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Visual Representations Strategies in Chairperson's Statement in Malaysia: An Analysis of Impression Management

Hazianti Abdul Halim

(Department of Accounting and Finance, Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, Malaysia)

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ABSTRACT

Accounting narratives are an increasingly important medium of financial communication. They play a crucial role in the corporate annual report, allowing company management to present annual performance to users in a readily accessible manner. Research suggests that such narratives are widely used and considered important in the investment decisions of private and institutional investors. However, accounting narratives are unaudited and thus may be subject to impression management. The literature has shown that narratives tend to be biased towards positive news, regardless of whether the underlying performance is positive or poor. Therefore, this paper contributes to the body of knowledge concerning incremental information provision and impression management by examining the behaviour of individual chairpersons communicating in different corporate context in Malaysia. Since narrative disclosures are generally unregulated, this raises a number of questions: Is it possible to regulate impression management? Do regulators pay enough attention to the more subtle aspects of financial reporting such as impression management? So many questions remain unanswered that it represents a fertile opportunity for researchers looking for an under-researched field with rich potential.

KEYWORDS – *Accounting Narratives, Chairperson's Statement, Impression Management*

1. Introduction

Guthrie and Petty (2000) argue that annual reports are regarded as highly useful sources of information because managers of companies commonly signal what is important through this reporting mechanism. Ideally, the annual report is a vital instrument designed to tell the story of a company, its objectives, where the company succeeded or failed, and what the company intends to do in the future (Simpson, 1997). The annual report, as Toms (2002) argues, is the obvious place for signalling disclosures (p.262). Annual reports of listed companies, which have often become a source of raw data for voluntary disclosure studies, have also served as an instrument for observing managerial disclosure behaviour (Abhayawansa & Guthrie, 2012; Guthrie & Abeysekera, 2006).

Voluntary information featured in annual reports includes strategic, non-financial or financial information. Strategic information refers to information on corporate strategies,

acquisitions, research and development and future prospects. Non-financial information includes both qualitative information and quantitative non-financial information. Financial information includes customer base and market share information, financial reviews and also stock price information. Some firms even prepare additional sections in their annual reports to devote special attention to their stakeholders such as employees, customers and shareholders and recently, most firms prepared stand-alone sustainability report to show their commitment towards environment, social and governance.

Voluntary disclosure decisions reflect managerial choice, often being communicated for specific strategic purposes (Lev, 1992; Williams, 2008). Voluntary disclosure can be associated with various positive impacts on firms such as an improvement in the stock liquidity (Diamond & Verrecchia, 1991; Leuz & Verrecchia, 2000; Welker, 1995), reductions in the cost of capital (Botosan, 1997; Richardson & Welker, 2001; Sengupta, 1998) and an increase in financial analyst following (Lang & Lundholm, 1993).

Because corporate voluntary disclosure is a discretionary action it is up to managers to decide whether to disclose or withhold certain information. Besides being influenced by the positive impacts mentioned above, there are also associated costs, both direct and indirect costs. In this regard, firms have to incur direct costs such as production, distribution and perhaps auditing (Verrecchia, 1983) which, when aggregated, could result in a greater cost burden that outweighs benefits, in both preparation and audit costs. Indirect costs are also frequently cited as other costs that limit what a company discloses (Lanfranconi & Robertson, 1999). These costs are the results of individuals outside an organisation receiving and using the data to their advantage. According to Schuster and O'Connell (2006), an increase in disclosure will most likely reduce a company's competitive advantage simply because additional information is revealed to investors. Verrechia (1983) further argues that managers will only disclose competitive information when the expected increase in a firm's value exceeds the cost of disclosure. Therefore, a disclosure decision is a trade-off between directs costs, proprietary costs and the expected benefits of informing investors (Darrough & Stoughton, 1990; Gray, Meek, & Roberts, 1995).

