (2005 - Modern Company Law) - URN 05/928	August 2005	URN 05/928	<a href="http://www.berr.gov.uk/files/file25401.zip">http://www.berr.gov.uk/files/file25401.zip</a>
Company Law Reform - white paper [*]	March 2005	ISBN 0-10-164562-7	<a href="http://www.berr.gov.uk/files/file13958.pdf">http://www.berr.gov.uk/files/file13958.pdf</a>
<i>Modernising Company Law - White Paper</i> [*]	<i>July 2002</i>	<i>Cm5553</i>	<i>Details of Final Report implementation and a draft companies bill (Modernising Company Law)</i>
<i>Company Law Review - Final Report</i> [2 volumes] [*]	<i>July 2001</i>	<i>URN 01/942 and URN 01/943</i>	
Modern company law for a competitive economy: completing the structure.[*]	November 2000	URN 00/1335	<a href="http://www.berr.gov.uk/whatwedo/businesslaw/co-act-2006/clr-review/page25080.html">http://www.berr.gov.uk/whatwedo/businesslaw/co-act-2006/clr-review/page25080.html</a>
Modern company law for a competitive economy: trading disclosures	October 2000	-	<a href="http://www.berr.gov.uk/files/file23241.pdf">http://www.berr.gov.uk/files/file23241.pdf</a>
Modern company law for a competitive economy: registration of	October 2000	-	<a href="http://www.berr.gov.uk/files/file23243.pdf">http://www.berr.gov.uk/files/file23243.pdf</a>



company charges - consultation document			
Modern company law for a competitive economy - Capital maintenance: other issues	June 2000	-	<a href="http://www.berr.gov.uk/files/file23244.pdf">http://www.berr.gov.uk/files/file23244.pdf</a>
<i>Modern company law for a competitive economy: developing the framework - Responses to Questions[*]</i>			<i>Downloaded from DTI website at the time. Copies available from author</i>
Modern company law for a competitive economy: developing the framework.[*]	March 2000	URN 00/656	<a href="http://www.berr.gov.uk/whatwedo/businesslaw/co-act-2006/clar-review/page25086.html">http://www.berr.gov.uk/whatwedo/businesslaw/co-act-2006/clar-review/page25086.html</a>
Modern company law for a competitive economy: company general meetings and shareholder communication	October 1999	URN 99/1144	<a href="http://www.berr.gov.uk/files/file23274.pdf">http://www.berr.gov.uk/files/file23274.pdf</a>
Modern company law for a competitive economy: company formation and capital maintenance	October 1999	URN 99/1145	<a href="http://www.berr.gov.uk/files/file23277.pdf">http://www.berr.gov.uk/files/file23277.pdf</a>

Modern company law for a competitive economy: reforming the law concerning overseas companies	October 1999	URN 99/1146	<a href="http://www.berr.gov.uk/files/file23278.pdf">http://www.berr.gov.uk/files/file23278.pdf</a>
Modern company law for a competitive economy: the strategic framework[*]	February 1999	URN 99/654	<a href="http://www.berr.gov.uk/files/file23279.pdf">http://www.berr.gov.uk/files/file23279.pdf</a>
Modern company law for a competitive economy [*]	March 1998	-	<a href="http://www.berr.gov.uk/files/file23283.pdf">http://www.berr.gov.uk/files/file23283.pdf</a>

Source: <http://www.berr.gov.uk/whatwedo/businesslaw/co-act-2006/clar-review/page22794.html> [accessed 2 October 2008]

\* included in bibliography

## **4 Methodology and Methods used in this study**

This Chapter outlines the methodology and methods adopted for this thesis. The Methodology is discussed in Chapter 4.1. The main research questions are reintroduced and matched to a method which helps to answer them in Chapter 4.2. An explanation of the main research method is presented in 4.3. A consideration of the design of the data collection model is located in 4.4, and the implementation of the model is recorded in Chapter 4.5. Finally, prior to the conclusion and discussion, the econometric methods applied to the data are given in Chapter 4.6.

### **4.1 Methodology**

Ryan et al. (2002) illustrate the range of possible philosophies for the accountant by combining the works of Hopper and Powell, 1985; and Burrell and Morgan, 1979. However, Laughlin (1995) suggests type of thinking (i.e. philosophy) which he terms 'middle-range'. That is, a moving away from prejudice towards either quantitative or qualitative to what has become known as 'mixed method' research.

Due to the 'marriage' of Goffman (a symbolic interactionist - qualitative in nature) and accounting results (quantitative in nature) in the current thesis a 'middle-range' (Laughlin, 1995) is adopted.

#### **4.1.1 A Discussion of Methodologies relating to the Current Thesis**

The existence of the preliminary announcement is fundamental to this thesis; and although there is no legal prescription for its form and content (see Chapter 3.3), there is, fortunately, an acknowledgement of a need for its regulation (i.e. ASB, 1998; FSA, 2008).

As repeated in Table 4.1, the first general research question deals with the evidence of impression management within prelims. A methodology which allows the identification of this 'evidence' is therefore required.

Although interpretation of results is required, the results themselves need to be as free as possible from interpretation or personal bias. A hint of bias in the results would defeat the purpose of an objective investigation of the existence of impression management.

Dealing with financial amounts, the methodology adopted should not depend on merely visual inspection or opinion but needs to provide a consistent basis for testing which is impersonal, that is, which may be applied separately from any preconceptions that a researcher might have. A methodology which lends itself to this type of analysis is the 'scientific' or 'positivist' methodology, where hypotheses are framed and then tested using statistics. It is unusual for test results to show 100% probability (i.e. certainty) but those results having a high level of significance (e.g. 95 or 99 per cent) provide evidence of the strong likelihood of their existence.

The prelim, however, comprises more than a list of monetary amounts. Narrative portions are also present (e.g. the Chairman's statement, performance review, notes to the Accounts). At the very least, it is this combination of words and figures that may allow the prelim to be described as a 'social construct'.

This thesis is not only concerned with what the financial amounts convey in an objective sense but with what the recipients of that information (along with the narrative sections) believe they are being told.

An Interpretivist methodology is required when dealing with the behaviour of actual or potential investors on reading the Highlights or the full prelim. The methods applied fall under the heading of 'Behavioural Economics' and can be found in the literature review (Chapter 2.4).

## **4.2 Major Research Questions and Methods Applied**

The major research questions as presented in Chapter 1 and defended in Chapter 2 are shown in Table 4.1. The method considered most appropriate to evaluate and answer each of the questions is also included in the table.

**Table 4.1 General Research Questions and Methods**

Major Research Question	Research Method	Location of Evidence within the thesis
<p><i>General Question 1</i></p> <p><i>What is the evidence by extent and by nature of the existence of impression management in prelims?</i></p>	Content Analysis	Summarised in Chapter 5.5 and Chapter 6.5
<p><i>General Question 2</i></p> <p><i>What are the links between a company's characteristics and its use of 'good news', 'bad news' and 'forward-looking words' in its prelim?</i></p>	Content Analysis	Summarised in Chapter 5.5 and Chapter 6.5
<p><i>General Question 3</i></p> <p><i>What key role does behavioural economics play in prelims and does it provide an explanation for the method of presentation, especially in prelim Highlights?</i></p>	Interpretive analysis	Throughout the Chapters but summarised in Chapter 5.7.3 and Chapter 6.5

### **4.3 Main method used: Content Analysis**

#### **4.3.1 Coding Scheme**

Studies which focus on disclosure or disclosure indices are generally based on content analysis (e.g. Bettman and Weitz, 1983; Frazier et al., 1984; Tsang, 2002; Beattie et al., 2004). This involves classifying text into categories; and the text itself needs to be divided into manageable units. This Chapter section first describes the elements of a coding scheme and its application in Chapters 5 and 6. It then outlines the specific coding scheme of Beattie et al. (2004) used in Chapter 6.

##### **4.3.1.1 Elements of a coding scheme**

A background to content analysis is provided by Boyatzis (1998) and he suggests an analytical method of coding the data and hence scoring the analysis of that same data. The coding scheme structure outlined by him (Boyatzis, 1998, p.31) suggests that there should be five 'elements':

**Element 1. A label (i.e., a name)**

e.g. GNWP (short for Good News Words or Phrases), FLWP (short for 'Forward-Looking Words or Phrases)

**Element 2. A definition of what the theme concerns (i.e., the characteristic or issue constituting the theme)**

e.g. (a) GNWP refers to a disclosure that represents essentially 'good news', according to a predetermined list (i.e. Clatworthy and Jones, 2003, in this case)

(b) BNWP refers to a disclosure that represents essentially 'bad news', according to a predetermined list (i.e. Clatworthy and Jones, 2003, in this case)

(c) FLWP refers to a disclosure that is essentially 'forward-looking' in nature, according to a predetermined list (i.e. Hussainey et al., 2003, in this case). The phrase 'Forward-looking words or phrases' relates to words or phrases that look forward from the date of the announcement beyond the end of the accounting period in which the report takes place (that is, those references which may have happened by the end of the accounting period are excluded, e.g. by the end of the December we expected to have concluded negotiations on the contract)

(d) An individual analysis of the keywords and phrases where there is a mixture of themes.

An example of Element 2(b) involving the word 'delay' is:

*Gross loss for the twelve months was GBP 55,581 compared to a projected profit of cGBP 3,000. This was as a result of the lengthy F1 negotiations resulting in delayed sales.*

The delay relevant to the announcement must already have taken place and should not be considered to be referring to post-year end as the 'gross loss' had already occurred as at the end of the accounting period. It is interpreted

as ‘bad news’ rather than ‘forward-looking’ as there is no intimation that the ‘negotiations’ continued into the succeeding accounting period.

An example of Element 2(d) involving the following words, ‘difficult (conditions)’, encouraging, improvement, (business) confidence, achieved, positive (return)

*(Name), chairman of (company) plc, commenting on the results, said: "since the autumn, when (company) reported on the difficult conditions it had experienced, there have been some encouraging signs of improvement. Our enterprise barometer indicates that business confidence has picked up among the companies in which we invest, and (company) achieved a positive return in the second half of the year."*

This paragraph would result in 1 ‘hit’ for ‘bad news’ (i.e. the word difficult) and 5 hits for ‘good news’ words.

<p><b>Element 3. A description of how to know when the theme occurs (i.e., indicators on how to “flag” the theme)</b></p>
---

e.g.:

- (a) by using a list of words (Hussainey et al.,2003; and Clatworthy and Jones, 2003) taking care by visual inspection that any possible exclusion (e.g. mentioned under Element 2(c), above) is not falsely included
- (b) by using both definitions used by Beattie et al. (2004) and their dominance and specificity principles where there is potential conflict between categories (Beattie et al., 2004, p.218).

<p><b>Element 4. A description of any qualifications or exclusions to the identification of the theme e.g. items that should be removed</b></p>
---

(see under Element 2(c) and Element 2 (d) above)

<b>Element 5. Examples, both positive and negative, to eliminate possible confusion when looking for the theme</b>
--

e.g.:

- (a) eliminating the words 'profit' and 'loss' when it refers to the 'Profit and Loss Account' rather than describing actual events involving either profit or loss.
- (b) including references to years which may be 'future words' to one company but not to another
- (c) treating each occurrence of a word or phrase on its own merits without recourse to context

Illustrative examples of Element 5 (b) and 5 (c) are:

*Three Examples of Element 5 (b):*

- (i) *We fully expect the current difficult trading conditions to persist for much of 2002 but the Group should nevertheless feel the benefits of the actions we have taken in 2001. When the upturn does come, (company)' operational gearing means that it is well placed to benefit.*

This example refers to 2002 as being future ('fully expect'), and is treated as 'forward-looking'.

- (ii) *Turnover for the year was £5.2million, up from a re-stated £1.8 million at the half year. This significant increase arises as a consequence of materially more advisers commencing trading in the second half of the year. Indeed, turnover in the final quarter was 41% greater than the third quarter and January 2002 saw a noticeable further increase.*

This example refers to 2002 as though it was in the current year ('January 2002 saw') and is treated as 'forward-looking'.



- (iii) *As previously indicated, about £20m was invested through the profit and loss account during the year, primarily in the launch of the (Name)store card. This has progressed well. At 31 March 2002, there were over 625,000 account holders, of which about 460,000 were active.*

This example refers to 2002 as having happened ('there were over...account holders') and is not treated as 'forward-looking'

*An example of Element 5 (c):*

If it is assumed that readers interpret each sentence or paragraph in terms of a general context. One of the main disadvantages of the current content analysis method would be the possibility of introducing personal judgement when trying to determine the exact meaning of words or phrases. The following example illustrates the dilemma:

*During 2001 the strategy of adding new businesses to the portfolio continued. Six companies and three product lines were acquired within the Avionics business segment for a net consideration of £69.8m. Further deferred and contingent consideration, estimated at £22.6m, may become payable depending upon achievement of certain financial results.*

The use of the words, *adding*, *acquired*, and *achievement* might suggest 'good news'. The use of the words, *net consideration*, *deferred* and *contingent consideration and payable* might suggest 'bad news'. The use of the words, *may become payable*, and *depending upon achievement* are 'forward-looking' words.

Therefore, to avoid the assumption of the (psychological) perception of an 'average reader', each 'hit' in the paragraph is coded without any weighting for context. That is,

- 3 good news words/phrases i.e. adding, acquired, and achievement

- 3 bad news words/phrases i.e. net consideration, deferred and contingent consideration and payable
- 2 forward-looking words/phrases i.e. may become payable, and depending upon achievement

#### 4.3.1.2 Adaptation of Coding System used by Beattie et al. (2004)

In the Chapter 6.6 (i.e. in the Highlights Chapter) a method used by Beattie et al. (2004) is adapted for prelims and applied to Highlights to subject them to a additional type of content analysis from that of Chapter 5. Using a simplified apparatus from Beattie et al. (2004), the Highlights are processed through three separate stages. In the first stage, each whole or part of a sentence (or text unit) is divided into items that are either,

1. A *percentage*, or
2. A *quantity* or financial amount, or
3. A *narrative* (divided between fact and judgement), or
4. A combination of any two or all three of the above

Although the first stage of 'qualitative' analysis is based on a *similar* type used by Beattie et al. (2004), The second stage in the analysis is represented by the categories contained in Table 4.2 which mirror *exactly* those that are used in Beattie et al. (2004). Each text unit is then allocated on a judgement basis to one of the categories in Table 4.2.

Table 4.2 Coding Process levels 1 to 3

Category	Division
(1)Time orientation	Historical
	Forward-looking
	Non-Time specific
(2)Financial	Financial
	Non-financial
(3a)Quantitative	Measure
	Change (usually a %)
	Recommendation
	Comparison with Expectation
(3b)Non-quantitative	Fact
	Judgement
	Recommendation or proposal
	Comparison with Expectation

Once the second stage has been reached, each text unit is allocated to one of the following categories (on a judgement basis):

- BD – Business Description
- FIN – Financial Information
- MA – Management Analysis
- MS – Management and Shareholder Information
- OP – Operating Data
- FL – Forward-looking data
- NOT – Not Jenkins
- BOS – Broad Objectives and Strategy
- IS – Industry Structure

#### 4.3.1.3 Examples of actual disclosure

An example of each category of Highlight disclosure follows: (all based on actual Highlights)

- A **percentage**: *Business performance profits before tax up 10 per cent; EPS up 12 per cent*
- A quantity or financial amount:
  - Quantity** - *250 retail outlets opened in year*
  - Financial** - *'Product A' sales of £462 million*
- A **narrative** : *Trading in D Group plc's shares began on 21 October 2001, following the merger between E plc and F Group*
- A **combination** of any two or all three of the above, i.e.
  - Financial plus percentage**

	2002	2001	Increase
Earnings Per Share	61.0p	52.7p	16%
  - Narrative plus percentage**

Sales growth in key retail areas: Domestic 16 per cent, International 15 per cent, Internet 14 per cent
  - Financial plus narrative**

Product C sales of £202 million, US launch of Product C planned for April 2003

*Financial plus narrative plus percentage*

Group profit before taxation, goodwill amortisation and exceptional items up x% to £y million despite difficult trading conditions in the last four months of 2001.

A walk-through of the complete coding process comprises five stages which involves:

1. The scanned document, initially split into sentences as text units, is imported into NVivo (or equivalent) and a print-out of the document (with text-units numbered) obtained.
2. Initial coding is undertaken, off-screen. This involved the identification of additional text unit splits and the coding of each text unit in terms of each of the four dimensions. Each text unit is given a four-part code of the form H/F/NQ-FAC/FIN-SAL (see Table 4.2). The only exceptions to this are sub-headers (section headings) and sub-sub-headers (headings within sections) which are coded to free nodes outside the index tree.
3. Coding is transferred to NVivo, i.e., sentence splits are incorporated and coding added based on the index system.
4. A node-report is obtained from NVivo showing references with text. This lists all text units assigned to each category.
5. The node-report is checked (errors tending to stand out clearly when set against a group of text units that are all in the same category). Amendments are made as necessary.

#### **4.3.2 Raw data content**

Reliance is placed on prior research in that use is made of methods and associated word lists provided by other researchers:

- (a) Hussainey et al., 2003, provide a list of 'forward-looking' keywords and phrases. To test that the incidence of forward-looking words in Hussainey et al., 2003, would be comparable to that found in the current research, a similar method of identification would be used.

- (b) Clatworthy and Jones, 2003, provide two separate lists of ‘good news’ keywords and phrases and ‘bad news’ keywords and phrases. It is not possible to test that the incidence of forward-looking words in Clatworthy and Jones, 2003, as the methods used differ and the extent of testing is not reproduced in their paper.
- (c) Hussainey et al, 2003, Clatworthy and Jones, 2003, and Beattie et al. (2004) used analytical software (see Chapter 4.5) to determine the existence of the specified keywords and phrases within various narrative sections of annual reports.

Once relevant content has been identified in the narrative text, it is systematically converted to numerical variables for the purposes of quantitative data analysis (see Chapter 4.6). Then statistical analysis is used to further evaluate the content (see Chapter 4.6) once the content analysis is complete. The final content analysis is used to determine the incidence for each company in the sample within the prelim or the prelim Highlights of the following types of data, words or phrases:

- a) Number of Highlights per company
- b) Form and content of prelims between companies displaying various characteristics: i.e.
  - (i) FTSE classification
  - (ii) a profit or a loss for the accounting period
  - (iii) a movement in profit or loss for the previous accounting period
- c) ‘Good News’ keywords and phrases
- d) ‘Bad News’ keywords and phrases
- e) ‘Forward-looking’ keywords and phrases

## **4.4 Design of Data Collection Method**

### **4.4.1 Stratified sample of listed companies**

Each of the three main sections of the London Stock Exchange has separate analyst followings (cf. Day, 1986; Marston, 1996, 1997; Walker and

Tsalta, 2001). The FTSE ‘ranking’ is coincidental, in the main, with a company’s market capitalisation. To answer the general research questions (see Chapter 4.2), each of the FTSE sections (i.e. FTSE100, FTSE250 and <FTSE 350) are treated as sub-populations within the overall FTSE categorization.

#### 4.4.2 Sample size

To assist with the possibility of external validation of this study, the sample selection should be large enough for the results of statistical tests to be significant in terms of the whole population. In order to determine a sample size, a statistical power analysis is undertaken. Details can be found in Appendix 4.1

#### 4.4.3 Sample Selection

The companies were selected according to the details included in Table 4.3.

**Table 4.2 FTSE sampling groups**

FTSE Grouping	Companies Present <sup>1</sup>	Companies Selected	% coverage	Method used for selection
FTSE 100	100	100	100.0	n/a
FTSE 250	250	100	40.0	Random <sup>2</sup>
<FTSE 350	1,766	100	5.7	Random <sup>2</sup>

### 4.5 Data Collection and Coding

#### 4.5.1 Data Collection

As a starting point in the analysis, the text of each prelim is obtained from HTML documents which are downloaded from websites on the internet . Once each is downloaded, it is manually coded for input to QSR software (N4/N6 versions). The main reasons for using N4/N6 software are that:

<sup>1</sup> Excluded are companies without a positive market capitalisation

<sup>2</sup> This method is really pseudo-random as it involves the use of a recursive Excel macro that uses the Excel function RND: see Appendix 4.4

- a) it lends itself to content analysis. By the use of coding, summaries may be used to determine the number of 'hits' for any predetermined analysis category. From this data, statistical analysis may be carried out using a computer program such as SPSS.
- b) Storing data in a digitised form also allows analysis at various levels especially with the use of the 'command' file feature of N4/N6 (See Appendix 4.2).
- c) The report function, although quite primitive in N4/N6, allows tabular presentations of data search results.
- d) The automatic indication of coding errors in the commands allows a type of pre-analysis of data prior to performing text searches.

#### **4.5.2 Data Coding**

1. Depending on the length of the prelim, some of the source data were reported by the plc using more than one file per company (usually in html format).
1. Stage **one** of the analysis involved segregating the Highlights section from the prelim narrative (as described in Chapter 3.1.3) and analysing the content. The full narrative content of each Highlight was coded to a separate 'free' node in N4/N6.
2. Stage **two** involved analysing the narrative content of the full prelim (including Highlights) in terms of criteria similar to that applied by Beattie et al (2004). The full narrative content of each prelim was coded to a separate 'free' node in N4/N6.
3. Stage **three** focused on the incidence of 'Forward-looking Words' (per Hussainey et al., 2003) and their analysis in terms of:
  - profit/loss,
  - profit/loss movement and
  - FTSE category (ref. Table 4.3)

The narrative content of each prelim referring to Forward-looking Words was coded to a separate 'free' node in N4/N6.



4. Stage **four** focused on the incidence of ‘Good news’ words (per Clatworthy and Jones, 2003) and their analysis in terms of:

- profit/loss,
- profit/loss movement and
- FTSE category (ref. Table 4.3)

The narrative content of each prelim referring to ‘Good news’ words was coded to a separate ‘free’ node in N4/N6.

5. Stage **five** focused on the incidence of ‘Bad news’ words (per Clatworthy and Jones, 2003) and their analysis in terms of:

- profit/loss,
- profit/loss movement and
- FTSE category (ref. Table 4.3)

The narrative content of each prelim referring to ‘Bad news’ words was coded to a separate ‘free’ node in N4/N6.

For the purposes of analysis, each of the Financial Categories [in Table 4.3.] was allocated to a ‘free’ node in N4/N6:

A summary of the data is provided in Table 4.4

**Table 4.3 Initial Variable Analysis**

Financial Category	Number of Companies			
	Total	With ‘Forward-looking’ words	With ‘Good News’ words	With ‘Bad News’ words
<b>Absolute Measure</b>				
Profit	<b>182</b>	181	182	175
Loss	<b>118</b>	117	117	110
Total	<b>300</b>	298	299	285
<b>Relative Measure</b>				
Greater Profit [GRP]	<b>106</b>	106	106	102
Smaller profit [SMP]	<b>43</b>	43	43	40
Loss to Profit [LTP]	<b>33</b>	32	33	33
Profit to Loss [PTL]	<b>28</b>	27	27	26
Smaller Loss [SML]	<b>33</b>	33	33	32
Greater Loss [GRL]	<b>57</b>	57	57	52
Total	<b>300</b>	298	299	285

### 4.5.3 Isolation of Highlights section

Each prelim is examined to see if a Highlights section can be found. Table 4.5 shows the results of this examination. Where present, this section is found, with a few exceptions, under the heading Highlights which is underneath the name of the company and Designation of the Report (e.g. Preliminary Announcement of Results for the year to...).

From each prelim, the Highlight is copied (reformatted) into a Word document file, reviewed to ensure full data capture, and renamed so that individual company Highlights can be easily identified and retrieved.

**Table 4.4 Incidence of Highlights in selected prelims**

FTSE Category	Number of Prelims having Highlights
100	98
250	94
<350	69
Total	261

39 of the companies selected do not have a Highlights section. Many of them started capitalised lower than FTSE250 where the prelims are shorter in length and there is not as strong an analyst following as in the higher FTSE categories and there did not appear to be a 'need' to include Highlights.

### 4.6 Statistical methods used

Prior experience suggests that sample of preliminary announcements selected is unlikely to present a normal distribution. As a result, non parametric statistics from within SPSS is used to evaluate the results of the content analysis for the narrative sections of both Highlights and the full preliminary announcement.

The Mann-Whitney U test is used to analyse the means of two independent samples representing two sub-populations with different

median values. The sub-populations for each variable correspond to the data categories outlined in Table 4.3.

Where bivariate rank correlation is performed, Spearman's rank-order correlation coefficient is used to determine the strength of the correlation between two variables.

#### **4.6.1 Basis of Hypotheses formation**

##### **4.6.1.1 Good-news and Bad-news**

The formation of hypotheses for good-news and bad-news follows Clatworthy and Jones (2003). Although their focus is on the Chairman's Statement in the Annual Report, a similar logic is followed in the framing of hypotheses in Chapter 4.7.

##### **4.6.1.2 Forward-looking announcements**

Although the focus of Hussainey et al. (2003) was not on impression management, they concluded that the presence of forward-looking words or phrases in annual reports was an indicator of an association between share prices and company earnings. The fact that there is an association between current prices and future earnings leads to a suggestion that the relationship of any of the three independent variables (which are mostly to do with existing or past earnings) to forward-looking statements may not be insignificant.

### **4.7 Hypotheses formation**

#### **4.7.1 Initial Assumptions**

1. The prelim is a social construct used to communicate with parties interested in the results of the company.
2. The form and content of the prelim is chosen by the directors or their advisors, i.e. there are no superfluous words or phrases in the prelim.
3. When dealing with the proportion of a prelim contained in keywords, it is assumed that impression management occurs evenly throughout

the prelim. This assumption is for analysis purposes only and is not based on empirical or other research.

The hypotheses that follow are divided into two parts:

1. Hypotheses relating to wordcounts and
2. Hypotheses relating to keyword proportions.

The separate results for each are presented adjacent to one another under the headings that deal with Hypotheses relating to wordcounts for comparison purposes. Percentages (i.e. proportions) are used in collaboration with keyword counts by Clatworthy and Jones (2003; p. 178) as evidence in their hypotheses testing. The two sets of hypotheses are kept separate from each other because it is anticipated that the results will differ significantly

To avoid repetition and potential confusion, the full proportion hypotheses are included in Appendix 4.5. The suffixes 'a' and 'b' are used to distinguish the hypotheses which are presented using almost identical wording.

An example of a null hypothesis relating to wordcounts is H1a-0; the equivalent example of a null hypothesis relating to proportions is H1b-0.

## **4.7.2 Full Prelim - Discussion: Good and Bad news**

### **4.7.2.1 Capitalisation**

Capitalisation is one of the metrics used to determine the size of a company. The FTSE categories are compiled in order of market capitalisation, therefore the FTSE100 category has the greatest company capitalisation whereas the <FTSE350 has the least. A positive association between size and voluntary disclosure has been established by national and multinational research (e.g. Singhvi and Desai, 1971; Firth, 1980; Cooke, 1992; Hossain et al., 1994; Wallace et al., 1994; Raffournier, 1995; Inchausti, 1979; Meek et al., 1995; Ahmed and Courtis, 1999; Camfferman and Cooke, 2002).

Further research (e.g. Hope 2003; Cahan et al. 2005) provides evidence that analyst following is positively associated with the level of voluntary

disclosure in corporate annual reports. This is also true in CIR (Corporate Internet Reporting), see Abdelsalam, Bryant, and Street (2007).

For the following categorical comparisons,

- (1) FTSE100 v FTSE250
- (2) FTSE100 v <FTSE350
- (3) FTSE250 v <FTSE350, it is expected that for each comparison, the category with the greater capitalisation will report a higher wordcount of good news words or phrases than the smaller.

The first three hypotheses relate to FTSE rankings.

H1a-0 Null hypotheses:

For each of the three pairings, there is no difference in the number of good news keywords or phrases reported for either category.

H1a-A Alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation reports a higher number of good news keywords or phrases than the smaller.

H2a-0 Null hypotheses:

For each of the three pairings, there is no difference in the number of bad news keywords or phrases reported for either category.

H2a-A Alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation reports a higher number of bad news keywords or phrases than the smaller.

H3a-0 Null hypotheses:

For each of the three pairings, there is no difference in the number of forward-looking keywords or phrases reported for either category.

H3a-A Alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation reports a higher number of forward-looking keywords or phrases than the smaller.

H1a, H2a and H3a may be restated for proportions by substituting the word proportion for the word number. The hypotheses would then become H1b, H2b and H3b. See the full proportion hypotheses in Appendix 4.5.

#### **4.7.2.2 Performance**

Profitability is another variable that has been strongly associated with voluntary disclosure (e.g. Singhvi and Desai, 1971; Wallace et al., 1994). However, there have also been studies that found no significant relationship (e.g. Raffournier, 1995; Inchausti, 1979; Ahmed and Courtis, 1999), and some that found a negative relationship (e.g. Belkaoui and Kahl, 1978). Nevertheless, because of more recent associations from studies based on or involving UK companies (Meek et al., 1995; Watson et al., 2002; Abdelsalam, et. al., 2007) a positive relationship between profitability and voluntary disclosure is expected.

The number of keywords (good and bad news) divided by the total number of words in the Chairman's Statement was used as a disclosure test variable by Clatworthy and Jones (2003). Using such a variable, they found evidence of asymmetry (p.179) in the reporting of good and bad news which was statistically significant at the 0.01 level. They use both words and proportionate wordcounts as measures of disclosure in the same hypotheses. In this thesis, different hypotheses (with similar wording) are used to test both of these disclosure methods separately.

Because of the existence of 'acclaiming' impression management (Schlenker, 1980), it is expected that profitable companies will announce more forward-looking keywords than unprofitable companies. Hypothesis 4 is therefore divided into three. The first deals with Good news, the second with Bad and the third with forward-looking keywords.

(i) The expectation is that profitable companies will announce a greater number of good news words or phrases than companies that make a loss.

H4a(i)-0 Null hypothesis: There is no difference in the number of good news keywords or phrases reported between profitable companies and those that make a loss.

H4a(i)-A Alternative hypothesis:  
Profitable companies report a higher number of good news keywords or phrases than loss-making companies.

(ii) The expectation is that unprofitable companies will announce a greater number and a higher p<sub>ptt</sub> proportion of bad news words or phrases than companies that make a profit.

H4a(ii)-0 Null hypothesis:  
There is no difference in the number of bad news keywords or phrases reported between unprofitable companies and those that make a profit.

H4a(ii)-A Alternative hypothesis:  
Unprofitable companies report a higher number of bad news keywords or phrases than companies that make a profit.

(ii) The expectation is that profitable companies will announce a greater number and a higher p<sub>ptt</sub> proportion of forward-looking keywords or phrases than companies that make a loss.

H4a(iii)-0 Null hypothesis:  
There is no difference in the number of forward-looking keywords or phrases reported between profitable companies and those that make a loss.

H4a(iii)-A Alternative hypothesis:  
Profitable companies report a higher number of forward-looking keywords or phrases than companies that make a loss.

H4a may be restated for proportions by substituting the word proportion for the word number. The hypothesis would then become H4b. See the full proportion hypotheses in Appendix 4.5

### 4.7.2.3 Relative Performance

This variable measures the difference in profitability between the current and the previous accounting period. Although moving towards attribution theory, Clatworthy and Jones (2003) start their analysis of the directors' report from UK listed accounts using data (chosen in June 1997) that has been ranked in terms of performance compared to the previous accounting period. They choose 50 that have improved most and 50 that have declined most.

Two of their conclusions are that, based on their hypotheses:

*'There will be no significant difference in the amount of good news reported in the chairman's statement between companies with improving and declining performance.'* (p.174),

*'improving performers report more good news than declining performers'* (p.179)

Based on the prior research, the expectation is that 'improving performers' will announce a higher number of good news words than 'declining performers'.

The 'improving performer' categories are:

Greater profit, i.e. a company or group which has earned a profit in the current accounting period which is higher than in the previous accounting period.

Loss to profit, i.e. a company or group which has earned a profit in the current accounting period compared to making a loss in the previous accounting period.

Smaller loss, i.e. a company or group which has improved their performance compared to the previous accounting period, but has still made a loss.

The 'declining performer' categories are:

Smaller profit, i.e. a company or group that has earned a profit in the current accounting period which is lower than that earned in the previous accounting period.



Profit to loss, i.e. a company or group that has made a loss in the current accounting period compared to earning a profit in the previous accounting period.

Greater loss, i.e. a company or group that has made a loss in the current accounting period which is greater than the loss made in the previous accounting period.

H5a-0 Null hypothesis:

There is no difference in the number of good news keywords or phrases reported between 'improving performers' and 'declining performers'.

H5a-A Alternative hypothesis:

'Improving performers' report a higher number of good news words or phrases than 'declining performers'.

H5a may be restated for proportions by substituting the word proportion for the word number. The hypothesis would then become H5b. See the full proportion hypotheses in Appendix 4.5.

#### **4.7.2.4 Category comparison in terms of relative performance**

Clatworthy and Jones (2003) also compare the presentation of good news compared to bad news using the relative performance variables that they calculate. Their conclusion is, 'improving performers present more good news than bad news, in terms of both overall words and keywords.' (p.182).

Although dealing with press-releases, Guillamon-Saorin et al. (2005) using similar analysis to Clatworthy and Jones (2003) find a pattern of reporting that is similar to theirs. They stated:

*Evidence supporting the selectivity of positive qualitative information (keywords and statements) and positive quantitative information (amounts in general and the best profit figure in particular) rather than negative information to be included in the ARPR [press release] is very strong. (p.39)*

Based on the above empirical research, the expectation is that improving performers present a higher proportion of good news compared to bad news (expressing key words as a proportion of the overall total within the prelim).

H6a-0 Null hypothesis:

There is no significant difference between the number of good news keywords or phrases and the proportion of bad news keywords or phrases reported by companies with improving performance.

H6a-A Alternative hypothesis:

Companies with improving performance report a greater number of good news keywords or phrases than bad news.

H7a-0 Null hypothesis:

There is no significant difference between the number of good news words or phrase and the number of bad news words or phrases reported by companies with declining performance.

H7a-A Alternative hypothesis:

Companies with declining performance report a lower key wordcount of good news than bad news.

H6a and H7a may be restated for proportions by substituting the word proportion for the word number. The hypotheses would then become H6b and H7b. See the full proportion hypotheses in Appendix 4.5.

### **4.7.3 Full Prelim - Discussion: Forward-looking data**

Forward-looking information may be used to ameliorate bad news. It is expected, therefore, that the existence of bad news in the announcements of declining performers will generate more Forward-looking information than bad news in improving performers.

H8a-0 Null hypotheses:

For companies announcing bad news, there is no significant difference between the number of Forward-looking keywords or phrases

announced by improving companies and those announced by declining companies.

H8a-A Alternative hypothesis:

Where bad news is announced, companies with declining performance report a higher number of forward-looking words or phrases than companies with improving performance.

H8a may be restated for proportions by substituting the word proportion for the word number. The hypothesis would then become H8b. See the full proportion hypotheses in Appendix 4.5.

## **4.8 Conclusion**

The methodologies applied in the thesis are mixed in nature (see Chapter 4.1.1). The general research questions, reintroduced from Chapter 1, have a method associated with each one (Chapter 4.2). The content analysis method is outlined (Chapter 4.3) and applied to the empirical data covering the full preliminary announcement in Chapter 5 and Highlights in Chapter 6.

## Appendix 4.1 Calculation of Sample Size

Three details are required prior to calculation:

- a) Alpha (i.e. the probability of falsely accepting Hypothesis1 when the Null Hypothesis is true)
- b) Desired power (1 - Beta) - Beta is the probability of falsely accepting the Null Hypothesis when Hypothesis1 is true
- c) Effect size (i.e. the degree of deviation from the Null Hypothesis which is considered to be worthy of attention).

For the effect size and relevant formula, Cohen (1992) and Thalheimer and Cook (2002) is consulted.

The following formula is used with the level of variable assumed as this is an apriori calculation:

- a) Alpha is assumed to be 0.05 and
- b) (1-Beta) is assumed also to be 0.95,
- c) with an assumed effect size of 0.1 (maximum).

