TEXTUAL DIFFERENCES IN CHAIRMAN'S STATEMENTS OF AUSTRALIAN COMPANIES

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ABSTRACT

The purpose of this study is to contribute to research on impression management in corporate annual reports in an Australian context. To contribute to this topic, a research question is investigated: do the most profitable Australian companies, assessed by percentage change in profit before tax, organise the chairman's statements of their corporate annual reports and disclose information in a way that is significantly different from those least profitable companies.

In terms of the methodology, this research has used a randomly selected group of companies from between the two extremes of profitability and lack of profitability to clarify any underlying disclosure trends in chairman's statements of corporate annual reports as corporate performance level varies.

The results of this study were indicative that impression management had occurred in Chairman's letters of Australian corporations.

Keywords: *Impression Management, Narrative Disclosure, Chairman's Statement, Australia*

INTRODUCTION

Corporate annual reports are widely recognised as an important medium of communication between organisations and stakeholders (McQueen, 2001; Bartlett & Chandler, 1997; and Healy & Palepu, 2001). Many researchers have worked in past decades to clarify the strategies adopted for preparation of those reports (for example Bettman & Weitz, 1983; Dierkes & Antal, 1986; Neu, Warsame & Pedwell, 1998; and Preston, Wright & Young, 1996). Deliberately adopted strategies, which aim to portray a positive corporate image and control the impressions formed by outsiders of a company, are described as impression management (Leary & Kowalsky, 1990).

Researchers have been keen to learn about the application of impression management in organisational settings so as to facilitate more efficient capital allocation decisions. Among many strands of research, one of the most investigated has focussed on corporate annual reports. This research is to look at any difference in textual characteristics of chairman's statements in corporate annual reports of the most and least profitable Australian companies.

IMPRESSION MANAGEMENT

Many studies have explored the application of impression management in accounting narratives. As chairman's statements are the most widely read part of a corporate annual report (Courtis, 2004; Bartlett & Chandler, 1997), they are also likely to be the most reviewed section. Perhaps the most frequently used review strategy is content analysis. As an example of research of this kind, Smith and Taffler (2000) related self-presentational narrative disclosures with future corporate solvency. They identified 33 failed companies and matched them in pairs with financially sound companies in the same period, and performed both form (objective) and meaning (subjective) oriented content analysis. The results showed that it is possible to use the chairman's statements alone to classify firms as likely to become bankrupt or financially viable in the future with a high degree of accuracy. However as Smith and Taffler (2000) restricted analysis to the time period between 1978 and 1985, it is possible the findings may have limited external validity for current times.

Another UK study, Clatworthy and Jones (2006) utilised the same sample with their 2001 and 2003 studies in a content analysis. The study focused on the textual characteristics of information disclosed in the 1997 chairman's statements of the top and bottom 50 performing UK companies. Clatworthy and Jones identified a series of variables to measure the textual characteristics of chairman's statements, including the total length of the paper, number of passive sentences and personal pronouns, number of references to key financial indicators, number of quantitative references, and the amount of future discussion. They found that unprofitable companies focus less on key financial indicators, quantitative or personal references in their discretionary disclosures, but tend to use more passive sentences and include more discussion about the future. These results partially coincide with those from their 2003 study (Clatworthy & Jones, 2003).

The readability of narratives is another area of study in impression management. Some academics working in the area have taken a macro view to focus on variations in the readability of corporate annual reports from multiple countries (for example, Courtis, 1995; Jones, 1996; and Courtis & Hassan, 2002) to explain the situation in different cultural environments. A common problem faced by research of this kind was the small sample size used, which resulted in a lack of generalisation power. Other researchers adopted a micro view where they tried to identify the determinants of obfuscation and clear communication through study of readability, usually within a particular region (Smith & Taffler, 1992; Courtis, 1998; Gist, McClain & Shastri, 2004; and Linsley & Lawrence, 2007). As Courtis purported, linking readability to other corporate elements such as performance, size, and industrial classification was important to explore further the issue of obfuscation (1998).

Investigation into the presentation of financial figures has been a popular topic for scholars in business related research from the earliest studies on impression management. Steinbart's (1989) study may be the earliest study in this area. He examined auditors' responsibility for the accurate use of graphs in corporate annual reports.