Firms generally utilise narrative or unaudited sections such as the Chairman's statement, CEO Review and other additional sections such as sections devoted to employees, customers and stakeholders to disclose voluntary information. Specific corporate narratives such as the chairpersons' statement are assuming increasing prominence in both mandatory and voluntary reporting and governance in Malaysia and worldwide as a means of improving stakeholder communication. However, if such disclosures are strategically manipulated by their preparers with the goal of managing the impressions of users rather than providing incremental information, the usefulness of the disclosure is potentially compromised.

Thus, it is important that regulators are aware of the motives and strategies that appear to underpin discretionary corporate disclosures. Governance guidelines advocating expanded narrative disclosure carry the implicit assumption that such disclosures will not be opportunistic. However, research into annual report narratives tends to assume that opportunistic behaviour prevails, and some of the research evidence is consistent with this assumption.

2. Narrative reporting and chairperson's statement

Narrative reporting is defined as critical contextual and non-financial information that is reported alongside financial information so as to provide a broader and more meaningful understanding of a company's business, its market strategy, performance and future prospects, including quantified metrics. Once prepared to corroborate financial statements, narrative disclosures are now viewed as by many influential organisations and groups as worthy of sharing the leading role in business reporting. Research also suggest that narrative disclosures are widely used and considered important in the investment decisions (Lurie & Manson, 2007).

Narrative reporting of additional information might help investors to assess the timing and uncertainty of their investment so that they can value firms and make other investment decisions such as choosing a portfolio of securities (Meek et al., 1995). Therefore, to satisfy the need of investors, firms normally disclosed additional information to enable them to raise capital at the best available terms (Frankel, McNichols, & Wilson, 1995; Gray et al., 1995). In particular, incremental information can be explained by signalling theory that focuses on the behaviour of managers in signalling favourable firms' performance to distinguish themselves from poor performing firms. Therefore, signalling is a reaction to information asymmetry in the market when companies have information that investors do not.

The situation of information asymmetry was first demonstrated by Akerlof (1970) using the used-car market. Akerlof (1970) illustrates that the used-car market has high information asymmetry because the sellers of used-cars know more about the true quality of the car than do the buyers. If the sellers of high quality used-cars do not signal the high quality of their products, all used-cars, both good cars and bad cars or 'lemons' in the market will be sold at a single price, reflecting the average level of car quality. In this regard, sellers of poor quality used-cars will make a profit while sellers of good quality cars will suffer a loss because the market does not know that their products are of better quality. Healy and Palepu (2001) provide an example of a firm's business ideas, which can be both good and bad ideas. In this case, lack of information will lead investors to value both good and bad ideas at the same average level which, in turn, may result in some good ideas being under-valued and some bad ideas being over-valued.

However, the situation of information asymmetry may increase the opportunity for moral hazard; for instance, an opportunistic management might have exploited the information asymmetry situation to engage in fraudulent behaviour such as accounting manipulations or earnings management for their own purposes.

Accounting narratives are an increasingly important medium of financial communication. In particular, they play a crucial role in the corporate annual report, allowing company management to present annual performance to users in a readily accessible manner. Research suggests that such narratives are widely used and considered important in the investment decisions of private and institutional investors. However, accounting narratives are unaudited and thus may be subject to impression management (Clatworthy & Jones, 2003). As narrative sections are largely unregulated and unaudited, firms may exercise their discretion in deciding what information to disclose voluntarily. As Snidal (2007) and Nielsen and Madsen (2009) argue, companies are using narrative presentations to provide a view through the 'eyes

of management' and information may include firm's targets and goals. According to Gibsons and Guthrie (1996), a wide discretion allows managers to feature important issues whereas less important issues are excluded from the disclosure in the annual reports. Indeed, it has been argued so far that information released voluntarily can be a powerful signal to indicate a favourable performance. In this regard, Schuster and O'Donnell (2006) argue that the development in voluntary reporting is to be welcomed because of the capacity of incremental information to reduce the existing information asymmetries.

