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Impression management – an international perspective

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Abstract

The purpose of this paper is to perform a review of the international literature regarding impression management by presenting the inherent strategies and their potential impact on the users of accounting information. The concept involves creating a favorable image regarding the financial performance of the company and using it in order to manipulate the decisions of the users of accounting information. The persuasion within corporate narratives overrules the fundamental characteristic of information, namely faithful representation. Consequently, knowing the impression management strategies facilitates their identification and lowers their efficiency and negative effects. As a result, the present study analyzes the main research papers published from 2000 to 2015 in an international background that investigates the impression management concept. Finally, future research opportunities are identified.

Keywords:*Impression management, manipulation, financial performance, users of accounting information*

JEL Classiffication: *D82, M41*

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Introduction

The objective of this study is to perform a review of the international literature regarding impression management by presenting the inherent strategies and their potential impact on the users of accounting information. This opportunistic behavior involves creating a favorable image and choosing the means of presenting it with a view to manipulate the public opinion (Leary and Kowalski, 1990 cited by Merkl-Davies and Brennan, 2007). In an economic context, the information disseminated within the communication mechanisms used by companies, is molded by the managers in order to illustrate a fictitious financial performance (Clatworthy and Jones, 2001, 2006).

The annual reports are one of the communication mechanisms used by companies. The narrative segments are intended to decrease the information asymmetry between managers and shareholders or managers and investors by presenting the financial statements in an unbiased manner (Clatworthy and Jones, 2006; Merkl-Davies and Brennan, 2007; Rutherford, 2005), and therefore facilitating the decision making process of external users (Leung, Parker and Courtis, 2015). However, we can witness the framing of the information within corporate narratives because of their discretional content that is not amended by the audit report (Brennan and Merkl-Davies, 2013; Brennan, Guillamón-Saorín and Pierce, 2009; Clatworthy and Jones, 2001, 2003, 2006). Consequently, these circumstances should determine the increased attention of the users of these reports since impression management contradicts the principles that generate the audit opinion (Clatworthy and Jones, 2003, 2006; Guillamón-Saorín and Martinez Lopez, 2013; Beattie and Jones, 2000).

In addition, “management may well seek to manage their narratives just as they manage other features of the annual report” (Clatworthy and Jones, 2001, p. 311). This view is further enhanced by Aerts and Cheng (2011) who document a strong relation between the manipulation of financial results and the use of impression management techniques in order to lower the possibility of being unveiled. The inherent effects of these strategies will negatively impact the actual and potential investors by making capital misallocations (García Osma and Guillamón-Saorín, 2011).

Following the theoretical framework developed in 2007 by Merkl-Davies and Brennan, the present paper intends to extend the period of analysis by including the results of several studies published between 2000 and 2015. Moreover, this study integrates alternative perspectives that are in direct contrast with impression management that were previously identified by Merkl-Davies and Brennan in 2011. However, the paper identifies future research directions regarding the situation of emerging economies from Central and East Europe.

In the first section of this study is presented the research methodology. The next two sections analyze the impression management concept from an economic and a social psychology perspective. In section four will be identified antithetical perspectives regarding this opportunistic behavior while in the fifth one will be illustrated its impact on the users of accounting information. Finally, the last section concludes the results of the study, providing future research directions.

1. Research methodology

Due to the fact that “decision-making is likely to be a holistic process which combines cognitive and emotional factors” (Merkl-Davies and Brennan, 2011, p. 420), the present study will be designed in order to analyze the previous research papers that have adopted an economic and a social psychology perspective on impression management. The two dimensions evaluate this opportunistic behavior in relation to actual and potential investors[1], being in fact “different ways of seeing the same phenomenon” (Merkl-Davies and Brennan, 2011, p. 418).