The sample size must be greater or equal to:

$$2 \times (1.96 - (-1.96))^2 / 0.552 = 102 \text{ from each category}$$

- For ease of calculation, this is rounded to 100.

## Appendix 4.2 Example of Command file for N4

```
(search-text "achieve"  
    pattern-search? no  
    whole-word? yes  
    first-find-only? no  
    display-mode summary  
    node (T 1000)  
    node-title "achieve"  
)
```

The above details convey the following to the program:

- The command must begin and end with parentheses

- The text to search for (in this case, 'achieve') is also used as a node title
- The numerical code for the node is T1000; this allows numerical grouping of commands for N4 purposes
- The text is not a text pattern (i.e. words beginning with 'ach')
- This command is NOT looking for 'achievement' (yes - whole word)
- The command wishes more than the first occurrence of the word
- A summary in table form is provided on screen after the search is complete

**Appendix 4.3 Details of Company Year Ends and Publication dates for the preliminary announcement**

FTSE	Company	Y/End	Preliminary announcement Date	Days taken
250	BURBERRY GROUP	30/09/2002	22/05/2003	234
<350	MOS INTERNATIONAL	31/03/2002	30/09/2002	183
<350	ATLANTIC CASPIAN RESOURCES	31/12/2001	28/06/2002	179
<350	ANGLO SIBERIAN OIL CO	31/12/2001	25/06/2002	176
<350	COFFEEHEAVEN INT.	31/03/2002	23/09/2002	176
<350	AFRICAN GOLD	31/03/2002	20/09/2002	173
<350	ON-LINE	30/06/2001	14/12/2001	167
<350	IMPAX ENVIRONMENTAL MKTS	30/09/2001	22/02/2002	145
100	FOREIGN & COL INVESTM TRUST	31/12/2001	20/05/2002	140
<350	PALMARIS CAPITAL	30/06/2001	14/11/2001	137
<350	AIT GROUP	31/03/2002	07/08/2002	129
<350	JAB HLDGS	30/06/2001	01/11/2001	124
<350	LONGBRIDGE INTERNATIONAL	31/12/2001	01/05/2002	121
<350	EL ORO MINING & EXPL. CO	31/12/2001	30/04/2002	120
<350	NAVAN MINING	31/12/2001	30/04/2002	120
<350	TOYE & CO	31/12/2001	30/04/2002	120
<350	AUTOMOTIVE PRECISION HLDGS	31/12/2001	26/04/2002	116
<350	CALDWELL INVESTMENTS	31/12/2001	26/04/2002	116
250	DAEJAN HLDGS	31/03/2002	24/07/2002	115
<350	MAN ALTERNATIVE INV.	31/05/2002	23/09/2002	115
<350	CORDIANT COMMS. GROUP	31/12/2001	22/04/2002	112
<350	CONDER ENVIRONMENTAL	30/04/2002	19/08/2002	111
<350	SLINGSBY(H.C.)	31/12/2001	19/04/2002	109
<350	PC MEDICS GROUP	31/03/2002	16/07/2002	107
250	HISCOX	31/12/2001	16/04/2002	106
250	MITIE GROUP	31/03/2002	15/07/2002	106
<350	ARENA LEISURE	31/12/2001	16/04/2002	106
<350	MELROSE RESOURCES	31/12/2001	15/04/2002	105
<350	DOBBIES GARDEN CENTRES	31/10/2001	12/02/2002	104
250	PZ CUSSONS	31/05/2002	10/09/2002	102
<350	ADVANCE CAPITAL INVEST	31/10/2001	07/02/2002	99
<350	SMART(J.)& CO(CONTRACTORS)	31/07/2001	05/11/2001	97
<350	NEWMARKET INVESTMENTS	31/03/2002	05/07/2002	96
<350	POPTONES GROUP	30/06/2002	04/10/2002	96
250	TULLOW OIL PLC	31/12/2001	04/04/2002	94
<350	SURFACE TRANSFORMS	31/05/2003	02/09/2003	94
<350	BRAEMAR SEASCOPE GROUP	28/02/2002	31/05/2002	92
250	HIT ENTERTAINMENT	31/07/2001	29/10/2001	90
250	PEEL HLDGS	31/03/2002	28/06/2002	89

<350	GTL RESOURCES	31/03/2002	28/06/2002	89
<350	WINTRUST	31/03/2002	28/06/2002	89
250	CHRYSALIS GROUP	31/08/2001	27/11/2001	88
250	RAILTRACK GROUP	31/03/2002	27/06/2002	88
<350	VITESSE MEDIA	31/01/2002	29/04/2002	88
250	TEMPLETON EMERG MARK I. TR.	30/04/2002	26/07/2002	87
<350	AMSTRAD	30/06/2002	25/09/2002	87
<350	STOCKCUBE	31/12/2001	28/03/2002	87
250	T & S STORES	29/12/2001	25/03/2002	86
<350	FIRST PROPERTY ONLINE	31/03/2002	25/06/2002	86
<350	ICM COMPUTER GROUP	30/06/2002	24/09/2002	86
<350	MILLFIELD GROUP	31/03/2002	25/06/2002	86
<350	MERIVALE MOORE	30/06/2002	23/09/2002	85
<350	SURGICAL INNOVATIONS GRP.	31/12/2001	26/03/2002	85
<350	WIGMORE GROUP(THE)	31/12/2001	26/03/2002	85
<350	WYNNSTAY PROPERTIES	25/03/2002	18/06/2002	85
<350	PROGRESSIVE GEARED INC. TR.	30/06/2001	21/09/2001	83
250	MINERVA	30/06/2002	20/09/2002	82
<350	L.GARDNER GROUP	31/08/2001	21/11/2001	82
<350	ASK CENTRAL	30/12/2001	21/03/2002	81
250	COBHAM	31/12/2001	21/03/2002	80
250	PUNCH TAVERNS	17/08/2002	05/11/2002	80
250	ROTORK	31/12/2001	21/03/2002	80
100	ALLIANCE UNICHEM	31/12/2001	20/03/2002	79
100	CORUS GROUP	29/12/2001	18/03/2002	79
250	BODYCOTE INTERNATIONAL	31/12/2001	20/03/2002	79
250	KIDDE	31/12/2001	20/03/2002	79
<350	CLINTON CARDS	27/01/2002	16/04/2002	79
<350	CORPORATE SERVICES GROUP	31/12/2001	20/03/2002	79
<350	HOWARD HLDGS	30/04/2002	18/07/2002	79
<350	IQE	31/12/2001	20/03/2002	79
250	INTERNATIONAL POWER	31/12/2001	19/03/2002	78
<350	AMEY	31/12/2001	19/03/2002	78
<350	ANTISOMA	30/06/2002	16/09/2002	78
250	BELLWAY	31/07/2001	16/10/2001	77
250	LAING(JOHN)	31/12/2001	18/03/2002	77
<350	REDBUS INTERHOUSE	31/12/2001	18/03/2002	77
250	MCCARTHY & STONE	31/08/2001	15/11/2001	76
250	D.F.S.FURNITURE CO	28/07/2001	11/10/2001	75
100	CANARY WHARF GROUP	30/06/2002	12/09/2002	74
100	DAILY MAIL & GENERAL TRUST	30/09/2001	13/12/2001	74
250	DAIRY CREST GROUP	31/03/2002	13/06/2002	74
<350	GENESIS EMERGING MKTS FUND	30/06/2002	12/09/2002	74
<350	HARVEY NASH GROUP	31/01/2002	15/04/2002	74
<350	LIGHTHOUSE GROUP	31/12/2001	15/03/2002	74

<350	ZERO DIVIDEND RECOV. FUND	31/03/2003	13/06/2003	74
<350	INDITHERM	31/12/2001	14/03/2002	73
<350	SENIOR	31/12/2001	14/03/2002	73
100	ANGLO AMERICAN	31/12/2001	13/03/2002	72
100	COMPASS GROUP	30/09/2001	11/12/2001	72
100	HAYS	30/06/2002	10/09/2002	72
100	SEVERN TRENT	31/03/2002	11/06/2002	72
250	CARILLION	31/12/2001	13/03/2002	72
250	INTERSERVE	31/12/2001	13/03/2002	72
250	MILLENNIUM & COPTH. HOTELS	31/12/2001	13/03/2002	72
250	PREMIER OIL	31/12/2001	13/03/2002	72
250	REDROW	30/06/2002	10/09/2002	72
<350	WAGON	31/03/2002	11/06/2002	72
<350	WHITEHEAD MANN GROUP	31/03/2002	11/06/2002	72
100	BHP BILLITON	30/06/2002	09/09/2002	71
250	AEGIS GROUP	31/12/2001	12/03/2002	71
250	CELLTECH GROUP	31/12/2001	12/03/2002	71
<350	BFS MANAGED PROPERTIES	30/09/2002	10/12/2002	71
<350	MEDISYS	30/09/2001	10/12/2001	71
<350	THOMSON INTERMEDIA	31/01/2002	12/04/2002	71
100	EXEL	31/12/2001	11/03/2002	70
250	BOVIS HOMES GROUP	31/12/2001	11/03/2002	70
250	IMI	31/12/2001	11/03/2002	70
250	SIG	31/12/2001	11/03/2002	70
250	SPECTRIS	31/12/2001	11/03/2002	70
250	SPIRAX-SARCO ENGINEERING	31/12/2001	11/03/2002	70
250	GO-AHEAD GROUP	29/06/2002	06/09/2002	69
250	INTERTEK TESTING SERVICES	31/12/2002	10/03/2003	69
250	JJB SPORTS	31/01/2002	10/04/2002	69
250	WILLIAM HILL	31/12/2002	10/03/2003	69
<350	PENNINE DOWNING AIM VCT 2	28/02/2002	08/05/2002	69
100	TATE & LYLE	31/03/2002	07/06/2002	68
100	DIAGEO	30/06/2002	05/09/2002	67
100	JOHNSON MATTHEY	31/03/2002	06/06/2002	67
100	SIX CONTINENTS	30/09/2001	06/12/2001	67
250	BRITISH AIRWAYS	31/03/2002	06/06/2002	67
250	BUDGENS	29/04/2001	05/07/2001	67
250	EXPRO INTERNATIONAL GROUP	31/03/2002	06/06/2002	67
250	GREAT PORTLAND ESTATES	31/03/2002	06/06/2002	67
250	SCHRODER VENTURES INTL I.TR.	30/06/2002	05/09/2002	67
250	SECURICOR	30/09/2001	06/12/2001	67
250	SIGNET GROUP	02/02/2002	10/04/2002	67
250	SOMERFIELD	27/04/2002	03/07/2002	67
100	GKN	31/12/2001	07/03/2002	66
100	P&O PRINCESS CRUISES	31/12/2001	07/03/2002	66



100	REXAM	31/12/2001	07/03/2002	66
100	ROLLS-ROYCE	31/12/2001	07/03/2002	66
250	CATTLES	31/12/2001	07/03/2002	66
250	DE VERE GROUP	30/09/2001	05/12/2001	66
<350	GRAPHITE ENTERPRISE TRUST	31/12/2001	07/03/2002	66
100	FRIENDS PROVIDENT	31/12/2001	06/03/2002	65
100	GALLAHER GROUP	31/12/2001	06/03/2002	65
100	SCOTTISH & NEWCASTLE	28/04/2002	02/07/2002	65
250	CARLTON COMMUNICATIONS	30/09/2001	04/12/2001	65
100	UNITED BUSINESS MEDIA	31/12/2001	05/03/2002	64
<350	BEN BAILEY	31/12/2001	05/03/2002	64
<350	SIMON GROUP	31/12/2001	05/03/2002	64
100	HSBC HLDGS	31/12/2001	04/03/2002	63
100	PEARSON	31/12/2001	04/03/2002	63
250	FLEMING MERCANTILE INV. TR.	31/01/2002	04/04/2002	63
250	INCHCAPE	31/12/2001	04/03/2002	63
250	PERSIMMON	31/12/2001	04/03/2002	63
250	WASTE RECYCLING GROUP	31/12/2001	04/03/2002	63
<350	BRUNNER INVESTMENT TRUST	30/11/2001	01/02/2002	63
<350	AIM VCT(THE)	30/11/2001	31/01/2002	62
250	ARCADIA GROUP	25/08/2001	25/10/2001	61
250	HMV GROUP	27/04/2002	27/06/2002	61
250	MFI FURNITURE GROUP	29/12/2001	28/02/2002	61
250	WESTBURY	28/02/2002	30/04/2002	61
100	ALLIED DOMECQ	31/08/2001	30/10/2001	60
100	BOOTS CO	31/03/2002	30/05/2002	60
100	DIXONS GROUP	27/04/2002	26/06/2002	60
100	INVENSYS	31/03/2002	30/05/2002	60
100	NATIONAL GRID GROUP	31/03/2002	30/05/2002	60
100	SAB MILLER	31/03/2002	30/05/2002	60
100	SAINSBURY(J)	30/03/2002	29/05/2002	60
250	LONMIN	30/09/2001	29/11/2001	60
250	PENNON GROUP	31/03/2002	30/05/2002	60
250	TRINITY MIRROR	30/12/2001	28/02/2002	60
250	WHITBREAD	02/03/2002	01/05/2002	60
<350	CYBIT HLDGS	31/03/2002	30/05/2002	60
100	BRITISH LAND CO	31/03/2002	29/05/2002	59
100	GRANADA	30/09/2001	28/11/2001	59
100	GUS	31/03/2002	29/05/2002	59
100	HILTON GROUP	31/12/2001	28/02/2002	59
100	LEGAL & GENERAL GROUP	31/12/2001	28/02/2002	59
100	MMO2	31/03/2002	29/05/2002	59
100	RENTOKIL INITIAL	31/12/2001	28/02/2002	59
100	ROYAL & SUN ALL. INS GRP	31/12/2001	28/02/2002	59
100	ROYAL BANK OF SCOTLAND GRP	31/12/2001	28/02/2002	59

100	SHIRE PHARMACEUTICALS GRP	31/12/2001	28/02/2002	59
250	AWG	31/03/2002	29/05/2002	59
250	BRAMBLES INDUSTRIES	30/06/2002	28/08/2002	59
250	ICAP	31/03/2002	29/05/2002	59
250	PILKINGTON	31/03/2002	29/05/2002	59
<350	BRAIME(T.F.& J.H.)(HLDGS)	31/12/2001	28/02/2002	59
<350	BURTONWOOD BREWERY	30/03/2002	28/05/2002	59
100	AVIVA	31/12/2001	27/02/2002	58
100	EMAP	31/03/2002	28/05/2002	58
100	HBOS	31/12/2001	27/02/2002	58
100	IMPERIAL TOBACCO GROUP	29/09/2001	26/11/2001	58
100	TOMKINS	30/04/2002	27/06/2002	58
100	VODAFONE GROUP	31/03/2002	28/05/2002	58
250	CMG	31/12/2001	27/02/2002	58
250	CRODA INTERNATIONAL	31/12/2001	27/02/2002	58
250	NORTHERN FOODS	31/03/2002	28/05/2002	58
<350	ANTONOV	31/12/2001	27/02/2002	58
<350	EDINBURGH SMALL COS TRUST	30/06/2002	27/08/2002	58
<350	HAMLEYS	30/03/2002	27/05/2002	58
<350	OXFORD BIOMEDICA	31/12/2001	27/02/2002	58
<350	STAFFWARE	31/12/2001	27/02/2002	58
100	AMERSHAM	31/12/2001	26/02/2002	57
100	BRITISH AMERICAN TOBACCO	31/12/2001	26/02/2002	57
100	PRUDENTIAL	31/12/2001	26/02/2002	57
250	AGGREKO	31/12/2001	26/02/2002	57
250	XANSA	30/04/2002	26/06/2002	57
<350	MERCURY GROSVENOR TRUST	31/12/2001	26/02/2002	57
100	BUNZL	31/12/2001	25/02/2002	56
100	SMITHS GROUP	31/07/2002	25/09/2002	56
250	AVIS EUROPE	31/12/2001	25/02/2002	56
250	EGG	31/12/2001	25/02/2002	56
250	MURRAY INT TRUST	31/12/2001	25/02/2002	56
100	WOLSELEY	31/07/2002	24/09/2002	55
250	WOOLWORTHS GROUP	31/01/2002	27/03/2002	55
<350	BROWN & JACKSON	06/07/2002	30/08/2002	55
<350	MURRAY VCT 2	28/02/2002	23/04/2002	54
100	ALLIANCE & LEICESTER	31/12/2001	22/02/2002	53
100	MAN GROUP	31/03/2002	23/05/2002	53
100	OLD MUTUAL	31/12/2001	22/02/2002	53
100	SCOTTISH & SOUTHERN ENERGY	31/03/2002	23/05/2002	53
100	UNITED UTILITIES	31/03/2002	23/05/2002	53
250	FIDELITY EUROPEAN VALUES	31/12/2001	22/02/2002	53
250	FLEMING CLAVERHOUSE I.T.	31/12/2001	22/02/2002	53
<350	PATIENTLINE	31/03/2002	23/05/2002	53
<350	TELECITY	31/12/2001	22/02/2002	53

100	ABBEY NATIONAL	31/12/2001	21/02/2002	52
100	ASSOCIATED BRITISH FOODS	15/09/2001	06/11/2001	52
100	BG GROUP	31/12/2001	21/02/2002	52
100	CAPITA GROUP	31/12/2001	21/02/2002	52
100	CENTRICA	31/12/2001	21/02/2002	52
100	HANSON	31/12/2001	21/02/2002	52
100	LAND SECURITIES	31/03/2002	22/05/2002	52
100	REED ELSEVIER	31/12/2001	21/02/2002	52
250	LEX SERVICE	31/12/2001	21/02/2002	52
250	SINGER & FRIEDLANDER GROUP	31/12/2001	21/02/2002	52
<350	AVEVA GROUP	31/03/2002	22/05/2002	52
<350	GLENMORANGIE	31/03/2002	22/05/2002	52
<350	IG GROUP	31/05/2002	22/07/2002	52
<350	JP MORGAN FLEM W/WIDE I.T.	31/03/2002	22/05/2002	52
<350	LIONTRUST ASSET MGMT	31/03/2002	22/05/2002	52
100	BRADFORD & BINGLEY	31/12/2001	20/02/2002	51
100	MARKS & SPENCER GROUP	31/03/2002	21/05/2002	51
100	RECKITT BENCKISER	31/12/2001	20/02/2002	51
100	STANDARD CHARTERED	31/12/2001	20/02/2002	51
100	WPP GROUP	31/12/2001	20/02/2002	51
250	EMI GROUP	31/03/2002	21/05/2002	51
100	BAA	31/03/2002	20/05/2002	50
<350	F&C INCOME GROWTH I.TRUST	31/03/2002	20/05/2002	50
100	NEXT	31/01/2002	21/03/2002	49
250	BANKERS INVESTMENT TRUST	31/10/2001	17/12/2001	47
250	SECOND ALLIANCE TRUST	31/07/2002	16/09/2002	47
250	SELFRIDGES	02/02/2002	21/03/2002	47
100	3I GROUP	31/03/2002	16/05/2002	46
100	BT GROUP	31/03/2002	16/05/2002	46
100	KINGFISHER	02/02/2002	20/03/2002	46
100	LLOYDS TSB GROUP	31/12/2001	15/02/2002	46
100	MORRISON(WM.)SUPERMARKETS	03/02/2002	21/03/2002	46
100	SAFEWAY	30/03/2002	15/05/2002	46
100	TESCO	23/02/2002	10/04/2002	46
250	CAPITAL RADIO	30/09/2001	15/11/2001	46
250	RIT CAPITAL PARTNERS	31/03/2002	16/05/2002	46
<350	3PC INVESTMENT TRUST	31/05/2002	16/07/2002	46
100	BAE SYSTEMS	31/12/2001	14/02/2002	45
100	BARCLAYS	31/12/2001	14/02/2002	45
100	BOC GROUP	30/09/2001	14/11/2001	45
100	CABLE & WIRELESS	31/03/2002	15/05/2002	45
100	CADBURY SCHWEPPE	30/12/2001	13/02/2002	45
100	GLAXOSMITHKLINE	31/12/2001	14/02/2002	45
100	UNILEVER	31/12/2001	14/02/2002	45
250	BRITISH ENERGY	31/03/2002	15/05/2002	45

250	FIRSTGROUP	31/03/2002	15/05/2002	45
100	LATTICE GROUP	31/03/2002	14/05/2002	44
250	POWDERJECT PHARM	31/03/2002	14/05/2002	44
<350	FOREVER BROADCASTING	30/09/2001	13/11/2001	44
<350	ROYAL DOULTON	31/12/2001	13/02/2002	44
250	FOREIGN & COL. EUROTRUST	30/09/2001	12/11/2001	43
100	BP	31/12/2001	12/02/2002	43
100	REUTERS GROUP	31/12/2001	12/02/2002	43
250	PREMIER FARNELL	03/02/2002	18/03/2002	43
250	TEMPLE BAR INV. TR.	31/12/2001	12/02/2002	43
<350	FOREIGN & COL. EUROTRUST	30/09/2001	12/11/2001	43
<350	HENDERSON ELEC&GEN INV TST	31/05/2002	12/07/2002	42
<350	MERRILL LYNCH NEW EN. TECH.	31/10/2001	12/12/2001	42
250	EDINBURGH US TRACKER TRUST	31/01/2002	13/03/2002	41
250	XSTRATA PLC	31/12/2002	10/02/2003	41
<350	MURRAY EXTRA RETURN I.T.	31/08/2001	10/10/2001	40
250	MERCHANTS TRUST	31/01/2002	11/03/2002	39
100	SHELL TRANSPORT & TRAD. CO.	31/12/2001	07/02/2002	38
100	SMITH & NEPHEW	31/12/2001	07/02/2002	38
<350	FALCON INVESTMENT TRUST	30/09/2002	07/11/2002	38
<350	MERANT	30/04/2002	06/06/2002	37
100	AMVESCAP	31/12/2001	05/02/2002	36
250	FLEMING JAPANESE INV. TRUST	30/09/2001	05/11/2001	36
<350	JOS HLDGS	31/07/2002	05/09/2002	36
100	IMPERIAL CHEMICAL IND.	31/12/2001	04/02/2002	35
<350	QXL RICARDO	31/03/2002	03/05/2002	33
100	ASTRAZENECA	31/12/2001	31/01/2002	31
100	BRITISH SKY BROAD. GROUP	30/06/2002	31/07/2002	31
100	RIO TINTO	31/12/2001	31/01/2002	31
100	SCOTTISH POWER	31/03/2002	01/05/2002	31
100	NORTHERN ROCK	31/12/2001	30/01/2002	30
250	MONKS INVESTMENT TRUST	30/04/2002	29/05/2002	29
250	ARM HLDGS	31/12/2001	28/01/2002	28
250	ABERFORTH SMALLER CO. TR.	31/12/2001	22/01/2002	22
<350	ADVENT 2 VCT	28/02/2002	19/03/2002	19
250	INVESTEC (PLC)	31/03/2002	17/04/2002	17

## **Appendix 4.4 A Pseudo Random Number Generator (written by the author)**

This EXCEL macro allows a sample to be selected from a population using EXCEL's own Rnd (i.e. random number) function but with no duplicates  
[Start in Cell B3]

```
Sub RandomEyes1()
```

```
Randomize
```

```
' This reseeds the generator
```

```
Dim populat As Integer
```

```
popn$ = InputBox("What is the size of your population?", "Randomeyes", "1")
```

```
populat = Val(popn$)
```

```
' Selecting the POPULATION size
```

```
slec$ = InputBox("What is the size of your sample?", "Randomeyes2", "1")
```

```
slec = Val(slec$)
```

```
' Selecting the SAMPLE size
```

```
Dim Nummers(1 To 1000) As Integer
```

```
' Setting up the UNIQUENESS record
```

```
For zappy = 1 To popn
```

```
Nummers(zappy) = 0
```

```
Next zappy
```

```
' Setting the record to zero
```

```
For zippy = 1 To slec
```

```
intloop:
```

```
randum = Int((populat * Rnd) + 1) ' Generate random value between 1 and  
whatever.
```

```
If Nummers(randum) = 0 Then
```

```
    Nummers(randum) = 1
```

```
    ActiveCell.Offset(0, -1).Activate
```

```
    ActiveCell.Value = "Sample Item No. " & zippy
```

```
    ActiveCell.Offset(0, 2).Activate
```

```
ActiveCell.Value = randum
ActiveCell.Offset(1, -1).Activate
Else: GoSub intloop
End If
' Testing for UNIQUENESS
Next zippy
End Sub
```

## **Appendix 4.5 Hypotheses restated for proportions**

The first three hypotheses relate to FTSE rankings.

H1b-0 Null hypotheses:

For each of the three pairings, there is no difference in the reporting of pptt proportions of good news keywords between the greater capitalised category and the smaller.

H1b-AA alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation report a higher pptt proportion of good news words or phrases than the smaller.

H2b-0 Null hypotheses:

There is no difference in good news reported parts per thousand (pptt) proportions of bad news keywords or phrases reported for each of the three pairings.

H2b-AA alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation report a higher pptt proportion of bad news keywords or phrases than the smaller.

H3b-0 Null hypotheses:

There is no difference in good news reported parts per thousand (pptt) proportions of Forward-looking keywords or phrases reported for each of the three pairings.

H3b-AA alternative hypotheses:

For each of the three pairings, the category with the greater capitalisation report a higher pptt proportion of Forward-looking keywords or phrases than the smaller.

H4b-0 Null hypothesis:

There is no difference in pptt proportions of good news reported between profitable companies and those that make a loss.

H4b-AA alternative hypothesis:

Profitable companies report a higher pppt proportion of good news words or phrases than loss-making companies.

H5b-0 Null hypothesis:

There is no difference in pppt proportions of good news reported between 'improving performers' and 'declining performers'.

H5b-AA alternative hypothesis:

'Improving performers' report a higher pppt proportion of good news words or phrases than 'declining performers'.

Null hypothesis:

H6b-0 There is no significant difference between the proportion of good news and the proportion of bad news reported by companies with improving performance.

H6b-AA alternative hypothesis:

Companies with improving performance report a higher proportion of good news than bad news.

H7b-0 There is no significant difference between the proportion of good news and the proportion of bad news reported by companies with declining performance.

H7b-AA alternative hypothesis:

Companies with declining performance report a lower proportion of good news than bad news.

H8b-0 Null hypotheses:

For companies announcing bad news, there is no significant difference between the proportion of Forward-looking keywords or phrases announced by improving companies and that announced by declining companies.

H8b-AA alternative hypothesis:

Where bad news is announced, companies with declining performance report a higher proportion of forward-looking words or phrases than companies with improving performance.



## **Appendix 4.6 Further Codes: Quantitative/Non-quantitative** *[Chapter 4.3.1]*

[from Table 3, Beattie et al. (2004)]

BD - Business Description [13 codes]

BUS - General development of business

PROD - Principal products/services

MKT - Principal markets and market segments

PRO - Processes

MAC - Types of macroeconomic activity that management believes are closely correlated with business revenues or expenses

PAT - Description of important patents, trademarks licenses, franchises etc.

PROPS - Location, nature, capacity and utilization of physical properties

RELA - Major contractual relationships

INP- Key inputs

REG - Existing and proposed laws and regulations that could impact business significantly

DIST - Distribution and delivery methods

IND - Industry

SEAS - Seasonality and cyclicity

FIN - Financial Information [13 codes]

PROF - Profit & profitability measures, including EPS

SAL - Sales

CF - Cashflow

OTH - Other

DEBT - Debt

GEAR - Gearing

INT - Interest

TAX - Tax

CAPEX - Capital expenditure

WC - Working capital  
INTCOV - Interest cover  
DIV - Dividends  
PENS - Pensions  
MA - Management Analysis [14 codes]  
MKT - Reasons for change in market acceptance  
PROF - Reasons for change in profitability  
MAC - Identity and past effect of key macroeconomic trends  
OTH - Reasons for change - other  
UNU - Identity, effect of unusual or nonrecurring transactions and events  
RAT - Reasons for change in ratios  
LIQ - Reasons for change in liquidity and financial flexibility  
REG - Identity and past effect of key regulatory trends  
FPOS - Reasons for change in financial position  
INN - Reasons for change in innovation  
SOC - Identity and past effect of key social trends  
TECH - Identity and past effect of key technological trends  
POL - Identity and past effect of key political trends  
DEM - Identity and past effect of key demographic trends

MS - Management & Shareholder Information [5 codes]  
SHAREHOLDER1 - Identity and background of directors and executive management  
SHAREHOLDER2 - Identity and number of shares owned by major owners; number of shares owned by directors, management and employees, each as a group  
RELA - Transactions and relationships among related parties  
COMP - Types and amount of director and executive management compensation and methods of computation  
DIS - Nature of disagreements with former business advisors

OP - Operating Data [10 codes]

REV - Revenues e.g. level and changes in units and prices, market share

COST - Costs, e.g. number of employees, average compensation per employee

EMP - Employee involvement and fulfilment, e.g. level and changes in employee satisfaction

PRODY - Productivity, e.g. input/output ratio

RES - Amount and quality of key resources, including human resources, e.g. average age

MAT - Volume and prices of materials used

QUAL - Quality e.g. customer satisfaction, % defects, backlog

INN - Innovation, e.g. % current production designed in period

TIME - Time required to perform key activities, e.g. production, delivery, new product development

OUT - Outlets

FL - Forward Looking Information [8 codes]

PLAN - Activities and plans to meet broad objectives and business strategy

RISK - Nature and cause of risks

OPP - Nature and cause of opportunities

FACINT - Factors that management believes must be present, occurring within the business

OTH - Non-specific evaluation of future outcomes / performance

FACEXT - Factors that management believes must be present, occurring outside the business

DIFF - Identity of major differences between actual business performance and previously disclosed opportunities, risks and management plans

EFF - Effects of opportunities and risks on future core earnings and cash flows

NOT - Not Jenkins [10 codes]

EMP - Employees

OTHLINK - Link to another part of the annual report or other source

COM - Business and local community

STD - Accounting standards and impact

ENV - Environmental

CUS - Customers

OTHTH - Thanks to / recognition of support of / expression of appreciation of stakeholder group / directors

POL - Accounting policies and impact

CHYE - Change in financial year-end

SUP - Suppliers

BOS - Broad Objectives and Strategy [3 codes]

OBJ - Broad objectives, quantified where practical

STRAT - Principal strategies to achieve objectives

CON SIS - Discussion of consistency of strategy with key trends

IS - Industry Structure [3 codes]

COMP - Intensity of industry competition, dispersion of competitors and identity of major competitors; measures of intensity of competition, e.g. relative price changes, customer switches

CUS - Bargaining power of customers, extent of dispersion, including concentration measure identity of dominant customers; measures of relative bargaining power, e.g. recent price changes

SUP - Bargaining power of resource providers; identity of types of major resource and related suppliers; for each type, availability of supply; measures of relative bargaining power, e.g. recent price changes

## 5 Preliminary Announcements – Full prelim

### 5.1 Introduction

As stated in Chapter 3.3, the preliminary announcement may be examined from two different perspectives: the full preliminary announcement, or ‘prelim’, which is addressed in this Chapter, and a type of executive summary placed near the beginning called the Highlights section, which is addressed in Chapter 6.

The history and structure of prelims are covered in Chapter 3 and a full description of the method of sample selection is described in Chapter 4.

The purpose of this Chapter is to provide an answer to the research questions (Chapter 1.3) which are:

1. *What is the evidence by extent and by nature of the existence of impression management in preliminary announcements?*
2. *What are the links between a company’s characteristics and its use of ‘good news’, ‘bad news’ and ‘forward-looking words’ in its preliminary announcement?*
3. *Can behavioural economics provide an explanation for the method of presentation?*

All three questions are addressed in the current Chapter with the *second research question* expanded into the hypotheses which are presented in Chapter 4.7.

The research questions originating in Chapter 1.5 and developed further in Chapter 4.2 are contextualised in this Chapter to cover the specific questions associated with the narrative contained in the full prelim.

The specific research questions deal with the following areas:

The incidence and statistical significance of specific keywords<sup>1</sup>:

- a) ‘good-news’ words or phrases, and
- b) ‘bad news’ words or phrases
- c) forward-looking words or phrases

---

<sup>1</sup> For a list of keywords see Appendix 5.3.

Each keyword is then analysed according to:

- i) FTSE categories (i.e. 100, 250) and shares below FTSE 350<sup>2</sup>.
- ii) Whether or not the company has made a profit or loss in the current accounting period, and
- iii) The movement in profit or loss from the previous accounting period (as defined in Chapter 4.2 of the thesis)

Although the keywords are counted and analysed, they also need to be placed in context. While the absolute word totals are essential and are commented upon in this Chapter and the next, perhaps more accurate identification of impression management may be revealed by examining the *proportions*. That is, ratios obtained by expressing the good/bad/forward-looking words in each prelim as a percentage of the total number of words in the same prelim. The cumulative proportions when added together for a category (say FTSE250) will be parts per ten thousand (pptt).<sup>3</sup>

The structure of the Chapter is, as follows: the incidence of keywords is considered in Chapter 5.2 with proportions being discussed in 5.3. The justification for extending the investigation further, i.e. for the purposes of more accurate identification of impression management is provided in Chapter 5.4. The empirical results are presented in Chapter 5.5 followed by a Summary of Significant Findings in Chapter 5.6. Summary and Discussion of the findings may be found in Chapter 5.7.

Data Tables are sequentially numbered throughout the Chapter and those that are considered to be too large to insert in the main text are placed in Appendices located after the final Chapter of the thesis.

Prior to the presentation of results, Table 5.1 presents the relationship of hypotheses (see Table 5.1) to expectations and provides related impression management implications.

---

<sup>2</sup> Indicated by the abbreviation '<FTSE350'

<sup>3</sup> When added together for the full sample of 300 companies, obviously, the total is measured as *parts per thirty thousand*.

The terms used to describe the implications (i.e. 'affirming' and 'dissociative') are defined in Chapter 2.3.4.

<b>Table 5.1 Hypotheses, Expectations and related Impression Management implications</b>				
	<b>Hypothesis</b>	<b>Relating to</b>	<b>Expectation</b>	<b>Impression Management relating to expectations</b>
H1b	There is no difference in the proportion of keywords or phrases reported by companies in any of the three FTSE categories	Good news	Larger companies (using FTSE category as a proxy) report a higher proportion of keywords or phrases than smaller companies	'Acclaiming' occurs when expectations are met. 'Dissociative' occurs when the inverse of expectations are encountered (i.e. smaller companies report a higher proportion of keywords or phrases than larger companies)
H2b	As for hypothesis 1b but for bad news	Bad news	Larger companies (using FTSE category as a proxy) report a lower proportion of keywords or phrases than smaller companies	'Dissociative' occurs when expectations are met.
H3b	As for hypothesis 1b but for forward-looking	Forward-looking	Smaller companies report a higher number of forward-looking keywords or phrases than larger	'Dissociative' occurs when expectations are met. A type of 'Affirming' occurs when the inverse of expectations are encountered
H4b(i)	There is no difference in the proportion of keywords or phrases reported between profitable companies and those that make a loss	Good news	Profitable companies report a higher proportion of words or phrases than unprofitable	'Acclaiming' occurs when expectations are met. 'Dissociative' occurs when the inverse of expectations are encountered (i.e. loss-making companies report a higher proportion of keywords or phrases than profitable companies)
H4b(ii)	As for hypothesis 4b(i) but for bad news	Bad news	Profitable companies report a lower proportion of words or phrases than unprofitable	'Dissociative' occurs when expectations are met.