The importance of research into impression management stems from several reasons. First of all, impression management is a process that is initiated by one party (the report preparers) with an aim to influence the other party's (the report users) perceptions, and in turn, their subsequent decisions. Consequently, the study of impression management can facilitate an understanding of certain decision-making patterns of report consumers. From a preparers' standpoint, impression management research will help identify the presentation format that is the most favourable for the company, which can be addressed at the report designing phase.

Second, it is important to know whether the subsequent decisions made by the report users as a result of reviewing the documents were severely distorted or misled. Studies can help provide this information. If an effect does exist, and it is sufficiently significant that it violates the ethical practices of the company as well as the financial market, legislation may need to be developed. Accordingly, the study of impression management can also benefit stakeholders at large.

Third, as more in-depth studies of impression management are conducted, it is possible that some other reasonable disclosure strategies may be proposed or discovered. Like the development of accounting theory where the research focus has shifted from normative theories in 1960s to positive theories in 1980s, something similar may happen in the realm of behavioural accounting. It is in this ways that further development in this area can be anticipated.

THEORIES

In business research, top level managers (the report preparers) have been identified as acting opportunistically to maximise their personal benefits (Staw, McKechnie & Puffer, 1983; Abrahamson & Park, 1994). These findings are supported by Positive Accounting Theories (PAT). PAT assumes that individuals behave to advantage themselves. Every incident is driven by self-interest rather than for the good of society. Possibly the most widely applied theory among PAT is agency theory. Agency theory raises the concept of agency cost, which occurs whenever there is an agency relationship (see, for example, Fogarty et al, 2009). Such a relationship is an implication of the conflict of interests between owners and managers.

Agency theory is based on the assumption that information asymmetry exists between different interest groups. It is this gap in knowledge that results in problematic performance only likely to be realised in the future, which makes the opportunistic behaviours of managers to be unidentifiable at least in the short term. Whereas the application of agency theory concentrates on poorly performing corporations, signalling theory, which was first proposed by Smith and Taffler (1992) and further discussed by Rutherford (2003), tends to focus on managers' behaviours in positively performing companies. Managers in prosperous companies utilise impression management in such a way that they *signal* their superiority through greater transparency in their disclosure of information (Merkl-Davies & Brennan, 2007). Signalling theory has gained increasing attention in reputation management, where firms seek to signal their commitment to shareholders to create a better corporate image (Toms, 2002; Branco & Rodrigues, 2006). Signalling theory may be viewed as an extension of Agency theory, since it is also based on the notion of personal interests, and it predicts that people take advantage of information asymmetry.

As agency theory and signalling theory both work as the theoretical background for the realisation of self-interest through opportunistic behaviour, they are useful to explain managers' motivation to carry out impression management as an "every-day occurrence" (Merkl-Davies & Brennan, 2007: 125). In contrast, another focus of impression management is on the non-routine reporting context, where information not related to corporate financial performance is strategically disclosed. For instance, Deegan, Rankin and Voght (2000), Milne and Patten (2002) and O'Donovan (2002) considered pollution and environmental information. Ogden and Clarke (2005) investigated the disclosure strategies adopted by the privatised water industry in the UK. Instead of proposing agency theory, the authors of the latter four papers found that legitimacy theory underlay the strategic disclosures of this nature.

Since the disclosure (or concealment) of financial achievements and quantitative statistics of chairman's statements are the main issues considered in this study, agency theory and signalling theory were considered for the theoretical framework applicable for this study.

RESEARCH QUESTION AND METHODOLOGY

Linking to the literature that has been reviewed in the previous chapter, the following research question is posed:

> *Does the reporting strategy of Australian listed companies, as reflected in the textual characteristics of the chairman's statements in corporate annual reports for the period ended 2010, differ significantly between those most and least profitable companies?*

To answer this research question, the following general null hypothesis was generated:

> *H0. There is no systematic difference in the textual characteristics of information in the chairman's statements for the year ended 2010 of the most and least profitable Australian companies.*

This general hypothesis was tested using a variety of measures. These measures require the development of eight secondary null hypotheses.

Based on findings from Kohut and Segars (1992) and Clatworthy and Jones (2006), companies may provide narrative reports of different lengths according to their financial performance for the reporting year. Profitable companies tend to provide lengthier reports than unprofitable ones, since presumably they are more confident in discussing their past year's operations. Therefore, the length of the report constitutes a means of evaluating impression management. However, there is, to the knowledge of the author of this study at the time of writing, no research evidence on this topic undertaken with the Australian context. Therefore, a closer look at this issue is needed which leads to:

> *Ha. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will be similar in length for the year ended 2010.*

For Ha, length is the variable that needs to be measured. Two elements were collected: number of words as well as number of pages.