The studies were identified using electronic resources such as: ProQuest, Emerald, ScienceDirect, Sage Journals, JSTOR, using keywords like: “impression management” and “corporate reporting” or “annual report”. The papers were further classified according to the perspective and the strategies used in impression management using the theoretical framework developed in 2007 by Merkl-Davies and Brennan. Because an extension of the previous study was envisaged, this paper includes articles that were published from 2000 to 2015 in journals like: Accounting, Auditing and

[1] Merkl-Davies and Brennan (2011) and Brennan and Merkl-Davies (2013) also recognize a sociological and critical perspective on impression management. These perspectives explore concepts like social responsibility and control. However, this study analyzes impression management that reflects the framing of financial performance.

Accountability Journal, Accounting, Organizations and Society, The Accounting Review, The British Accounting Review, Journal of Accounting and Public Policy, European Accounting Review Accounting and Business Research. Since these publications are in the top 30 accounting journals it can be observed an increased interest allocated to the analysis of these managerial strategies.

2. Economic perspective

Impression management has a possible explanation from an economic, rational perspective of managers, determined by the maximization of their utility, namely remuneration benefits (Merkl-Davies and Brennan, 2011, Yekini, Wisniewski and Millo, 2015). The agency theory provides the basis for analysis of this opportunistic behavior (Merkl-Davies and Brennan, 2011) because it defines the relation between managers and shareholders as well as the information asymmetry between them (Jensen and Meckling, 1976 cited by Guillamón-Saorín and Martínez-López 2013; Ross, 1973 cited by Guillamón-Saorín and Martínez-López 2013). When this information asymmetry is used in a strategic manner (Brennan and Merkl-Davies, 2013) the inherent result is a reporting bias regarding the financial performance of the company (Merkl-Davies and Brennan, 2007, 2011).

In practice several impression management strategies are used simultaneously (Brennan, Guillamón-Saorín and Pierce, 2009), highlighting managers' tendency to conceal negative results and enhance the positive ones (Merkl-Davies and Brennan, 2007; Brennan, Guillamón-Saorín and Pierce, 2009; Beattie and Jones, 2000). In this respects, in 2007 Merkl-Davies and Brennan have classified the strategies used by managers in order to manipulate the content and presentation of qualitative and quantitative information:

✓ **Performance comparison**

Previous research provided evidence of managers' predisposition in making multiple comparisons (Short and Palmer, 2003; Schrand and Walther, 2000). At this level, impression management involves a strategic choice of internal or external indicators (Short and Palmer, 2003) that are further used in making comparisons with a view of highlighting progress (Schrand and Walther, 2000; Henry, 2008; Clatworthy and Jones, 2006; Guillamón-Saorín and Martínez-López, 2013).

✓ **Selectivity**

Information is selected by managers in order to accentuate the financial performance of the company (Bowen, Davis and Matsumoto, 2005). Beattie and Jones (2000) identify this tendency even in the use of graphs: „Naturally, company management is most likely to wish to include graphs that create a positive impression, but exclude those that create a negative impression" (p. 170).

✓ **Emphasis**

Information can be emphasized by a strategic placement within the report (Bowen, Davis and Matsumoto, 2005; Guillamón-Saorín and Martínez-López, 2013) and by using different formats of the text (Brennan, Daly and Harrington, 2010). Another technique implies the intensification of the information, when a qualifier is associated to a keyword in order to emphasize the latter (Brennan, Guillamón-Saorín and Pierce, 2009). In addition when repeating certain information both emphasis (Henry, 2008) and memorability (Davison, 2008) is accomplished.

Furthermore Beattie and Jones (2000) explored graph distortion that involves the exaggeration of its dimensions. In this respect, impression management contradicts "a fundamental principle of graph design" in which "the physical measurements of the graph should be in direct proportion to the numerical values that they represent" (p. 161).

✓ **Thematic manipulation**

Both the content and the tone of the disclosure mechanisms used by companies can influence the users of the accounting information (Rutherford, 2005; Henry 2008). The narratives' potential in influencing decisions implies a "cumulative series of signals in the text that, when read by the actor, gradually brings about cognitive structure change and a change in attitude" (Yekini, Wisniewski and Millo, 2015, p. 4). In this respect, previous studies have underlined the abnormal use of positive words over the negative ones (Rutherford, 2005; Clatworthy and Jones, 2003; Guillamón-Saorín and Martínez-López, 2013). Subsequently, "the more often positive tone expressions are mentioned in the text, the more likely it is that they will be influential" (Yekini, Wisniewski and Millo, 2015, p. 4).