<b>Table 5.1 (Continued)</b>				
<b>Hypotheses, Expectations and related Impression Management implications</b>				
	<b>Hypothesis</b>	<b>Relating to</b>	<b>Expectation</b>	<b>Impression Management relating to expectations</b>
H4b(iii)	As for hypothesis 4b(i) but for forward-looking	Forward-looking	Profitable companies report a lower proportion of words or phrases than unprofitable	'Dissociative' occurs when expectations are met. A type of 'Affirming' occurs when the inverse of expectations are encountered.
H5b(i)	There is no difference in the proportion of keywords or phrases reported between improving companies and those that are declining	Good news	Improving companies report a higher proportion of words or phrases than declining	'Acclaiming' occurs when expectations are met. 'Dissociative' occurs when the inverse of expectations are encountered (i.e. declining companies report a higher proportion of keywords or phrases than improving companies)
H5b(ii)	As for hypothesis 5b(i) but for bad news	Bad news	Improving companies report a lower proportion of words or phrases than declining	'Dissociative' occurs when expectations are met.
H5b(iii)	As for hypothesis 5b(i) but for forward-looking	Forward-looking	Improving companies report a lower proportion of words or phrases than declining	'Dissociative' occurs when expectations are met. A type of 'Affirming' occurs when the inverse of expectations are encountered.

<b>Table 5.1 (Continued)</b>				
<b>Hypotheses, Expectations and related Impression Management implications</b>				
	<b>Hypothesis</b>	<b>Relating to</b>	<b>Expectation</b>	<b>Impression Management relating to expectations</b>
H6b	There is no difference between the proportion of either type of keyword or phrase reported by companies with improving performance	Good news v Bad news	Companies with improving performance report a significantly greater proportion of good news keywords or phrases than bad news	'Acclaiming' occurs when expectations are met. If the difference between good and bad news reporting is not significant, it is difficult to show the existence of impression management. An unusual type of impression management may occur if inverse expectations are encountered (i.e. Companies with improving performance report a greater proportion of bad news keywords or phrases than good news)
H7b	There is no difference between the proportion of either type of keyword or phrase reported by companies with declining performance	Good news v Bad news	Companies with declining performance report a significantly higher proportion of good news keywords or phrases than bad news	'Dissociative' occurs when expectations are met. It is difficult to identify the existence of impression management if inverse expectations are encountered (i.e. Companies with declining performance report a significantly greater proportion of bad news keywords or phrases than good news)
H8b	For companies announcing bad news, there is no difference between the number of Forward-looking keywords or phrases announced by improving companies and those announced by declining companies.	Bad news v Forward-looking	Where bad news is announced, companies with declining performance report a greater proportion of forward-looking words or phrases than companies with improving performance	'Dissociative' occurs both when expectations are met and when inverse expectations are encountered (i.e. Where bad news is announced, companies with improving performance report a greater proportion of forward-looking words or phrases than companies with declining performance)

## 5.2 Keyword Counts

The count for each keyword found is provided in Appendix 5.3 at the end of the thesis. The words are presented under a heading for each dependent variable in alphabetical order with a total for each word and a grand total at the end of each list. For good news keywords, *profit* and *growth* are most frequent (7.82% and 7.52% of the total, respectively) but, used in a positive way, the words *increase* and *increased* combine to give 10.60% of the total good news keyword count. The use of the rather emotive word, *strong* counts for just under 4%.

For bad news keywords, *loss* and *losses* combine to contribute 28.16% of bad news keywords; next in frequency is the word *difficult* at 12.29%. The result from the use of the word *weak* is just under 3%.

Most of the forward-looking keywords or phrases (50.2%) comprise references to dates in future financial periods, usually preceded by a preposition (e.g. *into*, *for*, *through*, *throughout*). Next in order comes the word *will* at just over 20%. Then there is a combination of the non-specific words *confidence* and *confident* at just over 3%. There are also a few words at just over 2% each (*remain*, *next*, *should*, *outlook*).

### 5.2.1 Skewness of wordcounts

Visual inspection of the data reveals that the distributions are positively skewed for the wordcounts relating to good news, bad news and forward-looking keywords. This means that analysis of the underlying figures should use non-parametric statistics.

### 5.2.2 FTSE and Profit or Loss Wordcount Summaries

Table 5.2 presents the number of Good and Bad news keywords, summarised by both FTSE categories and profit or loss. (A similar presentation is made for forward-looking keywords in Table 5.3). The main purpose of Table 5.2 is to observe general movements or characteristics that may suggest areas of potential impression management. For example, both median and mean good news keywords fall as the FTSE category moves from larger to smaller capitalisation. Another example is the fact that bad news has a greater median and mean in <FTSE 350 companies that make a loss than those that make a profit. This not the case for FTSE100 companies. There may be different types of impression management occurring in companies having a different size and also those with a different profitability level. For each category in each table (i.e. Tables 5.2 and 5.3) the mean is higher than the median confirming that the underlying distribution is positively skewed. The number of Good news keywords that are announced reduces in quantity between companies with higher market capitalisation compared to those in a lower category. The drop is considerable when comparing FTSE250 (median, 110) to <FTSE350 (median, 42). This movement supports the 'size' argument put forward for hypotheses relating to good news keywords later in the Chapter. The incidence of Bad news keywords also falls as market capitalisation falls. However the greater change takes place from FTSE100 (median = 19) to FTSE250 (median = 10).

Forward-looking keywords in Table 5.3 follow a pattern that is similar to good and bad news keywords but when the keywords announced by profitable companies are separated from those of loss-making companies, there are some interesting movements and differences. There is a considerable fall in forward-looking keyword counts from profitable companies in FTSE250 to those in <FTSE350. On the other hand, when examining the same two FTSE categories for loss-making companies, the number of keywords *rises* from 1,359 (FTSE250) to 1,458 (<FTSE350). This is not surprising as the number of loss-making companies almost doubles from FTSE250 (32) to <FTSE350 (57). Nevertheless there is a higher median and mean for <FTSE350 loss-making companies announcing forward-looking news compared to <FTSE350 profitable companies.

This result means that smaller companies are attempting to dissociate themselves from losses by diverting attention from the present using the suggestion of better prospects.

<b>Table 5.2 Analysis of Good and Bad News keywords by Market Segment and Profit or Loss</b>									
<i>Line</i>		<i>Total</i>		<i>FTSE 100</i>		<i>FTSE 250</i>		<i>&lt;FTSE350</i>	
<i>n</i>		<i>Good news</i>	<i>Bad news</i>	<i>Good news</i>	<i>Bad news</i>	<i>Good news</i>	<i>Bad news</i>	<i>Good news</i>	<i>Bad news</i>
299		299	285	100	99	100	95	99	91
299	<i>words</i>	38,403	4,011	20,296	2,075	12,104	1,133	6,003	803
299	<i>mean</i>	128.44	14.07	202.96	20.96	121.04	11.93	60.64	8.82
299	<i>s.d</i>	115.82	12.42	15.17	1.89	20.4	1.47	9.19	2.88
	<i>median</i>	102	11	152	19	109/110	10	42	7
		182	176	72	71	68	66	42	39
182	<i>profit</i>	27,473	2,617	15,070	1,516	9,243	787	3,160	314
182	<i>mean</i>	150.95	14.87	209.31	21.35	135.93	11.92	75.24	8.05
182	<i>s.d</i>	123.33	13.71	126.49	15.33	94.88	11.62	110.28	7.63
	<i>median</i>	120	11	155	19	118/119	9/10	42	4
		117	109	28	28	32	29	57	52
117	<i>loss</i>	10,930	1,394	5,226	559	2,861	346	2,843	489
117	<i>mean</i>	93.42	12.79	186.64	19.96	89.41	11.93	49.88	9.40
117	<i>s.d</i>	93.46	9.93	136.02	14.02	58.75	7.85	31.25	5.51
	<i>median</i>	73	10/11	143/144	18/19	97	10	42	8

**Table 5.3 Analysis of Forward-looking Keywords by Market Segment and Profit or Loss**

<i>Forward-looking</i>						
<i>Line</i>	<i>n</i>		<i>Total</i>	<i>FTSE 100</i>	<i>FTSE 250</i>	<i>&lt;FTSE350</i>
1	299		299	100	100	99
2	299	<i>words</i>	15,130	7,887	4,728	2,515
3	299	<i>mean</i>	50.60	209.31	135.93	73.49
4	299	<i>s.d</i>	50.11	126.49	94.88	110.28
5	299	<i>median</i>	35	155	118/119	42
6			182	72	68	42
7	182	<i>profit</i>	9,983	5,467	3,369	1,057
8	182	<i>mean</i>	54.36	75.93	49.54	25.17
9	182	<i>s.d</i>	49.69	57.01	41.60	26.72
10	182	<i>median</i>	40	61/62	38	15/16
11			117	28	32	57
12	117	<i>loss</i>	5,237	2420	1359	1458
13	117	<i>mean</i>	44.76	86.43	42.47	25.58
14	117	<i>s.d</i>	50.41	79.99	34.90	16.11
15	117	<i>median</i>	28	58	35	21

### 5.2.3 Movement in Profit or Loss Wordcounts

For the purpose of more detailed analysis, the movements in profit or loss (from the previous accounting period) for each company are divided into two distinct categories.

The first category is 'improving companies' which comprises:

- Greater profit (GRP);*
- Loss to profit (LTP) and*
- Smaller loss (SML).*

The second is 'declining companies' that is made up from:

- Smaller profit (SMP);*
- Profit to loss (PTL) and*
- Greater loss (GRL).*

### 5.2.3.1 Good news keywords

Table 5.4 provides an analysis of Good and Bad news Keywords By Movement in Profit or Loss. The main purpose of Table 5.4 is to present the relative occurrence of both variables based on the change in profit (or loss) since the previous accounting period. This presentation allows both a visual comparison between categories but also further statistical investigation (as discussed in Chapter 5.4, reported in Chapter 5.5 and, because of its explorative nature, is located in Appendix 5.2).

Prima facie, there appears to be a trend in 'improving' companies to announce more good news keywords than those companies that are 'declining' (see 5.2.3 for the types of performance that is included in each of these categories). This means that improving companies are attempting to manage impressions by means of acclaiming favourable results through announcing good news. This does not suggest that declining companies are not using good news in a dissociative way, just that the incidence of 'acclaiming' good news in improving companies is greater.

### 5.2.3.2 Bad news keywords

In Table 5.4, reading from left to right, the bad news wordcount reduces until the *Profit to Loss* category where it begins to rise again. However, this pattern is reversed when medians are calculated, where the values rise until *Profit to Loss* and then fall again. This cursory examination suggests that *Profit to loss* is a kind of 'turning point' (as discussed in Chapter 5.4, reported in Chapter 5.5 and, because of its explorative nature, is located in Appendix 5.2).



**Table 5. 4 Analysis of Keywords By Movement in Profit or Loss - Good and Bad News Keywords**

Line			Total		Greater profit		Smaller profit		Loss to profit	
			Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1	<i>n</i>		299	285	105	102	44	41	33	33
2		<i>words</i>	38,403	4,011	18,215	1,494	5,082	590	4,176	533
3		<i>mean</i>	128.01	13.88	171.84	14.50	115.50	13.72	126.55	16.15
4		<i>s.d.</i>	115.82	12.42	138.01	13.76	94.51	11.61	90.71	16.16
5		<i>median</i>	102	11	127	10	97/98	12	119	12
			Profit to loss		Smaller loss		Greater loss			
			Good news	Bad news	Good news	Bad news	Good news	Bad news		
1	<i>n</i>		27	25	33	32	57	52		
2		<i>words</i>	3,018	395	2,731	471	4,181	528		
3		<i>mean</i>	111.78	15.19	113.06	14.72	73.35	10.15		
4		<i>s.d.</i>	132.88	8.64	96.45	13.09	61.47	7.59		
5		<i>median</i>	78	17	86	12	50	8		

**Table 5.5 Analysis of Forward-looking Keywords By Movement in Profit or Loss**

		Total	Greater profit	Smaller profit	Loss to profit
1	<i>n</i>	299	106	44	32
2	<i>words</i>	15,130	6,100	2,213	1,580
3	<i>mean</i>	50.60	57.55	50.30	49.38
4	<i>s.d.</i>	50.11	53.43	48.26	37.82
5	<i>median</i>	35	43	35	36/37
			Profit to loss	Smaller loss	Greater loss
1			27	33	57
2			1,358	1,936	1,943
3			50.30	58.67	34.09
4			54.37	67.03	32.86
5			30	39	23

### 5.2.3.3 Forward-looking keywords

Table 5.5 provides a comparative analysis for Forward-looking keywords similar to that provided for Good and Bad news in Table 5.4. Inspection of Table 5.5 shows that the wordcount reduces for each successive comparison until *Profit to Loss* when it starts to rise. Prima facie, the movement in keyword counts when moving from most to least profitable comparisons may be explained as a shift from acclaiming to dissociative used of forward-looking keywords. That is, companies with a higher profitability tend to acclaim the profit but also include prognoses of future profitability. On the other hand, companies with a lower profitability, try to dissociate themselves from the poorer results by procrastinating; in other words, diverting attention to the possibility of better results when looking forward.

However, when the medians are examined (Row 5 of Table 5.5), *Loss to Profit* and *Smaller Loss* do not follow the pattern observed in the wordcounts (Row 1 of Table 5.5). This apparent anomaly is investigated and briefly discussed in Chapter 5.4, the results being reported Appendix 5.2, because of its explorative nature.

Table 5.6 focuses on Forward-looking keywords and uses a non-parametric statistical test (Mann Whitney) to examine the difference in the median number of keywords when comparing six categories of profitability change. Similar to Bad news keywords, on moving from profit to loss, the comparison wordcount reduces until *Profit to Loss* where it begins to rise for the other two loss categories. More specifically, the greater number of Forward-looking keywords in Greater Loss is such that, at varying degrees of significance, there is no other category which has as high a figure. Compared to the medians of ‘improving categories’ the statistical difference is highly significant for Greater Loss. Even at this early stage, there appears to be a type of dissociative impression management taking place, at the very least in the Greater loss companies. These comparisons as discussed in Chapter 5.4, reported in Chapter 5.5 and, because of their explorative nature, located in Appendix 5.2.

<b>Table 5.6 Mann Whitney tests on Movement in Profit or Loss - Forward-looking keywords</b>							
		106	44	32	27	33	57
		<i>Greater profit</i>	<i>Smaller profit</i>	<i>Loss to profit</i>	<i>Profit to loss</i>	<i>Smaller loss</i>	<i>Greater loss</i>
1	<i>Greater Profit</i>		***0.077	0.948	***0.082	0.975	*0.000
2	<i>Smaller Profit</i>			0.193	0.852	***0.070	***0.063
3	<i>Loss to Profit</i>				0.157	0.787	*0.001
4	<i>Profit to Loss</i>					***0.098	**0.024
5	<i>Smaller Loss</i>						*0.000

### 5.3 Keyword Proportions

As mentioned in the Introduction, calculating a proportion of the prelim attributable to each keyword may allow more accurate identification of impression management within the prelim.

### 5.3.1 Data representing proportions

Kolmogorov-Smirnov testing reveals that data for proportions are near-normally distributed<sup>1</sup> and may therefore be tested by parametric tests (e.g. T-Tests for differences in means).

### 5.3.2 FTSE and Profit or Loss Proportion Summaries

*Proportions* of keywords are summarised by both FTSE categories and profit or loss in a table comprising the proportions of Good and Bad news keywords in Table 5.7. This table has a similar purpose to Table 5.2 but covers proportion of keywords rather than simply keywords. Table 5.10 is a similar presentation covering *proportions* of forward-looking keywords. Apart from the case of improving companies in the FTSE100 category, in each table the mean is higher than the median which means that the data is skewed. This skewness varies with the category of data. Good News data approximates closely to a normal distribution although Bad News and the approximation to a normal distribution is not strong for Forward-looking data.<sup>4</sup>

Similarly to the number of keywords, the *proportion* of Good news keywords that are announced reduces between companies with higher market capitalisation compared to those in a lower category. However, the drop is very slight in each case.

There is an uneven pattern in the *proportion* of Bad news keywords that are announced. There is a fall between FTSE100 (median = 0.356) to FTSE250 (median = 0.303). The pattern reverses with <FTSE350 (median = 0.455) which is greatest of the three medians. There is no obvious reason for this 'reversal' but it will be explored briefly in Chapter 5.3.3.2 and more fully in Chapter 5.4 when dealing with hypotheses relating to bad news keywords.

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<sup>4</sup> Of the three sets of data, forward-looking proportions (the 'poorest' approximation to a normal distribution) show a significance of 0.301 using Kolmogorov-Smirnov tests. Good news proportions are 0.800, Bad news are 0.317.

Proportions of Forward-looking keywords follow a pattern that is almost a reversal of good news keywords. The mean, standard deviation and median continue to rise as the market capitalisation falls, but when the keywords announced by improving companies are separated from those of declining companies. Further investigation is briefly discussed in Chapter 5.4.

**Table 5.7 Analysis of Good and Bad Keyword proportions by market segment and profit or loss**

Line	n		Total		FTSE 100		FTSE 250		<FTSE 350	
			Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1	299		299	285	100	99	100	95	99	91
2	299	Words [pptt]	1148.049	127.245	395.817	40.016	379.948	36.797	372.284	50.432
3	299	mean	3.840	0.446	3.958	0.404	3.799	0.387	3.760	0.554
4	299	s.d	3.285	0.294	1.199	0.23	1.964	0.281	5.223	0.344
5		median	3.571	0.384	3.944	0.356	3.649	0.303	3.114	0.455
6			182	176	72	71	68	66	42	39
7	182	Profit [pptt]	762.109	69.454	290.455	27.208	269.795	22.251	201.859	19.995
8	182	mean	4.187	0.395	4.034	0.383	3.968	0.337	4.806	0.513
9	182	s.d	4.071	0.264	1.241	0.212	2.183	0.247	7.825	0.343
10		median	3.742	0.354	4.077	0.356	3.723	0.277	3.367	0.398
11			117	109	28	28	32	29	57	52
12	117	Loss [pptt]	385.94	57.791	105.361	12.809	110.153	14.546	170.426	30.437
13	117	mean	3.299	0.530	3.763	0.457	3.442	0.502	2.990	0.585
14	117	s.d	1.165	0.324	1.078	0.268	1.351	0.331	1.011	0.345
15		median	3.231	0.440	3.662	0.355	3.396	0.399	2.980	0.497

pptt = part per ten thousand

### 5.3.3 Movement in Profit or Loss Proportion Summaries

#### 5.3.3.1 Good news proportions

Table 5.8 portrays an analysis of Keyword Proportions by Movement in Profit or Loss covering both Good News and Bad News. Table 5.8 is similar in purpose to Table 5.4 but on this occasion the relative occurrence of both variables is expressed as a proportion of the prelim's wordcount. However the contents of the table are still based on the change in profit (or loss) since the previous accounting period. Once more, this method of presentation allows both a visual comparison between categories but also further statistical investigation (as discussed in Chapter 5.4, reported in Chapter 5.5 and, because of its explorative nature, is located in Appendix 5.2). There is a tendency for less profitable and smaller companies to announce less good and more bad news but the trend is not as noticeable as in the keyword details (See Table 5.4); however the variations suggest that an investigation into the reason for this type of trend might reveal a less uniform but more interesting interaction of different types of impression management. Because of the time constraint for completion of this thesis, and due to the explorative nature of such an extension, such an investigative study must be postponed for the present.

In Table 5.8, for 5 of the 6 comparisons, (excluding *Loss to profit*) the mean is greater than the median. This would normally mean that, because of the skewness, non-parametric statistics would be used to analyse and evaluate the data. However, as stated in Chapter 5.3.2, the distributions approach an underlying normal distribution to varying degrees, so that an analysis may take place using parametric techniques. In general, moving from profit to loss, there is a large fall (>70%) between the proportion attributable to *Greater profit* and *Smaller profit*. From there, the fall continues until *Profit to loss* where it rises for the final two comparison categories. These results, because of their explorative nature, are reported in Appendix 5.2.

### 5.3.3.2 Bad news proportions

The means form an upward trend with *Greater profit* at the minimum (mean = 0.337). The greatest mean value is 0.562 for *Profit to Loss* which is higher than *Greater loss* (0.479). A basis for further investigation is discussed in Chapter 5.4, and, because of its explorative nature, is reported in Appendix 5.2.

### 5.3.3.3 Forward-looking proportions

The main purpose behind Table 5.9 is to present the relative occurrence of the proportions of Forward-looking keywords based on the change in profit (or loss) since the previous accounting period. As previously stated (see Chapter 5.2.3.1), this tabular type of presentation allows both a visual comparison between categories but also further statistical investigation (as discussed in Chapter 5.4, reported in Chapter 5.5 and, because of its explorative nature, is located in Appendix 5.2). In Table 5.9, there is a pattern for proportions similar to that of Forward-looking keywords (see Table 5.5), where proportions fall then rise from *Profit to loss* onwards. When the means are considered, the pattern is less predictable. It could be described as marginally rising when reading the table from left to right i.e. moving from profit to loss with *Smaller loss* being the highest value (1.874). The basis for further analysis is discussed in Chapter 5.4 and, because of its explorative nature, is documented in Appendix 5.2.



**Table 5.8 Analysis of Keyword Proportions by Movement in Profit or Loss – Good and Bad News**

Line			Total		Greater Profit		Smaller Profit		Loss to Profit	
			Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1	<i>n</i>		299	285	105	102	44	41	33	33
2		Words [pptt]	1,148.049	127.245	499.063	35.724	148.663	19.799	114.384	13.931
3		mean	3.827	0.424	4.708	0.337	3.379	0.450	3.466	0.422
4		s.d.	3.285	0.294	5.176	0.223	1.563	0.345	0.851	0.244
5		median	3.571	0.384	4.077	0.305	3.350	0.360	3.349	0.394
					Profit to Loss		Smaller Loss		Greater Loss	
					Good news	Bad news	Good news	Bad news	Good news	Bad news
1	<i>n</i>				27	25	33	32	57	52
2		Words [pptt]			85.762	15.165	116.382	15.340	183.795	27.287
3		mean			3.176	0.562	3.527	0.465	3.224	0.479
4		s.d.			0.941	0.341	1.259	0.252	1.204	0.353
5		median			2.949	0.544	3.423	0.398	3.186	0.413

pptt = part per ten thousand

**Table 5.9 Analysis of Forward-looking keyword proportions by Movement in Profit or Loss**

		Total	Greater Profit	Smaller Profit	Loss to Profit
1	<i>n</i>	299	106	44	32
2	Words [pptt]	450.359	146.488	65.152	43.806
3	mean	1.501	1.382	1.481	1.327
4	s.d.	0.596	0.484	0.598	0.562
5	median	1.436	1.378	1.284	1.350
			Profit to Loss	Smaller Loss	Greater Loss
1	<i>n</i>		27	33	57
2	Words [pptt]		47.567	61.851	85.496
3	mean		1.762	1.874	1.500
4	s.d.		0.804	0.712	0.501
5	median		1.560	1.809	1.404

pptt = part per ten thousand

### 5.3.4 General relationships between dependant variables

Before examining the prelim in more depth, the general relationship between the dependent variables, i.e. Good-news, Bad-news and Forward-looking keywords and phrases is examined. Good news, bad news, and forward-looking keywords and phrases are counted for each company and then the companies are ranked for each. Pairwise Pearson rank correlations between company rankings for each dependent variable are carried out using SPSS. Each correlation is positive and significant at the 0.01 level. The data show that companies who announce a higher number of good news also announce a higher number of forward-looking keywords. A similar relationship holds for bad news and forward-looking keywords. An assumption is made that the incidence of good news and bad news is the *causa sine qua non* of the forward-looking announcements. With that assumption in mind, it is suggested that the *causa causans* of the forward-looking keywords is a case of 'acclaiming' impression management in the case of the companies announcing good news and 'dissociative' in the case of those announcing bad news.

### 5.3.5 Calculation of Proportions

As mentioned in Chapter 5.3, *proportions* may provide a clearer picture of keyword incidence than absolute wordcounts. When calculating proportions, the computations result in very small numbers, but, if multiplied by 100 (to obtain a percentage), each figure may be dealt with conveniently.<sup>5</sup> Two of the three proportionate comparisons are *negatively* correlated. Only Bad news and Forward-looking proportions are *positively* correlated and, although the relationship is not conclusive, it suggests scope for further investigation which may be located later in the Chapter.(Chapter 5.5.14 and fwd.) The proportion of forward-looking keywords analysed according to market segmentation and current year performance may be found in Table 5.10 (see Chapter 5.3.2 for an explanation for the table). From that table, there appears to be a *prima facie* relationship between the proportion of forward-looking words and the incidence of bad news.

Leaving the overall relationship between the dependent variables, the narrative content of the prelim is now examined in depth.

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<sup>5</sup> When multiplied by 100 (i.e. for each FTSE category), the resulting figure is ‘parts per ten thousand’ and when multiplied by 300 (i.e. the number of companies in the sample), the resulting figure is ‘parts per thirty thousand’.

**Table 5.10 Proportion of Forward-looking keywords by Market Segment and Profit or Loss**

<i>Forward-looking</i>						
<i>Line</i>	<i>n</i>		<i>Total</i>	<i>FTSE 100</i>	<i>FTSE 250</i>	<i>&lt;FTSE350</i>
1	299		299	100	100	99
2	299	<i>Words [pptt]</i>	450.359	143.685	147.803	158.871
3	299	<i>mean</i>	1.501	1.437	1.478	1.589
4	299	<i>s.d</i>	0.596	0.572	0.583	0.626
5	299	<i>median</i>	1.436	1.351	1.450	1.506
6			182	72	68	42
7	182	<i>Profit [pptt]</i>	255.446	95.573	92.750	67.123
8	182	<i>mean</i>	1.396	1.327	1.364	1.561
9	182	<i>s.d</i>	0.527	0.444	0.471	0.692
10	182	<i>median</i>	1.375	1.217	1.407	1.462
11			117	28	32	57
12	117	<i>Loss [pptt]</i>	194.913	48.112	55.053	91.748
13	117	<i>mean</i>	1.666	1.718	1.720	1.610
14	117	<i>s.d</i>	0.659	0.753	0.719	0.577
15	117	<i>median</i>	1.577	1.536	1.601	1.538

pptt = part per ten thousand

#### 5.4 Indication of further Investigative Analysis

Prior to testing the basic hypotheses detailed in Table 5.1, it may be appropriate to mention at this point the possibility of further analysis to determine, in more detail, the reason for the results. They are those that involve improving and declining performances (i.e. relative measurements) and they form part of hypotheses 5, 6, 7 and 8. They do not form a separate set of hypotheses as the concept of comparing the means/medians of subgroups has not been fully explored and the assumption of equal distribution of keywords throughout the prelim has not yet been tested.

The theoretical justification for further analysis may be found in the research on the subject of 'Loss Aversion' which, although not originating with them, was suggested as an amendment to Prospect Theory by Rabin and Thaler (2001). In their argument they mention the traditional measurement of 'marginal utility' which states that risky financial decisions are taken only where 'lifetime' wealth is likely to increase as a result.

However, Rabin and Thaler (2001) conclude (p. 226) that it is 'myopic loss aversion' coupled with 'mental accounting', that determines acceptance or rejection of risk. Rather than looking at the long-term, 'people treat risk presented to them in isolation separately from other risks they face' (p.227). A logical implication of this is that different decisions may be made by investors depending on whether the company was improving or declining over the previous accounting period.

The results are added as comments within Chapter 5.5.

## 5.5 Results

Hypotheses outlined in Table 5.1 are applied to two different presentations of the same underlying data. The first set deals with the incidence of keywords; the second deals with keywords expressed as a percentage of the total number of words in each prelim (previously referred to as *proportions*). Keywords are not normally distributed and therefore use medians. Proportions are normally distributed and therefore use means. The tables supporting each hypothesis may be found in the appendices to this Chapter.

### 5.5.1 Good news keywords and Market Capitalisation (H1a,b)

For this Chapter section, the count of keywords is presented in Table 5.2. The median good news keyword count for a company within each FTSE category is 152, 110 and 42 respectively. When the categories are compared, the medians of each group pairwise show a difference that is statistically significant ( $p < 0.01$ ). Because the sample has not been controlled for size, these results are in line with expectations (described in Table 5.1) and, *prima facie*, do not provide evidence of impression management.

When the good news keywords are expressed as a *proportion* of the total number of words in the prelim (See Table 5.7), the mean reduces across each category (3.94, 3.65, and 3.11 respectively) but remains at the same level of confidence for both comparisons involving <FTSE350, i.e.  $p < 0.01$ ; but for FTSE100 v FTSE250, the significance is  $p < 0.05$ . Despite controlling for the size of the prelim, the results from testing the hypothesis for proportions still appear to be in line with the 'company size' and 'analyst following' research already cited (see Chapter 4.4) and so the null hypothesis, H1a-0, is rejected. Categorical differences could arise by chance and that would not make a convincing case for the existence of impression

management. But, the results of pairwise comparisons of FTSE categories for good news keyword proportions shows that the underlying category populations differ from each other by at least 95% on one comparison (FTSE100 v FTSE250) and 99% on the other two. This is evidence of significantly different announcements surrounding good news proportions in each FTSE category and therefore prime evidence for the existence of impression management.

It may be argued that different disclosures for different audiences is not impression management but if the same level of disclosure is being read by different audiences (e.g. analysts and non-analysts), it may not be surprising to find that the interpretation differs depending on the level of financial sophistication of the readers.

### **5.5.2 Bad news keywords and Market Capitalisation (H2a,b)**

The median bad news keyword count for companies within each FTSE category is 19, 10 and 7 respectively (see Table 5.2). A pairwise comparison of medians reveals that all three are significant at the 0.01 level. As these differences between medians were expected, there is no *prima facie* evidence of impression management here.

When *proportions* are examined (see Table 5.7), the mean reduces, for each category (i.e. 0.40, 0.39, and 0.55, respectively), and a t-test for means is statistically significant for all three pairings, although at different levels. Because of the high degree of significance, the null hypothesis is rejected for both wordcount and proportion.

There may be impression management taking place in the FTSE100 and FTSE250 categories because when contingency tables<sup>6</sup> are prepared to provide evidence from another perspective, both categories

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<sup>6</sup> The use of contingency tables in this way is supported by Sheskin (2007, p. 654)

report fewer bad news keywords or phrases than would be expected from a random sample (see Table 5.11).

**Table 5.11 Summary of 2 x 2 Contingency table components for BW and FTSE**

Line	Category	No of Companies	Observed	Expected	$\chi^2$
1	FTSE100	99	2,075	2,109	1.25
2	FTSE250	95	1,133	1,252	*17.74
3	<FTSE350	91	803	650	*46.40
4		285	4,011		

\*significant at 0.01

Table 5.11 extracts single lines from the 2x2 contingency tables shown in full in Appendix 5.4. Based on the underlying data in Table 5.2, Table 5.11 seeks to provide an analysis which identifies apparently significant ‘under reporting’ of Bad news keywords in FTSE250 and an apparent ‘over reporting’ of the same type of news in FTSE350 categories..

The *observed* keywords may be found in Table 5.2 while the expected incidence for each FTSE category is derived from the contingency tables located in Appendix 5.4.

Still using the data in Table 5.11 (summary of contingency tables), the apparent under-reporting in FTSE250 bad news proportions is significant at the 0.01 level whereas the possible under-reporting by FTSE100 is not. This type of impression management is known as ‘dissociative’ (Schlenker, 1980) whereby impression managers seek to distance themselves from events, such as bad news, which they think will spoil their ‘image’.

A reason for the significant *overstatement* of bad news by <FTSE350 may be that the presence of other keywords (i.e. good news or forward-looking keywords) is allowing companies not to indulge in



obfuscation as the other types of keywords may act as distractions from the bad news. This point is examined later when examining hypotheses 6, 7 and 8 which deal with the results of improving and declining companies.

### **5.5.3 Forward-looking keywords and Market Capitalisation (H3a,b)**

The medians for Forward-looking keywords of companies within each FTSE category is 155, 119 and 42, respectively (see Table 5.3). The pairwise comparisons are statistically significant at the 0.01 level for all three comparisons. This may be evidence of impression management in the larger company categories but the results conformed to expectations stated in Table 5.1 which would require examination on a case-by-case basis to identify any impression management.

When *proportions* are examined (see Table 5.10), the means are 1.44, 1.48, and 1.59, respectively. An interesting observation is that the mean becomes greater as the index category moves further from FTSE100. This is in the opposite direction to the movement in medians for keywords.

To determine whether or not there is a significant difference between the proportion of Forward-looking words announce by each of the FTSE categories examined, T-tests on the means of each category is carried out. On examining the results of these t-tests (see Table 5.12), FTSE100 v FTSE250 is not significant but the other two comparisons are as they include <FTSE350 which has a high proportion of forward-looking keywords. Because of the significant differences in medians and means the null hypothesis is rejected for all comparisons except FTSE100 v FTSE250 for proportions.

**Table 5.12 T-Tests on Proportions of Forward-looking words in FTSE Categories**

<i>Line 1</i>		<i>FTSE 100</i>	<i>FTSE 250</i>	<i>&lt;FTSE350</i>
2	<i>FTSE100</i>	1.000	0.696	**0.030
3	<i>FTSE250</i>	0.696	1.000	***0.071
4	<i>&lt;FTSE350</i>	**0.030	***0.071	1.000

\*\* significant at 0.05 / \*\*\* significant at 0.10

The high proportion in <FTSE350 may be associated more with declining companies than FTSE ranking since there are almost as many declining companies in <FTSE350 as the other two categories combined. This topic will be pursued further when dealing with hypotheses 6, 7 and 8 which deal with the results of improving and declining companies.

#### **5.5.4 Good news keywords and current year trading (H4a(i),b(i))**

The count of keywords is presented in Table 5.2 for this Chapter section. The median count for good news keywords is 120 for a profitable company and 73 for a loss making company. With a pairwise comparison, the medians show a difference that is statistically significant ( $p < 0.01$ ). This result is expected and, similar to Chapter 5.4.3, would require case-by-case inspection to isolate any impression management. When *proportions* are examined (see Table 5.7), once more, as might be expected, the means reduce in size from those of the keyword medians to 4.19 for profit-makers and 3.30 for loss-makers. The pairwise comparison stays at  $p < 0.01$  when moving from actual wordcounts to *proportions*. These results mean that the null hypothesis is rejected for both wordcounts and proportions.

A closer examination of Table 5.7 shows that the proportion of good news keywords announced by <FTSE350 unprofitable companies to be very close to the proportion announced by <FTSE350 profitable companies. As it is unlikely that profitable companies are not announcing good news,

the alternative appears to be a type of 'dissociative' impression management (Schlenker, 1980) where companies attempt to distance themselves from their poor results by introducing other types of good news (see Aerts, 2005, p.495). The words *investment*, *development* and *value* account for more than 15% of <FTSE350 good keywords in unprofitable companies.

#### **5.5.5 Bad news keywords and current year trading (H4a(ii),b(ii))**

The count of keywords is presented in Table 5.2. The median count for bad news keywords for companies that are profitable and those that are unprofitable is 11 in both cases. There is obviously no difference, significant or otherwise between the medians. If the mean is calculated for profitable (15) and unprofitable companies (13), the difference is not significant. This result is unexpected for keyword counts in that profitable companies announce as much bad news as unprofitable (or marginally more if means are calculated). The anomaly is resolved when *proportions* are examined (Table 5.7). This shows that the medians are 1.38 (profitable companies) and 1.58 (unprofitable) and The difference between means is significant at the 0.01 level ( $p=0.003$ ). The greater mean for unprofitable companies is in line with original expectations and, *prima facie*, does not suggest impression management. However, if profitable companies are employing 'dissociative' impression management (Schlenker, 1980) it may be that the bad news in unprofitable companies appears to be overstated when compared to the artificially low incidence in profitable companies.

#### **5.5.6 Forward-looking keywords and current year trading (H4a,b)**

The count of keywords is presented in Table 5.3. The median count for forward-looking keywords is 40 for companies that are profitable and 28 for unprofitable companies. There is a significant difference between the medians at the 0.05 level. This results corresponds to the expectation

connected with the alternative hypothesis, therefore the null hypothesis is rejected for keywords. When *proportions* are examined (see Table 5.7), the medians are 0.35 (profitable companies) and 0.44 (unprofitable). The difference between means is significant ( $p < 0.01$ ). This is a reversal from keyword results and would suggest that it is something other than 'acclaiming' impression management which is at work. It may be that 'dissociative' impression management is being used to divert attention for the current loss to something more appealing. The behavioural theory of 'procrastination' may also fit here where the company is seeking to direct attention away from the present loss to the promise of returns in the future.