Narratives of companies which experience poor financial performance tend to present in a style which distracts the writer away from this message (Thomas 1997). Some follow-up studies have further recognised that such rhetorical device works as a "proxy for obfuscation" (Merkl-Davies & Brennan, 2007: 139; Pennebaker, Mehl & Niederhoffer, 2003). The use of passive voice is, therefore, probably an indication of poor performance in this regard. Whether this is true in the Australian context thus needs to be examined:

> *Hb. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will contain a similar percentage of passive sentences for the year ended 2010.*

The proportion of passive sentences in the chairman's statements was measured as a percentage of the total number of sentences through Microsoft Word.

Another issue recognised by Thomas (1997) is that there tends to be a positive relationship between company performance and use of personal references. This is not surprising since more profitable companies are motivated to organise their narratives in corporate annual reports in a way that engages readers to feel the success the corporation has attained. However less profitable companies are more likely to divert readers' attention by making less use of "we". As this finding was not confirmed in Clatworthy and Jones (2006), further investigation of whether Thomas's (1997) conclusion was limited in generalisability is warranted, considering she has only used one sample. Therefore, a third hypothesis was developed for testing:

> *Hc. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will contain a similar number of personal references for the year ended 2010.*

The personal preferences examined in Clatworthy and Jones (2006) were first person singular and first person plural. In other words, references to I, me, my, our, us and we in the chairman's statements were recorded. Same was applied in this study, and the Find function in Microsoft Word was used.

Some prior studies indicate that references to quantitative information including financial tables, trend graphs and general descriptions of market developments can be used as means for impression management as well (see, for example, Beattie & Jones, 1999; Arunachalam, Pei & Steinbart, 2002; and Clatworthy & Jones, 2006). For the current study, quantitative information was defined as performance-related numbers, either in absolute or percentage form following the assumptions of Clatworthy and Jones (2006). This includes any reference to Earnings per Share (EPS), profit, sales, and dividends.

> *Hd. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will contain a similar number of key financial indicators for the year ended 2010.*

To further explore use of quantitative information in the chairman's statements of corporate annual reports of the most and least profitable companies, another hypothesis, He, was developed. While Hd focused on whether or not companies mentioned the key financial measurement, He is concerned about the frequency of appearance of all the performance related measurements in discussion in the chairman's statements. A closer look at the frequency might be an indicator of how willing firms were to disclose their performance. The references were counted in two categories: monetary and percentage. As predicted by Skinner (1994), profitable companies are more likely to use intuitive quantitative references than unprofitable ones. It is thus reasonable to make such a prediction here:

> *He. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will contain a similar number of quantitative references for the year ended 2010.*

Another possible difference in discretionarily disclosed information lies in the level of emphasis companies put upon future development. This was first raised and examined by Kohut and Segars (1992). Since that time numerous other studies have investigated use of forward-looking information in chairman's statements of corporate annual reports. For instance, Aljifri and Hussainey (2007) found that the extent of future information disclosure was correlated with corporate debt ratio; thus the following hypothesis:

> *Hf. The chairman's statements in corporate annual reports of the most and least profitable Australian companies will focus equally on the future for the year ended 2010.*

The ASX 500 index as at 30th June 2011 was used as a data source for the current study rather than an alternative. The ASX 500 index contains information on the leading 500 listed companies and is available publicly. Therefore those 500 companies were viewed as the population for this study from where sample could be drawn. Profit before tax figures were used to differentiate profitable and unprofitable companies. Eighty-two companies were excluded from this list for comparison purposes. After identifying the best performing 50 companies and worst performing 50 companies, corporate annual reports were sourced from the Aspect Huntley Annual Reports Online Database

(2011).

Other than the top 50 and bottom 50 companies identified using the above approach, in order to extend the previous studies, an additional group of 50 companies was selected using the Random Function in Excel from the rest of the population to comprise a new sub-group (a middle-range group). The three groups were all to be used in the analysis phase to find any significant differences. Use of a middle-range sample aimed to strengthen the validity of the study by testing whether any trends found were continuous. Further, regardless of whether a relationship is found or not, this extensive study will contribute to the existing body of knowledge.