A positive tone can consist of "focusing on positive outcomes and/or by describing outcomes in a positive way" (Henry, 2008, p 377). The tendency of using this tone irrespectively of the real outcomes of the companies is known as the Pollyanna effect (Hildebrandt and Snyder, 1981 cited by Rutherford, 2005). The effect has been associated to impression management by Rutherford (2005), who highlights that its efficiency implies "a level of positive charging that users might not be expecting and thus might not allow for appropriately" (p. 375).

3. Social psychology perspective

The social psychology perspective assumes that impression management "serves the basic psychological human need of presenting oneself in such a way as to gain favourable reactions from others" (Turner, 1991 cited by Clatworthy and Jones, 2003). In an economic context, this opportunistic behavior is determined by the "anticipation of potential negative consequences of information releases" (Merkl-Davies and Brennan, 2011, p. 423).

The context that defines the presence of this manipulation is also reflected in the information asymmetry and the conflict of interests between managers and actual or potential investors (Aerts, 2005). The social psychology perspective assumes that gaining material and social rewords or avoiding sanctions are main motivational aspects in using impression management (Frink and Ferris, 1998 cited by Brennan and Merkl-Davies, 2013).

This self-serving bias is associated with the attribution theory and entails the attribution of positive results to internal factors and of negative results to external ones (Clatworthy and Jones, 2003; Aerts, 2001, 2005; Aerts and Cheng, 2011; Merkl-Davies and Brennan, 2011). It has not been established a relation between the occurrence of these types of attributions and the financial performance of the company (Clatworthy and Jones, 2003, Aerts, 2001). In this respect, identifying framing tendencies becomes possible by considering "the actual performance of a company only influencing the amount of each type of information that must be explained" (Staw, McKechnie and Puffer, 1983, p. 595 cited by Aerts, 2001, p. 9).

The international literature identifies the following types of attributions (Aerts, 2001, p. 7):

- Assertive attributions- when the importance, relevance and scope of positive outcomes or actions is enhanced
- Defensive attributions – when the significance of negative outcomes is minimized

This theoretical framework was further extended by Aerts in 2005. The author highlights the fact that the attribution of positive outcomes, namely entitlements, is generally followed by an enhancement. In addition, defensive attributions are further classified as excuses, justifications and denial of responsibility.

4. Antithetical perspectives

4.1. Incremental information

The existence of impression management is questioned by studies that support the incremental value information (Baginski, Hassell and Hillison, 2000; Yekini, Wisniewski and Millo, 2015; García Osma and Guillamón-Saorín, 2011; Dainelli, Bini and Giunta, 2013; Yuthas, Rogers and Dillard, 2002). This theory is grounded on the privacy and relevance of the information disclosed, in the decision making process (Beyer et al., 2010 cited by Dainelli, Bini and Giunta, 2013).

It is also emphasized the investors' ability in detecting bias (Yuthas, Rogers and Dillard, 2002) that will further "lead to higher cost of capital and reduced share price performance" (Merkl-Davies and Brennan, 2011, p. 416) as well as reputation damages (Yekini, Wisniewski and Millo, 2015).

Baginski, Hassell and Hillison (2000) acknowledge the attribution of positive results to internal factors and of negative results to external ones but they conclude that these types of attributions reduce the information asymmetry. Although the authors admit the fact that these disclosures can be influenced by impression management, they "cast doubt on whether the phenomenon represents a bias or at least a sufficient bias to impair credibility" (p. 373). The justification provided by the authors is that managers' objectives are represented by the maximization of the outcomes and therefore the internal factors cannot be purposely involved in reaching negative results, this being determined by external ones. Although Yekini, Wisniewski and Millo (2015) admit the fact that "narratives may be partially used to build brands and manage impressions" the authors also stress the benefits "to the reduction of informational asymmetries" (p. 11).

