Theoretical Perspectives on Corporate Narrative Disclosures:
New Insights from Psychology, Sociology, and Critical Perspectives

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Abstract

Theories from traditional finance (e.g. agency theory) are not suitable for impression management research as they are based on fundamental assumptions of manager and investor rationality. For the assumption that impression management results in capital misallocations to hold true requires alternative theoretical perspectives. This paper develops theoretical perspectives on corporate narrative disclosures beyond prior research using insights from behavioural finance/economics, psychology and sociology and the critical perspectives literature.

Two analytical frameworks are presented: (i) The framework for corporate narrative reporting by managers adopts four theoretical perspectives based on economics, psychology, sociology and critical theories. Three competing explanations of corporate narrative disclosures by managers are identified: incremental information, impression management (the primary focus of the paper) and hubris. (ii) The framework for investors' susceptibility to corporate narratives adopts three theoretical perspectives based on economics, behavioural finance/economics, and sociology.

These analytical frameworks are illustrated by application to prior narrative disclosure research from a preparer and user perspective. The range of assumptions underlying prior research is made explicit. The inconsistencies in some of these assumptions are identified. Gaps in the prior literature are revealed and opportunities for future research are identified.

Keywords: Corporate narrative disclosures, Impression management, Rationality, Psychology, Sociology, Behavioural finance

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1. Introduction

Impression management is an important area of study because of its potential negative economic and social consequences in the form of (short-term) capital misallocations and erroneous decisions made by stakeholders, such as suppliers, consumers and government agencies.

Prior research focusing on impression management in a corporate reporting context is often either explicitly or implicitly based on economics-based theories, particularly agency theory (Merkl-Davies and Brennan, 2007). Both managerial and investor behaviour is regarded as the result of the conflicts of interest and information asymmetries arising from the separation of ownership and control. Managers are assumed to act rationally to maximise their utility by exploiting information asymmetries to mislead investors about financial performance and prospects. Conflicts of interest specifically arise when managers have to explain negative organisational outcomes to shareholders (Abrahamson and Park 1994). This manifests itself as reporting bias, i.e. the emphasis of positive organisational outcomes and the obfuscation of negative organisational outcomes in corporate narrative documents.

Agency theory which is rooted in neo-classical economics is concerned with the mathematical modelling of decisions and thus abstracted from "*real people, real behaviour, or real reason*" (Maital 2004: 1). This means that managerial corporate reporting decisions and investor behaviour in response to these decisions is regarded as only minimally affected by psychological factors, social relations, or social norms and rules. We argue that insights from academic disciplines concerned with "*the study of men as they live and move and think in the ordinary business of life*" (Marshall 1962; quoted in Maital 2004: 1) can provide valuable insights into the decision processes involved in, and responses to, managerial impression management.

1.1 Purpose of study

In this paper we particularly focus on research which takes a theoretical and empirical departure from traditional economic explanations of corporate narrative disclosures.

We elaborate on managerial and investor behaviour in relation to corporate narrative disclosures, particularly in terms of the types of rationality at play and the motivation for these disclosures. This entails challenging traditional assumptions of manager and investor rationality by applying alternative rationality assumptions, such as bounded rationality, irrationality, substantive rationality, and the notion of rationality as a social construct. By making some of the implicit assumptions of prior research explicit, we contribute to an enhanced understanding of narrative disclosure in a corporate reporting context which can be used in future research to make predictions and interpret results (Koonce and Mercer 2005).

1.2 Contribution

The paper makes the following four contributions to the literature. Prior research on corporate narrative reporting is either silent, or in some cases confused, about the often implicit theoretical underpinnings and assumptions underlying the research. In particular, the assumptions regarding managerial and investor rationality, the drivers of corporate narrative disclosures, and the motivations for providing and reading corporate narrative documents are not clear. First, the range of assumptions underlying this research is made explicit and is analysed by reference to preparers and users of corporate reports. Second, the inconsistencies in some of these assumptions are identified. Third, the two analytical frameworks developed in the paper are illustrated by application to prior research which is analysed by reference to its theoretical foundations and assumptions. Finally, this analysis highlights gaps in the prior literature, such that opportunities for future research are identified.

1.3 Structure of paper

Section 2 discusses the assumptions regarding rationality of managers and shareholders/stakeholders and the motivations for providing and reading corporate narrative documents underlying the three competing explanations of corporate narrative disclosures: incremental information, impression management and hubris. This paper focuses primarily on the impression management literature. The analytical framework/taxonomy of the prior narrative disclosure literature is set out in Section 3 (managerial perspective) and Section 4 (user perspective) and is illustrated by reference to prior corporate reporting narrative disclosure research. The paper concludes in Section 5 by considering opportunities for future research based on the insights generated from this analysis.

2. Theoretical assumptions of prior research

This section discusses the insights provided by cognitive and social psychology, behavioural finance and economics, sociology, and critical perspectives regarding the decision processes and motivations underlying impression management in a corporate reporting context and their effect on readers of corporate narrative documents. We argue that managerial impression management and investor/stakeholder responses to it consist of two aspects, namely (1) the nature of the decision-making processes (rationality) and (2) the motivational component explaining the underlying reasons for making the decision (motivation). We examine economic and alternative concepts of rationality and motivation used in narrative reporting, particularly impression management research.