RESULTS AND DISCUSSION

Table 1 presents descriptive financial statistics on the three sample groups. As expected, financial performance, in the form of percentage increase in profit after tax, differed significantly across the three groups for the fiscal year 2010. Therefore, the three sets of companies report on markedly different performance backgrounds. It is also noticeable that companies with performance at each end of the spectrum had a smaller scale of market capitalisation on average ($1413m and $681m), whereas the middle range group had a significantly higher average market capitalisation ($2453m).

Table 1

Descriptive Statistics for the Three Groups of Companies Sampled

Company	No.	Avg.	Min.	Max.	($m) Market
Most	50	728.59%*	86.65%	12256.60%	1413
Random	50	3.35%*	-67.46%	80.07%	2453
Least Profit.	50	-289.78%*	-1776.54%	-86.89%	681

Length of Chairman's Statements

Table 2 presents descriptive statistics for the length of chairman's statements for the most profitable, least profitable and randomly selected companies. Both the mean number of words and pages of the most profitable firms are higher than those of the least profitable firms – 910 compared with 817, and 1.8 compared with 1.58. The results of independent two-sample t-test for the variable length are summarised in Table 3.

Table 2

Descriptive Statistics for the Length of Chairman's Statements

	Most Profit.				**Least Profit.**				**Random**			
	Mi	**Ma**	**Me**	**Std.**	**Mi**	**Ma**	**Me**	**Std.**	**Mi**	**Ma**	**Me**	**Std.**
Length	34	26	910	500	33	32	817	502	25	31	980	513
Length	1	5	1.8	0.97	1	6	1.5	0.91	1	6	1.7	0.97

Table 3

Significance-Test Results for Ha: Length

	Length	**Most**	**Least**	**Random**
Most	Words		.355	.494
	Pages		.244	.918
Least	Words			.112
	Pages			.290
Random	Words			
	Pages			

It can be seen from Table 3 that no significant relationship was identifiable across the three groups relating to the length of the chairman's statements, and Ha is therefore supported.

Passiveness

Table 4 presents the descriptive statistics for the percentage of passive sentences across the three groups of companies. While the mean result for the passiveness of the most profitable companies was 11.92 per cent, the figure for the least profitable companies was 15.90 per cent, or roughly 33 per cent higher. The average percentage of passive sentences in the random groups of companies was 11.58 per cent, the lowest of all three groups. Possible reasons for the discrepancies from the anticipated outcomes, and their statistical significance will be discussed in the coming section. It is noteworthy that the overall percentage of passive sentences across the three categories was much lower than was found by Clatworthy and Jones (2006). Although the Clatworthy and Jones (2006) paper did not find any significant differences for the percentage of passive sentences in chairman's statements of the most and least profitable companies, the results of this study reveal that significance does exist as Table 5 suggests, Hb is rejected.

Table 4

Descriptive Statistics for the Percentage of Passive Sentences

	Most Profit.		**Least Profit.**		**Random**	
	Mean	**Std.dev**	**Mean**	**Std.dev**	**Mean**	**Std.dev**
Passive Sentences (%)	11.92	8.95	15.90	8.88	11.58	5.94

Table 5

Significance-Test Results for Hb: % Passiveness

Passiveness	**Most Profit.**	**Least Profit.**	**Random**
Most Profit.		**.028**	.823
Least Profit.			**.005**
Random			

Bold figures: significance identified under 0.05 level of confidence.

Personal Pronouns

Table 6 summarises the data for references to personal pronouns. Across the three categories, use of first person plurals is higher than that for first person singular constructions. Such a high plural-pronoun usage signals an attempt to engage readers and make them feel they share some responsibility in the corporate success/failure.

When the singular and plural pronouns are combined, the total personal references do not differ as much for the three groups. On average, the most profitable companies employed 20.72 personal pronouns in the chairman's statements as opposed to 19.24 for the least profitable ones. However, the random companies again have demonstrated some distributional abnormity with 17.48, the least reference to personal pronouns across the three groups.