3. Impression management

Reviewing prior research on discretionary disclosure, Merkl-Davies and Brennan (2007) claim that discretionary disclosures either contribute to useful decision making by overcoming information asymmetry between managers and investors; or constitute opportunistic behaviour whereby managers exploit the information asymmetry situation through biased reporting or impression management. By having more detailed information and explanation regarding the business and operations, firms provide investors with incremental information that will consequently assist the investors' economic decision making. However, Merkl-Davies and Brennan (2007) argue that such actions, especially expanded disclosure by way of narrative reporting to complement financial statements, provide managers with the opportunity to present company's performance and prospects in the best possible light because corporate narratives are largely unregulated, become longer and more sophisticated over time. It has also been argued that sometimes managers use accounting narratives in a self-serving manner, rather than reporting performance objectively (Clatworthy & Jones, 2003).

Impression management, as defined by Hooghiemstra (2000), is 'a field of study within social psychology studying how individuals present themselves to others to be perceived favourably by others' (p.60) and this phenomenon has been extensively documented in the psychology literature, human behaviour and also politics (Clatworthy & Jones, 2003). It is a concept that underpins the idea that people actively form impressions of others (Schneider, 1981). Brennan, Guillamon-Saorin & Peirce (2009) identified seven impression management strategies, which include syntactic manipulation, rhetorical manipulation, meaning-orientated studies, form-orientated studies, selection of performance numbers, emphasis and performance comparison. These are the strategies utilised by firms to form investors' perception towards the firms' performance and reputation (Stanton & Stanton, 2002; Sydserff & Weetman, 2002) in the best possible light.

There is a variety of forms of impression management in annual reports may take. Past research has linked corporation's performance to the potential use of impression management techniques with a large proportion of the literature involving analysis of the language used in disclosures based on the assumption that managers may use this language to obfuscate negative performance (Brennan et al., 2009). The literature has shown that narratives tend to be biased towards positive news, regardless of whether the underlying performance is positive or poor (Abrahamson & Amir, 1996; Cho, Michelon, & Dennis M. Patten, 2012; Clatworthy & Jones, 2003; Melloni, 2015; Rutherford, 2005). Research results are generally consistent with an impression management explanation. Besides annual reports, studies also find evidence that

impression occurs in environmentally report and sustainability reports. For example Cho et al. (2012) find that impression management exists in sustainability report because according to them firms are only depicting positive public relations than providing a meaningful accounting of social and environment impacts of the firm.

In most regulatory environment, there is a complete absence of any requirement to disclose specific information items in their chairperson's report. This lack of regulation for the chairperson's reports, Jones (2011) argues, presents an impression of a management opportunity for corporate executives to manipulate their intended audience through the amount of information disclosed (i.e. disclosing as much or as little information as they seem necessary). This argument requires research attention in light of the growing evidence in prior research suggesting that the chairpersons' statement contains the most crucial information about a corporation and can provide strong signals of corporate survival or impending failure (Davison & Skerrat, 2007; Jones, 2011; Smith & Taffler, 2000).

Past research has documented that research into narrative content particularly in developed economies are consistent with impression management. For example, in Australia, it was found that narrative disclosures may be biased in terms of the amount of positive versus negative news that is disclosed (Deegan & Rankin, 1996; Hrasky, 2012). Clatworthy and Jones (2003) examined the chairperson's statement of the top 50 and bottom 50 listed UK companies to determine whether companies with improving and declining performance report good and bad news in different ways. Their findings indicate that both groups of companies prefer to emphasise the positive aspects of their performance. In addition, both groups prefer to take credit for good news themselves, while blaming the external environment for bad news. Thus, despite reporting on markedly different financial performance, management approach it in the same self-serving way. They interpreted this as being consistent with impression management behaviour, suggesting that lack of personal references has the effect of distancing the company's management from the poor results reported. The results of their study is consistent with Barton and Mercer (2005) that firms behaved in a self-serving manners with regard to narrative disclosures by blaming bad performance on external factors.