### **5.5.7 Good news keywords: Improving v. Declining performance (H5a,b)**

For good news keywords used by companies with improving and declining performance, Appendix 5.2 shows that, on average, improving performers report more good news keywords (i.e. 151.69) than declining performers (i.e. 124.88). These means are significantly different at the 0.01 level ( $p = 0.000$ ). This result was expected and, like the profitability comparison in Chapter 5.4.4, offers no *prima facie* evidence of impression management.

Still significant, but at the 0.05 level, is the difference in proportionate means where improving performers report a higher proportion of good news keywords (i.e. 4.24) than declining performers (i.e. 3.27). Although the means of the 3 FTSE categories are always higher for improving companies, the <FTSE350 mean is higher than the other two FTSE categories. If the good news keyword proportions for the improving companies are divided into three categories corresponding to the FTSE divisions,  $p = 0.000$  for all three pairwise comparisons. This may be an indication that 'acclaiming' impression management is being used by means of the proportions of good news keywords being announced.

The results for keywords and proportions mean that the null hypothesis (H5a) is rejected

#### **5.5.8 Bad news keywords: Improving v. Declining performance (H5a,b)**

For bad news keywords, Table 5.12 shows that the difference in means is not significant for the keyword count. However, the difference in means is significant at the 0.01 level ( $p=0.000$ ) when wordcount proportions are examined. Declining companies report an average proportion of 0.51 bad news keywords whereas improving companies report 0.39. This may be more evidence of improving companies employing 'dissociative' impression management (Schlenker, 1980)

Since the difference in proportionate means for both good and bad news is significant, hypothesis 5 is rejected.

#### **5.5.9 Comments: Good news - Improving and Declining performance**

On comparing Good news keywords in improving and declining companies, the original wordcounts are significant at the 0.01 level. To discover whether this level of significance holds for every comparison, improving companies are divided into three categories. These three, arguably, might be considered to be levels of profitability. They are *Greater profit*, *Loss to profit* and *Smaller loss*. A similar exercise is also carried out for declining companies. The three categories here are *Smaller profit*, *Profit to loss* and *Greater loss*. The results of this analysis may be found in Table 5.4

Table 5.4 presents data that covers movement since the previous year in six profitability categories (see Chapter 4.7.2.3 for a description of these categories). When Table 5.4 is examined, the first two comparisons follow the above statement but the third (*Smaller loss* v *Greater loss*) shows that although the declining companies have a significantly higher number of

keywords (i.e. 4,181) than the improving companies (i.e. 2,731), the median values reverse that position (i.e. 50 v. 86).

The initial impression from the data is that companies announcing a *Greater loss* are using obfuscation or substituting other forms of 'good news' (Aerts, 2005, e.g. p.495) as a form of compensation for the poorer results. But, when the median values are examined, it appears that if impression management exists in these companies, it may be taking place in the 'improving' rather than the 'declining' companies.

#### **5.5.10 Comments: Good news - Improving and Declining performance**

The proportion calculation for Good news keywords announced by Improving and Declining companies is significant at the 0.05 level. However, when divided into the three corresponding divisions (see Appendix 5.2) only *Greater v. Smaller profit* shows significance (0.05) (*Loss to profit v Profit to loss* and *Smaller v Greater Loss* are not significant (*ns*)). This result supports the finding, mentioned in Chapter 5.5.9, that, even though the comparison is between two profitable companies, on average, improving companies announce more good news keywords than the corresponding declining companies. If impression management is being used in declining companies, it is not obvious when compared to corresponding improving companies.

#### **5.5.11 Comments: Bad news - Improving and Declining performance**

When comparing the proportion of Bad news keywords in improving and declining companies (see Appendix 5.2), declining companies declare a greater proportion than improving and the difference in means is significant at the 0.01 level. Reasons for the difference from the perspective of

impression management have already been discussed in Chapters 5.4.2, 5.4.4, 5.4.5 and 5.4.8.

#### **5.5.12 Good v. bad news with Improving performance (H6a,b)**

The results in Appendix 5.2 show that whereas, on average, improving performers announce 151.69 good news keywords, fewer bad news keywords are announced (95.95 words). The medians are significantly different at the 0.01 level ( $p = 0.000$ ). This, in itself, is not an obvious occurrence of impression management but when the original data is examined, the company medians are located among the highly capitalised and so it becomes a type of 'acclaiming' impression management.

A similar result is obtained on comparing the *proportion* of the prelim narrative that is attributed to good keywords and bad keywords (Table 5.12). On average, improving performers announce a proportion of 4.24 for good news keywords, but only 0.39 for bad news keywords. The means are significantly different at the 0.01 level ( $p = 0.000$ ). The impression management implications are similar to those for keywords.

On the basis of the differing amounts of good and bad news keywords contained in improving performers' narratives, the null hypothesis is rejected.

#### **5.5.13 Good v. bad news with declining performance (H7a, b)**

The results in Appendix 5.2 show that whereas, on average, declining performers announce 95.95 good news keywords, fewer bad news keywords are announced (12.40 words). The means are significantly different at the 0.01 level ( $p = 0.000$ ). Many of the good news keywords in the announcements of declining companies are not specifically related to financial performance and it is arguable that they are used to deflect

attention from the poor financial results (See Chapter 5.4.4 and Aerts (2005, p.165)).

Appendix 5.2 reveals similar results when comparing the *proportion* of the prelim narrative that is attributed to good keywords and bad keywords. Declining performers announce, on average, a proportion of 3.27 good news keywords, but only 0.51 for bad news keywords. The means for *proportions* are also significantly different at the 0.01 level ( $p = 0.000$ ). For a suggested reason for the high proportion of good news, see the paragraph immediately above.

On the basis of the differing amounts of good and bad news keywords and keyword proportions contained in declining performers' prelims, the null hypothesis is rejected.

#### **5.5.14 Forward-looking keywords with improving v. declining performance (H8a,b)**

Appendix 5.2 shows that, in terms of the mean, improving performers announce more forward-looking keywords than declining performers. The means are significantly different ( $p < 0.01$ ). Prima facie, it appears that a type of 'acclaiming' impression management is being employed by improving companies. On the other hand, Appendix 5.2 also shows that the mean *proportions* announced by declining is greater than improving companies. This moves the focus away from 'acclaiming' impression management and suggests that there may be 'dissociative' impression management taking place in declining companies.

The results are not significant for proportionate wordcounts but the association of greater forward-looking proportions with declining companies may help to explain the positive, but weak, correlation between the incidence of bad news keywords and forward-looking words and supports the findings of prior research (Clatworthy and Jones, 2006).



### **5.5.15 Comments: Forward-looking - Improving and Declining performance**

When Forward-looking keywords used by improving and declining companies are compared, the results of the original wordcounts are significant at the 0.01 level. However, on dividing up the companies into three distinct comparisons (see Appendix 5.2 (H8a)), two of the calculations are *ns*. The third (*Smaller v Greater loss*) is significant at the 0.01 level ( $p=0.003$ ). The median for *Smaller loss* is 39 but 23 for *Greater loss* and an examination of the company data comprising each category reveals that 75% of the *Smaller loss* category comes from FTSE100/250 companies and 44% of *Greater loss* is from <FTSE350 companies. These statistics agree with earlier findings relating to large company size and the presence of 'acclaiming' impression management in the larger FTSE categories (see Chapters 5.4.7 and 5.4.12) and small company size and the presence of 'dissociative' impression management (See Chapters 5.4.2, 5.4.4, 5.4.5, 5.4.6, 5.4.8 and 5.4.14). In addition to the forward-looking keywords, there appears to be a tendency for the larger loss-making companies to announce a greater number of good news and bad news keywords. Further suggested reasons for the apparent overstatement of forward-looking keywords are given in Chapter 5.5.2.

### **5.5.16 Comments: Forward-looking keywords - Improving and Declining performance**

On comparing the proportion of Forward-looking keywords in improving and declining companies, the results of the original wordcounts are *ns*. When the companies are divided into three distinct comparisons (see Appendix 5.2 (H8b)), one of the calculations (*Greater v Smaller profit*) is also *ns*. The second (*Loss to profit v Profit to loss*) is significant at the 0.05 level and the third (*Smaller v Greater loss*) is also significant at the 0.05 level. The significantly higher mean for *Profit to Loss* compared to *Loss to profit* is

another example of dissociative impression management and procrastination where the future is presented as being a better option than the present. When examining *Smaller v Greater loss*, the improving performer's mean is significantly greater which, paradoxically, is an example of 'acclaiming' impression management where the companies are saying that the improving performance will continue into the future.

## **5.6 Summary of significant findings**

Impression management was found to be significant, as expected in the following situations: larger, more profitable and improving companies used an 'acclaiming' type in the form of good news and forward-looking announcements. It was also found that smaller, loss-making and declining companies used 'dissociative' forward-looking announcements to shift the focus away from bad news. Particularly unexpected results were encountered when testing announcements for the incidence of bad news. Unprofitable companies did not announce significantly more bad-news keywords than profitable. Similarly, declining companies did not announce significantly more bad-news keywords than improving. Both of these findings indicate that enough 'dissociative' impression management was employed to reduce the impact of reporting bad news.

### 5.6.1 Comparisons undertaken

In section 5.6.2, comparisons are made between variables using Mann Whitney statistical tests on Keywords and T-tests on Keyword proportions for each of the dependent variables i.e. Good News, Bad News and Forward-Looking.

Three comparisons are made in section 5.6.2.1 involving FTSE categories:

- (1) Companies in FTSE 100 v Companies in FTSE 250
- (2) Companies in FTSE 250 v Companies in <FTSE350
- (3) Companies in FTSE 100 v Companies in <FTSE350

Two other comparisons are made:

- (4) Companies that make a Profit v those that make a Loss (section 5.6.2.2)
- (5) Companies whose results are Improving v those that are Declining (section 5.6.2.3)

Definitions of Improving and Declining are provided in Chapter 5.2.3 and a definition of '<FTSE 350' is provided in Chapter 5.1.

In each of these sections, Numerical data is included in 'Comments:' and is reported in the order of size e.g. FTSE100 v. FTSE 250 or profitability (e.g. Profitable v Loss-Making, Improving v Declining) Also, the data for keywords are the *numbers* of words and for proportions are *percentage points*.

## 5.6.2 Results of Comparisons

### 5.6.2.1 FTSE Categories

In the tests on Keywords, relating to Good News, Bad news, and Forward-looking, the tests on all three FTSE categories (1) to (3) are significant at the 0.01 level

These are absolute comparisons. Although confirming expectations of a different employment of good news keywords according to FTSE classification (proxy for size), until the prelims are controlled for size at least in terms of the number of words in the prelim few conclusions can be drawn.

In the tests on Keywords Proportions, relating to Good News, Test (1) is significant at the 0.05 level (3.96 v 3.80), while Tests (2) and (3) are significant at the 0.01 level (3.80 v 3.76 and 3.96 v 3.76).

The fact that the level of significance changes from 0.01 to 0.05 for Test (1) while the others remain the same, means that the difference in the reporting of the proportion of good news keywords between FTSE 100 and FTSE 250 is less significant than the other two comparisons. Given that companies at the lower end of FTSE 100 and the higher end of FTSE 250 are more prone to transfer categories, the change in Test (1) between keywords and keyword proportions is not unexpected. Perhaps a more fertile investigation should start with the <FTSE 350 category rather than either of the others, especially where absolute and relative profitability are concerned.

In the tests on Keywords Proportions, relating to Bad news, Test (1) is significant at the 0.10 level (0.40 v 0.39), Test (2) is significant at the 0.01 level (0.39 v 0.55) and Test (3) is significant at the 0.05 level (0.40 v 0.55).

The fact that the level of significance changes from 0.01 to 0.10 for Test (1) suggests that FTSE100 and FTSE250, although different are closer in their announcement of the proportion of Bad news keywords than the other two

comparisons. Test (2) remains the same which means that adjusting for size has no effect on the result, and means that the difference in the reporting of the proportion of bad news keywords between FTSE 100 and FTSE 250 is less significant than the other two comparisons. This tends to confirm the expectation that larger (and often more profitable) companies tend to ‘acclaim’ good news and ‘dissociate’ themselves from bad.

In the tests on Keywords Proportions, relating to Forward-looking statements, Test (1) is not significant (1.35 v 1.45), Test (2) is significant at the 0.10 level (1.45 v 1.51) and Test (3) is significant at the 0.05 level (1.35 v 1.51).

Prima facie, this suggests that there is little difference between FTSE100 and FTSE 250 companies’ reporting of the proportion of Forward-looking keywords. However, it would appear that <FTSE 350 companies announce a significantly higher proportion than either of the others. This aligns with an expectation that smaller companies (and often less profitable) refer to the future more often either in expectation, hope or in a ‘procrastination’ type of impression management.

## 5.6.2.2 Profit/Loss Companies

### (a) Testing Keywords

When testing Keywords and Good News, Test (4) is significant at the 0.01 level (120 v 73). This may be significant but a clearer picture is more likely when proportions are compared.

When testing Keywords and Bad news, Test (4) is not significant (0.794; 11 v 11). This result may be noteworthy given that profitable companies are more likely to announce fewer bad news keywords than unprofitable, but, once again, a clearer picture is more likely when proportions are compared.

When testing Keywords and Forward-looking, Test (4) is significant at the 0.05 level (40 v 28). The initial impression suggests that profitable companies may be mentioning future plans as a type of 'acclaiming' impression management; however this may differ when proportions are examined.

### (b) Testing Keywords Proportions

For Good News, Bad news and Forward-looking statements, Tests (4) is significant at the 0.01 level. The results for the Good News keywords appear to be confirmed by the results of the proportion comparison. There is therefore a stronger suggestion that, at least, more of the 'acclaiming' type of impression management may be taking place in the profitable companies than the unprofitable (3.74 v 3.23).

For Bad news keywords, it would appear that by using proportions, a more accurate portrayal of the existence of impression management is provided (1.38 v 1.58). While it cannot be argued that there is usually more bad news surrounding a loss compared to a profit, the significant difference suggests that profitable companies are dissociating themselves, although not entirely, from bad news.

Although the change in the results is not as significant for forward-looking data as it was for bad news announcements, the statistical significance is stronger (0.05 to 0.01). This, again, suggests that proportions are of a higher value in locating potential impression management than mere keyword usage. The results are in line with the expectation that where there is an increase in the announcement of bad news there will be a corresponding attempt to divert attention to the future by the use of 'dissociative' impression management.



### 5.6.2.3 Improving/Declining Companies

While there are similarities to the results of Profit v Loss, there are also interesting differences.

#### (a) Testing Keywords

For Good news, there is a significant difference between medians of improving and declining performers at the 0.01 level (151.69 v 95.95). This result does not run contrary to expectations.

For Bad news, results are similar to that of Profit v Loss in that a non-significant set of results ( $p=0.529$ ) is obtained for keywords (14:82 v 12.40).

When the incidence of good news and bad news keywords for improving companies are compared, there is a significant difference between the medians at the 0.01 level. It is surprising that more bad news keywords are present in the announcements of improving companies than in those of declining companies. However, when proportions are introduced, the picture changes.

Despite there being a greater number of bad news keywords in improving companies compared to declining, it is expected that there would be a significant difference between the medians for good and bad news keywords in improving companies. The volume of good news keywords greatly exceeds the bad news keywords. Any impression management that may exist in these results is unlikely to be identified by these results.

For Forward-looking announcements, there is a significant difference between medians of improving and declining performers at the 0.01 level (56.42 v 43.08).

It may be that improving companies are 'acclaiming' not only about present results but about how good their prospects are. When dealing with keywords, there does not appear to be any prima facie evidence of declining companies diverting the attention of investors away from the present poorer results.

There is a different interpretation, however, when proportions are examined.

### **(b)Keywords Proportions**

For Good News, there is a significant difference between means of improving and declining performers at the 0.05 level. The significance has dropped from the keywords result but a closer examination ( $p=0.011$ , 4.24 v 3.27) reveals that the change was marginal. However, there is a suggestion that declining companies may use non-financial good news as a substitute (e.g. Illustrative example 4 in Chapter 6).

For Bad news, results are similar to that of Profit v Loss in that while there is a non-significant set of results for keywords, there is a significant difference in the means for keyword proportions ( $p=0.000$ , 0.39 v 0.51). The fact that improving companies have a lower proportion of bad news keywords than declining companies is not surprising. However, the type of impression management is more likely to be associated with the existence of obfuscation in announcements from improving companies (i.e. dissociative impression management) than the more unlikely over-reporting by declining companies.

For Forward-looking announcements, results differ from that of Profit v Loss in that while there is a significant set of results for keywords, there is a not a significant difference in the means for keyword proportions ( $p=0.284$ , 1.47 v 1.55). Improving companies have a lower proportion of Forward-looking keywords than declining companies. This result is a reversal of the keywords result. This reversal for keyword proportions was anticipated and may be the result of a type of 'dissociative' impression management (often referred to as 'Procrastination') taking place in the results of declining companies.

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## 5.7 Summary and Discussion

The three research questions posed at the start of the Chapter were answered in the following ways:

Hypotheses were framed based on expectations derived from prior empirical research (see Table 5.1). Most of this research dealt with sentences, phrases or wordcounts and only mentioned percentages or proportions incidentally (e.g. Clatworthy and Jones (2003) using the Chairman's statement). For the current thesis, wordcounts were primarily used as a medium for testing to establish comparability with prior research. When the results proved positive for the likely occurrence of impression management, it was decided that proportions should become the focus of analysis as, at the very least, any testing would be controlled for size. As the size of the prelim no longer had centre stage, this further analysis was likely to make any impression management (especially for FTSE comparisons) easier to identify.

Using the original wordcounts, eight hypotheses were framed with H4b and H5b of these being divided into three parts, giving a total of twelve (see Table 5.1). The descriptions of the hypotheses are as follows:

H1b, H2b and H3b covered the incidence of good news, bad news and forward-looking keywords, respectively, comparing three FTSE categories. H4b(i), H4b(ii) H4b(iii) compared the incidence of good, bad and forward-looking news keywords between profitable and unprofitable companies. H5b(i), H5b(ii) and H5b(iii) compared the incidence of good, bad and forward-looking news keywords between improving and declining companies H6b compared good and bad news keywords in improving companies and H7b performed the same comparison for declining companies. H8b examined the incidence of forward-looking keywords in

both improving and declining companies that also announced bad news keywords.

### **5.7.1 Results of testing Hypotheses on Wordcounts**

The null hypothesis was rejected for H1b to H3b (good, bad and forward-looking keywords). However, this result was not unexpected as prior research has established that larger companies publish more information. Therefore the incidence of keywords relating to impression management could not be isolated or identified. The null hypothesis was also rejected for H4b(i) and H4b(iii) (profitability with good news and forward-looking keywords, respectively). Both of these results were expected as it appeared logical that a profitable company would announce more good and forward-looking keywords than an unprofitable one. Despite this expectation, in a way similar to the first three hypotheses, impression management could not be specifically identified as the results had not been controlled for size. However, the null hypothesis was not rejected for H4b(ii) (profitability with bad news keywords) although it had been expected that unprofitable companies would have announced significantly more bad news keywords than profitable. This was the first indication that 'defensive' impression management might have been taking place. However, because of the lack of control for the size of the prelims, at this stage the location of the impression management could not be determined. A picture similar to the results for H4b(i) and H4b(iii) was obtained for H5b(i) (improving and declining good news) and H5b(iii) (improving and declining forward-looking). However there was no significant difference between the incidence of bad news keywords in improving and declining companies (H5b(ii)).

There were no surprises when testing H6b (good news v bad news for improving companies) and H7b (good news v bad news for declining

companies). That is, there was a significant difference between the incidence of good and bad news keywords for improving (H6b) and declining (H7b) companies. The results confirmed similar comparisons carried out by Clatworthy and Jones, (2003, pp. 178-179). H8b did not reveal a significant difference between the medians of improving and declining companies that announced a combination of forward-looking and bad news keywords. The expectation was that forward-looking keywords would have been used to ameliorate bad news in declining companies and there should have been a significant difference between improving and declining companies when testing this hypothesis. While this type of impression management may have happened, it did not happen with a high enough frequency to register as significant.

In summary, all null hypotheses were rejected except for H4b(ii), H5b(ii) and H8b. These rejections at least suggested the existence of impression management in the announcements which were covered in testing hypotheses H1b, H2b, H3b, H4b(i), H4b(iii), H5b(i), H5b(iii), H6b and H7b. Because there was no adjustment, as yet, for the size (wordcount) of the prelim, the results for market capitalisation comparisons only indicated that impression management in terms of nature and extent *might* exist within the prelim. The profitability and relative profitability results for both good news and forward-looking keywords indicated the likelihood of impression management but the results for bad news did not. The next step was to test the hypotheses on proportions despite having no prior expectations regarding the outcomes.

### **5.7.2 Results of testing Hypotheses on Proportions**

The twelve hypotheses outlined in Table 5.1 were tested using prelim *proportions*. This had two effects. The first was that each distribution of the word types (i.e. good/bad/forward-looking) approached a normal distribution, Good news more strongly than the other two. The second was

that no portion of any statistical difference in means between testing groups would be due to the size (wordcount) of the prelim.

After running the tests on the hypotheses for proportions, all null hypotheses were rejected except for H8b (improving and declining companies that announced forward-looking in combination with bad news keywords) and one comparison in H3b (Forward-looking keywords for FTSE100 v FTSE250). The results from proportions provided stronger evidence for impression management in prelims than those obtained from the wordcounts alone.

There was proportionately more good news announced by larger companies compared to smaller (see Chapter 5.5.1). As there was no reason to expect the proportions to differ because of company size, this suggests that impression management is being used in the larger companies. Historically (see Chapter 4.4) there is a tendency for larger companies to have an analyst following and this may be one of the causes of a higher proportion of good news occurring.

The means for good news are significantly greater for profitable companies ( $p < 0.01$ ) when compared to unprofitable (see Chapter 5.5.4) and also greater for improving ( $p < 0.05$ ) when compared to declining companies (see Chapter 5.5.7). This would suggest the existence of what Schlenker (1980, p.162) terms an 'acclaiming' type of impression management in both profitable and improving companies.

The means for bad news are significantly different when comparing unprofitable and profitable (see Chapter 5.5.5) and declining and improving companies (see Chapter 5.5.8). Both pairwise comparisons show  $p < 0.01$ . It may be that poorer performers are making announcements that coincide with the quantitative data but contingency table data indicates that profitable companies have announced significantly less than the proportion of bad news that would be expected from a random sample. This lower than

expected incidence of bad news in profitable/improving companies suggests the presence of impression management as it is concomitant to the 'acclaiming' type mention earlier.

When forward-looking proportions were examined, a significantly greater quantity ( $p < 0.01$ ) was announced by unprofitable and declining than by profitable and improving companies (see Chapters 5.5.6 and 5.5.14 respectively). This is a reversal from the results of keyword count comparisons, neither of which was significant. The existence of this kind of keyword to such a degree in these companies is evidence of what may be termed 'dissociative' impression management (Schlenker, 1980: p. 105), i.e. where the easiest way to distract attention from a loss is to redirect readers by using forward-looking keywords.

Further indications of the existence of impression management were obtained when the improving and declining groups were divided into constituent comparisons (e.g. *Greater profit v Smaller profit*) and H7b and H8b were retested (see Appendix 5.2). H7b covers the relationship of Good and Bad news keywords with declining performance. H8b covers the relationship of Forward-looking keywords with improving and declining performance. The results suggested that different types of impression management were taking place in the *Greater profit* group as there was a significant statistical difference between the means of *Greater profit* and *Smaller profit* for both good news and bad news keyword proportions.

For the higher incidence of good news proportions in companies with *Greater profit*, there appeared to be an 'acclaiming' impression management (Schlenker, 1980), i.e. in common parlance, 'look at the profit we made'. For the lower incidence of bad news also in the *Greater profit* group of companies, there appeared to be a 'dissociative' variety of impression management, i.e. 'let's just focus mainly on good news'.



There was also an indication that Forward-looking proportions may have been compensatory for bad news proportions on some occasions and complementary to them on others (see Chapters 5.5.14 to 5.5.16). The implications for impression management were that forward-looking keywords may sometimes have been added to existing bad news (to ameliorate) and sometimes have replaced it (to obfuscate).

### **5.7.3 Behavioural Implications**

The behavioural implications of impression management in prelims may be found in certain theories arising from prior empirical work which was discussed in Chapter 2.4.

One reason for introducing impression management into the prelim may be found in the behavioural concept of 'First Impressions'. A research paper which addresses this is Rabin and Schrag (1999). They show, using mathematical argument, that first impressions are hard to dislodge even when they are later proved to be wrong. As a type of 'insurance', some profitable or improving companies overemphasised their success using a greater proportion of good news than used by companies whose profits had fallen.

Another of the reasons that companies may seek to avoid any apparent emphasis on bad news is the assumption by companies of the existence of 'myopic loss aversion' in the minds of investors (Benartzi and Thaler, 1985; Rabin and Thaler, 2001). This concept reflects the fact that investment decisions are rarely made with the long term in view. If companies believe that investors are prone to this trait, they will use impression management in an attempt to stop short-term decisions being taken by investors which are not in the company's best interest (e.g. share disposals). Some profitable or improving companies refused to detract from their success by using a smaller proportion of bad news than used by companies whose profits had fallen.

When dealing with financial decisions, 'procrastination' is said to be *like providing a person with an attractive new option [which] can cause her to switch from doing something beneficial to doing nothing at all* (O'Donoghue and Rabin, 2001, p.121). Knowledge of the existence of this phenomenon may lead companies to attempt redirect attention from an existing unfavourable situation by the use of forward-looking statements to a potential scenario which may not happen. The means of both profitable and loss-making companies are approximately 45 forward-looking words, therefore the above assertion can only be illustrated on a company by company basis. For example Vodafone (Profit to loss) and Reuters (Smaller profit) were both FTSE100 companies. Forward-looking statements from Reuters tended to be a mixture of wishful thinking and generalised promises:

*We are confident this technology revolution will continue to open up many new opportunities for the Group...The development of a new product architecture that will create new personalised products for existing and new users along a continuum of price points that offer lower cost of ownership, segmented service and support, and a customer focused and rapid approach to product development.*

Although the language is a little more 'financial', the same may be said for comments from Vodafone CEO:

*...This combination should lead to double-digit revenue growth. In addition, we will continue to focus on improving operational performance and expect to achieve further increases in EBITDA margin, which should result in still better operating cash flow in the year ahead. We have every confidence in the continued growth potential of the business. This year will see many exciting new developments which will sustain the long-term growth of Vodafone in the years to come.*

## **Appendix 5.1 Forward-looking Test**

**Procedure used to determine whether or not a key word is used in a *forward-looking* context.**

Hussainey et al. (2003) recorded the number of forward-looking statements (hits) that related to a randomly selected sample of 30 sentences containing *each* of the forward-looking words.

A similar procedure is carried out for the current work. (Where there are fewer than 30 sentences containing a particular word or phrase, all of the sentences are used).

A pairwise correlation is carried out on both sets of figures and a Pearson correlation coefficient of 0.978 is obtained which is significant at the 0.01 level using a two-tailed test.

This test shows that the method for the recognition of words used in a forward-looking context is strongly associated with the method used by Hussainey et al. (2003).

## Appendix 5.2 Company Keywords and Proportions: Further Exploration

### Expansion of analysis supporting initial hypotheses

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W/ T-Test</i>	<i>Significance level</i>
H5a	Improving v Declining	Good	0.01 [0.000]	Greater profit	Smaller profit	M-W	0.05 [0.012]
				Loss to profit	Profit to loss	M-W	0.05 [0.034]
				Smaller loss	Greater loss	M-W	0.05 [0.046]
H5b	Improving v Declining	Good	0.05 [0.012]	Greater profit	Smaller profit	T-Test	0.05 [0.015]
				Loss to profit	Profit to loss	T-Test	<i>ns</i> [0.592]
				Smaller loss	Greater loss	T-Test	<i>ns</i> [0.345]

Appendix 5.2 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W/ T-Test</i>	<i>Significance level</i>
H5a	Improving v Declining	Bad	<i>ns</i> [0.340]	Greater profit	Smaller profit	M-W	<i>ns</i> [0.970]
				Loss to profit	Profit to loss	M-W	<i>ns</i> [0.537]
				Smaller loss	Greater loss	M-W	0.10 [0.055]
H5b	Improving v Declining	Bad	0.01 [0.001]	Greater profit	Smaller profit	T-Test	0.05 [0.039]
				Loss to profit	Profit to loss	T-Test	<i>ns</i> [0.142]
				Smaller loss	Greater loss	T-Test	<i>ns</i> [0.293]
H6a	Improving	Good v Bad	0.01 [0.000]	Greater profit [Good]	Greater profit [Bad]	M-W	0.01 [0.000]
				Loss to profit [Good]	Loss to profit [Bad]	M-W	0.01 [0.000]

Appendix 5.2 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W/ T-Test</i>	<i>Significance Level</i>
				Smaller loss [Good]	Smaller loss [Bad]	M-W	0.01 [0.000]
H6b	Improving	Good v Bad	0.01 [0.000]	Greater profit [Good]	Greater profit [Bad]	T-Test	0.01 [0.000]
				Loss to profit [Good]	Loss to profit [Bad]	T-Test	0.01 [0.000]
				Smaller loss [Good]	Smaller loss [Bad]	T-Test	0.01 [0.000]
H7a	Declining	Good v Bad	0.01 [0.000]	Smaller profit [Good]	Smaller profit [Bad]	M-W	0.01 [0.000]
				Profit to loss [Good]	Profit to loss [Bad]	M-W	0.01 [0.000]

Appendix 5.2 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W/ T-Test</i>	<i>Significance level</i>
				Greater loss [Good]	Greater loss [Bad]	M-W	0.01 [0.000]
H7b	Declining	Good v Bad	0.01 [0.000]	Smaller profit [Good]	Smaller profit [Bad]	T-Test	0.01 [0.000]
				Profit to loss [Good]	Profit to loss [Bad]	T-Test	0.01 [0.000]
				Greater loss [Good]	Greater loss [Bad]	T-Test	0.01 [0.000]
H8a	Improving Declining v	Forward- looking	0.01 [0.000]	Greater profit	Smaller profit	M-W	<i>ns</i> [0.275]
				Loss to profit	Profit to loss	M-W	<i>ns</i> [0.587]
				Smaller loss	Greater loss	M-W	0.01 [0.003]

Appendix 5.2 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W/ T-Test</i>	<i>Significance level</i>
H8b	Improving v Declining	Forward- looking	<i>ns</i> [0.289]	Greater profit	Smaller profit	T-Test	<i>ns</i> [0.873]
				Loss to profit	Profit to loss	T-Test	0.05 [0.023]
				Smaller loss	Greater loss	T-Test	0.01 [0.003]



## Appendix 5.3 - Words and Wordcounts

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
achieve	237	37	accident	22	0	accelerate	52	4
achieved	837	83	adverse	116	9	anticipate	105	10
achievement	67	11	adversely	81	4	await	3	0
achievements	36	6	bad	125	9	coming financial years	1	0
acquired	476	42	bankruptcy	4	0	coming financial years	0	0
acquiring	52	2	cautious	46	9	coming year	79	10
acquisition	1039	95	challenges	73	8	coming years	18	2
acquisitions	652	69	challenging	200	34	coming months	14	1
advance	47	6	concern	33	1	confidence	224	48
advances	138	7	concerned	16	1	confident	235	43
advantage	200	28	concerns	29	1	convince	0	0
assist	34	1	crisis	27	2	envisage	6	1
attractive	121	7	deficit	58	1	estimate	47	4
benefit	456	40	deficits	7	0	eventual	2	4
benefited	161	3	delay	25	1	expect	313	37
benefits	422	50	delayed	25	2	forecast	75	6
expanding	64	8	delays	25	3	forthcoming	32	5
compliment	3	0	depress	3	0	hope	30	3
confident	235	43	depressed	59	3	intend	88	3

Appendix 5.3 continued

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
cost control	39	5	deterioration	38	7	intention	79	6
cost reduction	101	18	difficult	493	91	likely	136	3
cost reductions	42	6	difficulties	67	2	unlikely	53	12
creditable	14	3	disappointed	8	3	look ahead	1	3
develop	309	22	disappointing	62	8	look forward	76	1
developing	218	15	disappointment	11	0	next	377	20
development	1317	98	downturn	189	24	novel	12	40
developments	231	21	downturns	3	0	optimistic	28	1
effective	285	18	failed	9	2	outlook	320	10
enable	174	21	failure	24	1	planned	212	49
encouraging	167	29	hazardous	1	0	planning	222	22
enhance	134	12	inability	6	0	predict	32	8
enhancement	34	2	inadequate	2	0	prospect	24	3
enhancing	63	10	lack	31	4	remain	408	58
excellent	345	49	lose	4	0	scope for	30	3
expand	105	9	loss	742	112	scope to	7	2
expansion	259	19	losses	388	18	shall	47	1
favourable	125	10	lost	46	2	shortly	53	1
focused	259	36	missed	10	0	should	322	34
fortunate	12	1	negative	82	10	soon	21	3
fulfil	6	0	negatively	12	1	will	3067	208
fulfilling	0	0	poor	61	6	well placed	96	18

## Appendix 5.3 continued

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
future	927	99	problem	12	0	well positioned	105	30
gain	110	13	problems	80	5	year ahead	48	30
gaining	32	1	recession	51	4	years ahead	18	8
good	799	113	recessionary	5	2	<i>also incl prec by prep: 2000</i>	1341	26
grew	571	38	shortage	18	0	<i>also incl prec by prep: 2001</i>	4961	17
grow	306	26	sluggish	8	1	<i>also incl prec by prep: 2002</i>	844	4
growing	368	30	suffered	77	3	<i>also incl prec by prep: 2003</i>	449	4
growth	2890	414	tough	83	17	<i>also incl prec by prep: 2004</i>	122	1
increase	1751	178	troubled	2	0	<i>also incl prec by prep: 2005</i>	54	0
increasing	385	36	unable	14	0	<i>also incl prec by prep: 2006</i>	0	0
increased	2321	240	unfavourable	8	1	current financial year	62	10
improve	353	40	unhelpful	2	1	current financial years	0	0
improved	655	60	unprofitable	18	1	current year	179	30
improvement	475	50	unrealised	1	0	current years	0	0
improvements	232	21	weak	115	6			
improving	250	35	weakened	25	0			
investment	1705	195	weaker	74	3			
investments	558	63	weakness	76	3			
opportunities	551	64	worst	17	1			
opportunity	196	13	worse	13	0			
optimistic	28	10						

## Appendix 5.3 continued

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
outstanding	164	18	<i>Additions</i>					
pleased	212	37	disruption	20	3			
positive	272	42	hold back	0	0			
potential	242	36	held back	31	1			
profit	3003	520						
profitable	185	31						
progress	706	96						
prosperity	3	0						
prudent	49	6						
quality	458	43						
rebuilding	5	0						
recovering	14	2						
recovery	272	36						
reinvestment	19	2						
resilient	50	15						
revival	1	0						
revive	0	0						
rise	138	14						
risen	42	8						
robust	107	19						
rose	332	32						

## Appendix 5.3 continued

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
secure	81	6						
sound	82	9						
stabilisation	7	1						
stability	35	6						
strength	249	37						
strengthened	140	18						
strong	1530	230						
strongly	206	18						
succeeded	18	0						
success	334	28						
successful	538	65						
successfully	260	22						
support	414	30						
up	1728	387						
upturn	47	12						
value	1482	177						
well-placed	2	1						

Differences in the table were adjusted via *profit* for *good-news* and *loss* for *bad-news* as these were the main areas where judgement was used on what words and phrases to exclude.