Table 6

Descriptive Statistics for Personal References in Chairman's Statements

Personal References	**Most Profit.**		**Least Profit.**		**Random**	
	Mean	**Std.dev**	**Mean**	**Std.dev**	**Mean**	**Std.dev**
First Person Singular						
I	2.74	1.93	3.12	2.68	3.14	2.10
Me	0.02	0.141	0.08	0.27	0.04	0.2
My	0.7	1.129	0.56	1.01	0.74	1.01
Total Singular	**3.46**	**N/A**	**3.76**	**N/A**	**3.92**	**N/A**
First Person Plural						
Our	10.24	10.20	8.20	7.49	7.90	7.32
Us	0.68	1.41	0.46	0.65	0.44	0.76
We	6.34	7.22	6.82	6.61	5.22	5.21
Total Plural	**17.26**	**N/A**	**15.48**	**N/A**	**13.56**	**N/A**
Total Personal	**20.72**	**N/A**	**19.24**	**N/A**	**17.48**	**N/A**

According to Table 7, no significant relationship was identified across the three groups. This outcome is inconsistent with that of Clatworthy and Jones (2006). In that study the authors found the number of references to "our" was significantly different for the most profitable and least profitable firms, and that the most profitable companies were significantly more likely to use personal references overall. However, the 10% level of confidence used in the 2006 study might be of concern to the reliability of the test results.

Table 7

Significant-Test Results for Hc: Personal References

	Personal Ref.	Most Profit.	Least Profit.	Random
Most Profit.	I		.417	.323
	Me		.172	.562
	My		.516	.852
	Our		.257	.190
	Us		.317	.291
	We		.729	.376
	Total Singular		.609	.406
	Total Plural		.573	.230
	Total Personal Ref.		.652	.308
Least Profit.	I			.967
	Me			.405
	My			.375
	Our			.840
	Us			.888
	We			.182
	Total Singular			.788
	Total Plural			.449
	Total Personal Ref.			.520
Random	I			
	Me			
	My			
	Our			
	Us			
	We			
	Total Singular			
	Total Plural			
	Total Personal Ref.			

Key Financial References

Table 8 presents the descriptive statistics for references to key financial variables in the chairman's statements. Looking vertically, "Profit before tax" was the least disclosed variable in all categories, despite its relative importance in valuing a company's performance as recognised by Beattie and Jones (1992). However, it is interesting that profit after tax, which is directly derivable from profit before tax, was among the most disclosed variables regardless the financial performance of the company. This result is inconsistent with the findings of the UK study (Clatworthy & Jones, 2006), where profit before tax was the most widely disclosed performance indicator and reference to profit after tax is not accounted for at all. Considering the fact that some South Pacific companies prefer using profit after tax to profit before tax as revealed in Warn (2005), such a discrepancy may derive from some cultural differences between the UK and Australia/New Zealand. Dividend is another variable that corporations are more willing to disclose in the chairman's statements of annual reports. This might because the main target audiences of the statements are shareholders who are interested in their investment returns. This is also the case with Clatworthy and Jones' (2006) study.

Table 8

Descriptive Statistics for References to Key Financial Variables in Chairman's Statements

	Most Profit.						**Least Profit.**						**Random**					
Year(s)	**None**		**10 &**		**2010**		**None**		**10 &**		**2010**		**Non**		**10 &**		**2010**	
	No	%	N	%	N	%	No	%	N	%	N	%	N	%	N	%	N	%
PBT	34	*6*	1	*2*	4	*8*	47	*94*	2	*4*	2	*4*	4	*8*	3	*6*	7	*1*
Sales	32	*6*	1	*2*	7	*1*	45	*90*	4	*8*	2	*4*	3	*6*	13	*2*	7	*1*
EPS	31	*6*	1	*2*	5	*1*	45	*90*	4	*8*	2	*4*	3	*7*	5	*1*	6	*1*
Divide	17	*3*	2	*4*	1	*2*	33	*66*	1	*2*	8	*1*	2	*5*	10	*2*	1	*2*
PAT	19	*3*	2	*4*	7	*1*	35	*70*	8	*1*	8	*1*	2	*4*	18	*3*	1	*2*

Table 9

Significant-Test Results for Hd: Key Financial Variable

	Key Financial	**Most**	**Least**	**Random**
Most Profit.	Profit before Tax		**.001**	**.042**
	Sales		**.003**	.640
	EPS		**.001**	**.032**
	Dividend		**.002**	**.024**
	Profit after Tax		**.000**	.382
Least	Profit before Tax			.110
	Sales			**.001**
	EPS			.175
	Dividend			.314
	Profit after Tax			**.003**
Random	Profit before Tax			
	Sales			
	EPS			

Dividend Profit after Tax			

As shown in Table 9, Hd could be rejected with confidence. Significant differences were present across all financial indicators in the chairman's statements of the most and least profitable companies. What is more, inclusion in the current study of a new group of randomly selected companies has demonstrated some trends, which tells more of a story than Clatworthy and Jones (2006).