4.2. Egocentric bias

Egocentric bias defines the circumstances of managers' limited rationality caused by the optimism and overvaluation of their own personal abilities (Merkl-Davies and Brennan, 2007). In this view determining whether impression management is used consciously or not becomes relevant. (Clatworthy and Jones, 2003, 2006; Aerts 2001, 2005). While the conscious use disregards the investors' interests, the unconscious one causes the impossibility to make rational decisions (Clatworthy and Jones, 2003) since "managers may be failing to engage with, and perhaps are thus less likely to address and rectify, the underlying causes of poor performance" (Clatworthy and Jones, 2006, p. 505).

4.3. Retrospective sense-making

Aerts (2005) defines retrospective sense-making as the manner in which company's outcomes are explained with a view of emphasizing the existence of managerial rationality and control over the present conditions. As Aerts and Cheng (2011) highlight "by taking responsibility for both positive and negative outcomes suggest that the firm is competent and capable to enact changes to remedy future performance" (p. 454).

This perspective is in direct contrast with prospective rationality where the communication mechanisms are used by company for providing incremental information or impression management (Merkl-Davies, Brennan and McLeay, 2011). In addition, Aerts (2005) encourages the use of these "subtle mechanisms" (p. 515) over impression management, mainly for negative outcomes in order "to construct an aura of optimism around an inherently negative financial base signal and/or to support the credibility of responsibility reducing verbal tactics".

4.4. Conclusion

The keyword that defines the boundaries of these four perspectives is represented by the managers' intention. When the company intends to make private and relevant disclosures in order to emphasize its performance in a competitive environment, the purpose of narratives can be associated to the incremental information perspective. In a similar vein, when the presentation of performance outcomes emphasizes the positive outcomes and minimize or even disregards the negative ones, we can witness the presence of impression management. On the contrary while retrospective rationality may be initially compared with impression management, because of the subtle methods used in presenting the information, the differences arise from the fact that negative outcomes are not concealed. These are rather disclosed and assumed with a view of justifying manager's rationality and control. As a final point, when the same evidences attributable to impression management are identified without being caused by the inherent intention of this opportunistic behavior, we can acknowledge an egocentric bias triggered by manager's limited rationality. His over optimism generates an unreal perspective and a lack of control over the company's outcomes that undermines the adoption of remedial actions.

5. The impact on users of accounting information

The economic and social psychology perspectives evaluate the impression management concept in relation to actual and potential investors (Brennan and Merkl-Davies, 2013). Exploring this opportunistic behavior in the companies' annual reports is driven by the high level of importance assigned by the users of accounting information in the decision making process (Breton and Taffler, 2001 cited by Davison, 2008, Clatworthy and Jones, 2003). Moreover, the use of corporate narratives by financial analysts in making predictions regarding future performance emphasize this view since they are sophisticated users "acting on behalf of large investors" (Rutherford, 2005, p. 349). While the narrative segments in the annual reports reflect the manner in which "financial statements are implanted" (Davison, 2008, p. 792) to the users of accounting information, we can assume that "both lay and expert readers are open to persuasive devices" (Davison, 2008, p. 794).

Knowing the strategies used in impression management facilitates the achievement of an advanced level in understanding and interpreting the information disclosed by companies (Rutherford, 2005). The efficiency of these strategies can determine an increase in the value of the shares (Clatworthy and Jones, 2006) and capital misallocations (Merkl-Davies and Brennan, 2007;

Brennan and Merkl-Davies, 2013, Leung, Parker and Courtis, 2015). Moreover, Smith and Taffler (2000) underlined the importance of analyzing these communication mechanisms that, although unaudited, include evidences that can suggest a risk of bankruptcy.

The limited rationality of the users of accounting information represents the context that facilitates the occurrence and efficiency of impression management (Schrand and Walther, 2000; Krische, 2005; Merkl-Davies and Brennan, 2011). This limitation denote the fact that "economic actors make decisions based on incomplete information, by exploring a limited number of alternatives, and by attaching only approximate values on outcomes" (Mumby and Putnam, 1992 cited by Merkl-Davies and Brennan, 2011).