In another study, Clatworthy and Jones (2006) also argued that impression management occurs when managers have particular incentives to present positive view of corporate performance particularly when performance is poor. This view is supported by Leventis and Weetman (2004) and Hrasky (2012) who argued that firms with declining performance have a greater propensity to reveal good news are disclosing more voluntary information in times of less favourable share performance.

Besides good and bad news featured in the chairperson's statements, studies have also been conducted in the area of the readability of the report. According to Smith and Taffler (2000), good financial performance is significantly associated with ease of readability and poor financial performance with poor readability. This study is supported by Cho et al. (2012) that poor performers choose difficult language to convey their messages to shareholders. Recently, Melloni (2015) examined the tone of the corporate reports and concluded that positive tone is associated with declining performance.

3. Visual representations strategies

Firms seek to find ways of capturing the attention of their corporate report readers. In general, annual reports contain illustrations, diagrams and graphical presentations (Marston and Shrives, 1991). Research claim that annual reports have moved from simple accounting numbers to narrative, graphical, pictorial and broader aesthetic content and there is an increasing use of discretionary visuals and text to supplement the legal requirement of a numerical financial statements (Ball, 2011; Campbell, McPhail, & Slack, 2010). In this regard, a range of impression management tools are utilised by managers such as selectivity in graph choice (Beattie & Jones, 1992; Cho et al., 2012; Courtis, 1997; Falschlunger, Eisl, Losbichler, & Andreas Michael Greil, 2015), presentation emphasis (Abdul Halim & Jaafar, 2012; Bowen, Davis, & Matsumoto, 2005; Melloni, 2015) and thematic manipulation (Lang & Lundholm, 2000; Rutherford, 2005; Smith & Taffler, 2000) to draw a reader's attention. For instance, Courtis (1997) argues that visual effects may enhance a reader's perceptions of company performance. This is because visuals such as graphs capture and retain the attention of readers (Beattie and Jones, 1992; Courtis, 1997). In addition to visual effects, companies might also use presentation emphasis to make a piece of information stands out from the rest so that it captures a reader's attention. Bowen et al. (2005) find that companies emphasised figures that portray more favourable firm performance in headlines. Their results suggest that presentation emphasis increases the likelihood that a piece of information is noticed because it is placed in the most obvious location which is the headline.

Motivated by the range of impression management tools that have been utilised in researching annual reports, the focus of this paper is on the visual representations strategies adopted in the chairperson's statement in conveying strategic, financial and non-financial information. The impression management in chairperson's statement is captured using three dimensions which are: (1) type of disclosure; (2) presentation emphasis; and (3) emphasis through repetition.

3.1 Types of disclosure

Unerman (2000) claims that pictures are sometimes a more influential tool than narrative disclosures for stakeholders who do not have the time or inclination to read every word because they sometimes just flick through the annual reports, looking only at the pictures because big pictorial spreads are eye-catching items in annual reports. Also, Davison (2008) claims that firms sometimes use pictures to add flesh to corporate identity and emphasise markets, products and other aspects of a company's life. Campbell et al. (2010) observe the use of human faces in annual reports and find that the use of faces has risen significantly over the last 15 years. From their sample, they find that more than 70 per cent of the photographs in the annual reports contain humans. Therefore, they suggest that with the proliferation of design, there has been an increase in the use of visualisation in annual reports. Further, they suggest that images are powerful in the sense that they position the audience to engage with the organisation.

In addition to pictures, graphical presentations of quantitative data have become one of the techniques used by management to disclose information. The visual nature of graphs

reduces the likelihood of information overload as readers may capture and retain the information in graphic form. Further, graphs are 'eye-catching' and are 'excellent in summarising, distilling and communicating information' (Beattie & Jones, 2008, p.72). Thus, as a communication tool, graphs, just like pictures, may capture the attention of a reader who might not pay attention to textual disclosures.