Quantitative References

The descriptive statistics for quantitative references in chairman's statements for the period ended 2010 are summarised in Table 10. For the most profitable companies, the average number of monetary references was 8.36 per statement, while the average number of percentage references was a much lower 3.42 per statement. However, the large standard deviations suggest that the frequencies of quantitative references varied considerably in different chairman's statements. The same statistics for the random companies were lower than those of the most profitable companies in every respect, indicating fewer references to quantitative performance-related information. Overall, the frequencies of quantitative references in this study were lower than those of Clatworthy and Jones (2006: 503). Such a systematic difference might again be attributable to nation-specific report organising strategies.

Table 10

Descriptive Statistics for Quantitative References in Chairman's Statements

	Most Profit.		**Least Profit.**		**Random**	
	Mean	**Std.dev**	**Mean**	**Std.dev**	**Mean**	**Std.dev**
Monetary References (no.)	8.36	11.82	3.50	4.23	4.64	4.08
Percentage References (no.)	3.42	4.13	1.44	3.37	2.40	2.66

Table 11

Significant-Test Results for He: Quantitative References

	Quantitative	Most	Least	Random
Most	Monetary ($)		.173	**.038**
	Percentage (%)		.117	.145
Least	Monetary ($)			**.007**
	Percentage (%)			**.010**
Random	Monetary ($)			
	Percentage (%)			

He was supported according to Table 11. However, analysis of the chairman's statements of the randomly selected companies shows that the quantity of monetary references was significantly different from both the most and least profitable companies.

Emphasis on the Future

Table 12 reveals that the most profitable companies used approximately 68 words to describe their plans for the future in their chairman's statements. This number rose to 110 words for random companies, and reached the highest level of 114 words per statement for the least profitable companies. The small standard deviation of the most profitable companies indicates that the data do not vary greatly within the group, whereas the much higher standard deviation for the other two categories (least profitable: 72.30 and random: 95.33) signal a much more scattered data distribution. Hf is rejected according to Table 13 as well.

Table 12

Descriptive Statistics for Emphasis on the future in Chairman's Statements

	Most Profit.		Least Profit.		Random	
	Mean	**Std.dev**	**Mean**	**Std.dev**	**Mean**	**Std.dev**
Future words (no.)	68.5	31.64	113.66	72.30	109.58	95.33

Table 13

Results of Tests of Significance for Hf: Emphasis on the Future

Ref. to	Most	Least	Random
Most Profit.		.000	.005
Least Profit.			.810
Random			

The test results for the current study are summarised in Table 14. The existence of the three rejected secondary hypotheses is powerful enough to show what was proposed in H0 does not always hold. In other words, there are some systematic differences in the textual characteristics of information in the chairman's statements of the most and least profitable companies in Australia. Perhaps one of the most profound results of this study is the identification of the trends that as the progress in profitability increases, companies do tend to disclose more financial indicators to emphasise positive outcomes.

Table 24

Summary of Hypotheses Testing

Hypotheses	Ha	Hb	Hc	Hd	He	Hf	Hg
Current Study	Support	**Reject**	Support	**Reject**	Support	**Reject**	**Reject**

By telling readers how positive the year has been through the disclosure of multiple performance indicators, the chairmen are signalling that better transparency in corporate information is achieved. This strategy thereby convinces the readers that there is a larger chance of getting rewarding outcomes by investing in those companies, because they get told expressly what is going on backstage and how their investments have been managed. Such a strategy of signalling all good news is a clear application of signalling theory.

It appears that the reason why those companies with suboptimal performance chose not to disclose as much performance-related information was because they believed the company (or themselves if agency theory is assumed) would be disadvantaged if they did so. Such disadvantage may take the form of a decreased number of shareholders, reduced market capitalisation, violated company reputation, or finally, diminished financial returns of management-level employees. The more unsatisfactory performance indicators were disclosed, the more the interests of the parties would be harmed. It also appears that the chairmen of those companies would rather sacrifice stakeholders' rights to know what has happened in exchange for more acceptable potential future returns. In other words, it is reasonable to assert that agency theory and signalling theory are the prime theories underlying this situation.

