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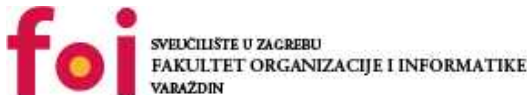
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A literature review on impression management techniques usage in financial reporting

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ABSTRACT

Impression management is a concept that has been developed in the field of social psychology and has initially been used in individual behaviour analysis. With time the concept broadened and has found its usage in the field of economics, especially in the financial reporting domain. Generally, impression management can be described as usage of certain reporting techniques with the specific aim of improving image of the company among public. This topic is rather appealing and relevant in the time period following the global financial crisis and in time of increased global competition among companies. In this paper the authors will present a literature review of existing research on the topic of impression management. Various impression management techniques used by companies in financial reporting will be explored. Special accentuation will be made on presentation of distinctions found by research studies on impression management techniques usage in companies of various samples (for example different countries, company size and company orientation). Expected contribution of the paper is twofold: firstly, the authors will present a literature review and synthesize the results of available research on the topic of impression management techniques in financial reporting and secondly, a critical review will be made on potential gaps present in available research.

KEYWORDS: impression management, companies, financial reporting

1. Introduction

Impression management is a concept that has primarily been used in social psychology and sociology in order to describe individual's behaviour aimed at making an impression on others. With time this concept expanded into other areas of research as well, including the field of economics. Up until lately impression management in economics has been used in order to research how corporations are using impression management strategies and techniques for the marketing purposes and how impression management is used in human resource management. It is only lately that the research of impression management usage in financial reporting has gained more interest among scientific public. According to Wang (2016) impression management in accounting has been used by manipulating firm information or controlling the language used in financial reports in order to present good corporate image to the public. Continuously, impression management in financial reports can be related to the narrative of the report (especially in the part of the report that is not obligatory proscribed, i.e. where corporate management has the possibility to formulate narrative in accordance with their specific aim), but also to graph usage and impression making by photographs. The usage of impression management techniques influences neutrality, objectiveness and biasness of information presented in financial reports.

Basic aim of this paper is to present a literature review on research available on the topic of impression management in financial reporting. The paper is organised in a manner that the section following the introductory notes is dedicated to general review of impression management motivation, strategies and techniques with focus on narrative and graphical techniques. Following is the section on impression management usage in special types of reports oriented on specific public. Finally, conclusions are made and references are presented.

2. Impression management motivation, strategies and techniques

Brennan (2010) argues that the topic of impression management in corporate reporting cannot be addressed by using agency theory approach because it is not adequate due to the fact that it supposes rationality of managers and investors and is based on assumption of manager's utility maximization function. The author argues that this kind of view is mathematical and not based on human behaviour that is often irrational and therefore proposes a new taxonomy for impression management usage in financial reporting which includes new insights from economy, psychology, sociology and it includes theoretical perspectives for explanation of user susceptibility to managerial disclosure and these are economic, behavioural finance and sociological perspective.

Rahman (2012) has explored key factors that influence disclosure credibility of corporate managers and found that there are four determinants to investors trust to managers' disclosure and these include situational incentive at the time of the disclosure, management's trustworthiness and competence, the degree of assurance for the message from internal and external resources and some characteristics of the disclosure including precision, venue of release and time horizon. As already mentioned in previous, introductory, section, impression management in financial reports can be conducted by using special narrative, graphs and photographs in order to influence the public opinion. In this section we will present narrative and graphs as impression management tool since they are the most researched among impression management literature.

2.1. Narrative as impression management tool

Oliveira, Azavedo and Borges (2016) have analysed chairman's statements in reports of 45 Portuguese non-financial companies in order to gain insight into used impression management strategies. The method used in this research has been content analysis and authors state that it had been performed manually based on previous research conducted by other authors (Clatworthy and Jones, 2006; Merkl-Davies et al, 2011). The authors are analysing four possible impression management techniques and these include:

1. *Rhetoric manipulation* that is estimated by number of certain words, self-references and references to others,
2. *Thematic manipulation* related to usage of positive and negative words,
3. *Readability manipulation* closely related to feature of the statement readability and
4. *Choice of earnings number* estimated by qualitative references to financial performance indicators and quantitative references to financial performance indicators.