Totals	38,406	4,685		4,013	430		15,130	847
Used in ch 5/6	38,403	4,683		4,011	427		15,130	842
Difference	-3	-2		-2	-3		Nil	-5

## Appendix 5.4 2 x 2 Contingency Tables

This appendix provides basic data for Table 5.11 which is a summary of the 2x2 contingency tables provided here. A source for the analytical method outlined in this appendix is Sheskin (2007, p. 654) where it is stated:

*Any cell in a contingency table that has a significant residual makes a significant contribution to the obtained chi-square value. For any cell which has a significant residual, one can conclude that the observed frequency of the cell differs significantly from its expected frequency. The sign of the standardized residual indicates whether the observed frequency of the cell is above (+) or below (-) the expected frequency. The sum of the squared residuals for all  $r \times c$  cells will equal the obtained value of chi-square.*

(1) The Contingency data for FTSE 100 and Bad News keywords is:

	Bad news	Not Bad	Total
FTSE 100	2075	1936	4011
Not 100	28183	25350	53533
Total	30258	27286	57544 (Grand Total)

Proportions (Cell value/ Grand total)

0.035477	0.034247
0.2493	0.439941

		A	B	C	D	E
		Observedf	Expectedf	A - B	C <sup>2</sup>	D/B
Cell 1,1	FTSE100 companies announcing Bad news	2075	2109.079	-34.0789	1161.374	0.550654
Cell 1,2	Other than FTSE100 companies announcing Bad news	1936	1901.921	34.07893	1161.374	0.610632
Cell 2,1	FTSE100 companies announcing other than Bad news	28183	28148.92	34.07893	1161.374	0.041258
Cell 2,2	Other than FTSE100 companies announcing other than Bad news	25350	25384.08	-34.0789	1161.374	0.045752
	Grand Total	57544				<b>1.248296</b>

Note: for this and the other two tables, Observedf= Observed frequency; Expectedf= Expected frequency

(2)The Contingency data for FTSE 250 and Bad News keywords is:

	Bad news	Not Bad	Total
FTSE 250	1133	16832	17965
Not 250	2878	36701	39579
Total	4011	53533	57544 (Grand Total)

Proportions (Cell value/ Grand total)

0.017815	0.294593
0.067428	0.635725

		A	B	C	D	E
		Observedf	Expectedf	A - B	C <sup>2</sup>	D/B
Cell 1,1	FTSE250 companies announcing Bad news	1133	1252.218	-119.218	14212.86	11.35015
Cell 1,2	Other than FTSE250 companies announcing Bad news	16832	16712.78	119.2177	14212.86	0.850418
Cell 2,1	FTSE250 companies announcing other than Bad news	2878	2758.782	119.2177	14212.86	5.151859
Cell 2,2	Other than FTSE250 companies announcing other than Bad news	36701	36820.22	-119.218	14212.86	0.386007
	Grand Total	57544				<b>17.73843</b>

(3)The Contingency data for FTSE 350 and Bad News keywords is:

	Bad news	Not Bad	Total
FTSE 350	803	3208	4011
Not 350	8518	45015	53533
Total	9321	48223	57544 (Grand Total)

Proportions (Cell value/ Grand total)

0.017247	0.053206
0.133799	0.784944

200

		A	B	C	D	E
		Observedf	Expectedf	A - B	C <sup>2</sup>	D/B
Cell 1,1	FTSE350 companies announcing Bad news	803	649.7034	153.2966	23499.86	36.17013
Cell 1,2	Other than FTSE350 companies announcing Bad news	3208	3361.297	-153.297	23499.86	6.991307
Cell 2,1	FTSE350 companies announcing other than Bad news	8518	8671.297	-153.297	23499.86	2.710074
Cell 2,2	Other than FTSE350 companies announcing other than Bad news	45015	44861.70	-153.2966	23499.86	0.523829
	Grand Total	57544				<b>46.39534</b>



## 6 Preliminary Announcements - Highlights

### 6.1 Introduction

This Chapter starts by reporting a similar set of tests to those of Chapter 5 but focusing separately on the Highlights section of the preliminary announcement for two reasons:

1. From an impression management perspective, the Highlights are a *first* first impression, i.e. the reader encounters a summary of the prelim before the prelim itself.
2. Because the Highlights have a higher incidence of keywords than the rest of the prelim (see Appendices 6.1, 6.2 and 6.3), it is an opportunity for managers to reinforce chosen keywords in a space that is only approximately 10% in size of the complete prelim.
3. Illustrative examples are used to contextualise the impression management used in Highlights. The inclusion of examples in the chapter also illustrates the impression provided by using a company's name within the Highlights section. Although not necessarily a major component in impression management, the company's reputation focussed in its name may act in a way similar to the halo/reverse halo effect..
4. The expectations and null hypotheses connected with Highlights are similar to Table 5.1 (Hypotheses, Expectations and related Impression Management implications) as the Highlights section is a part of the full prelim.

As a background to Highlights, the history and structure of prelims are covered in Chapter 3 and a full description of the method of sample selection is described in Chapter 4.

The purpose of this Chapter is to answer the research questions originating in Chapter 1 particularly as they apply to Highlights.

The Research questions posed in Chapter 1.5 are:

1. *What is the evidence by extent and by nature of the existence of impression management in preliminary announcements?*
2. *What are the links between a company's characteristics and its use of 'good news', 'bad news' and 'forward-looking words' in its preliminary announcement?*
3. *Can behavioural economics provide an explanation for the method of presentation?*

All three questions are addressed with the *second research question* being expanded into the hypotheses presented in Chapter 4.7.

Chapter 6.2 summarises and discusses the main statistics of the Highlights data. Chapter 6.3 discusses the context of Highlights within the larger prelim. Chapter 6.4 provides a summary of significant results combined with a series of illustrative examples. Chapter 6.5 presents an alternative analytical perspective on Highlights information. Chapter 6.6 concludes.

The analysis develops further in Chapter 6.5 using the content analysis method applied by Beattie et al. (2004). The advantage of concentrating on the Highlights section only is that it makes manageable the considerable manual effort needed in applying that method of content analysis. The method is more explicitly described in Chapter 4 but the empirical work is summarised in Chapter 6.7.

## **6.2 General statistics relating to Highlights**

The total number of words found in full prelims is 1,033,594, which can be divided into 89,530 (8.66% - see Appendix 6.1) for Highlights and 944,064 (91.34%) for Non-Highlights.

The full prelims contain 57,536 keywords. It is therefore expected that 4,984 keywords (8.66%) would be announced in Highlights.

The number of keywords found in Highlights is actually 5,952. This is approximately 19% higher than if Highlights and Non-Highlights keywords had the same frequency.

To determine the relative location of keywords in the full prelim, calculations are made which notionally allocates keywords between Highlights and Non-

Highlights (i.e. the remainder of the prelim). Details of each keyword count expressed as a percentage of the Highlights and compared to its incidence in the full prelim are provided in three separate appendices – see Appendices 6.1, 6.2 and 6.3.

Table 6.1 provides a summary of Appendix 6.4, that is, the incidence of keywords from a wordcount point of view.

**Table 6.1 Incidence of keywords**

Category	Keywords		
	Good (a)	Bad (a)	Forward (b)
Highlights	4,683	427	842
Non-Highlights	33,720	3,584	14,288
Full Prelim	38,403	4,011	15,130

Keywords refer to (a) those identified by Clatworthy and Jones (2003) as indicators of good and bad news and (b) those identified by Hussainey et al. (2003) as an indication of forward-looking statements. Keyword lists and wordcounts are included in Appendix 6.4.

### 6.2.1 Occurrence of specific words

There now follows brief details of those words whose occurrence in the Highlights is noticeably greater than the remainder of the prelim:

*Profit* and *up* are the highest ‘above average’ good news keywords used and many of the others are general words (e.g. *strong, confident, pleased, excellent, positive*).

*Loss* is the second highest ‘above average’ bad news keyword. The first is *difficult* and many of the others are also general words (e.g. *challenging, tough, cautious, disappointing, unhelpful*).

The three top ‘above average’ forward-looking keywords are *will, 2002* (also with a preposition) and *2003* (also with a preposition). Other more general words are, *confidence, outlook, unlikely, optimistic*.

Most of the words are adjectives or adverbs and, depending on the nouns described or the verbs qualified, could convey more or less depth of meaning in their immediate context. While it is possible to use these words in a constructive and informative way it is also possible to use them in a constructive and uninformative way. An extract from Illustrative example 1 illustrates the use of some of the above words by a CEO without the use of many associated facts.

*“We continue to make good progress against all aspects of our strategy. Sales and profits rose strongly and our three ... brands are showing good growth in their key markets. Our strategic partnership with ... is delivering increasing benefits to our brands and we are obtaining initial benefits, in line with expectations, from our joint venture supply chain partnership with .... We remain confident that the strong progress achieved in sales, profits and shareholder value growth can be further developed over the medium to long term.”*

### **6.2.2 General occurrence of words**

When the figures for each set of keywords are examined more closely (See Appendices 6.1, 6.2 and 6.3), it appears that approximately 70% (69/98) of Good news keywords have an incidence in the Highlights that is above each prelim mean calculated in those tables. For Bad news keywords, the position is reversed with approximately two thirds of Bad news keywords in the Highlights (42/61) having an incidence below the prelim average. The third category, i.e. Forward-looking keywords, is split 58% (28/48) above the prelim average and 42% below (see Table 6.2).

**Table 6.2 Keyword incidence compared to Prelim average**

<b>Dependent variable</b>	<b>Words above prelim average</b>	<b>Words below prelim average</b>	<b>Total</b>
Good news	69	29	98
Bad news	19	42	61
Forward-looking	28	20	48

Table 6.2 displays descriptive statistics relating to the average number of words found in Highlights compared to the average for the full prelim. The keywords have been analysed in terms of the dependent variables. One conclusion reached from the above analysis is that, compared to the rest of the prelim, Highlights contain a higher incidence of good news keywords, a lower incidence of bad news keywords and a similar incidence of forward-looking keywords. This general conclusion is based on a *subjective* indication and not an exact weighting. A different picture may be obtained from Table 6.3.

**Table 6.3 Keyword weighting compared to Prelim average**

Dependent variable	Weighting above prelim average	Weighting below prelim average	Net
Good news	1,450.55	91.51	1,359.04
Bad news	71.62	155.51	-83.89
Forward-looking	275.21	235.71	39.50

Table 6.3 displays descriptive statistics relating to the average keyword weighting found in Highlights compared to the average for the full prelim. Similar to Table 6.2, the average proportions have been analysed in terms of the dependant variables. When the incidence of each keyword is weighted (in terms of the mean number of keywords present in the full prelim), comparing Table 6.3 to Table 6.2, the proportion above mean rises by 5% for Bad news and falls by 10% for forward-looking keywords. Good news provides the greatest change by far, rising to more than 90% above the prelim mean. Prima facie, the source of this increase may be an attempt at impression management within the Highlights but the reason is not immediately apparent. Further analysis begins in Chapter 6.3.

### 6.3 Context of Highlights Research

The Highlights are part of the full preliminary announcement but Table 6.1 is an indication that impression management may be taking place in that part of the prelim. Therefore, statistical tests similar to those of Chapter 5 are carried out using the Highlights section as the basis.

Each wordcount is provided in Appendix 6.4 and the correlation of the keywords tested is significant at the 0.01 level although it is not strong. The correlation coefficient between Good and Bad news keywords is 0.309, between Good and Forward-looking is 0.484 and between Bad and Forward-looking is 0.327.

#### **General relationships between dependant variables**

Similar to Chapter 5, pairwise Pearson rank correlations between company rankings for each dependent variable are carried out using SPSS.

The coefficients are not as strong as those encountered in Chapter 5 but, as already mentioned in this Chapter, each is still positive and significant at the 0.01 level.

As mentioned in Chapter 5.1, *proportions* are also calculated (i.e. where a keyword count is expressed as a percentage of the Highlights wordcount where the keyword is located). A further Pearson pairwise rank correlation is carried out and the resulting correlations are very strong (all three are pairwise correlations are greater than 0.800). That is, The correlation coefficient between Good and Bad news keyword proportions is 0.863, between Good and Forward-looking is 0.883 and between Bad and Forward-looking is 0.804.

The Highlights section, by definition, does not hold as much narrative as the full prelim, so the keyword frequency is likely to be higher. Therefore the increase in the strength of correlation coefficient is not really surprising.

The narrative content of the Highlights section is now examined in depth, with a summary of significant findings included in Chapter 6.4.

## **6.4 Summary of significant findings**

### **6.4.1 Comparisons undertaken**

In Section 6.4.2, comparisons are made between variables using Mann Whitney statistical tests on Keywords for each of the dependent variables i.e. Good News, Bad News and Forward-Looking.

In a similar way to Chapter 5, five comparisons of medians are carried out.

Three comparisons are made involving FTSE categories:

- (1) Companies in FTSE 100 v Companies in FTSE 250
- (2) Companies in FTSE 250 v Companies in <FTSE350<sup>1</sup>
- (3) Companies in FTSE 100 v Companies in <FTSE350

Two other comparisons are made:

- (4) Companies that make a Profit v those that make a Loss
- (5) Companies that are Improving v those that are Declining<sup>1</sup>

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<sup>1</sup> a definition of '<FTSE 350' is provided in Chapter 5.1. Definitions of Improving and Declining are provided in Chapter 5.2.3



## 6.4.2 Results of Comparisons<sup>2</sup>

### FTSE Categories

- (a) Examining Keywords contained in Good News, Bad news and Forward-looking announcements

Although Tests (1) to (3) for the full prelim (i.e. Chapter 5) are significant at the 0.01 level, there is a more varied set of results for Highlights.

First of all for Good News announcements, Tests (1) and (3) are significant at the 0.01 level but Test (2) is not significant. Even when examining absolute comparisons, the Mann Whitney test of the medians of FTSE 250 v <FTSE 350 (15 v 12) is not significant. It was expected that all three comparisons would be similar to the results for the full prelim but it would appear that the pattern of reporting keywords changes when moving from full prelims to Highlights. There may be impression management taking place in <FTSE 350 but it may take a deeper analysis of proportions to obtain a clearer picture.

Secondly, for Bad News announcements, Test (1) is not significant; Test (2) is significant at the 0.01 level, and Test (3) is significant at the 0.10 level. For these tests, the number of Bad news keywords is very low (1, 1, 2) and it may not be appropriate to attempt any defensible conclusions for these results. Perhaps the main point should be that <FTSE 350 companies are reporting slightly more than the other two FTSE categories. There may be clearer evidence when proportions are examined.

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<sup>2</sup> Numerical data is included in 'Comments:' and is reported in the order of size (e.g. FTSE100 v. FTSE 250) or profitability (e.g. Profitable v Loss-Making, Improving v Declining). Also, the data for keywords are the numbers of words and for proportions are percentage points.

Thirdly, for Forward-looking keywords, Tests (1) to (3) are not significant. Although slightly more than Bad news, the number of forward-looking keywords is still low (2, 2, 3). As in the case of Bad news, the main point should be that <FTSE 350 companies are reporting slightly more forward-looking keywords than the other two FTSE categories. Once again, there may be clearer evidence when proportions are examined

(b) Examining Keywords Proportions contained in Good news, Bad news and Forward looking announcements

Firstly, for Good News announcements, Tests (1) and (3) are significant at the 0.05 level (5.69 v 4.98 and 5.69 v 4.09) but Test (2) is not significant. Although the confidence level is lower for tests (1) and (3), the fall is consistent for both. Although impression management may be taking place, there is no suggestion that moving from keywords to keyword proportions has uncovered a significant source. However, test (2) for proportions appears to confirm the results obtained from test (2) in keywords.

Secondly, for Bad news announcements, Tests (1) and (3) are significant at the 0.10 level (0.26 v 0.20; 0.26 v. 0.57) but Test (2) is not significant. The fact that the level of significance changes from *ns* to 0.10 for Test (1) suggests that either or both categories report an unusual proportion of bad news keywords. It appears to be FTSE 100 which has a significantly higher proportion than FTSE 250 which is unexpected. Given that the absolute incidence of bad news keywords is low, one extra or fewer bad news keywords may make the difference, therefore it may not be wise to place too much emphasis on this result. This latter comment also applies to the result of test (3).

Thirdly for Forward-looking announcements, Test (1) is not significant (0.62 v 0.69), however the next tests are significant at different statistical levels;

Test (2) is significant at the 0.10 level (0.69 v 0.76) and Test (3) is significant at the 0.05 level (0.62 v 0.76). Prima facie, this suggests that there is little difference between FTSE 100 and FTSE 250 companies' reporting of the proportion of Forward-looking keywords. When <FTSE 350 is brought into the comparison of medians, it would appear that <FTSE 350 companies announce a significantly higher proportion than either of the others. This aligns with an expectation, also evidenced in the full prelim, that smaller companies (and often less profitable) refer to the future more often either in expectation, hope or in a 'procrastination' type of impression management.

### **Profit/Loss Companies**

(a) Examining Keywords contained in Good News, Bad News and Forward-looking announcements:

Firstly, for Good News announcements, Test (4) is significant at the 0.05 level (17 v 14) which is significant but a truer picture is more likely when proportions are compared.

Secondly, for Bad news announcements, Test (4) is significant at the 0.05 level (1 v 1). A similar argument from tests (1) to (3) for low wordcounts may be adduced which mean that the results do not add much to identifying the location or scope of bad news impression management in the Highlights section.

Thirdly, for Forward-looking announcements, Test (4) is not significant (2 v 2): the test results do not show a high enough keyword count to draw conclusions. When proportions are examined, there may be results that are more robust.

(b) Examining Keywords Proportions contained in Good News, Bad News and Forward-looking announcements:

Examining keywords contained in both Good News and Bad news announcements Test (4) is significant at the 0.01 level (5.56 v 4.49; 0.24 v 0.49); Examining keywords contained in Forward-looking announcements, Test (4) is not significant (0.67 v 0.73).

In a similar way to the full prelims in Chapter 5, the results for the Good News keywords in Highlights appear to be confirmed by the results for proportions. There is therefore a stronger suggestion that, at least, more of the 'acclaiming' type of impression management may be taking place in the profitable companies than the unprofitable.

Although both keywordcount and proportional keywordcount is small for Bad news keywords, it would appear that by using proportions, a marginally more accurate portrayal of the existence of impression management is provided. The significant difference suggests that profitable companies are dissociating themselves, at least to a degree, from bad news.

Although the change in the results is not significant for forward-looking data. The results suggest that proportions are of a higher value in locating potential impression management than mere keyword usage. The results do not contradict the expectation that where there is a higher proportion of bad news, there may be a corresponding attempt to divert attention to the future by the use of 'dissociative' impression management in forward-looking statements.

### **Improving/Declining Companies**

There are more similarities to the results of Profit v Loss for Highlights than for the results from the full prelim (Chapter 5). However, there are one or two differences.

(a) Examining Keywords contained in Good News, Bad News and Forward-looking announcements:

Examining keywords contained in Good News announcements, there is not a significant difference between medians of improving and declining

performers (18.83 v 16.66). Although improving have a higher median than declining companies, the lack of a significant difference suggests that declining companies are using good news keywords to manage impressions. Confirmation or rebuttal of this suggestion is available from the results of good news keyword proportions.

Examining keywords contained in Bad news announcements, there is a significant difference between medians of improving and declining performers at the 0.05 level (1.45 v 1.90). When the incidence of good news and bad news keywords for improving companies are compared, there is a significant difference between the medians at the 0.01 level.

Although prior comments about the low levels of bad news keyword reporting must be borne in mind, it is not unexpected that more bad news keywords are present in the announcements of declining companies than in those of improving companies. While dealing only with keywords and not keyword proportions, these results do not help to locate or identify impression management.

Despite there being a greater number of bad news keywords in improving companies compared to declining, it is expected that there would be a significant difference between the medians for good and bad news keywords in improving companies. The volume of good news keywords greatly exceeds the bad news keywords. Any impression management that may exist in these results is unlikely to be identified by these results.

Examining keywords contained in Forward-looking announcements, there is no significant difference between medians of improving and declining performers ( $p=0.792$ ; 3.29 v 3.13). As for the full prelims (Chapter 5), it may be that improving companies are 'acclaiming' not only about present results but about how good their prospects are. When dealing with keywords, there

does not appear to be any prima facie evidence of declining companies diverting the attention of investors away from the present poorer results.

There may be a slightly different interpretation, however, when proportions are examined.

(b) Examining Keywords Proportions contained in Good News, Bad News and Forward-looking announcements:

Examining proportions of keywords contained in Good News announcements, there is no significant difference between medians of improving and declining performers ( $p=0.250$ ; 6.07 v 7.29). While there is no significant difference between medians, declining performers have a higher median value than improving. This result is not expected and appears to be an indication that good news (whether financial or not) is being used in an attempt to manage the impressions given by the announcements of declining companies.

Examining proportions of keywords contained in Bad news announcements, results are similar to that of keywords for this category. While the level of significance has remained at 0.05, the p value has decreased from 0.050 to 0.018. Improving companies appear to have a lower proportion of bad news keywords than declining companies (0.51 v 1.12). While this is not surprising, the type of impression management is more likely to be associated with dissociative impression management by improving companies than the more unlikely over-reporting by declining companies.

Examining proportions of keywords contained in Forward-looking announcements, results are similar to that of keywords for this category, the results not being significant. The p value has decreased from 0.792 to 0.254 but improving companies no longer take centre stage on examining the median values(i.e. 1.18 v 1.59).

Results are also similar to that of Profit v Loss in that both keywords and keyword proportions do not have a set of results that are significant. However, there is a change from keywords which has declining companies with a greater median that improving (a reversal). The incidence is similar to that of bad news keyword proportions which suggests that companies are Examining forward-looking comments as a dissociative form of impression management.

### **6.4.3 Specific results related to original hypotheses**

Chapters 6.4.3.1 to 6.4.3.26 deal with an examination of, and comments upon Highlights analysed into the order of hypothesis (see Chapter 4.7): that is, specific combinations of dependent (e.g. Good news keywords) and independent variables (e.g. Market capitalisation). Ten illustrative examples are also introduced at various stages to illustrate the ways in which evidence of impression management appears. They are included as typical rather than extreme examples.

#### **6.4.3.1 Good news keywords and Market Capitalisation [H1y and z]**

The count of keywords relating to Market Capitalisation is presented in Table 6.4. Table 6.4 presents the number of Good and Bad news keywords, summarised by both FTSE categories and profit or loss. (A similar presentation is made for forward-looking keywords in Table 6.6). The main purpose of Table 6.4 is to observe general movements or characteristics that may suggest areas of potential impression management.

The median good news keyword count for a company within each FTSE category is 20, 15 and 12 respectively. When the categories are compared with each other (see Table 6.9), the medians of two groups show a difference that is statistically significant ( $p < 0.01$ ); however, FTSE250 and <FTSE350 provides a comparison of medians that is not statistically significant (*ns*); see Table 6.9). As the keywords have not been controlled for size, it is difficult to determine whether or not impression management exists in any of the categories.



This inability may be present in every keyword comparison and only when the result of the keyword comparison reflects impression management in an unequivocal way will the fact be mentioned.

Proportions of keywords are summarised by both FTSE categories and profit or loss in a table comprising the proportions of Good and Bad news keywords in Table 6.7. Table 6.8 is a similar presentation covering proportions of forward-looking keywords. In each table the mean is higher than the median which means that the data is skewed. This skewness varies with the category of data. For Table 6.7, Good News data approximates closely to a normal distribution for FTSE100 and 250 but not for <FTSE 350. Skewness is evident in the case of Bad News proportions across all FTSE categories with none approaching a normal distribution.

When the good news keywords are expressed as a cumulative *proportion* of the total number of words in the prelim (see Table 6.7), the median changes, for each category (5.69, 4.98, and 4.09 respectively) and the significance of the results also changes. FTSE250 v <FTSE350 remains *ns* but the other two comparisons both reduce in significance from 0.01 to 0.05 (see Table 6.10).

The mean ranks for two of the three FTSE 'pairings' are significant for keywords and keyword proportions. Therefore, the null hypotheses, H1y-0 and H1z-0 are rejected.

The fact that two of the pairwise comparisons are significantly different after 'controlling for size' suggests that impression management is present in at least two of the comparisons. An examination of the summary of key results (see Chapter 6.4) suggests that the driver of the pairwise comparisons is FTSE100. The prevalence of good news in this category indicates that there may be a type of 'acclaiming' impression management taking place (Schlenker, 1980, p. 161ff). This may also be a type of signalling to analysts, competitors or institutional shareholders.

Table 6.5 provides an analysis of Good and Bad news Keywords by Movement in Profit or Loss. The main purpose of Table 6.5 is to present the relative occurrence of both variables based on the change in profit (or loss) since the previous accounting period. This presentation allows a visual comparison between categories which indicates that there may be both acclaiming and dissociative impression management taking place. The first is suggested by the Good News keyword count being unexpectedly higher for 'Smaller loss' (456) compared to 'Profit to loss' (429). The latter is suggested by the Good News keyword count being unexpectedly higher for 'Greater Loss' (616) than for 'Smaller Loss' (i.e. 456).

**Table 6.4 Analysis of Good and Bad News keywords by Market Segment and Profit or Loss**

Line	n		Total		FTSE 100		FTSE 250		<FTSE 350	
			Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1	261		261	160	98	61	94	50	69	49
2	261	Words	4,900	427	2,334	152	1,562	106	1,004	169
3	261	Mean	18.77	2.67	23.82	2.49	16.62	2.12	14.55	3.45
4	261	s.d	16.52	2.13	15.17	1.89	20.40	1.47	9.19	2.88
5		Median	16	1	20	1	15	1	12	2
6			165	95	72	47	63	30	30	18
7	165	Profit	3,399	231	1,756	109	1,173	62	470	60
8	165	Mean	20.60	2.43	24.39	2.32	18.62	2.07	15.67	3.33
9	165	s.d	19.28	2.00	16.46	1.81	24.16	1.41	11.02	3.09
10		Median	17	1	20	1	16	0	13	1
11			96	65	26	14	31	20	39	31
12	96	Loss	1,501	196	578	43	389	44	534	109
13	96	Mean	15.64	3.02	22.23	3.07	12.55	2.20	13.69	3.52
14	96	s.d	9.46	2.30	10.97	2.13	7.68	1.57	7.54	2.71
15		Median	14	1	23	1	12	1	11	2

**Table 6.5 Analysis of Good and Bad News Keywords by Movement in Profit or Loss**

Line		Total		GRP		SMP		LTP	
		Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1	<i>n</i>	261	160	96	47	39	25	30	23
2	Words	4,900	427	1,979	117	738	63	682	51
3	Mean	18.77	2.67	20.61	2.49	18.92	2.52	22.73	2.22
4	s.d.	16.52	2.13	15.15	2.15	11.93	1.89	33.99	1.58
5	Median	16	1	17	0	18	1	16	1
				PTL		SML		GRL	
				Good news	Bad news	Good news	Bad news	Good news	Bad news
1	<i>n</i>			27	18	28	19	41	28
2	Words			429	58	456	56	616	82
3	Mean			15.89	3.22	16.29	2.95	15.02	2.93
4	s.d.			9.55	2.8	9.59	2.13	9.52	2.11
5	Median			11	1	15	1	14	2

**Table 6.6 Analysis of Forward-looking keywords by Market Segment and Profit or Loss**

			Total	FTSE 100	FTSE 250	<FTSE 350
	<i>n</i>		<i>Forward-looking</i>			
1	216		216	84	75	57
2	216	<i>words</i>	842	318	272	252
3	216	<i>mean</i>	3.90	3.79	3.63	4.42
4	216	<i>s.d</i>	3.64	3.26	3.80	3.93
5	216	<i>median</i>	2	2	2	3
6			135	60	50	25
7	165	<i>profit</i>	493	215	164	114
8	165	<i>mean</i>	3.65	3.58	3.28	4.56
9	165	<i>s.d</i>	3.5	2.88	3.77	4.19
10	165	<i>median</i>	2	2	2	2
11			81	24	25	32
12	96	<i>loss</i>	349	103	108	138
13	96	<i>mean</i>	4.31	4.29	4.32	4.31
14	96	<i>s.d</i>	3.86	4.10	3.86	3.77
15	96	<i>median</i>	2	2	2	3

**Table 6.7 Analysis of Good and Bad Keyword proportions by market segment and Profit or Loss**

Line	n		Total		FTSE 100		FTSE 250		<FTSE 350	
			Good news	Bad news	Good news	Bad news	Good news	Bad news	Good news	Bad news
1			299	285	100	99	100	95	99	91
2	299	Words [pptt]	1716.173	198.822	580.335	38.198	488.456	38.150	647.382	122.475
3	299	Mean	6.575	0.762	5.922	0.390	5.196	0.406	9.382	1.775
4	299	s.d	8.394	2.041	3.268	0.512	2.485	0.594	15.313	3.694
5		median	5.263	0.294	5.689	0.257	4.984	0.204	4.089	0.565
6			182	176	72	71	68	66	42	39
7	182	Profit [pptt]	1103.849	107.426	422.414	27.006	332.594	21.005	348.841	59.415
8	182	Mean	6.690	0.651	5.867	0.375	5.279	0.333	11.628	1.980
9	182	s.d	7.677	2.026	2.392	0.440	2.145	0.531	16.680	4.462
10		median	5.556	0.237	5.810	0.279	5.120	0.000	5.462	0.377
11			117	109	28	28	32	29	57	52
12	117	Loss [pptt]	612.323	91.396	157.921	11.191	155.862	17.145	298.541	63.060
13	117	Mean	6.378	0.952	6.074	0.430	5.028	0.553	7.655	1.617
14	117	s.d	9.541	2.062	5.014	0.681	3.098	0.691	14.150	3.029
15		median	4.488	0.492	5.419	0.089	4.491	0.481	3.623	0.593

### 6.4.3.2 Illustrative example 1: Improving company's use of Good news keywords

The following detail represents a *Greater profit* company from FTSE100:

This Illustrative example illustrates the use of good news keywords within the complete Highlights section. The impact is made by the strategic use of words rather than an over-abundance. For example, the inclusion of a plus symbol (i.e. '+') in first meeting the results is later expanded into narrative such as 'increased by' or 'up' or 'growth'. There is a sense in which this type of 'acclaiming' is accentuated by reinforcement in such a short narrative.

#### RENTOKIL INITIAL DELIVERING STRONG GROWTH FROM

#### PRODUCTIVITY IMPROVEMENTS

Turnover (continuing operations) +7.4% to £2242.4m

Operating profits (continuing operations) +6.3% to £436.8m

Earnings per share +13.6% to 13.30p

Full year dividend per share +10.4% to 5.0p

**Strong performances** in Hygiene, Conferencing and Parcels Delivery businesses and geographically in Continental Europe and Asia Pacific and Africa.

**Good** turnaround in second half turnover in Facilities Management.

Board expects **continued strong growth** in Earnings per share for 2002.

Turnover of continuing operations **increased** by 7.4% to £2242.4m, **up** 6.8% at constant exchange rates. Turnover **growth** at constant exchange rates, after eliminating the large **acquisitions** made in the USA (Tropical Plants) and Germany (Hygiene) in the second half of 2000, **increased** from 5.1% in the first half of 2001 to 5.7% in the second half, to leave the full year **increase** at 5.4%.

Operating **profits** of continuing operations **increased** by 6.3% to £436.8m, up 6.6% at constant exchange rates.

Earnings per share **increased** by 13.6% to 13.30p, **benefiting** from the **good increase** in operating **profits**, the **strong cash flow** and the share buy-back programme.

The Board has proposed a 10.5% **increase** in the Final Dividend to 3.57p per share, giving a full year dividend of 5.00p per share, an **increase** of 10.4% over 2000.

2001 pre-tax **profits** were £374.3m. Pre-tax profit comparisons are difficult to make due to the sale of a large number of businesses in 2000 and the share buy-back

programme increasing the company's interest payments, although such comparisons will be more meaningful in 2002.

Commenting on the results, Chief Executive, Sir Clive Thompson said:

"These are **very good results**. Our **improving** rate of organic **growth** has **delivered** turnover **ahead of expectations**. Our operating **profits** are **in line with expectations** and, because our **strong cash generation** has reduced interest costs, pre-tax profits and earnings per share are both slightly **ahead of expectations**.

There have been **strong improvements** in management **performance driven** by our **new** business model which has led to the **acceleration** of organic **growth**. In order to maintain and **improve margins** in a very competitive price environment, we have concentrated upon **productivity improvements**  
[emphasis added]

#### **6.4.3.3 Bad news keywords and Market Capitalisation [H2y and z]**

In Highlights, the median bad news keyword counts for a company within each FTSE category are 1, 1 and 2 respectively (see Table 6.4).

In a pairwise comparison, the means of two group pairings show a difference that is statistically significant ( $p < 0.01$ ); comparing FTSE250 with <FTSE350 provides a comparison of medians that is not statistically significant (*ns*), (see Table 6.9).

When *proportions* are examined (see Table 6.7), the average reduces, for each category to 0.39, 0.41, and 1.78, respectively. FTSE250 v <FTSE350 remains *ns* and the other two comparisons both reduce in significance from 0.05 to 0.10 (see Table 6.10).



A possible reason for the significant *overstatement* of bad news by <FTSE350 is that the presence of other keywords (i.e. good news or forward-looking keywords) is allowing companies not to indulge in obfuscation as the other types of keywords may act as distractions from the bad news (see Aerts, 2005). This point is illustrated in Illustrative example 2 (Chapter 6.4.3.4). Another reason is the existence of 'dissociative' impression management in FTSE100 and FTSE250 companies. This happens when companies make a conscious decision not to announce bad news especially where it may damage the company's image (an example of the Halo effect from a preparer's point of view).

As used in Chapter 5, summary contingency table data associated with this hypothesis (Table 6.11) provide support for this interpretation.

- (i) The bad news keywords or phrases for FTSE100 show 42 (21.7%) words *less* than would normally be expected from a random sample. The difference is significant at the 0.01 level.
- (ii) FTSE250 keywords are 28 (21.1%) *less* than expected. This difference is also statistically significant at the 0.01 level.
- (iii) Bad news keywords for <FTSE350 are 70 (71.4%) *more* than expected which makes this difference statistically significant at the 0.01 level.

#### 6.4.3.4 Illustrative example 2: Declining company's use of Bad news keywords

The following detail represents a company moving from *Profit to Loss* in the <FTSE350:

Because of the proximity of *Financial Results* to *Highlights* both were taken as part of the summary. Note the good news (underlined italic) interspersed with bad news (underlined bold). Navan states the bad news in narrative form prior to announcing numerical details. This may be interpreted as a strategic use of narrative to prepare the reader in advance for the poor financial results. In a similar way, good news keywords are announced prior to the poorer financial results (e.g. encouraging... completion... successful... confidence... deliver). Also included towards the end of the Highlights are two pieces of positive trading and production information which may be seen as a type of 'dissociative' impression management. From this extract it can be seen that there is more than one occasion where dissociative impression management is used. First, the amelioration of bad news by interspersed good news. Second, the use of good news keywords prior to bad news numerical data. Third, as the Highlights section finishes, pieces of good information relating to trading and production are announced.

Navan mining plc

Highlights

**Difficult** trading conditions as a result of **depressed** metal prices and **delays** in achieving production targets

**Suspension** of Spanish operations and **write off** of the group's investment in Spain

Encouraging exploration results and completion of first resource estimate at the Krumovgrad gold project in Bulgaria

Successful restructuring of the group's financial position, provides confidence in the ability to deliver value from Krumovgrad

Appointment of Mr Laurence Marsland as chief executive in February 2002, following the resignation of Mr Brian Calver

Financial results

The group incurred a **net operating loss** of \$20.98 million compared to a **loss** of \$5.48 million in 2000. After tax and exceptional items, the **loss** was \$83.04 million (\$ 5.75 million in 2000). Turnover for the year was \$31.77 million compared to \$36.75 million in 2000.