3.2 Presentation emphasis

As an impression management tool, emphasis assumes that the reader notices the information emphasised more (Brennan et al., 2009). It was argued that signalling of information can be expected to be accompanied by similar techniques. Consistent with Brennan et al. (2009, p.811) emphasis through presentation effects is defined as the emphasis provided by prominent location/positioning of information, use of special characters and/or more emphatic types of font. Prominent location includes information positioned in headlines and sub-headings. Headlines can be used to attract a reader's attention, emphasise key points and summarise a message (Jameson, 2000; Somerick, 2000). Special characters are defined as information presented in bullet points or numbered lists. Emphatic types of font present information in bold text, italics and with other special effects such as underlining (Abdul Halim & Jaafar, 2016).

3.3 Emphasis through repetition

According to Beattie et al. (2004), multiple disclosures or repetitive disclosures can be interpreted as an important communication strategy for management to signal information to investors. By stating the same piece of information more than once, firms are putting more emphasis on that particular information. Investigating the concept of repetition in annual reports, Davison (2008) argues that repetition exists to emphasise and to aid the memory of readers in building a corporate identity. Therefore, based on this evidence, it is acknowledged that firms signal certain information to investors many times. Thus, repetitive disclosure is considered to be a stronger signal compared to information that is mentioned only once.

Even though multiple disclosures can be interpreted as an important communication technique, there is little evidence on multiple disclosures in the accounting literature and most studies on intangibles disclosure are quite unclear when dealing with repetition of information. For instance, Bozzolan et al. (2003), Guthrie et al. (2006), Oliveira et al. (2006) and Sujan and Abeysekera (2007) ignore repetition of information in their analysis of annual reports. However, Kang (2007) and Steenkamp (2007) include multiple disclosures of intangibles in their analyses on the basis that companies recognise that certain information is important and choose to repeat it in the annual reports so that readers do not miss the message.

4. Concluding remarks

Impression management may be a function of regulatory responses because narrative disclosures are generally unregulated. As Clatworthy & Jones (2003) noted; this raises a number of questions: Is it possible to regulate impression management? Do regulators pay enough attention to the more subtle aspects of financial reporting such as impression management?

They also questioned whether auditors' work should extend beyond the financial statements to include narrative disclosures in annual reports. This line of inquiry around the role of auditors/regulators and impression management, could be developed. But is it realistic to expect auditors and regulators to take action on such a subtle activity? Since impression management has the potential to impair the quality of financial reporting and to result in capital misallocations, it constitutes an important area of research.
The purpose of this paper is to contribute to the body of knowledge concerning incremental information provision and impression management by examining the behaviour of individual chairpersons communicating in different corporate context. Most studies reviewed earlier are conducted in developed markets and less study is observed in emerging markets like Malaysia. The status of discretionary disclosure in emerging markets is important for two reasons. First, with increasing globalisation, the capital markets of developing countries are now available to investors all over the world, who increasingly demand more reliable and relevant information on companies' financial performance, as well as more transparent information on corporate value. Second, given the current harmonisation initiatives in developed markets, as well as in emerging economies, it is essential to understand the current reporting practices of emerging market companies and at the same time it is reasonable to observe the disclosure activity whether impression management prevails in these emerging markets. Arguably, emerging market companies are most likely to engage in discretionary disclosure practices to enhance their chance of attracting global investments. Thus, disclosure activity needs to be observed when specific impression management incentives might be expected and their nature be predictable in order to try to separate information provision effects from impression management.

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Corresponding Author
Hazianti Abdul Halim (PhD)
Senior Lecturer
Department of Accounting and Finance
Faculty of Management and Economics
Universiti Pendidikan Sultan Idris
Email: hazianti@fpe.upsi.edu.my