The authors have also analysed the motivation of companies to use impression management strategies and divided possible motivation in one of three categories, namely:

1. *Organizational outcomes* measured as dummy variable in company's earnings before tax rate,
2. *Public visibility* related to company's size and listing status and
3. *Relevance of stakeholders* measured by company's dependence on debtholders and consumer proximity.

The results of this research indicate that the Portuguese companies do not use self-references nor references to others as dominant impression management techniques, but show tendency to use more positive than negative words. One of the findings indicates low level of readability of reports. Main finding of the report is that "*the IM strategies were not adopted to build a public image about organizational actions and events at variance with an overall reading of the annual report*" and "*negative organizational outcomes are not a trigger for self-presentational behaviour*".

Boudt and Thewissen (2016) have conducted analysis of positive and negative words usage with the aim of impression management on the sample of CEO letters of firms that are included in the construction of Dow Jones Industrial Average Index for time period 2000-2011. The authors have firstly conducted qualitative analysis and based on it they have used a position-weighted measure of sentiment as a predictor for future firm-performance, i.e. this is an analysis of subtler impression management form. They found the so called "*U-shape in the intratextual frequency of positive sentiment in corporate disclosure and the intratextual net sentiment is characterised by an increasing smirk. This result is consistent with impression management in CEO letters since according to the serial position effect, readers recall information better when it is presented first (primacy) or last (recency) in a vector of words, rather than in the middle.*"

Brennan, Guillamon-Saorin and Pierce (2009) are analysing content of press releases of corporations in United Kingdom related to financial results of firms based on twenty-one illustrative examples by using four different techniques:

1. Thematic, form oriented analysis which is based on keywords, statements and amounts,
2. Analysis of selectivity of quantitative information,

3. Analysis of three visual presentation techniques which are used for emphasis and these include:
 - a. location, position and visual presentation of disclosure,
 - b. emphasis by repetition,
 - c. emphasis by reinforcing disclosures.
4. Use of performance comparisons.

The results of research indicate that firms are keen to using impression management techniques and the authors have also developed a composite impression management score for the analysis of narrative reporting practices.

2.2. Graphs as impression management tool

There are several authors dedicated to research of graph usage in annual reports with the aim of impressing the public. Beattie and Jones (2008) state that companies are using graphs for presentation of financial information rather than text due to following reasons:

- Graphs allow management to present information in a flexible way because graphs, unlike accounting information, fall outside of regulatory requirements regarding financial reporting,
- Graphs are eye-catching due to their presentation characteristics (like colour or visuals),
- Graphs are excellent at summarizing, distilling and communicating financial information, especially regarding conveying certain trends or patterns or highlighting favourable corporate trends,
- Graphs are related to the use of spatial intelligence,
- Graphs are memorable,
- Graphs are egalitarian (independent of language and are international).

The body of literature related to usage of graphs in annual reports with the aim of making impression among public also includes Yahya and Casson (1999) who have researched the usage of graphics in banks and securities firms in the field related to market risk management. The focus of their research is on type of charts used, location of the graphs, graph construction and the dependence of company characteristics and graph usage. In continuance to the usage of graphs in banks' financial reports some of the newer research includes Laidroo and Tamme (2014) who have analysed graph usage in annual reports of banks in Central and Eastern Europe during the period 2006-2011 in order to determine the extent of impression management strategies that banks have used. It is very interesting that the authors have analysed reports in the time period before and during the global financial crisis. Main conclusion of this research is that the analysed banks have used impression management techniques, especially in the way that there is sudden disappearance of some graphs that were used in previous years in the year when information presented is unfavourable, but it should also be taken into account that with time the usage of graphs in banks decreased. Also it was hard to establish key financial variables that are universal for the banks in the sample, only variable being regarded as key financial variable the net profit. Laidroo and Tamme (2014) also state that unlike corporations from other sectors, banks have the tendency to use graphs to depict non-financial activity indicators or macroeconomic movements and variables.