CONCLUSION

One purpose of this study was to determine if the textual differences in chairman's statements of the most and least profitable companies are apparent in the Australian companies for the year ended 2010. In addition, the study extended on the 2006 study by assessing whether companies change their information disclosure preferences as their performance levels vary. A further two tests were performed to strengthen the validity of the study as well. In pursuing these questions, a number of hypotheses have been developed. Six of the hypotheses were similar to those of an earlier study (Clatworthy & Jones, 2006), while the other two were developed for the current study to extend upon this work.

With three out of six hypotheses being rejected that related to the major research question; the null hypothesis that "there is no systematic difference in the textual characteristics of information in the chairman's statements of the most and least profitable companies" was rejected. Although the results failed to support *all* of the predictions underpinning the major research question, with those facets they do support (Hb, Hd, Hf and Hg), strong and consistent differences were demonstrated.

From a theoretical perspective, the significant test results have provided further evidence that information concealment or exaggeration does occur in chairman's statements of Australian companies, and that it is explainable by agency theory and signalling theory.

This study highlights the ubiquitous trend of impression management in corporate annual reports, especially in chairman's statements – the discretionary disclosure section. As there are no studies known to the researcher that specifically examined the textual characteristics of the annual reports of Australian listed companies, this study serves to encourage horizontal comparisons to other similar international studies such as Clatworthy and Jones (2006). Also, considering the timing of the related studies, this study also enables longitudinal comparisons which may provide some evidence of how trends in disclosure and application of impression management are developing in the discretionary section of corporate annual reports.

Another contribution of this study regards the introduction of a middle group for comparison purposes. Consider the study of Clatworthy and Jones (2006) and most of the studies of this kind, only samples at the two extremes of profitability were compared and analysed. Therefore, although such an analysis is more likely to lead to significant outcomes, there is no way to assess whether such a difference was a result of gradual changes which occur systematically across the companies, or just happened randomly. By introducing the randomly selected middle group, such a problem can be addressed. It is seen that at least with some variables, clear trends have been demonstrated along the profitability axis. However in some other areas (such as He), it does look as though significant differences occurred in an unexpected way.

Finally, this study has also shown that the employment of passive voice in chairman's statements is not only related to the extent of increase in corporate profit, but also to its level of corporate complexity as represented by the number of segments. Nevertheless, although a correlation was found, there was no causation established.

Concerning the limitations, unlike Clatworthy and Jones' (2006) approach where almost all UK registered companies were considered, the population of this study consisted of the ASX500 companies only. Thus the study results may not have enough representability to generalise to the wider ASX population – especially to those companies with a smaller scale. This weakness could be mitigated by, if time permits, expanding the population to account for all Australian listed companies.

Another possible restriction to generalisability is the time period for the data. In the current study (as well as the study referred a lot – Clatworthy and Jones (2006)), data were collected for only one year. However, what held in one period may not hold for another. Therefore, better generalisability could be achieved by taking a longitudinal study to expand the time period concerned.

Third, data for the selected samples were primarily sourced from the Aspect Huntley DatAnalysis and Aspect Huntley Annual Report Online Databases (2009). Full reliance has been placed upon the two databases. It was only assumed that the data collection methods, and therefore the data available in the databases were appropriate and rigorous – no investigation was carried out to test its reliability.

As partially established in the testing phase of this study (see Hb, Hd and Hf), impression management, especially for textual characteristics, did show some trends when viewed together with corporate profitability. However, there were also hypotheses for the current study where such a continuum was not apparent (Ha and Hc), while some totally unexpected patterns (He) were also noted. If the assertion that impression management in corporate reporting is used by the most profitable companies to enhance their advantages and by least profitable companies to conceal their disadvantages is true, it seems reasonable to believe the extent of concealment should correspond to corporate achievements as measured in profitability. Whether such a continuum of impression management does exist is a fundamental research question worth further investigation.

Another research opportunity lies in the relationship between variable disclosures and corporate profitability. It is merely established in Clatworthy and Jones (2006) and the present study that the most and least profitable companies do behave in a significantly different manner, in association with the disclosure of *some* variables. However, whether there is a causal relationship remains unanswered. By identifying factors that might *lead* to the disclosure of certain variables or certain disclosure strategies, a better understanding of the underlying meaning of corporate annual reports could be achieved.

To conclude, at least from this study, it was possible to infer instances where agency theory and signalling theory were in operation when Australian chairmen are writing up their statements for corporate annual reports. More conclusive links can be identified through ongoing research.

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