The **net loss** for the year includes

\$58.32 million **charge** for the **full write off** of the Spanish assets and the **costs** of the debt and equity restructuring

\$2.58 million **write off** of exploration costs, relating to **unsuccessful** exploration projects **abandoned** during the year

net interest **costs** for the year of \$ 1.75 million (\$0.47 million in 2000)

**losses on disposal** of fixed assets of \$1.04 million (\$0.35 million in 2000)

The **increased operating loss** for the year was a result of conditions in the metals and acid markets, which were the **worst** for many years. The average zinc and copper prices received in the second half were \$827 and \$1,489 respectively compared to the average price received during 2000 of \$1,116 per tonne for zinc and \$1,794 per tonne for copper. These **lower** metal prices coupled with **much lower** acid sales in Spain and **higher penalties** and smelter **charges** on concentrate sales **reduced** total sales revenue by 13% compared to 2000, despite a 14% increase in the volume of copper and zinc concentrates sold during the year.

Total cost of sales were higher by \$8.65 million at \$41.71 million, primarily as a result of higher mine and mill production both in Spain and Bulgaria and the **write down** of pyrite stocks in Bulgaria. Total tonnes treated were 1.50 million tonnes (Spanish production to 30 November 2001) compared to 1.38 million tonnes for 2000, an increase of 9%.

Key: **bold** underline = **bad** news keywords or phrases

*Italic* underline = *good* news keywords or phrases

[emphasis added]

**Table 6.8 Analysis of Forward-looking Keyword Proportions by Market Segment and Profit or Loss**

Line			Total	FTSE 100	FTSE 250	<FTSE 350
	<i>n</i>		Forward-looking			
1	299		299	100	100	99
2	299	Words [pptt]	352.627	85.953	95.185	171.489
3	299	mean	1.351	0.877	1.013	2.485
4	299	s.d	2.872	1.397	1.758	4.768
5	299	median	0.690	0.616	0.688	0.756
6			182	72	68	42
7	182	Profit [pptt]	207.477	54.115	52.911	100.451
8	182	mean	1.257	0.752	0.840	3.348
9	182	s.d	2.884	0.653	1.313	6.065
10	182	median	0.673	0.616	0.636	0.902
11			117	28	32	57
12	117	Loss [pptt]	145.150	31.838	42.274	71.038
13	117	mean	1.512	1.225	1.364	1.821
14	117	s.d	2.858	2.489	2.414	3.402
15	117	median	0.725	0.670	0.898	0.683

#### **6.4.3.5 Forward-looking keywords and Market Capitalisation [H3y and z]**

The median Forward-looking keyword count for a company within each FTSE category is 2, 2 and 3, respectively (see Table 6.6). All median pairwise comparisons are not statistically significant (*ns*).

When *proportions* are examined (see Table 6.8), the median reduces for each category (i.e. 0.62, 0.69, and 0.76, respectively). That is, as market capitalisation declines, the median for the proportion of forward-looking keywords becomes greater.

In pairwise comparisons, the difference in means between FTSE250 and <FTSE350 is statistically significant at the 0.10 level and the difference in means between FTSE100 and <FTSE350 is significantly different at the 0.05 level. Comparing the means of FTSE100 and FTSE250 produces a value that is not statistically significant. An examination of the underlying data shows that the driver for the two significant pairwise comparisons is the <FTSE350 category. However, small company size may not be the only explanation for the large proportion of forward-looking words. See Illustrative example 3 for a connection with company performance.

#### **6.4.3.6 Illustrative example 3: Declining company's use of Forward-looking keywords**

The following detail represents a company making a *Greater loss* in <FTSE350: Merant plc.

The total number of words in the Merant Highlights is not high, yet attention is diverted to the future in six separate statements. It is also interesting to note that the first instance signifies the likelihood of costs falling rather than sales rising. The company focuses on future investment rather than future sales which (with costs) is something that the company can control. The company is dissociating itself from the greater loss by suggesting that the future will be better in terms of performance. From this extract it can be seen that a combination of both dissociative (diverting attention to the future) and acclaiming impression management in that costs are being controlled.

**We should continue** to see total company costs decline in our first quarter of 2003 compared to our fourth quarter of 2002, while at the same time **increasing our investment** in research and development spending to help fuel **future growth opportunities**.

While global economic conditions and related IT spending have been weak, we have a very strong customer base to build on **moving forward**.

We have continued our focus on **promising** software markets such as web content management that leverage this installed base and on our expertise in managing both code and content, the cornerstone of our **long-term growth** strategy for the new MERANT

[Emphasis added]

#### **6.4.3.7 Good news keywords and the results of current year trading [H4y and z]**

The count of keywords is presented in Table 6.4. The median for good news keywords is 17 for a profitable company and 14 for a loss-making company. In a pairwise comparison, the medians show a difference that is statistically significant ( $p < 0.05$ ).

When *proportions* are examined (see Table 6.7), the average reduces for each category (i.e. 5.56 and 4.49 respectively). In a pairwise comparison, the medians show a difference that is statistically significant ( $p < 0.01$ ; see Table 6.10).

The level of significance increases from the comparison of keywords to the comparison of proportions. Evidence of a greater 'concentration' of good news keywords for profitable companies suggests a type of

'acclaiming' impression management. Table 6.7 shows this possibility for FTSE100 companies but also for <FTSE350 profitable companies.

#### **6.4.3.8 Bad news keywords and the results of current year trading [H4y and z]**

The count of keywords is presented in Table 6.4. The median value for bad news keywords is 1 for both profitable and unprofitable companies. However the means show that there is a difference between profitable (2.43) and unprofitable (3.02) companies.

When *proportions* are examined (Table 6.7), the average reduces for each category (i.e. 0.237 and 0.492 respectively). In a pairwise comparison, the difference in medians is statistically significant at the 0.01 level.

Unprofitable companies announcing more bad news than profitable companies is not surprising but a close inspection of Table 6.7 shows that profitable FTSE100 and FTSE250 companies have a much lower proportion of bad news keywords than profitable <FTSE350 which suggests a similar story to the 'dissociative' impression management noted in Chapter 6.4.3 dealing with bad news and FTSE classifications.

#### **6.4.3.9 Forward-looking keywords and the results of current year trading [H4y and z]**

The count of forward-looking keywords is presented in Table 6.6. Forward-looking keywords in Table 6.6 follow a pattern that is similar to good and bad news keywords but when the keywords announced by profitable companies are separated from those of loss-making companies, there are some interesting movements and differences. There is a considerable fall in forward-looking keyword counts from profitable companies in FTSE100 to those in FTSE250. On the other hand, when examining the same two FTSE categories for loss-making companies, although the number of keywords falls from 349 (FTSE100) to 103 (FTSE250), the mean is remarkable similar (i.e. 4.31 and 4.29, respectively). Prima facie this suggests that regardless of the FTSE category, the tendency is to keep bad news announcements at a minimum.

This result means that smaller companies are attempting to dissociate themselves from losses by diverting attention from the present using the suggestion of better prospects. The median for forward-looking keywords is 2 for both profitable and unprofitable companies. However, a difference is observed when means are calculated (3.65 and 4.31, respectively).

In a pairwise comparison, the difference between medians is not statistically significant.

When *proportions* are examined (Table 6.8), the median reduces for each category (i.e. 0.673 and 0.725 respectively). Although there is a visible indication that a greater proportion of forward-looking keywords are announced by loss-makers, in a pairwise comparison, the difference between medians is not statistically significant.

Because unprofitable companies announce more forward-looking keywords in number and proportion than profitable companies, this may be evidence of 'dissociative' impression management.

Because of the skewness already identified (e.g. Chapter 6.4.3.1), Table 6.9 uses a non-parametric statistical test (Mann Whitney) to examine the difference in the median number of keywords when comparing FTSE categories for both Good and Bad News keywords.

For Good News keywords, there is a significant difference in the medians for two of the comparisons: however, FTSE 250 v <FTSE 350 is *ns*. For Bad News Keywords, the results occur at a lower level of significance, with two comparisons still being significant but, on this occasion, FTSE 100 v FTSE 250 is *ns*.

A Mann-Whitney test for proportions, similar to that shown in Table 6.9, is presented in Table 6.10. Although the same categories are significant, the level of significance is higher for Bad News keyword proportions than for Good News. This change in significance would suggest that there may be value in further examination of Bad News proportions, despite the low number of words that is attached to that particular variable.



**Table 6.9 Mann-Whitney tests on FTSE categories - Good and Bad News keywords**

Line	GOOD NEWS				BAD NEWS			
		FTSE 100	FTSE 250	<FTSE 350		FTSE 100	FTSE 250	<FTSE 350
1								
2		98	94	69		61	50	49
3	FTSE100	1.000	*0.000	*0.000	FTSE100	1.000	0.126	***0.056
4	FTSE250	*0.000	1.000	0.531	FTSE250	0.126	1.000	*0.001
5	<FTSE 350	*0.000	0.531	1.000	<FTSE 350	***0.056	*0.001	1.000

\* significant at 0.01; \*\*\* significant at 0.10

**Table 6.10 Mann Whitney Tests on FTSE categories- Proportions of Good and Bad News**

Line	GOOD NEWS				BAD NEWS			
		FTSE 100	FTSE 250	<FTSE 350		FTSE 100	FTSE 250	<FTSE 350
1								
2		100	100	100		99	95	91
3	FTSE100	1.000	**0.021	**0.027	FTSE100	1.000	0.364	*0.001
4	FTSE250	**0.021	1.000	0.358	FTSE250	0.364	1.000	*0.000
5	<FTSE 350	**0.027	0.358	1.000	<FTSE 350	*0.001	*0.000	1.000

\*significant at 0.01; \*\* significant at 0.05

Tables 6.11 to 6.14 portray summary data taken from 2x2 contingency tables<sup>3</sup> which compares a dependent variables (e.g. Good, Bad or Forward-looking) against an independent variable (e.g. FTSE categories). Each of the four tables compares actual occurrence of the dependent variable against an estimated ‘random’ happening based on a summary of contingency table data. They are included as evidence supporting the existence of impression management occurring in the narrative associated with the dependent variable(s) being examined.

Based on the underlying data in Table 6.4, Table 6.11 seeks to provide an analysis which identifies apparently significant ‘under reporting’ of Bad news keywords in both FTSE100 and 250 categories and an apparent ‘over reporting’ of the same type of news in the <FTSE350 category.

In a similar table covering the full prelim (see Table 5.11), the under-reporting of Bad News for FTSE 100 was not statistically significant. The change occurring in Highlights suggests that the evidence for ‘dissociative’ impression management is more convincing in the restricted space provided in the Highlights section. A reason for the significant over-reporting of Bad News keywords in <FTSE 350 companies is similar to that given in Chapter 5, i.e. the presence of other keywords (i.e. good news or forward-looking keywords) is allowing companies to avoid obfuscation as the other types of keywords may act as distractions from the bad news.

**Table 6.11 Summary of 2 x 2 Contingency table components for BW and FTSE**

Line	Category	No of Companies	Observed	Expected	Median	$\chi^2$
1	FTSE100	61	152	194.1	1	*17.974
2	FTSE250	50	106	134.3	1	*9.335
3	<FTSE350	49	169	98.6	2	*70.132
4		160	427			

\* significant at 0.01

<sup>3</sup> Examples of the full contingency tables may be seen in Appendix 5.4.

Table 6.12 is similar in presentation and purpose to Table 6.11. The independent variable in this case is Relative Profitability. The table shows that, at the extremes, relative profitability tells a story similar to that of company size. That is, the more profitable companies may have a reputation that they do not wish to tarnish by reporting Bad News: loss-making companies report the bad news in financial terms but supplement it with non-financial good news and forward-looking procrastination.

**Table 6.12 Summary of 2 x 2 Contingency table components for Bad news and Profit and Loss Movement**

Line	Category	No of Companies	Observed	Expected	Median	$\chi^2$
1	Greater Profit	47	117	164.7	0	*24.130
2	Smaller Profit	25	63	63.1	1	0.000
3	Loss to Profit	23	51	57.7	1	0.955
4	Profit to Loss	18	58	40.8	1	*8.568
5	Smaller Loss	19	56	44.0	1	**3.904
6	Greater Loss	28	82	56.8	2	*13.910
7		160	427			

\* significant at 0.01; \*\* significant at 0.05

#### **6.4.3.10 Good and bad news keywords: Improving v. Declining performance [H5y and z]**

When the reported keywords of companies with improving and declining performance are compared, Chapter 6.4 shows that, on average, improving performers report more good news keywords (i.e. 18.83) than declining performers (i.e. 16.66). These medians are significantly different at the 0.10 level ( $p=0.079$ , 1-tailed).

The difference in proportionate medians is significant at the 0.01 level, where declining performers report a *higher* proportion of good news keywords (i.e. 7.29) than improving performers (i.e. 6.07). A reversal from the wordcount results suggests that some 'dissociative' impression management is being carried out in the declining companies.

There are also significant differences between improving and declining performers with respect to the median number of keywords relating to bad news. Chapter 6.4 shows that the difference in means is significant at the 0.05 level in favour of declining companies for both wordcount and wordcount proportions although the figures for proportions are marginally more significant (0.018 vs 0.050). Declining companies report an average proportion of 1.90 bad news keywords whereas improving companies report 1.45. For proportions the respective figures are 1.12 and 0.51. The proportions comparison hints at 'dissociative' impression management taking place in profitable companies in order to reduce the potential reaction to bad news keywords which may be interpreted out of their original context by investors.

#### **6.4.3.11 Illustrative example 4: Declining company's use of Good news keywords**

The following detail represents a *Greater loss* company from <FTSE350:

Inditherm plc.

Many of the good news keywords used in the Highlights section are non specific (e.g. strong, progress, commercial growth, expand) . The only specific good news, although current, relates to development projects. There is a significant increase in trading activity but it is unclear whether this is a post balance sheet reference as they were first quoted in December 2001. There is no indication that this increase in 'trading activity' will be translated into an increase in 'trading profits' as only sales are mentioned as having a 'momentum'. From this extract it can be seen that the use of good news is an attempt to 'dissociate' the company from the bad news of the greater loss incurred.

From the Highlights section,

The flotation in December 2001 has put the company in a **strong** position to **progress** the commercial **growth** of the business and to **expand** its range of innovative products (*no source attributed*).

Also quoted in the Highlights section (from the Chairman's Statement):

(2) The **momentum** of sales **growth** continues, with our level of trading activity already **increased significantly** against 2001. We are benefiting from a **strong** contribution from medical orders via our **exclusive** agreement with Pegasus Limited. Business **development** with our major customers in the industrial sector is **progressing** in line with **expectations** and we have made **significant advances** with two current **development projects** related to steering wheels and pharmaceutical transportation within our custom products division.  
[emphasis added]

#### **6.4.3.12 Illustrative example 5: Declining company's use of Good news keywords**

The following detail represents a *Profit to loss* group from FTSE100 (where the parent company makes a profit but the Group makes a substantial loss):

*National Grid plc:*

Similar to Illustrative example 4, although in the top FTSE ranking, is the use of non specific narrative to start the Highlights section. The focus is on 'operating' performance with accurate good news expressed in numerical detail. The exceptional items are only mentioned in narrative form but the write-offs reduce the operating profits for the year to a net trading loss. While many of the comments are accurate for the parent company they become inaccurate when interpreted in terms of the group. To use selective good news which is only true in its own context is an example of impression management and may even be said to be misleading in the Highlights as the group and the parent are not distinguished there. From this extract it can be seen that affirming language in one part of the organisation may be used as a type of dissociative impression management when there is an overall decline in performance.

Another year of **strong** and **improved** operating performance

**Strong** operating performance

- operating profit **increased** by 18% to £875 million, before exceptional items and goodwill amortisation.
- operating cash flow **increased** by 55% to £1.26 billion.
- earnings per share, before exceptional items and goodwill amortisation, **increased** by 61% to 32.1 pence.
- Joint ventures and associate exceptional items
  - full write down and provision for all expected related liabilities for telecoms investments in Latin America, Energis and Energis Polska.

- non-cash charge to reflect the impact in Argentina of the devaluation of the peso.
- Key strategic steps
  - Niagara Mohawk acquisition completed end January 2002, **more than doubling** the size of the US business. Acquisition was immediately earnings **enhancing** (before exceptional items and after goodwill amortisation), with a **contribution** of £83 million to Group operating profit.
  - proposed merger with Lattice will **enable** us to **strengthen profitability** of the UK businesses, be **earnings enhancing** (before exceptional items) in first full financial year following the merger(1) and **create** an **enhanced** platform for future growth.
  - decision taken to withdraw from investments in alternative telecoms network operations (altnets).
- Dividend
  - **increased** to 16.04 pence per share for full year, in line with stated aim of 5% **real growth** per year.

[emphasis added]

In the third example of Summary Contingency Tables (i.e. Table 6.13), the focus changes from 'dissociative' to 'acclaiming' impression management. Instead of keywords, keyword proportions are used. That is, the fraction of the full Highlights word count represented in the wordcount of the relevant dependent variable.

Table 6.13 reveals that the proportion of Good News keywords actually announced for companies who made a greater profit than in the previous year, was significantly greater than expected. It is to be noted that the actual proportions for the other two 'profit' categories (i.e. Smaller Profit and Loss to Profit) was lower than anticipated which would support the 'acclaiming' nature of good-news reporting in the Highlights of the most profitable companies.

The Good News keyword proportions for 'loss-making' companies occur according to expectations except for the 'Greater Loss' category. The Observed proportion is only slightly less than Expected. The difference between Observed and Expected should be significant at the 5% level but is *ns*. Interpreting this in the context of Tables 6.11 and 6.12, it would appear that Greater Loss companies are announcing a higher proportion of good news than the other loss-making companies which may suggest a type of 'dissociative' use for Good News keywords rather than 'affirming'.

**Table 6.13 Summary of 2 x 2 Contingency table components for Proportions of Good news and Profit and Loss Movement**

Line	Category	No of Companies	Observed	Expected	Median	$\chi^2$
1	Greater Profit	96	591	547.0	5.825	*21.315
2	Smaller Profit	39	335	347.3	4.588	2.239
3	Loss to Profit	30	177	179.3	5.243	0.137
4	Profit to Loss	27	218	232.4	4.786	**4.236
5	Smaller Loss	28	167	179.3	4.800	**3.882
6	Greater Loss	41	227	230.8	4.297	0.292
7		261				

\* significant at 0.01; \*\*significant at 0.05

**6.4.3.13 Comments: Good news keywords – Improving and Declining performance [H5y]**

Although the original pairwise comparison of Good news keywords in improving and declining companies is significant at the 0.05 level, when the companies are divided into three distinct comparisons (see Appendix 6.5) each pairwise comparison is *ns*. As one half of each comparison is ‘declining’, this result is surprising and appears to suggest that declining companies announce good news keywords to emphasise positive aspects of their performance (see Illustrative example 6, Chapter 6.4.3.14).

**6.4.3.14 Illustrative example 6: Declining company’s announcement of good news keywords**

This is a company in FTSE250 that has made a *Smaller Profit*:

Waste Recycling plc.

The company begins the Highlights by announcing an ‘adjusted’ EPS figure which *excludes* exceptional items and amortization of goodwill. The figures incorporating these exclusions are provided further down (emphasised in this current research by adding a box). The difference is quite marked.

The nature of the 'adjustment' is not revealed until the Chairman's Statement is announced. While the initial statements are not inaccurate, the 'adjustment' i.e. amortization and extraordinary items are of such magnitude that the initial 'acclaiming' must be interpreted as a form of impression management.

From this extract it can be seen that a choice of language may mask the underlying performance of a company. This is another example (See Chapter 6.4.3.12) of affirming language being used as a type of 'obfuscation' to create or maintain a type of 'halo effect' whose first impression may last through the reading of the Chairman's Statement.

#### Summary Highlights

- \* **Strong earnings growth** – adjusted EPS **up** 29% to 27.0p (2000: 21.0p).
  - \* Total dividend for the year **increased** by 12.5% to 4.5p.
  - \* Turnover £281.2m (2000: £175.2m), an **increase** of 49% net of landfill tax.
  - \* Profit before tax, goodwill amortisation and exceptional items £43.3m (2000: £37.5m), an **increase** of 15.5%.
  - \* EBITDA £82.0m (2000: £55.2 m), an **increase** of 48.6%.
  - \* Profit on ordinary activities before tax was £18.8m (2000: £23.4m). Basic EPS 6.7p (2000: 9.0p).
  - \* Acquisitions **have performed in line with expectations**.
  - \* The Group receives, recycles and disposes of 11 million tonnes of waste per annum and generates 78MW of electricity from landfill gas.  
Commenting, Paul Rackham, Chairman, said:  
The Group has achieved another **fine** result including a **good performance** from the businesses acquired during the year.
- [emphasis, including box, added]

Although the company entered comparatives for the boxed area, they do not appear to mention that profit on ordinary activities has fallen by just under 20%. There is also a mention of non-financial good news which may add to the impression that the directors wish to portray.

#### **6.4.3.15 Comments: Good news proportions – Improving and Declining performance [H5z]**

When proportions are examined (see Appendix 6.5), the difference between the medians is significant at the 0.01 level, yet the only part of the three



component comparisons that is significant ( $p < 0.05$ ) is *Greater profit v. Smaller profit*. This result means that at the highest level of profitability, there appears to be a need to ‘acclaim’ the fact of an increase in profit. See prior instances of acclaiming in Chapter 6.4.1 which deals with market capitalisation and Chapter 6.4.4 dealing with current year profitability.

**6.4.3.16      Comments: Bad news keywords – Improving and Declining performance [H5y]**

When Bad news keywords in improving and declining companies are compared (see Appendix 6.5), the results of the original wordcounts are significant at the 0.05 level. When the three component comparisons are calculated, the first (*Greater profit v Smaller profit*) is significant at the 0.05 level. The other two comparisons are *ns*. *Smaller profit* has a higher incidence of bad news keywords than *Greater profit*.

To investigate further, Table 6.12 shows that the bad news keyword for *Greater profit* is almost 30% less than the total that would be expected from a random selection; on the other hand *Smaller profit* is equal to a wordcount with a random selection, which suggests that the poorer result has not had any effect on the level of bad news reported. Although it is unwise to argue from silence, the apparent understatement in the group with the most profitable companies is potential evidence of impression management in the form of ‘dissociation’ (Schlenker, 1980) from the bad news.

**6.4.3.17      Comments: Bad news proportions – Improving and Declining performance [H5z]**

The result of the pairwise comparison of keyword proportions is significant at the 0.10 level. When the companies are divided into three distinct comparisons (see Appendix 6.5), the first calculation, *Greater profit v Smaller profit*, is significant at the 0.10 level but the other two calculations are *ns*.

The proportion attributable to *Greater profit* (see Table 6.13) displays similar characteristics to the wordcount in Chapter 6.4.10 having approximately a 36% smaller than expected proportion. The *Smaller profit* has reported proportionately more bad news than a random expectation (19%) which may be the result of an abreaction to the poorer profit performance (see Illustrative example 7, Chapter 6.4.3.18, for a possible example).

Once again, there appears to be evidence of a reluctance (dissociation) on the part of improving companies to announce bad news keywords.

#### **6.4.3.18      *Illustrative example 7: Declining company's announcement of bad news keywords***

This is a company in FTSE100 that has earned a *Smaller Profit*:

Anglo American

In the Anglo American Highlights, there appears to be a structure in place to affirm the company's strength in the face of external opposition. There is a considerable number of bad news keywords but strategically placed and structured good news items to counter these.

In the first sentence, Anglo American reports the positive before the negative. Both narrative comments in the sentence are non-specific but the use of the word 'robust' is more than a foil for the use of the phrase 'challenging conditions'. The reader is left with the impression that company is going to emerge as 'victor' when faced with these conditions.

In the second comment, despite starting with bad news keywords, the company 'overcomes' with a 4% increase in 'headline earnings'.

In the third comment there does not appear to be any good news keyword reaction to the bad news except that 'disposals', 'elimination' and 'cancellation' may be perceived as a removal of the items that have been causing the problems.

The statement made by the Chief Executive seems like a reversal of the initial Highlights, i.e. the restructuring followed by the increase in headline earnings; ending on a high note to face the 'challenging' conditions.

Anglo American plc ("Anglo American") reports a robust performance for 2001 despite **challenging** market conditions

- After adjusting for **disposals** and structural changes and despite **weaker** prices for most of our products, headline earnings from continuing businesses increased by 4%
- Headline earnings per share **declined** 6% reflecting further **disposals** in Industries and Financial Services, **elimination** of the De Beers cross-holding and **cancellation** of 10% of the company's shares in issue  
Tony Trahar, Chief Executive, said
- In a year characterised by **difficult** economic conditions and **substantially weaker prices** for most commodities, after adjusting for **disposals** and **restructuring**, the Group recorded a 4% increase in headline earnings...
- While there are some signs of economic recovery, at this stage they seem more encouraging in the United States than in Europe and Japan. The trading environment for most of our products is likely to remain **challenging**.

[emphasis added]

From these extracts it can be shown that by using impression management, a company may dissociate itself from a poorer performance by the use of strategically placed good news comments on the one hand and 'blaming' the economy on the other.

#### **6.4.3.19 Illustrative example 8: Declining company's announcement of bad news keywords**

(Amstrad plc)

This is a company in FTSE350 that has moved from *Profit to loss*

Highlights are placed at the beginning of each section of the Chairman's report. The bare facts of the bad news are stated without much comment. There are no percentages used in describing financial movements. For example, sales fell by 42% and the profits before tax by 33%. There are resultant comments that could be made about the fall in cost of sales but it does not appear that the company wishes to divulge such information. In fact, bad news comments (including percentages) are kept to a minimum. This is more obviously interpreted as dissociative behaviour.

From these extracts, it may be seen that a type of dissociative impression management takes place in which positive terms and amounts are used but little explanation is provided for the decline in these data since the previous accounting period. Because of the lack of explanation, the terse delivery may be interpreted as an attempt to avoid explanation for the decline in performance.

Amstrad Business

The Amstrad business made a profit before tax of £4.2m (2001: £6.2m) on sales of £35.4m (2001: £60.9m). Earnings per share from the Amstrad business were 3.7p (2001: 5.3p).

Amserve Business (E-m@ilers)

Amserve's **loss before tax** attributable to the Group was £6.0m (2001: £5.2m) on sales of £4.8m (2001: £4.1m).

Group

The Group as a whole, including Amserve, reported a **loss before tax** of £1.8m (2001: £1.0m profit) on sales of £40.2m (2001: £65.0m). The **loss per share** was 1.8p (2001: 0.7p earnings per share).

[emphasis added]

*In Appendix 6.5, Each division of Hypotheses 6y (Improving Companies: Good v Bad Keywords), 6z (Improving Companies: Good v Bad Proportions), 7y (Declining Companies: Good v Bad Keywords) and 7z (Declining Companies: Good v Bad Proportions) agrees with the overall significance of 0.01*

**6.4.3.20 Good v. bad news keywords with Improving performance  
[H6y and z]**

The results in Chapter 6.4 show that whereas, on average, improving performers announce 18.83 good news keywords, considerably fewer bad news keywords are announced (1.45 words). The medians are significantly different at the 0.01 level ( $p = 0.000$ ).

A similar result is obtained on comparing the *proportion* of the prelim narrative that is attributed to good keywords and bad keywords. Improving performers announce a median proportion of 6.08 for good news keywords, but only 0.51 for bad news keywords. The means are significantly different at the 0.01 level ( $p = 0.000$ ).

On the basis of the differing amounts of good and bad news keywords contained in improving performers' narratives, the null hypothesis is rejected.

It is only to be expected that companies, whose profitability is improving, should announce the good news to stakeholders via the prelim. The fact that there is a significant difference in the amount of good and bad keywords reported by improving performers is a logical confirmation of such an expectation.

#### **6.4.3.21 Good v. bad news keywords with Declining performance [H7y and z]**

The results in Chapter 6.4 show that whereas, on average, declining performers announce 16.66 good news keywords, fewer bad news keywords are announced (1.90 words). This is a similar pattern to Chapter 6.4.12 (improving companies) and the means are likewise significantly different at the 0.01 level ( $p = 0.000$ ).

Similar results are found when comparing the *proportion* of the prelim narrative that is attributed to good keywords and bad keywords. Declining performers announce, on average, a proportion of 7.29 for good news keywords, but only 1.12 for bad news keywords. The means for *proportions* are also significantly different at the 0.01 level ( $p = 0.000$ ).

On the basis of the differing amounts of good and bad news keywords contained in declining performers' prelims, the null hypothesis is rejected.

Table 6.14 is the fourth of the Summary Contingency Tables announced at the end of Chapter 6.4.3.9 (see Table 6.11 to 6.13 for the first three). The dependent variable is forward-looking keywords and the independent

variable is relative profitability. The relationship between these two variables reveals that significantly fewer than expected forward-looking keywords are used in the Greater Profit category. This means that such companies have no need to divert attention from the current performance by greater than expected use of forward-looking keywords.

On the other hand, significant use is made of forward-looking keywords in companies that are making smaller losses or have moved from a profit to a loss. The use of Forward-looking keywords in the Highlights of companies that have made a greater loss is greater than expected but is *ns*, i.e. more in line with expectations. It may more difficult to make a convincing case for the hope of a better performance in the future when there has been a greater loss than the previous year.

**Table 6.14 Summary of 2 x 2 Contingency table components for Forward-looking details and Profit and Loss Movement**

Line	Category	No of Companies	Observed	Expected	Median	$\chi^2$
1	Greater Profit	78	283	324.7	2	*10.098
2	Smaller Profit	35	110	124.3	2	0.134
3	Loss to Profit	22	100	113.7	2	2.209
4	Profit to Loss	25	103	80.5	3	*8.030
5	Smaller Loss	23	124	86.8	3	*20.576
6	Greater Loss	33	122	111.9	2	1.212
7		216	842			

\* significant at 0.01

**6.4.3.22 Forward-looking keywords with improving v. declining performance [H8y and z]**

Chapter 6.4 shows that, on average, improving performers announce 3.29 forward-looking keywords but fewer keywords (3.13) are announced by declining performers. The medians are significantly different at the 0.01 level ( $p = 0.000$ ).

However, Chapter 6.4 also shows that the mean *proportion* announced by declining companies (1.59) is greater than the mean announced by improving companies (1.18).

This would suggest that when the total wordcount for the prelim is considered, a greater density of forward-looking keywords is encountered in declining companies than in improving companies. It may be that if actual good news cannot be found, the future is used to impart prospective good news. In theoretical terms this may be described as procrastination where companies attempt to persuade investors to divert their attention to prospects that appeal more than the current decline. At the very least it may be a form of 'dissociation' where despite there not being a definite project, any forward-looking prospect is used as a distraction from the current situation.

On the basis of the above findings, the null hypothesis is rejected.

The theoretical justification for more detailed analysis may be found in the research on the subject of 'Loss Aversion' from Chapter 2 which was alluded to in Chapter 5 where it states that different decisions may be made by investors depending on whether the company is improving or declining from the previous accounting period. It is therefore important to examine the keywords used in improving and declining companies using each of the six starting points. (These 'starting points' although used both in Chapter 5 and 6 are originally presented in Chapter 4.7 dealing with hypotheses). The results of further analysis in this chapter are presented in tabular form in Appendix 6.5.

In Appendix 6.5 (H8y,z), in the further investigation of forward-looking keywords, the result of the original wordcount comparison is *ns*. However, on dividing up the companies into three distinct comparisons, while two of the calculations are *ns*, the third (*Smaller v Greater loss*) is significant at the 0.10 level ( $p=0.055$ ).

Details extracted from Table 6.14 confirm that both of the above categories announce more forward-looking keywords than are expected from a totally random sample (*Greater loss* – 9%, *Smaller loss* – 43%). The higher incidence in *Smaller loss* is surprising given that the companies are improving in financial terms. What both companies have in common is the existence of a loss which immediately suggests the possibility of ‘dissociative’ impression management (see Chapter 6.4.6).

#### **6.4.3.23      *Comments: Forward-looking proportions – Improving and Declining performance [H8z]***

The result of the original wordcount proportion comparison is *ns*. When the companies are divided into three distinct comparisons (see Appendix 6.5), two of the calculations are also *ns*; however, *Loss to profit* v *Profit to loss* is significant at the 0.10 level.

Both sub-groups announce a higher proportion than would be expected from an entirely random sample (*Profit to loss* : 15.06%, *Loss to profit* : 11.11% - see Table 6.14). This is in keeping with the impression management employed by declining companies. The announcement of such a high proportion for an improving company (i.e. *Loss to profit*) may have to do with initially being a loss-making company (see ‘dissociation’ argument in Chapter 6.4.14). For example, The *Smaller loss* sub-group announces 36.24% more than expected whereas the *Greater profit* sub-group announces 19.11% less than expected.

#### **6.4.3.24      *Illustrative example 9: Declining company’s announcement of forward-looking keywords***

The following detail represents a *Greater loss* company from FTSE250:

*CMG plc*

There were more extracts from the Chairman’s statement than usual in Highlights.



Although there are figures quoted at the end of the Highlights regarding Research and development, most of the comments relating to the future are non-specific and the reader is left with the impression that there are going to be changes which will result in benefits for the company although there is a piece of bad news which has been placed in the midst of all the future plans, i.e. *For the first half of 2002 in ICT Services, we currently do not see scope for revenue growth.* This may be seen as short-term but there is no indication when a turnaround is to be expected. There are impressions left of future revenues but none for profits. This appears to be a case of 'procrastination', at least as far as revenues are concerned.

...R&D investment maintained for **future positioning.**

Commenting on the 2001 results, CMG Chairman Cor Stutterheim said:

... we are well placed to **take advantage of an upturn** in the marketplace when it comes.

On the outlook for 2002, he commented:

In countries and market niches where we have both scale and track record, **we are taking a larger share** of the available business as customers rationalise the number of suppliers they use and recognise CMG's status as a trusted partner. However, we are not immune to economic cycles and performance in 2002 **will be determined** to a considerable extent by the arrival of an economic upturn.

For the first half of 2002 in ICT Services, **we currently do not see scope for revenue growth** over the second half of 2001...In the UK, the actions already taken **will allow us to return to higher profitability** than the second half of 2001 in the first half of 2002, although not at the level of the corresponding period last year. Our position in the Benelux gives us confidence that we can contain reduced utilisation levels and pricing pressure, although the margin in the first half of 2002 **will be well below the full year margin** in 2001...Germany is likely to remain under pressure in the first half given the current economic environment, but **we expect some progress in France.** Revenue and profit growth in ICT services for the full year **will require** the upward trend in customer activity and conversion to sales to continue **along with an upturn** in the European economies.

In Wireless Data Solutions (WDS), **we expect to grow overall revenues significantly** in 2002 by continuing to build market share in developing geographies and **by securing further customers** for our new products. There **remains considerable scope** for developing SMS applications in both the entertainment and commercial arenas; but the European operator market for SMS capacity upgrades **will continue to slow** as the interpersonal messaging market **matures** and, **in the years ahead**, migrates to multimedia... We have demonstrated that we are a leader in new mobile data technologies and, because of this and other successes, **we expect significant revenues** in 2002 to be derived from new 2.5/3G related products. **We also expect** that research & development investment will remain at around £55 million for 2002... However, we recognise the necessity to balance R&D investment with **the need to deliver** a profit for the full year 2002.

[emphasis added]

From this extract, it can be seen that comments from the Chairman are used to dissociate the company from its poorer performance to better prospects. This is a type of procrastination which is easier to accomplish using narrative than it is with figures.

**6.4.3.25      Comments: Bad news v Forward-looking keywords – Declining performance [H9y]**

Chapter 6.4 indicates that, on average, improving companies announce proportionately more forward-looking keywords than declining companies (3.29 v. 3.13). Appendix 6.5 also shows that for two out of three declining categories (under H9y) rank means are significantly different at the 0.05 level; Greater loss is *ns*.

**6.4.3.26      Comments: Bad news v Forward-looking proportions – Declining performance [H9z]**

Chapter 6.4 indicates that, on average, declining companies announce proportionately more forward-looking keywords than improving companies (1.59 v. 1.18). Appendix 6.5 also shows that for two out of three declining categories (under H9z) rank means are significantly different. Forward-looking proportions are greater than bad news proportions in all three cases but the most significant difference relates to *Smaller profit* ( $p=0.005$ ) with Profit to loss next ( $p=0.046$ ) but *Greater loss* is *ns*.