3. Impression management in special types of financial reports

Sandberg and Holmlund (2015) have conducted a research among a sample of companies that satisfy criteria of: (1) being on the Fortune's Global 500 list and (2) belonging either to automotive or energetic industry. The basic aim of the research was to analyse how companies in the sample are using impression management tactics in sustainability reports, i.e. how these companies are presenting their business actions in terms of "sustainable business". The authors state that the design of the research has been largely inductive due to the fact that previous research on the subject of impression management concretely in sustainability reports is rather scarce. As it is pointed out, "*the main purpose of the analysis was not to compare companies' actual behaviour to what they report but to analyse how they present themselves in the reports*". The research has been conducted by using the template analysis, i.e. usage of a template that is related to a certain number of codes and identification of existing relationships among them due to the feature of template analysis that is its flexibility in comparison to content analysis. Main finding of the research is that analysed companies have used eight different impression management tactic in its sustainability reports. These tactics are:

- *Description* – giving information about certain business action,
- *Praise* – presenting business action in a way that is favourable for the company,
- *Admission* – business actions are presented in a manner that does not support the favourable impression that the company attempts to convey,

- *Defence* – presenting business actions in a manner in which instances that do not support the positive impression of the company are being justified,
- *Subjectivity* – is related to writing style in which matters are discussed only from one point of view and not by holistically arguing,
- *Positivity* – using the writing style that over emphasises aspects that are favourable for the company over the ones that are negative,
- *Vague writing style* – using unspecific information that cannot unambiguously be related to a certain event,
- *Emotionality* – using the writing style that evokes certain feelings and emotions in reader and makes the reader feel personal with the company.

Diouf and Boiral (2017) have conducted research concerning impression management techniques in financial reports oriented on stakeholders. Concretely they have conducted 33 semi-structured interviews with different types of socially responsible investment stakeholders and experts in Canada concerning the quality of sustainability reports by using the Global Reporting Initiative framework. The results of interviews indicate that stakeholders included in the research have perception that impression management strategies are being used in sustainability reporting by companies in order to highlight positive aspects and obfuscate negative outcomes and performance in the field of sustainability management.

Goundar (2009) conducted a research on sample of firms operating on New Zealand and listed on the New Zealand Stock Exchange related to topic whether the new management in corporations is using impression management in annual reports surrounding a CEO Turnover related to performance presentation. The study corresponds to time period 1997-2006. The results of the research indicate correlation, but rather weak, of impression management techniques usage for named purposes. Also the author found that there is less evidence on selectivity in graph usage as impression management technique on New Zealand when compared to other jurisdictions.

Fijalkowska, Klimczak and Pauka (2017) have conducted a similar research among Letters of Polish corporations to shareholders. The research is interesting because it is one of a few research concentrated on an emerging market that has high rates of ownership concentration. The sample includes Letter of 60 largest companies that are listed on Warsaw Stock Exchange in 2008 and 2013. The paper is also interesting because it combines qualitative and quantitative approach: firstly, a content analysis is conducted in order to identify impression management techniques and afterwards cluster analysis in order to research co-occurrence of impression management techniques and regression analysis in order to research a relationship between company characteristics and used impression management techniques. One important contribution of the paper is that it provides evidence that concentrated ownership and foreign ownership affect the usage of impression management techniques in Poland.

When having on mind the risks today's corporations are faced with, it is of great importance for corporations to communicate their risk profile and risk exposure to public in adequate, objective manner. On the other hand, it is natural to expect that corporations are not keen to displaying full range of information related to risks and therefore it is expected that corporations might use impression management techniques especially in this field. Interestingly, to authors knowledge at the moment there is no available research on this topic. Similar research related to risk reporting in corporations goes in two directions: research on risk disclosure in financial statements with regard to certain corporation characteristics (Vandemaele et al., 2009; Hassan, 2014; De Lima e Silva et al., 2015) and impact of voluntary risk disclosure on the cost of capital (Semper and Beltran, 2014). Evidently there is a gap present in research of impression management techniques in risk reporting and it would be interesting to research in which extent impression management is used in risk reports and which tactics are used.

4. Conclusion

The aim of this paper has been to present a literature review on impression management usage in financial reporting through presentation of available body of literature on the topic of available strategies and techniques that are used with specific aim of influencing the public opinion by using a set of techniques in reporting. The authors of this paper have also tried to present available research that has been devoted to usage of impression management in special types of reports (such as corporate sustainability reports and risk reports). Main findings of this literature review are that impression management in financial reporting can be used by using different types of narratives, graphic and photographic manipulation techniques. Most of the presented research is qualitative, i.e. is conducted by content analysis, but there is some mixed research in which a combination of qualitative and quantitative research is conducted and where the usage of certain impression management techniques is estimated by company's characteristics by using multiple regression models. One important finding of this paper is that up until now there has been no extensive research on the topic of impression management in risk management reports.

Having on mind the ever growing importance of risk management for contemporary corporation this topic also presents our guideline and recommendation for future research.

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