The efficiency of these strategies may be limited to certain users of accounting information (Rutherford, 2005). The unsophisticated investors tend to use the companies' reports as a substitute for financial statements (Stanton, Stanton and Pires, 2004) because they don't have the required abilities for understanding and interpreting the accounting information (Henry, 2008). Moreover, the flexibility delivered by the internet determines the individual investors to decline the services provided by brokers (Barber and Odean, 2001 cited by Guillamón-Saorín and Martínez-López, 2013) and thus raising the probability of being manipulated (Guillamón-Saorín and Martínez-López, 2013).

On the other hand, "if investors have the ability to gather private information from other sources and to correctly evaluate public information, attempts by companies to mislead investors by focusing only on positive news cannot be successful" (Miller and Bahnson, 2002 cited by Henry, 2008, p. 382). In addition, Yekini, Wisniewski and Millo (2015) stress the fact that investors have the ability to anticipate managers' tendency to use positive language.

However, Henry (2008) draws attention to the fact that the purpose of impression management is not to present information that can be easily contested. As a result, it can be assumed that both sophisticated and unsophisticated users can be influenced by impression management because some strategies "may be so subtle as to be imperceptible" (p. 369).

In addition, previous literature documents investors' tendency to forget certain information (Schrand and Walther, 2000; Krische, 2005): "any investor can neglect relevant aspects of information, without fully realizing that their attention is imperfect" (Hirshleifer and Teoh, 2003 cited by Krische, 2005, p 265).

In this view, improving the law requirements concerning the content of the communication mechanisms used by companies can limit the presence and efficiency of impression management strategies (Maines et al., 2000 cited by Krische, 2005; Yekini, Wisniewski and Millo, 2015). It is also emphasized the auditors' role in performing a better evaluation of the information disclosed in the narrative segments. Auditors are also encouraged to perform a rigorous evaluation of the information disclosed in the corporate narratives. Finally, implementing efficient corporate governance mechanisms may play an important role in decreasing the incidence of impression management (García Osma and Guillamón-Saorín, 2011).

Conclusions

In this paper was performed a review of the extant literature concerning impression management by presenting the strategies that may negatively impact the utility of accounting information. In this respect were analyzed the main studies published between 2000 and 2015 that investigate this opportunistic behavior from an economic and social psychology perspective.

Knowing the impression management strategies facilitates the achievement of an advanced level in understanding and interpreting the information disclosed by companies (Rutherford, 2005). There is a call for increased attention of the users of these reports since biased information contradicts the principles that influence the audit opinion (Clatworthy and Jones, 2003, 2006; Guillamón-Saorín and Martínez-López, 2013; Beattie and Jones, 2000). Clatworthy and Jones (2001) draw attention to the fact that "management may well seek to manage their narratives just as they manage other features of the annual report" (p. 311). When narratives are used for persuasive purposes, the objective to decrease the information asymmetry is abandoned while this asymmetry increases (Frost, 1994 cited by Dainelli, Bini and Giunta, 2013).

Because the concept was mainly analyzed in developed economies such as the US (Henry, 2008; Yuthas, Rogers and Dillard, 2002; Baginski, Hassell and Hillison, 2000) and the UK (Brennan, Guillamón-Saorín and Pierce, 2009; Clatworthy and Jones 2003, 2006; Yekini, Wisniewski and Millo, 2015, Rutherford, 2005) there is an opportunity to extend the literature by analyzing impression management in emerging economies such as the ones in CEE. While in this background were identified poor corporate governance mechanisms (Berglöf and Pajuste, 2005, Albu and Gîrbină, 2015) the association between this unfavorable context and impression management can be further analyzed. According to García Osma and Guillamón-Saorín (2011) the efficiency of corporate governance mechanisms can lower the presence of biased information. As a result, exploring this context can generate results that can further contribute to a better understanding of the information disclosed in the communication mechanisms used by companies.

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