A summary of the results of Chapters 6.4.16 and 6.4.17 is presented in Table 6.15

**Table 6.15 Bad News v Forward Looking Highlights**

Bad v Fwd	Correlation coefficient FULL	Correlation coefficient HIGHLIGHTS
Improving		
GRP	-0.022	0.157
LTP	0.027	-0.040
SML	0.001	0.424**
Declining		
SMP	0.385*	0.200
PTL	-0.217	-0.013
GRL	0.090	0.346**

In Table 6.15, for Highlights, there is a medium strength correlation between Bad news and Forward-looking keywords for companies making both a *Smaller* and a *Greater loss* which may suggest a *complementary* presence of Forward-looking keywords. Both *Loss to profit* and *Profit to loss* have a weak negative correlation which may suggest a *compensatory* presence.

## 6.5 Further Behavioural Evidence

The third research question cited in Chapter 4.2 is:

*What key role does behavioural economics play in prelims and does it provide an explanation for the method of presentation, especially in preliminary announcement Highlights?*

Apart from the first impression made by the prelim, there may also be evidence of individual instances before either Highlights or the main body of the prelim is read.

One of the findings of behavioural economics is that first impressions tend to last even against contrary information (Rabin and Schrag, 1999). If this is applied strictly to the preliminary announcement, it is likely that the Heading of the announcement, usually found prior to Highlights, at the beginning, will seek to influence investors or potential investors.

Rather than a simple declarative heading such as:

*'Preliminary results for the year ended...'*,

it may be that a company will announce a fact or result that the directors consider worth impressing on the minds of the reader. This is known as the Primacy effect where attention is drawn to a subject before the reader is aware of how important it is. Because of the unusual nature of the placement of a statement or even paragraph, it could also be seen as an example of the von Restorff effect when something is remembered because of its unusual nature or significance.

76 companies out the full sample of 300 add 'extra' comments to the preliminary in or near to the declarative heading. Some of those additions are from companies that are outliers as far as good-news or forward-looking details are concerned. Four examples are provided in Table 6.16.

**Table 6.16 Sample of Headline comments**

Comments added
A <b>resilient</b> performance in 2001
<b>RESILIENT PERFORMANCE IN TOUGH TRADING ENVIRONMENT</b>
<b>Record</b> year as (Company name) completes <b>transformation</b> to Consumer Packaging
"We are <b>strongly placed</b> , well capitalised and <b>clearly focussed</b> to develop and grow our two core businesses and <b>remain confident</b> that, over the longer term, they will provide <b>further enhancement</b> in shareholder value"

[emphasis added]

Because of the placement and the content of these 'additions', it appears that a form of von Restorff impression management (see Chapter 2) is taking place even before the actual content of the preliminary announcement is examined.

## 6.6 Highlights: An alternative analytical perspective

### 6.6.1 Introduction

This section of the Chapter examines the prelim Highlights from an alternative analytical perspective. The scope has been extended from the wordcounts and proportions of the first section. The additional method used for content analysis is similar to that employed by Beattie et al. (2004), and is described in Chapter 4, but brief details may be found starting with Chapter 6.6.2.

### 6.6.2 Motivation

Two of the reasons for using this additional type of content analysis are to examine in the Highlights:

1. the incidence and location of quantitative versus non-quantitative disclosure and,
2. the incidence of statements of fact versus judgement.

### 6.6.3 Method

Four levels of data analysis are used. The first and most basic is *Time Dimension* which divides the data into Historical, Forward-looking and Non-time specific. The second level further divides the data into *Financial* and *Non-financial*. The third level introduces *Quantitative* and *Non-Quantitative*. The third level itself comprises four sub-levels of measure, change in quantities, fact and judgement. A fourth level introduces 9 specific topics (e.g. *Business Description* (BD); *Financial Information* (FIN); *Management Analysis* (MA)). These are more explicitly described in Chapter 4.3.1.2 and the results of empirical work is contained in Chapter 6.6.5. Due to the asymmetry of the data in the 9 special topics (see Fig. 6.1) testing is carried out only as far as the third level of analysis (i.e. Measure-Change-Fact-Judgement).

### 6.6.3.1 Examples of content

#### Measure

Successful fund raising of **£43m** completed in May 2001 [Emphasis added]

#### Change

Turnover up **153%** to £52.3 million (2000: £20.7 million) [Emphasis added]

#### Fact

Agreement with lenders to amend terms of the Group's financing arrangements now finalised.

#### Judgement

Underlying contract performance in line with the Group's expectations

For comparison purposes the same independent variables are employed as are used in the first section, i.e. FTSE categories, profitability and comparative profitability. The dependent variables are the different levels of analysis described at the beginning of this section. Because of the low level of data available under some of the categories, not all are material to the analysis.

Due to the varying lengths of sentences and phrases this section does **not** include an exercise to calculate proportions of the Highlight attributable to each analysis category.

### 6.6.4 Statistics

Mann Whitney tests are used as there is no indication that the data are normally distributed.

### 6.6.5 Commentary on results (for data see Table 6.17)

Table 6.17 presents the results of the alternative analysis in a summary format. The table is structured so that dependent variables (e.g. fact, judgement) are the column headings and the independent variables (e.g. FTSE, profitability) are the row headings.

Mann Whitney (non-parametric) tests are carried out to test the relationships that exist between the medians of each variable.

Because FTSE has three comparisons, the results are divided into three columns (one for each comparison) with the same result being entered against each of the independent variables being compared for each comparison.

#### 6.6.5.1 Descriptive

There are 12,049 clauses (anything in size from a sentence to a word) in the 261 Highlights. Prior to testing relationships, Fig. 6.1 presents the basic data.

#### 6.6.5.2 (i) Measure

The announcement of figures (i.e. measures) appears to be proportional to the FTSE category. As the size of company reduces so does the incidence of measures. There seems to be a parallel with the incidence of good news in both Highlights and the full prelim i.e. the existence of the 'acclaiming' type of impression management. With smaller companies it appears to be a type of dissociative impression management, almost as if they are too embarrassed to mention measures but are quite happy to make factual and judgement statements. It appears as though the 'driver' of this comparison is FTSE100.

When examining the Mann Whitney tests for profitable v Unprofitable and Improving v Declining, there is little to choose between both categories. This is because measures do not need to equate to *good* news and therefore it is to be expected that the medians should converge.

### **6.6.5.3 (ii) Change**

A pairwise comparison of the medians for profit and loss and improving and declining companies produces results that are significant at the 0.01 level. Companies with higher market capitalisation, that are profitable and improving companies all employ a higher level of percentages when explaining changes within the prelim. This may arise because smaller companies or those with a poorer performance may announce but not wish to emphasise the changes that have taken place in the latest accounting period. This is an example of 'dissociative' impression management in that small or declining companies do not wish to attract attention to the lack of capital base or profit by providing a pre-calculated method of comparison with other companies or other investments.

### **6.6.5.4 (iii) Fact**

Because facts do not necessarily have capitalisation or profitability implications, there is no indication that any variable examined has more facts 'attached' to it. Once again, FTSE100 companies have a higher incidence which might suggest some 'acclaiming' impression management is taking place. However the same cannot be said for profitable v. unprofitable companies and improving v. declining companies because a similar number of facts are announced by each.

### **6.6.5.5 (iv) Judgement**

FTSE100 v <FTSE350 is the only pairwise comparison that is significant (at the 0.05 level). The fact that FTSE100 have an analyst following suggests that the companies may need to make judgements about situations (in the past of the future) that smaller companies have decided that they do not need to contend with in Highlights. This may be a type of signalling to analysts or may be 'acclaiming' impression management for the purposes of shareholders or competitors.



#### 6.6.5.6 (v) Combined categories

When *Measure* and *Change* are combined to form *Quantitative*, and *Fact* and *Judgement* are combined to form *Non-quantitative*, most of the analysis conforms to the results of the first four variables but there are some additional findings from the two further comparisons are made.

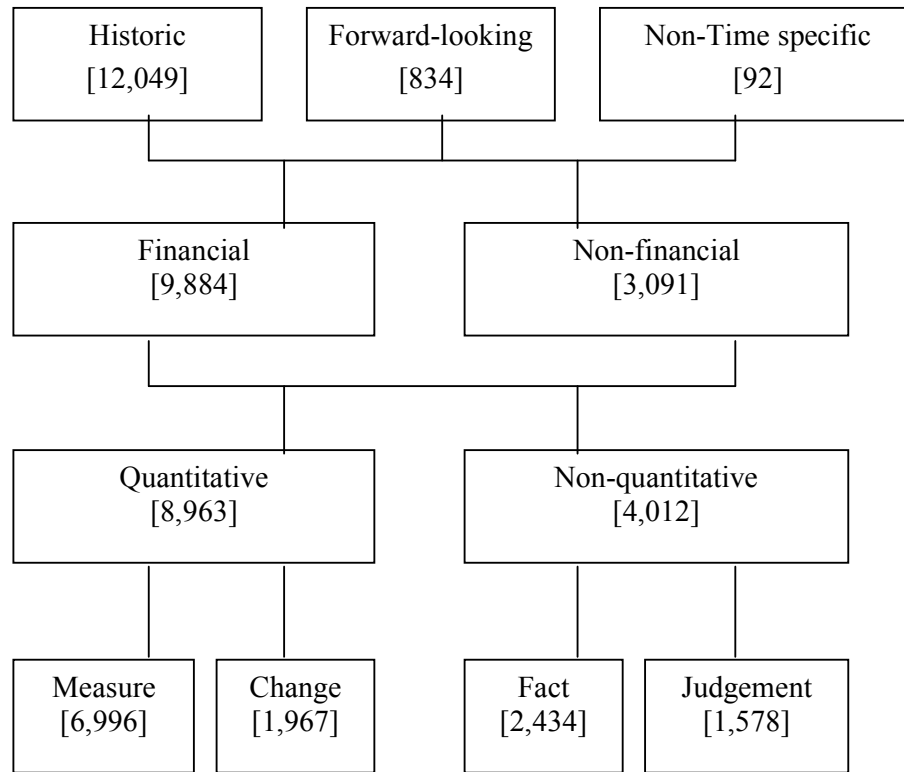
When a pairwise comparison is made between the medians of Improving *Fact* and Improving *Judgement*, the difference is statistically significant at the 0.10 level and a similar comparison made for Declining companies is significant at the 0.05 level. The conclusion from this comparison is that **both** improving and declining companies announce more fact than judgement in Highlights. This means that there is less scope for impression management in Highlights than was first expected.

While this fourfold division brought out one or two interesting facts, it probably needs the further nine categories with their attendant subcategories to draw anything further out of this type of analysis.

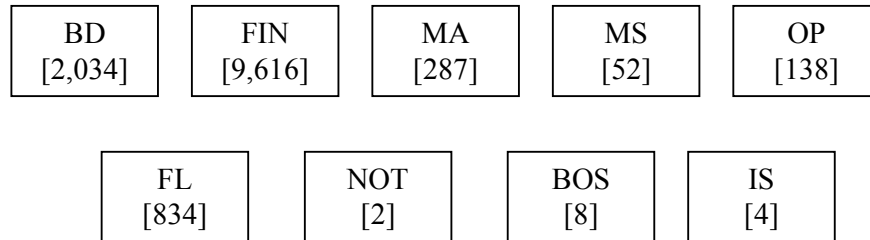
For comparison purposes the same independent variables are employed as are used in the first section, i.e. FTSE categories, profitability and comparative profitability. The dependent variables are the different levels of analysis described at the beginning of this section. Because of the low level of data available under some of the categories, not all are material to the analysis.

Due to the varying lengths of sentences and phrases this section does **not** include an exercise to calculate proportions of the Highlights attributable to each analysis category.

**Fig. 6.1 Section 2- Levels of Highlights Analysis**



Measure/Change/Fact/Judgement all feed into 9 Special topics



**Key:**

- BD – Business Description
- FIN – Financial Information
- MA – Management Analysis
- MS – Management and Shareholder Information
- OP – Operating Data
- FL – Forward-looking data
- NOT – Not Jenkins
- BOS – Broad Objectives and Strategy
- IS – Industry Structure

**Table 6.17 Analytical Summary of results**

	Measure				Change				Fact				Judgement			
FTSE	Qu.	Significance			Qu.	Significance			Qu.	Significance			Qu.	Significance		
100	35.05	0.01		0.01	12.77	0.01		0.01	10.56	<i>ns</i>		<i>ns</i>	7.29	<i>ns</i>		0.05
250	22.83	0.01	<i>ns</i>		5.67	0.01	0.01		7.84	<i>ns</i>	<i>ns</i>		5.19	<i>ns</i>	<i>ns</i>	
<350	19.42		<i>ns</i>	0.01	2.42		0.01	0.01	8.14		<i>ns</i>	<i>ns</i>	4.07		<i>ns</i>	0.05
Prof.	27.81	<i>ns</i> [0.135]			8.92	0.01			8.92	<i>ns</i> [0.519]			5.82	<i>ns</i> [0.999]		
Loss	24.30	<i>ns</i> [0.135]			5.00	0.01			8.98	<i>ns</i> [0.519]			5.46	<i>ns</i> [0.999]		
Imp.	37.58	<i>ns</i> [0.121]			9.30	0.01 [0.000]			9.47	<i>ns</i> [0.941]			6.02	<i>ns</i> [0.430]		
Dec.	28.83	<i>ns</i> [0.121]			4.85	0.01 [0.000]			8.18	<i>ns</i> [0.941]			5.21	<i>ns</i> [0.430]		

	Quantitative				Non-quantitative			
FTSE	Qu.	Significance			Qu.	Significance		
100	47.82	0.01		0.01	18.56	<i>ns</i>		0.05
250	28.50	0.01	0.10		13.45	<i>ns</i>	0.10	
<350	21.84		0.10	0.01	12.47		0.10	0.05
Prof.	36.72	0.05			15.32	<i>ns</i> [0.642]		
Loss	29.30	0.05			14.76	<i>ns</i> [0.642]		
Imp.	37.58	0.01 [0.005]			15.87	<i>ns</i> [0.747]		
Dec.	28.83	0.01 [0.005]			14.03	<i>ns</i> [0.747]		

### **6.6.6 Limitations in Section 2**

Although the method used here is similar to that of Beattie et al. (2004), the amount of data used is significantly less due to the summary nature of the Highlights. This means that many of the categories tested in Beattie et al. (2004) are either empty or have a very low incidence of data.

Because the analysis depends on interpreting the Highlights, this section is more interpretive than the first.

As the research is carried out by a single person, self referential researcher judgment is used throughout.

NVivo, Microsoft Excel and SPSS computer programs are only used after judgement is applied i.e. there are no pre-existing word lists such as those that are employed in the first section.

## ***6.7 Summary and Discussion***

Much of the impression management found in Highlights is similar in nature to that of the full prelim. However, there is greater incidence of 'acclaiming' impression management which is achieved through the use of good news keywords occurring in more highly capitalised and companies with improving performance. The fact that Highlights are chosen as a type of prelim summary and this 'acclaiming' exists and, indeed, grows in the case of the Highlights of profitable companies, means that a type of signalling is taking place. The fact that the directors choose the Highlights for this is an example of the primacy effect evidenced by good news keywords being used in these higher proportions.

Highlights have a greater proportion of good news and bad news keywords than the combined presentation from other parts of the prelim. Appendices 6.1 and 6.2 illustrate this by the incidence and grouping of certain words. Many good and bad news keywords are used in this study by larger companies that are declining over the adjacent accounting periods being examined (see Appendix 6.5) which may suggest a continuation of large company habits, perhaps for the sake of analysts but also institutional shareholders.

The opposite applies, i.e. a smaller proportion in Highlights compared to non-Highlights, to forward-looking announcements principally due to a low number of prospective dates contained in the Highlights section.

The use of good news or forward-looking keywords used as a 'dissociative' method of impression management is more frequent and made more apparent within the Highlights because of the close proximity of presentation. This type of impression management inevitably occurs when bad news or a poor performance occurs and may be explained by the Halo effect or trying to avoid the Reverse Halo effect.

<FTSE350 companies announce a higher level of all three word types for their size in terms of market capitalisation (ref. Illustrative examples 1 to 4). There is a general indication that impression management is taking place in these companies in terms of the 'dissociative' use of good news keywords, forward-looking keywords and juxtaposition of good keywords with bad in a declining company. Although the companies do not have a large analyst following, it would appear that smaller companies attempt to avoid the Reverse Halo effect via appropriately placed good news keywords. They also use procrastination in their announcement of forward-looking keywords.

There is a great deal of non-specific, 'acclaiming' good news keywords used in improving companies. Words such as 'benefit', 'confidence' and 'confident', 'growth', 'progress' are used either to support facts or, in many cases, in stand alone statements with little additional information provided. This may be an attempt to use favourable 'first impressions' to create a halo-type atmosphere that would not be easy to dislodge if results took a turn for the worse.

Chapter 6.6 shows that companies who are unprofitable or declining in performance appear to be unwilling to express changes in their performance in the form of percentages (as an example, see Illustrative example 6, Chapter 6.5.3.14). Beattie et al. (2004: p. 230) argue '*that a primary dimension of disclosure quality is likely to be the actual amount of disclosure, relative to the amount expected given the company's size and complexity.*'

The fact that unprofitable or declining companies can but don't supply percentages, means that their quality of disclosure is poorer than it should be. It could be argued on behalf of these companies that percentages, especially if they are declining, may remain in the minds of investors well past any point when a turnaround starts to happen. Omitting percentages, therefore, is impression management: it could be interpreted as an attempt to guard against the Reverse Halo effect.

### **Extent and Nature**

When the 261 companies are divided into 'improving' (154) and 'declining' (107) categories, the mean of the good news keyword proportions is *greater* for 'declining' than 'improving'. This is an unexpected result and indicates that 'halo effect' impression management is taking place in these prelim Highlights.

A similar picture is obtained when examining forward-looking keyword proportions. Although this is not unexpected given prior research, it provides more evidence of impression management in that declining performers focus on what they see as 'potential' rather than 'actual'. This is referred to in behavioural studies as procrastination.

Smaller companies and also those whose performance is declining appear to favour narrative rather than quantitative Highlights not only in the use of percentages. This is, perhaps, one of the more obvious cases of 'dissociative' impression management found in Highlights.

Because of the compact size of the Highlights, illustrative examples chosen to illustrate certain features are most pertinent in the identification of impression management. This pertinence exists because of the limited size of Highlights and, as a result, the more focused methods of expression

The inclusion of illustrative extracts in the Chapter may help to indicate the impression provided by using a company's name within the Highlights section. As previously mentioned in Chapter 6.1, although not necessarily a major component in impression management, the company's reputation focussed in its name may act in a way similar to the halo/reverse halo effect.

Appendix 6.1 General statistics relating to Good news keywords

<i>Good-news keyword</i>	<i>Full Prelim</i>	<i>Highlight</i>	<i>8.66% Estimate (see Chapter 6.2)</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
achieve	237	37	20.5242	Highlights are more than estimate by 80.27 per cent.		16.48
achieved	837	83	72.4842	Highlights are more than estimate by 14.51 per cent.		10.52
achievement	67	11	5.8022	Highlights are more than estimate by 89.58 per cent.		5.20
achievements	36	6	3.1176	Highlights are more than estimate by 92.46 per cent.		2.88
acquired	476	42	41.2216	Highlights are more than estimate by 1.89 per cent.		0.78
acquiring	52	2	4.5032	Highlights are less than estimate by 55.59 per cent.	2.50	
acquisition	1039	95	89.9774	Highlights are more than estimate by 5.58 per cent.		5.02
acquisitions	652	69	56.4632	Highlights are more than estimate by 22.20 per cent.		12.54
advance	47	6	4.0702	Highlights are more than estimate by 47.41 per cent.		1.93
advances	138	7	11.9508	Highlights are less than estimate by 41.43 per cent.	4.95	
advantage	200	28	17.32	Highlights are more than estimate by 61.66 per cent.		10.68
assist	34	1	2.9444	Highlights are less than estimate by 66.04 per cent.	1.94	
attractive	121	7	10.4786	Highlights are less than estimate by 33.20 per cent.	3.48	
benefit	456	40	39.4896	Highlights are more than estimate by 1.29 per cent.		0.51
benefited	161	3	13.9426	Highlights are less than estimate by 78.48 per cent.	10.94	
benefits	422	50	36.5452	Highlights are more than estimate by 36.82 per cent.		13.45
expanding	64	8	5.5424	Highlights are more than estimate by 44.34 per cent.		2.46
compliment	3	0	0.2598	Highlights are less than estimate by 100.00 per cent.	0.26	
confident	235	43	20.351	Highlights are more than estimate by 111.29 per cent.		22.65
cost control	39	5	3.3774	Highlights are more than estimate by 48.04 per cent.		1.62
cost reduction	101	18	8.7466	Highlights are more than estimate by 105.79 per cent.		9.25
cost reductions	42	6	3.6372	Highlights are more than estimate by 64.96 per cent.		2.36



Good-news keyword	Full Prelim	Highlight	8.66% Estimate	Description of difference between Highlight and Estimate	No. of Keywords less than average	No. of Keywords more than average
creditable	14	3	1.2124	Highlights are more than estimate by 147.44 per cent.		1.79
develop	309	22	26.7594	Highlights are less than estimate by 17.79 per cent.	4.76	
developing	218	15	18.8788	Highlights are less than estimate by 20.55 per cent.	3.88	
development	1317	98	114.0522	Highlights are less than estimate by 14.07 per cent.	16.05	
developments	231	21	20.0046	Highlights are more than estimate by 4.98 per cent.		1.00
effective	285	18	24.681	Highlights are less than estimate by 27.07 per cent.	6.68	
enable	174	21	15.0684	Highlights are more than estimate by 39.36 per cent.		5.93
encouraging	167	29	14.4622	Highlights are more than estimate by 100.52 per cent.		14.54
enhance	134	12	11.6044	Highlights are more than estimate by 3.41 per cent.		0.40
enhancement	34	2	2.9444	Highlights are less than estimate by 32.07 per cent.	0.94	
enhancing	63	10	5.4558	Highlights are more than estimate by 83.29 per cent.		4.54
excellent	345	49	29.877	Highlights are more than estimate by 64.01 per cent.		19.12
expand	105	9	9.093	Highlights are less than estimate by 1.02 per cent.	0.09	
expansion	259	19	22.4294	Highlights are less than estimate by 15.29 per cent.	3.43	
favourable	125	10	10.825	Highlights are less than estimate by 7.62 per cent.	0.82	
focused	259	36	22.4294	Highlights are more than estimate by 60.50 per cent.		13.57
fortunate	12	1	1.0392	Highlights are less than estimate by 3.77 per cent.	0.04	
fulfil	6	0	0.5196	Highlights are less than estimate by 100.00 per cent.	0.52	
fulfilling	0	0	0			
future	927	99	80.2782	Highlights are more than estimate by 23.32 per cent.		18.72
gain	110	13	9.526	Highlights are more than estimate by 36.47 per cent.		3.47
gaining	32	1	2.7712	Highlights are less than estimate by 63.91 per cent.	1.77	
good	799	113	69.1934	Highlights are more than estimate by 63.31 per cent.		43.81
grew	571	38	49.4486	Highlights are less than estimate by 23.15 per cent.	11.45	
grow	306	26	26.4996	Highlights are less than estimate by 1.89 per cent.	0.50	

Good-news keyword	Full Prelim	Highlight	8.66% Estimate	Description of difference between Highlight and Estimate	No. of Keywords less than average	No. of Keywords more than average
growing	368	30	31.8688	Highlights are less than estimate by 5.86 per cent.	1.87	
growth	2890	414	250.274	Highlights are more than estimate by 65.42 per cent.		163.73
increase	1751	178	151.6366	Highlights are more than estimate by 17.39 per cent.		26.36
increasing	385	36	33.341	Highlights are more than estimate by 7.98 per cent.		2.66
increased	2321	240	200.9986	Highlights are more than estimate by 19.40 per cent.		39.00
improve	353	40	30.5698	Highlights are more than estimate by 30.85 per cent.		9.43
improved	655	60	56.723	Highlights are more than estimate by 5.78 per cent.		3.28
improvement	475	50	41.135	Highlights are more than estimate by 21.55 per cent.		8.87
improvements	232	21	20.0912	Highlights are more than estimate by 4.52 per cent.		0.91
improving	250	35	21.65	Highlights are more than estimate by 61.66 per cent.		13.35
investment	1705	195	147.653	Highlights are more than estimate by 32.07 per cent.		47.35
investments	558	63	48.3228	Highlights are more than estimate by 30.37 per cent.		14.68
opportunities	551	64	47.7166	Highlights are more than estimate by 34.13 per cent.		16.28
opportunity	196	13	16.9736	Highlights are less than estimate by 23.41 per cent.	3.97	
optimistic	28	10	2.4248	Highlights are more than estimate by 312.41 per cent.		7.58
outstanding	164	18	14.2024	Highlights are more than estimate by 26.74 per cent.		3.80
pleased	212	37	18.3592	Highlights are more than estimate by 101.53 per cent.		18.64
positive	272	42	23.5552	Highlights are more than estimate by 78.30 per cent.		18.44
potential	242	36	20.9572	Highlights are more than estimate by 71.78 per cent.		15.04
profit	3003	520	260.0598	Highlights are more than estimate by 99.95 per cent.		259.94
profitable	185	31	16.021	Highlights are more than estimate by 93.50 per cent.		14.98
progress	706	96	61.1396	Highlights are more than estimate by 57.02 per cent.		34.86
prosperity	3	0	0.2598	Highlights are less than estimate by 100.00 per cent.	0.26	
prudent	49	6	4.2434	Highlights are more than estimate by 41.40 per cent.		1.76
quality	458	43	39.6628	Highlights are more than estimate by 8.41 per cent.		3.34

Good-news keyword	Full Prelim	Highlight	8.66% Estimate	Description of difference between Highlight and Estimate	No. of Keywords less than average	No. of Keywords more than average
rebuilding	5	0	0.433	Highlights are less than estimate by 100.00 per cent.	0.43	
recovering	14	2	1.2124	Highlights are more than estimate by 64.96 per cent.		0.79
recovery	272	36	23.5552	Highlights are more than estimate by 52.83 per cent.		12.44
reinvestment	19	2	1.6454	Highlights are more than estimate by 21.55 per cent.		0.35
resilient	50	15	4.33	Highlights are more than estimate by 246.42 per cent.		10.67
revival	1	0	0.0866	Highlights are less than estimate by 100.00 per cent.	0.09	
revive	0	0	0			
rise	138	14	11.9508	Highlights are more than estimate by 17.15 per cent.		2.05
risen	42	8	3.6372	Highlights are more than estimate by 119.95 per cent.		4.36
robust	107	19	9.2662	Highlights are more than estimate by 105.05 per cent.		9.73
rose	332	32	28.7512	Highlights are more than estimate by 11.30 per cent.		3.25
secure	81	6	7.0146	Highlights are less than estimate by 14.46 per cent.	1.01	
sound	82	9	7.1012	Highlights are more than estimate by 26.74 per cent.		1.90
stabilisation	7	1	0.6062	Highlights are more than estimate by 64.96 per cent.		0.39
stability	35	6	3.031	Highlights are more than estimate by 97.95 per cent.		2.97
strength	249	37	21.5634	Highlights are more than estimate by 71.59 per cent.		15.44
strengthened	140	18	12.124	Highlights are more than estimate by 48.47 per cent.		5.88
strong	1530	230	132.498	Highlights are more than estimate by 73.59 per cent.		97.50
strongly	206	18	17.8396	Highlights are more than estimate by 0.90 per cent.		0.16
succeeded	18	0	1.5588	Highlights are less than estimate by 100.00 per cent.	1.56	
success	334	28	28.9244	Highlights are less than estimate by 3.20 per cent.	0.92	
successful	538	65	46.5908	Highlights are more than estimate by 39.51 per cent.		18.41
successfully	260	22	22.516	Highlights are less than estimate by 2.29 per cent.	0.52	
support	414	30	35.8524	Highlights are less than estimate by 16.32 per cent.	5.85	
up	1728	387	149.6448	Highlights are more than estimate by 158.61 per cent.		237.36

Good-news keyword	Full Prelim	Highlight	8.66% Estimate	Description of difference between Highlight and Estimate	No. of Keywords less than average	No. of Keywords more than average
upturn	47	12	4.0702	Highlights are more than estimate by 194.83 per cent.		7.93
value	1482	177	128.3412	Highlights are more than estimate by 37.91 per cent.		48.66
well-placed	2	1	0.1732	Highlights are more than estimate by 477.37 per cent.		0.83
					<b>91.51</b>	<b>1450.5</b> <b>5</b>

There are 69 keywords in Highlights that are more than the estimated (average) figure and 29 that are less.

## Appendix 6.2 General statistics relating to Bad news keywords

<i>Bad-news keyword</i>	<i>Full Prelim</i>	<i>Highlights</i>	<i>8.66% Estimate</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
accident	22	0	1.9052	Highlights are less by 100.00 per cent.	1.91	
adverse	116	9	10.0456	Highlights are less by 10.41 per cent.	1.05	
adversely	81	4	7.0146	Highlights are less by 42.98 per cent.	3.01	
bad	125	9	10.825	Highlights are less by 16.86 per cent.	1.83	
bankruptcy	4	0	0.3464	Highlights are less by 100.00 per cent.	0.35	
cautious	46	9	3.9836	Highlights are more by 125.93 per cent.		5.02
challenges	73	8	6.3218	Highlights are more by 26.55 per cent.		1.68
challenging	200	34	17.32	Highlights are more by 96.30 per cent.		16.68
concern	33	1	2.8578	Highlights are less by 65.01 per cent.	1.86	
concerned	16	1	1.3856	Highlights are less by 27.83 per cent.	0.39	
concerns	29	1	2.5114	Highlights are less by 60.18 per cent.	1.51	
crisis	27	2	2.3382	Highlights are less by 14.46 per cent.	0.34	
deficit	58	1	5.0228	Highlights are less by 80.09 per cent.	4.02	
deficits	7	0	0.6062	Highlights are less by 100.00 per cent.	0.61	
delay	25	1	2.165	Highlights are less by 53.81 per cent.	1.17	
delayed	25	2	2.165	Highlights are less by 7.62 per cent.	0.17	
delays	25	3	2.165	Highlights are more by 38.57 per cent.		0.84
depress	3	0	0.2598	Highlights are less by 100.00 per cent.	0.26	
depressed	59	3	5.1094	Highlights are less by 41.28 per cent.	2.11	
deterioration	38	7	3.2908	Highlights are more by 112.71 per cent.		3.71
difficult	493	91	42.6938	Highlights are more by 113.15 per cent.		48.31
difficulties	67	2	5.8022	Highlights are less by 65.53 per cent.	3.80	

Bad-news keyword	Full Prelim	Highlights	8.66% Estimate	Description of difference between Highlight and Estimate	No. of Keywords less than average	No. of Keywords more than average
disappointed	8	3	0.6928	Highlights are more by 333.03 per cent.		2.31
disappointing	62	8	5.3692	Highlights are more by 49.00 per cent.		2.63
disappointment	11	0	0.9526	Highlights are less by 100.00 per cent.	0.95	
downturn	189	24	16.3674	Highlights are more by 46.63 per cent.		7.63
downturns	3	0	0.2598	Highlights are less by 100.00 per cent.	0.26	
failed	9	2	0.7794	Highlights are more by 156.61 per cent.		1.22
failure	24	1	2.0784	Highlights are less by 51.89 per cent.	1.08	
hazardous	1	0	0.0866	Highlights are less by 100.00 per cent.	0.09	
inability	6	0	0.5196	Highlights are less by 100.00 per cent.	0.52	
inadequate	2	0	0.1732	Highlights are less by 100.00 per cent.	0.17	
Lack	31	4	2.6846	Highlights are more by 49.00 per cent.		1.32
Lose	4	0	0.3464	Highlights are less by 100.00 per cent.	0.35	
Loss	742	112	64.2572	Highlights are more by 74.30 per cent.		47.74
Losses	388	18	33.6008	Highlights are less by 46.43 per cent.	15.60	
Lost	46	2	3.9836	Highlights are less by 49.79 per cent.	1.98	
Missed	10	0	0.866	Highlights are less by 100.00 per cent.	0.87	
negative	82	10	7.1012	Highlights are more by 40.82 per cent.		2.90
negatively	12	1	1.0392	Highlights are less by 3.77 per cent.	0.04	
Poor	61	6	5.2826	Highlights are more by 13.58 per cent.		0.72
problem	12	0	1.0392	Highlights are less by 100.00 per cent.	1.04	
problems	80	5	6.928	Highlights are less by 27.83 per cent.	1.93	
recession	51	4	4.4166	Highlights are less by 9.43 per cent.	0.42	
recessionary	5	2	0.433	Highlights are more by 361.89 per cent.		1.57
shortage	18	0	1.5588	Highlights are less by 100.00 per cent.	1.56	

<i>Bad-news keyword</i>	<i>Full Prelim</i>	<i>Highlights</i>	<i>8.66% Estimate</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
sluggish	8	1	0.6928	Highlights are more by 44.34 per cent.		0.31
suffered	77	3	6.6682	Highlights are less by 55.01 per cent.	3.67	
tough	83	17	7.1878	Highlights are more by 136.51 per cent.		9.81
troubled	2	0	0.1732	Highlights are less by 100.00 per cent.	0.17	
unable	14	0	1.2124	Highlights are less by 100.00 per cent.	1.21	
unfavourable	8	1	0.6928	Highlights are more by 44.34 per cent.		0.31
unhelpful	2	1	0.1732	Highlights are more by 477.37 per cent.		0.83
unprofitable	18	1	1.5588	Highlights are less by 35.85 per cent.	0.56	
unrealised	1	0	0.0866	Highlights are less by 100.00 per cent.	0.09	
weak	115	6	9.959	Highlights are less by 39.75 per cent.	3.96	
weakened	25	0	2.165	Highlights are less by 100.00 per cent.	2.17	
weaker	74	3	6.4084	Highlights are less by 53.19 per cent.	3.41	
weakness	76	3	6.5816	Highlights are less by 54.42 per cent.	3.58	
worst	17	1	1.4722	Highlights are less by 32.07 per cent.	0.47	
worse	13	0	1.1258	Highlights are less by 100.00 per cent.	1.13	
					<b>71.62</b>	<b>155.51</b>

There are 19 keywords in Highlights that are more than the estimated (average) figure and 42 that are less.

### Appendix 6.3 General statistics relating to Forward-looking keywords

<i>Forward-looking keyword</i>	<i>Full Prelim</i>	<i>Highlights</i>	<i>8.66% Estimate</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
accelerate	52	4	4.5032	Highlights are less by 11.17 per cent.	0.50	
anticipate	105	10	9.093	Highlights are more by 9.97 per cent.		0.91
await	3	0	0.2598	Highlights are less by 100.00 per cent.	0.26	
coming financial years	1	0	0.0866	Highlights are less by 100.00 per cent.	0.09	
coming financial years	0	0	0			
coming year	79	10	6.8414	Highlights are more by 46.17 per cent.		3.16
coming years	18	2	1.5588	Highlights are more by 28.30 per cent.		0.44
coming months	14	1	1.2124	Highlights are less by 17.52 per cent.	0.21	
confidence	224	48	19.3984	Highlights are more by 147.44 per cent.		28.60
confident	235	43	20.351	Highlights are more by 111.29 per cent.		22.65
convince	0	0	0			
envisage	6	1	0.5196	Highlights are more by 92.46 per cent.		0.48
estimate	47	4	4.0702	Highlights are less by 1.72 per cent.	0.07	
eventual	2	4	0.1732	Highlights are more by 2,209.47 per cent.		3.83
expect	313	37	27.1058	Highlights are more by 36.50 per cent.		9.89
forecast	75	6	6.495	Highlights are less by 7.62 per cent.	0.50	
forthcoming	32	5	2.7712	Highlights are more by 80.43 per cent.		2.23
hope	30	3	2.598	Highlights are more by 15.47 per cent.		0.40
intend	88	3	7.6208	Highlights are less by 60.63 per cent.	4.62	
intention	79	6	6.8414	Highlights are less by 12.30 per cent.	0.84	
likely	136	3	11.7776	Highlights are less by 74.53 per cent.	8.78	
unlikely	53	12	4.5898	Highlights are more by 161.45 per cent.		7.41
look ahead	1	3	0.0866	Highlights are more by 3,364.20 per cent.		2.91



<i>Forward-looking keyword</i>	<i>Full Prelim</i>	<i>Highlights</i>	<i>8.66% Estimate</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
look forward	76	1	6.5816	Highlights are less by 84.81 per cent.	5.58	
next	377	20	32.6482	Highlights are less by 38.74 per cent.	12.65	
novel	12	40	1.0392	Highlights are more by 3,749.11 per cent.		38.96
optimistic	28	1	2.4248	Highlights are less by 58.76 per cent.	1.42	
outlook	320	10	27.712	Highlights are less by 63.91 per cent.	17.71	
planned	212	49	18.3592	Highlights are more by 166.90 per cent.		30.64
planning	222	22	19.2252	Highlights are more by 14.43 per cent.		2.77
predict	32	8	2.7712	Highlights are more by 188.68 per cent.		5.23
prospect	24	3	2.0784	Highlights are more by 44.34 per cent.		0.92
remain	408	58	35.3328	Highlights are more by 64.15 per cent.		22.67
scope for	30	3	2.598	Highlights are more by 15.47 per cent.		0.40
scope to	7	2	0.6062	Highlights are more by 229.92 per cent.		1.39
shall	47	1	4.0702	Highlights are less by 75.43 per cent.	3.07	
shortly	53	1	4.5898	Highlights are less by 78.21 per cent.	3.59	
should	322	34	27.8852	Highlights are more by 21.93 per cent.		6.11
soon	21	3	1.8186	Highlights are more by 64.96 per cent.		1.18
will	3067	208	265.6022	Highlights are less by 21.69 per cent.	57.60	
well placed	96	18	8.3136	Highlights are more by 116.51 per cent.		9.69
well positioned	105	30	9.093	Highlights are more by 229.92 per cent.		20.91
year ahead	48	30	4.1568	Highlights are more by 621.71 per cent.		25.84
years ahead	18	8	1.5588	Highlights are more by 413.22 per cent.		6.44
also incl prec by prep: 2002	844	4	73.0904	Highlights are less by 94.53 per cent.	69.09	
also incl prec by prep: 2003	449	4	38.8834	Highlights are less by 89.71 per cent.	34.88	
also incl prec by prep: 2004	122	1	10.5652	Highlights are less by 90.53 per cent.	9.57	

<i>Forward-looking keyword</i>	<i>Full Prelim</i>	<i>Highlights</i>	<i>8.66% Estimate</i>	<i>Description of difference between Highlight and Estimate</i>	<i>No. of Keywords less than average</i>	<i>No. of Keywords more than average</i>
also incl prec by prep: 2005	54	0	4.6764	Highlights are less by 100.00 per cent.	4.68	
also incl prec by prep: 2006	0	0	0			
current financial year	62	10	5.3692	Highlights are more by 86.25 per cent.		4.63
current financial years	0	0	0			
current year	179	30	15.5014	Highlights are more by 93.53 per cent.		14.50
current years	0	0	0			
					<b>235.71</b>	<b>275.21</b>

There are 28 keywords in Highlights that are more than the estimated (average) figure and 20 that are less.

## Appendix 6.4 Words and Wordcounts

<i>Good-news*</i>	Full	High.	<i>Bad-news*</i>	Full	High.	<i>Forward-looking</i>	Full	High.
achieve	237	37	accident	22	0	accelerate	52	4
achieved	837	83	adverse	116	9	anticipate	105	10
achievement	67	11	adversely	81	4	await	3	0
achievements	36	6	bad	125	9	coming financial years	1	0
acquired	476	42	bankruptcy	4	0	coming financial years	0	0
acquiring	52	2	cautious	46	9	coming year	79	10
acquisition	1039	95	challenges	73	8	coming years	18	2
acquisitions	652	69	challenging	200	34	coming months	14	1
advance	47	6	concern	33	1	confidence	224	48
advances	138	7	concerned	16	1	confident	235	43
advantage	200	28	concerns	29	1	convince	0	0
assist	34	1	Crisis	27	2	envisage	6	1
attractive	121	7	deficit	58	1	estimate	47	4
benefit	456	40	deficits	7	0	eventual	2	4
benefited	161	3	delay	25	1	expect	313	37
benefits	422	50	delayed	25	2	forecast	75	6
expanding	64	8	delays	25	3	forthcoming	32	5
compliment	3	0	depress	3	0	hope	30	3
confident	235	43	depressed	59	3	intend	88	3

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
cost control	39	5	deterioration	38	7	intention	79	6
cost reduction	101	18	difficult	493	91	likely	136	3
cost reductions	42	6	difficulties	67	2	unlikely	53	12
creditable	14	3	disappointed	8	3	look ahead	1	3
develop	309	22	disappointing	62	8	look forward	76	1
developing	218	15	disappointment	11	0	next	377	20
development	1317	98	downturn	189	24	novel	12	40
developments	231	21	downturns	3	0	optimistic	28	1
effective	285	18	failed	9	2	outlook	320	10
enable	174	21	failure	24	1	planned	212	49
encouraging	167	29	hazardous	1	0	planning	222	22
enhance	134	12	inability	6	0	predict	32	8
enhancement	34	2	inadequate	2	0	prospect	24	3
enhancing	63	10	lack	31	4	remain	408	58
excellent	345	49	lose	4	0	scope for	30	3
expand	105	9	loss	742	112	scope to	7	2
expansion	259	19	losses	388	18	shall	47	1
favourable	125	10	lost	46	2	shortly	53	1
focused	259	36	missed	10	0	should	322	34
fortunate	12	1	negative	82	10	soon	21	3
fulfil	6	0	negatively	12	1	will	3067	208
fulfilling	0	0	poor	61	6	well placed	96	18
future	927	99	problem	12	0	well positioned	105	30
gain	110	13	problems	80	5	year ahead	48	30

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
gaining	32	1	recession	51	4	years ahead	18	8
good	799	113	recessionary	5	2	also incl prec by prep: 2000	1341	26
grew	571	38	shortage	18	0	also incl prec by prep: 2001	4961	17
grow	306	26	sluggish	8	1	also incl prec by prep: 2002	844	4
growing	368	30	suffered	77	3	also incl prec by prep: 2003	449	4
growth	2890	414	tough	83	17	also incl prec by prep: 2004	122	1
increase	1751	178	troubled	2	0	also incl prec by prep: 2005	54	0
increasing	385	36	unable	14	0	also incl prec by prep: 2006	0	0
increased	2321	240	unfavourable	8	1	current financial year	62	10
improve	353	40	unhelpful	2	1	current financial years	0	0
improved	655	60	unprofitable	18	1	current year	179	30
improvement	475	50	unrealised	1	0	current years	0	0
improvements	232	21	weak	115	6			
improving	250	35	weakened	25	0			
investment	1705	195	weaker	74	3			
investments	558	63	weakness	76	3			
opportunities	551	64	worst	17	1			
opportunity	196	13	worse	13	0			
optimistic	28	10						
outstanding	164	18	<i>Additions</i>	Full	High.			
pleased	212	37	disruption	20	3			
positive	272	42	hold back	0	0			
potential	242	36	held back	31	1			
profit	3003	520						

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
profitable	185	31						
progress	706	96						
prosperity	3	0						
prudent	49	6						
quality	458	43						
rebuilding	5	0						
recovering	14	2						
recovery	272	36						
reinvestment	19	2						
resilient	50	15						
revival	1	0						
revive	0	0						
rise	138	14						
risen	42	8						
robust	107	19						
rose	332	32						
secure	81	6						
sound	82	9						
stabilisation	7	1						
stability	35	6						
strength	249	37						
strengthened	140	18						
strong	1530	230						
strongly	206	18						
succeeded	18	0						
success	334	28						

<i>Good-news</i>	Full	High.	<i>Bad-news</i>	Full	High.	<i>Forward-looking</i>	Full	High.
successful	538	65						
successfully	260	22						
support	414	30						
up	1728	387						
upturn	47	12						
value	1482	177						
well-placed	2	1						

Totals	38,406	4,685		4,013	430		15,130	847
Used in ch 5/6	38,403	4,683		4,011	427		15,130	842
Difference	-3	-2		-2	-3		Nil	-5

\* Thanks to Dr. Mark Clatworthy (University of Cardiff) for permission to reproduce wordlists.

Differences were adjusted via *profit* for *good-news* and *loss* for *bad-news* as these were the main areas where judgement was used on what words and phrases to exclude.

## Appendix 6.5 Investigation of Improving and Declining Company Keywords

[All tests are Mann-Whitney as it cannot be established that a normal distribution applies to any of the data]

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W</i>	<i>Significance level</i>
H5y	Improving v Declining	Good	0.05 [0.023]	Greater profit	Smaller profit	M-W	ns [0.193] 1 tail
				Loss to profit	Profit to loss	M-W	ns [0.154] 1 tail
				Smaller loss	Greater loss	M-W	ns [0.124] 1 tail
H5z	Improving v Declining	Good	0.01 [0.006]	Greater profit	Smaller profit	M-W	0.05 [0.030] 1 tail
				Loss to profit	Profit to loss	M-W	ns [0.217] 1 tail
				Smaller loss	Greater loss	M-W	ns [0.232] 1 tail
H5y	Improving v Declining	Bad	0.05 [0.050]	Greater profit	Smaller profit	M-W	0.05 [0.033] 1 tail
				Loss to profit	Profit to loss	M-W	ns [0.467] 1 tail
				Smaller loss	Greater loss	M-W	ns [0.475] 1 tail
H5z	Improving v Declining	Bad	0.10 [0.058]	Greater profit	Smaller profit	M-W	0.10 [0.079] 1 tail
				Loss to profit	Profit to loss	M-W	ns [0.481] 1 tail
				Smaller loss	Greater loss	M-W	ns [0.399] 1 tail



Appendix 6.5 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W</i>	<i>Significance level</i>
H6y	Improving	Good v Bad	0.01 [0.000]	Greater profit [Good]	Greater profit [Bad]	M-W	0.01 [0.000] 1 tail
				Loss to profit [Good]	Loss to profit [Bad]	M-W	0.01 [0.000] 1 tail
				Smaller loss [Good]	Smaller loss [Bad]	M-W	0.01 [0.000] 1 tail
H6z	Improving	Good v Bad	0.01 [0.000]	Greater profit [Good]	Greater profit [Bad]	M-W	0.01 [0.000] 1 tail
				Loss to profit [Good]	Loss to profit [Bad]	M-W	0.01 [0.000] 1 tail
				Smaller loss [Good]	Smaller loss [Bad]	M-W	0.01 [0.000] 1 tail
H7y	Declining	Good v Bad	0.01 [0.000]	Smaller profit [Good]	Smaller profit [Bad]	M-W	0.01 [0.000] 1 tail
				Profit to loss [Good]	Profit to loss [Bad]	M-W	0.01 [0.000] 1 tail
				Greater loss [Good]	Greater loss [Bad]	M-W	0.01 [0.000] 1 tail

Appendix 6.5 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W</i>	<i>Significance level</i>
H7z	Declining	Good v Bad	0.01 [0.000]	Smaller profit [Good]	Smaller profit [Bad]	M-W	0.01 [0.000] 1 tail
				Profit to loss [Good]	Profit to loss [Bad]	M-W	0.01 [0.000] 1 tail
				Greater loss [Good]	Greater loss [Bad]	M-W	0.01 [0.000] 1 tail
H8y	Improving v Declining	Fwd-looking	ns [0.792]	Greater profit	Smaller profit	M-W	ns [0.401]
				Loss to profit	Profit to loss	M-W	ns [0.939]
				Smaller loss	Greater loss	M-W	0.10 [0.055]
H8z	Improving v Declining	Fwd-looking	ns [0.988]	Greater profit	Smaller profit	M-W	ns [0.478]
				Loss to profit	Profit to loss	M-W	0.10 [0.061]
				Smaller loss	Greater loss	M-W	ns [0.289]
H9y	Declining	Bad/Fwd- looking	0.01[0.000] 2tail	Smaller profit [Bad]	Smaller profit [Fwd-looking]	M-W	0.05 [0.013] 2 tail
				Profit to loss [Bad]	Profit to loss [Fwd-looking]	M-W	0.05 [0.017] 2 tail
				Greater loss [Bad]	Greater loss [Fwd-looking]	M-W	ns [0.176] 2 tail

Appendix 6.5 continued

<i>Hypothesis</i>	<i>Improving/ Declining</i>	<i>Keyword type</i>	<i>Significance level</i>	<i>Comparing:</i>	<i>To:</i>	<i>M-W</i>	<i>Significance level</i>
H9z	Declining	Bad/Fwd- looking	0.01[0.001] 2tail	Smaller profit [Bad]	Smaller profit [Fwd-looking]	M-W	0.01 [0.005] 2 tail
				Profit to loss [Bad]	Profit to loss [Fwd-looking]	M-W	0.05 [0.045] 2 tail
				Greater loss [Bad]	Greater loss [Fwd-looking]	M-W	ns [0.237] 2 tail
H9y	Improving	Bad/Fwd- looking		Greater profit [Bad]	Greater profit [Fwd-looking]	M-W	0.01 [0.000] 2 tail
				Loss to profit [Bad]	Loss to profit [Fwd-looking]	M-W	ns [0.428] 2 tail
				Smaller loss [Bad]	Smaller loss [Fwd-looking]	M-W	0.10 [0.057] 2 tail
H9z	Improving	Bad/Fwd- looking		Greater profit [Bad]	Greater profit [Fwd-looking]	M-W	0.01 [0.000] 2 tail
				Loss to profit [Bad]	Loss to profit [Fwd-looking]	M-W	ns [0.527] 2 tail
				Smaller loss [Bad]	Smaller loss [Fwd-looking]	M-W	0.10 [0.066] 2 tail

## Appendix 6.6 Outliers

Observed outliers analysed according to FTSE categories:

<b>Company</b>	<b>Words</b>	<b>FTSE</b>	<b>Forward-Looking keywords</b>	<b>Good News keywords</b>	<b>Bad News keywords</b>
Abbey National	6,830	1	113	305	22
BAT	6,468	1	117	279	23
BritishLandCo	19,312	1	193	436	25
Centrica	9,542	1	238	447	31
Reuters	11,215	1	376	439	67
Rexam	5,393	1	143	227	26
Singer and Friedlander	6,444	2	148	239	30
Vodafone Group PLC	9,728	1	129	506	24

## **Chapter 7 Conclusion**

### **7.1 Introduction**

This Chapter summarises the objectives, questions and methods (Chapter 7.2), the results of the research and conclusions drawn (Chapter 7.3) and explains the importance of the application of behavioural theory and implications of the research findings (Chapter 7.4). The presentation of the main research contribution is made in Chapter 7.5. Limitations are discussed in Chapter 7.6, and suggestions for further research stemming from issues raised by this study are contained in Chapter 7.7.

### **7.2 Research Objectives, Questions and Methods**

The overall aim was stated in Chapter 1 as:

*To contribute to the study of behavioural economic theory as it relates to 'first impressions' especially as presented in company prelims.*

This overall aim was specified as two general objectives which were:

*1: To determine the contribution that behavioural economics makes in explaining the extent and nature of impression management in first impressions.*

*2: To contribute to the analysis of narrative accounting disclosure in relation to preliminary announcements (prelim) of UK public limited companies.*

Behavioural theories that affect preliminary announcements were consulted, reviewed and discussed in Chapter 2. Examining the application of these theories in Chapters 5 and 6, allowed the overall aim of the thesis (see Chapter 1) to be achieved. The peculiar nature of the preliminary announcement was documented in Chapter 3 and relevant prior literature was consulted (Chapter 2) to permit testable hypotheses to be formed in Chapter 4.

Returning to Chapter 2, the definition and nature of impression management were discussed first of all in its original sociological context then in terms of empirical accounting studies. A definition was extracted from Goffman (1959) although there was no direct indication that he meant it to be taken as one. For the purpose of this thesis working definitions created by individual authors without recourse to what might be called original sources were taken as secondary definitions and Goffman (1959) was consulted as a primary source. His definition was reinterpreted in the light of the shareholder-director expectation gap and reapplied to key papers from both accounting and non-accounting backgrounds (see Chapter 2).

### 7.2.1 Empirical Research Questions

Impression management was empirically investigated using both the full preliminary announcement (Chapter 5) and Highlights (a section of the full prelim) (Chapter 6). A behavioural and interpretive approach was taken to determine the reasons behind the appearance of impression management in various forms from both prelim and Highlights.

For Research Question 1, behavioural economic theory was shown to provide a structure which explained how and the extent of, does the presentation of first impressions within preliminary announcements.

Research Question 2 was answered in Chapters 5 and 6 by providing evidence by extent and by nature of the existence of impression management in first impressions within preliminary announcements and Highlights, respectively.

The answer to Research Question 3 revealed *links between a company's characteristics and its use of 'good news', 'bad news' and 'forward-looking words' in first impressions in the case of preliminary announcements.*

## 7.2.2 Research Methods

The main research methods employed in this thesis were:

- Content analysis using an unweighted scoring method
- Bivariate correlation analysis
- Univariate and Bivariate analyses to test hypotheses

Three disclosure variables were tested for association with explanatory variables:

1. Good-news words or phrases
2. Bad-news words or phrases
3. Forward-looking words or phrases

The explanatory variables tested for association with disclosure in the preliminary announcement were one categorical and two continuous variables:

1. corporate size (using FTSE categories as a proxy)
2. profitability in the current accounting period
3. change in profitability from the previous accounting period

## **7.3 Research Results and Conclusions**

### **7.3.1 Associations between FTSE listing and Prelim disclosure**

From prior research showing strong association between disclosure levels and corporate size, it is not perhaps surprising that larger companies disclosed more of each type of keyword. When keywords were transformed into proportions, the picture changed. Although this 'transformation' removed the size effect, FTSE100 companies still announced more good news proportionately than either of the other groups. This type of impression management is classified as 'affirming' and may also be seen in improving companies (see Chapter 7.3.3). One possible explanation is that because these companies are in the top FTSE category, others parties are more interested in their results. Investment analysts, independent and those working for institutional investors, look for confirmation of press release details. If this is not done positively, rumours may start which, if not quelled, could cause the share price to fall. Alongside the company, rivals may be bidding for contracts therefore there needs to be a type of signal sent out convincingly that all is well.

The findings showed evidence of a type of impression management which may be described as 'dissociative'. This evidence is seen in the low level of bad news keywords from larger companies. Once more, the investor may not be the only party in the minds of directors. There are many parties' needs to address and the wrong interpretation put on the announcement of a piece of bad news may eventually cause fluctuations in share prices.

There was also impression management in smaller companies with higher levels of forward-looking keywords which may be described as a type of obfuscation or as a different form of 'dissociative' impression management.



### 7.3.2 Associations between Profitability and Prelim disclosure

The low level of bad news that was found for FTSE100 companies was also found in profitable companies across all categories. Because the communication between companies and investors is relatively infrequent, the impression given in company announcements may be all that the investors, especially if they are private investors, will carry in their minds until the next quarterly announcement or press release. Although it may not reflect reality, it is understandable if a profitable company chooses not to leave any false impressions which may be a reason for this type of impression management.

Loss-making companies announced a higher proportion of forward-looking keywords than profitable companies. It may be that profitable companies had good news to announce and did not wish investors to concern themselves with the future but it was more likely that loss-makers used forward-looking keywords in terms of 'procrastination'. That is, an easy way to take shareholders' minds from a set of poor results was to distract them by mentioning what *might* happen in the future. While it could have been done by using platitudes, it was also done by referring to contracts already entered into or projects that were already the subject of a successful bid. Phrases were encountered such as 'has just won a long-term contract with...' There may have been contracts entered into, promises made or, in some cases, simply wishful thinking but, whether valid or not, it was still seen as a needful distraction from the existing loss.

In Highlights, unprofitable companies announced significantly less quantitative data than profitable companies but only marginally less non-quantitative data. Unprofitable companies appeared to be able to provide information without focussing on figures. This was a method of verbal distraction in that narrative without accompanying figures was likely to be uninformative.

### **7.3.3 Associations between Change in Profitability and Prelim disclosure**

Improving companies employed a significant number of Good news keywords but significantly less Bad news. This type of impression management typifies an overstatement of success (i.e. 'acclaiming') associated with an understatement of 'failure' (i.e. 'dissociative') and when occurring together might be dubbed a 'protectionist' type of impression management.

At a higher level of significance than the analysis in 7.3.2, declining companies announced less quantitative data than improving companies but only marginally less non-quantitative data. A Comment from one declining company such as *'with our financial strength and resilient businesses we are well positioned to take advantage of opportunities arising from the current downturn'* indicated the type of non-quantitative data that left a 'good' impression without providing any extra hard information.

In Highlights, there appeared to be a reluctance by loss-making companies to quantify changes from previous accounting periods. This also applied to declining companies.

## **7.4 Theories, Prior Expectations and Research Findings**

### **7.4.1 Theories**

Chapter 2 sets out the concept of 'first impressions' (Rabin and Schrag, 1999). The fact that the prelim is the first point of contact with investors (excluding analysts) means that it is likely to be an ideal medium used in forming 'first impressions' in their minds. The strongest evidence relating to this suggestion is seen in the fact that the Highlights contained a greater concentration of keywords (see Appendices 6.1, 6.2, 6.3) than the remaining 90% of the prelim.

Although the ‘procrastination’ effect (e.g. O’Donoghue and Rabin, 2001) sounds as though it may lie in the hands of the investor, it may be used by the company to influence both the current and prospective behaviour of the investor. From the evidence, this effect mainly arose in those companies that were declining. Many of the keywords used were forward-looking but non-specific. It was often difficult to determine whether the keywords were presented to instigate change associated with procrastination or were there merely to placate investors.

Closely related to Prospect Theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992; Camerer, 2000) is an effect which has been found to exist in investors in the US which is ‘myopic loss aversion’ (e.g. Benartzi and Thaler, 1995, Rabin and Thaler, 2001). The aversion to loss in the short-term is evident from the reactions to what is perceived to be bad news by investors. Impression management is used in an attempt to allay the predicted short term fears of investors that may arise from the announcement of bad news. Examples which were found in both prelims and Highlights related to promises that growth in company metrics would take place in the near future.

The Focusing effect (Schkade and Kahneman, 1998) occurred where facts or opinions were presented in the headings of the prelims, i.e. well in advance of any potential decisions that were to be made by investors. 76 prelims out of the full sample of 300 were found to contain these. An example that illustrated the effect was a statement such as ‘**Another year of strong and improved operating performance**’ which was true of the *parent company* but the prelim was for the Group and the bottom line *group* results had fallen from a net profit of £670m in the previous year to a net *loss* of £490m in the current year. [FTSE100 company].

In addition to the Focusing effect, the unusual position or nature of the announcement could have produced the Von Restorff effect in the headlines that were included as part of the prelims. 76 companies in the sample made statements that drew attention to certain facts or opinions.

Although the information would be reinforced later in the prelim, it grabbed the reader's attention not only because of its placement at the beginning of the announcement but also the nature of the information contained in the headline.

There were also two different uses of 'dissociative' impression management. The first use was observed in the avoidance of bad news keywords. It was used in this way by more highly capitalised, more profitable and improving companies as, apparently, they did not wish to communicate the 'wrong message' to their readers. This type of dissociation would permit a Halo effect, if it had been formed, to continue. It may also have prevented the reverse Halo effect from taking place in the minds of investors. The second use was observed in the inclusion of forward-looking keywords in the announcements of less highly capitalised, loss making and declining companies. This use of 'procrastination' was introduced to divert attention from the current, usually poor, position to prospects of better times ahead.

#### **7.4.2 Prior Expectations**

Unprofitable and declining companies were expected to refer to future prospects as a substitute for good news. This happened in certain cases but it was not as widespread as first imagined.

It was also expected that unprofitable and declining companies would use non-trading good news to soften the blow of poor financial results (see Aerts, 2005). This may be seen from a close reading of two Highlights sections (Illustrative examples 2 and 6 from Chapter 6). In one of these examples, recycling or protecting the environment was used as a source of the good news.

There was an expectation that the Highlights section of the prelim would be the best place for a company to start using impression management. This was confirmed in two ways. The first was the use of 'advertisement' type statements before the Highlight was presented. Some

statements were obviously meant to be a pre-prelim (e.g. A RESILIENT PERFORMANCE} but others took a chance by mentioning bad news keywords (e.g. A RESILIENT PERFORMANCE IN TOUGH TRADING ENVIRONMENT). That fact that some of them were capitalised may not be lost on the current e-mail generation. This is an example of 'first impression' management (see Rabin and Schrag, 1999 and Chapter 7.4.1).

Much of the analysis in Chapters 5 and 6 was exploratory as it was based on proportions for which there was little existing research from which to derive hypotheses. The hypotheses used were 'borrowed' from the keyword section, for which there was prior research that allowed the hypotheses to be framed. It turned out that the results from proportions differed from keywords and that it proved to be good judgement not to assume that both sets of data would behave in a similar way. In fact, results confirm that proportions were a more accurate way of identifying the existence of impression management in both the full prelim and Highlights.

An exploratory expectation concerning individual segments of improving and declining categories was vindicated. It was expected that they would provide a more accurate identification of impression management sources and this turned out to be the case.

### **7.4.3 Research Findings**

Whether it was the Highlights section or the prelim as a whole, there was evidence of profitable companies managing impressions through the announcement of good news keywords. If the company was more highly capitalised (e.g. FTSE100), a type of 'acclaiming' took place which may have been a form of *signalling* to analysts, or competitors or both.

There is evidence that impression management was taking place *within* the Highlights section of the prelim. An indication was that the Highlights section had generally a higher proportion of good and bad news keywords compared to the rest of the prelim. One reason may have been that

there was no guidance given from any 'good practice' statement that covered the Highlights. Another indication was the use of specific keywords which were at a much higher level than in the rest of the prelim (e.g. *optimistic, strong*). Often they were used in a context which conveyed no additional information to the user. There was also the use of 'families' of words which occurred at a higher rate in the Highlights than in the rest of the prelim (e.g. 'achieve' with four variants; 'increase' with three variants). These are grouped in Appendices 6.1 to 6.3.

The tendency that some companies had to insert comments either in the heading of the prelim or placed just before the Highlights (see Examples in Chapter 6.5) was an obvious example of the Von Restorff effect (narrative out of its usual context) and the Focusing effect (Schkade and Kahneman, 1998, see Chapter 7.4.1). This usually occurs where facts or opinions are presented well in advance of any decision that is to be made. Although this occurred in only 25% of the sample, there appeared to be different reasons behind the attempts at impression management. Almost half of the companies were FTSE100 with greater profits, arguably trying to impress analysts and competitors. Loss makers tended to focus on non-trading information (e.g. acquisitions).

## **7.5 Implications of Research Findings**

### **7.5.1 Research Implications**

A major advantage of this study is that it analysed the first impressions provided by a company of its annual results and interpreted them in terms of behavioural theory including impression management. It is a moot point whether investors have ever adjusted their decision making based on the impression management, but this thesis adopted a company perspective and approached the issue of impression management *ex post*. It is no overstatement to say that the decision making processes of the average investor are unlikely to be known by company officials. Therefore, if impression management is applied, it must be done in a general way and

that is where the strength of behavioural theory lies. If it can be demonstrated that people in general, and investors in particular, tend to behave in a certain way when presented with certain stimuli, and the results are available in the public domain, company officials are likely to be aware of those tendencies.

To apply both types of content analysis used in this thesis to annual accounts would be prohibitive in terms of time. The keyword and keyword proportions would take little time to analyse by computer program but the content analysis system used by Beattie et al. (2004) demands a level of interpretation for the purposes of coding. Also, to be done 'properly', the process would demand at least an equivalent amount of time for a double-checker. The time constraint is one of the reasons why only the Highlight section was coded using Beattie et al. (2004).

The results obtained from the full prelim were not as rich as those obtained from the Highlights. Apart from the low incidence of forward-looking keywords, the Highlights proved quite fertile for bad news and good news words. Should researchers decide to examine the possible effect of impression management in prelims on the 'average' shareholder, keywords and keyword proportions are ideal. In effect, the prelim is a cut down version of the annual report and so sample size can be greater and keywords are an ideal medium for content analysis using a computer.

Although adding more onto the timescale, improving and declining company results should be divided into their constituent parts (e.g. Greater profit (Improving) v Smaller profit (Declining)). Not only would this reveal the components which comprise overall movements but would allow a more accurate interrogation of the figures when deciding on the existence, or otherwise, of impression management.

### **7.5.2 Policy Implications**

Despite the arrival of the Transparency Directive which allows prelims to be optional, because of the Market Abuse Act, it is likely that

prelims will continue to be an important part of UK plc announcements. That being the case, as the Internet has become a part of everyday life worldwide, there should be a revision of the Best Practice document which was first published by the ASB in 1998, at the very least, from an information technology perspective. Throughout the period covering the Company Law Review and the eventual production of the Companies Act (2006), the ASB did not take the opportunity to offer any revision of the Best practice for prelims. And, since the amendment to the Listing Rules which allows the prelim to be voluntary (FSA, 2008b) the ASB are solely responsible for establishing the best practice for the content of the prelim. If there is a change in the legislation which gives the prelim a statutory basis, there does not exist an up-to-date prescription from the ASB. Perhaps it is well past the time for them to bring up to date their suggested pattern for prelim reporting.

As the Best Practice for UK prelims (ASB, 1998) waits to be revised, the method used to file accounts is beginning to change on a global basis. According to Dzikowski (2008), on 30 May 2008, the SEC introduced a proposal that, if adopted, would mean companies listed in the US would need to file annual accounts in XBRL format (Extensible **B**usiness **R**eporting **L**anguage). According to Donald Drysdale (ICAS, 2009), the UK Treasury expect all tax returns to be filed by April 2011 using the same coding system. It is therefore likely that XBRL will eventually become the mandatory filing medium for the annual accounts of UK public limited companies. With XBRL there is more focus on the coding and meaning of words. The likelihood is that more attention will be paid to the occurrence of words, their placement within a document and the meaning of the words that surround them. This would allow a more closely observed control of the use of narrative, not only within the annual report but also the prelim. It would also mean that some of the present indeterminate usage of language would be tidied up.

For example, this current thesis has shown that there is widespread use of non-specific language such as 'strong' especially in the Highlights



section. The language gives the impression of something beneficial but often there is no accompanying information. In their revision of Best Practice, the ASB should consider that such words or comments only be permitted if accompanied by specific information to which the words are related.

Another example may be found where declining and loss-making companies announce financial amounts without accompanying indicators of the extent of change (i.e. percentages). The ASB should consider that where a company is not in its first year of quotation, allowing such figures only to be permitted in a prelim if accompanied by relevant percentages which provide a continuum from the previous accounting period.

The tendency (mentioned in 7.4) of placing statements, for various reasons, at the beginning of the prelim is the kind of detailed subject matter that could be investigated by the ASB. Although this only took place in 76 of the 300 companies selected, it appears to be an attempt to set an agenda in the minds of the reader prior to either the Highlights or the full prelim.

## **7.6 Contribution to Knowledge**

This study contributes to knowledge in the following ways.

Included in this thesis is reconceptualisation of Goffman (1959), especially Impression Management (IM), in terms of voluntary accounting disclosure.

It extends voluntary disclosure studies involving keywords from utilising annual reports (e.g. Hussainey et al, 2003; Clatworthy and Jones, 2003, 2006; Beattie et al, 2004) to using preliminary announcements.

This study provides an understanding of the relative applicability of behavioural economic theories to announcements coming from a mature capital market (see Chapter 7.4.1). Chapters 5 and 6 present evidence of the structured presentation of both the full narrative content of the prelim and Highlights which contribute to further understanding the operation of

behavioural theories within investment decision-making and allow an evaluation of theoretical expectations.

It contributes to an analysis of narrative accounting disclosure in relation to preliminary announcements (prelims) of UK public limited companies. The hypothetical expectations (see Chapter 7.4) were based on prior research involving annual reports. At the time of carrying out the analysis, it was uncertain whether prelims would reveal similar patterns to the full annual report. It was discovered that, in general, the voluntary narrative perspective provided by the prelim does not differ significantly from that of the annual report. However, because of this finding, the prelim could be used instead of the annual report as a more compact substitute when undertaking narrative analysis. This conclusion does not mean that there are no further contributions. When that part of the prelim known as Highlights is examined, there is a greater concentration of keywords than in the remaining part of the prelim. The results of this examination reveal outcomes that are hard to detect in a larger document. For example, the reluctance of some companies, i.e. more highly capitalised or improving in performance, to use bad news keywords.

As there have been mixed results from prior profitability studies (see Chapter 4), empirical quantitative results allow a critical evaluation and more comprehensive understanding of the relation between profitability and voluntary disclosure in preliminary announcements delivered by companies from two of the FTSE listing categories. This is especially true when the profitability analysis is extended to cover individual segments of comparisons made using a larger group, e.g. *Greater profit v Smaller profit* which is part of the encompassing *improving v declining* companies. These 'individual components' often isolated the areas in which impression management was located which, in turn, allowed further investigation to specifically identify the likely reason for significant differences between the sub-sections.

The current study not only makes a contribution towards an analysis of disclosure policy for companies within each of the main FTSE categories but also those companies that are smaller in size than FTSE250 which tend not to be examined separately but, if they are included, are usually part of a section that may only be included for the purposes of completeness.

For the first time in accounting research, distinctive terms of IM known as 'acclaiming' and 'dissociative' (Schleicher, 1980) were used to identify separate types of reporting occurrences.

The identification of a narrative form IM within prelims may also allow the perceptions of individual investors to be changed. If they choose to leave the use of Annual Reports (as an aid in decision-making) to take advantage of the availability of prelims, they will be forewarned of the possibility of bias.

Also shown is the fact that little has been published from a policy perspective on the content and presentation of UK preliminary announcements since 1998; despite IFRS being mandatory in 2005 and the transparency directive becoming part of UK legislation in 2007.

## 7.7 Limitations

The main limitations of the empirical study are stated as follows:

- The sample is stratified and is only random within each stratum. Because the largest companies form the complete first stratum, the sample is skewed towards the largest companies.
- A simple scoring process is always associated with a measure of subjectivity. Although certain criteria and procedures are developed to decrease subjectivity, while desirable, total elimination is unlikely.
- There is an underlying assumption that more disclosure invariably makes the end-users better off.
- Prelims examined in this study are not the only medium in which companies disclose information. Moreover, the examination of the disclosure practices takes place at what is, arguably, a new era for company announcements and so results may be time-specific.
- The intrinsic values of voluntary disclosure, such as veracity and materiality, are unexamined because that is not logically feasible with forward-looking statements nor is it achievable with other information except in retrospect. This may form part of a future study.
- Despite the use of NVivo to analyse prelim narrative, manual analysis was required
  - to isolate those words which ostensibly related to the future but were used in a context that related to the past.
  - interpret the announcements in terms of the Jenkins-like analysis methods employed by Beattie et al. (2004).
- There were no user interviews due to the time period between starting the research and arriving at conclusions which may have served as questionnaire material.

The use of wordcounts, while ideal for saving time via computer analysis, does not provide as complete a context as would be obtained from using whole sentences.

## **7.8                    Suggestions for Further Research**

Further investigation should be carried out to determine the specific role that Highlights play in prelim announcements and a discussion of the exact nature of Highlights.

There should also be work done in an attempt to establish a relationship between the content of the prelim and movements in share prices just before and just after the prelim announcement.

When evidence has been updated, interviews with both preparers and users should be undertaken.

Text-based discourse analysis should be undertaken in conjunction with the updated evidence and the interviews.

Because there is a 'safe harbor' clause in US legislation which has been incorporated into UK prelims of dual-listed companies, investigation should take place to establish whether or not there is a link between the operation of this clause and publication of forward-looking data in dual-listed company prelims where the dual listing is between the UK and the US.

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