2.1 Rationality

The majority research on impression management in a corporate reporting context assumes that managers and investors make decisions based on economic rationality. Economic rationality originates in rational choice theory and expected utility theory. Rational choice theory assumes that all choices are made intentionally and strictly opportunistically taking account of the expected consequences of each choice (Zarri, 2009 p. 4). Expected utility theory assumes that economic actors are highly rational utility maximisers who compute the likely effect of any action on their total wealth and choose accordingly. Economic rationality thus entails making choices which maximise satisfaction, given preferences.

Economic rationality is what Simon (2000: 26) refers to as '"perfect" rationality' and Mumby and Putnam (1992: 469) refer to as '*pure* rationality'. It is prospective in the sense that it involves prospectively generating options. It is instrumental in the sense that it entails "*applying appropriate reason to choose the best possible means to achieve one's ends*" (Tomer 2008: 1704). It is economic in the sense that the preferences of economic actors are material gain. Economic rationality thus involves prospectively selecting the best possible alternative for maximising utility. What is more, the preferences of economic agents are regarded as well-defined, stable and self-centred. All actions are driven by the desire to maximise objective utility functions. When making decisions, economic agents use all the information available (Zarri 2009: 1). In this context, decisions not based on the best possible means to achieve given ends are considered irrational.

However, the concept of economic rationality may not be an adequate description of the behaviour of managers and investors in relation to the provision and dissemination of information in corporate narrative documents, as it is abstracted from the real world which is characterised by "*uncertainty and imperfect knowledge; ambiguous and heterogeneous expectations, abilities, and preferences on the part of both management and all the groups which interact with the firm; competing and conflicting demands upon the firm; and dynamic and obscure relationships between strategies and outcomes*" (Hines 1989: 65).

Decision-making in the real world is thus influenced by both internal and external factors, such as memory and time constraints, beliefs about oneself and others, and social rules and norms. Psychology research shows that both managers and investors may suffer from cognitive and social biases and limitations which affect their decision making. Thus, decision-making in real-life situations is characterised by bounded, rather than pure rationality. Bounded rationality (Simon 1972, 2000) takes into account 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: 469). Thus, decision-making in the real world is not determined by "*some consistent overall goal and the properties of the external world,* [*but rather*] *by the 'inner environment' of people's minds, both their memory contents and their processes*" (Simon 2000: 25). This results in satisfactory, rather than optimal outcomes. Bounded rationality thus constitutes a modified form of 'pure' or economic rationality based on satisficing, rather than optimising (Mumby and Putnam 1992: 470). Bounded rationality explains why investors are prone to cognitive and social biases and thus are susceptible to impression management. What is more, it explains why managers may be biased in their self-assessment manifesting itself in hubris.

Both economic rationality and bounded rationality regard decision-making as a cognitive activity which excludes affective components. However, research in behavioural finance and psychology suggests that emotional factors play a significant role in decision-making. For example, decision-outcomes may be enhanced by drawing on emotional resources, such as ‘gut feeling’. By contrast, feelings such as anxiety and stress may negatively affect decision-outcomes. However, in real-life situations, decision-making is a holistic process which combines cognitive and emotional factors (see for example Daniel et al. 2002).[1]

What is more, both economic rationality and bounded rationality are types of instrumental rationality or rationality of means which involves “*applying appropriate reason to choose the best possible means to attain one’s ends*” (Tomer 2008: 1704). However, decision-making always takes place in a social context and is thus influenced by social norms and rules. This requires a shift from instrumental rationality to substantive rationality which is concerned with ideals, goals and ends which are pursued for their own sake, such as equality, justice, and freedom (Weber, 1968). In the context of corporate reporting, substantive rationality addresses mainly social and environmental issues, such as fair trade, equality in the workplace, and pollution. Substantive rationality is a rationality of ends which involves applying appropriate reason to achieve these ends.

In addition, critical researchers regard the notion of rationality as socially constructed (Hines 1989; Lodh and Gaffikin 1997). Thus, when making decisions, managers and investors give the impression of rationality in order to be seen to conforming to the rules and norms of society, to forestall the interference of external agencies in the operation of the organisation (Hines 1989).

2.2 Motivations for narrative disclosures

The concept of economic rationality which underlies traditional research on discretionary corporate disclosures assumes that both the managerial motivation to engage in impression management and the motivation of investors to act on the

[1] The dichotomy between cognitive and emotional factors can be traced back to the Cartesian model of the mind. Descartes regarded rationality and emotions to be distinct spheres. However, emotions, which are associated with the realm of the body, can influence the mind.

information provided is driven by utility maximisation, i.e. increased compensation in the form of salary and bonuses for management and future cash flows for investors.

However, economic agents may engage in rational behaviour in the sense that they choose the best possible means to achieve their ends, but the ends are not necessarily "*what economists had supposed*" (Camerer et al. 2003: 1216; quoted in Zarri 2009: 2). Research in social psychology indicates that managerial impression management may be motivated by social 'presence' of others whose behaviour management is trying to anticipate (Allport, 1954, p. 5). Managers may be prompted to engage in impression management with the expectation that shareholders and stakeholders may respond in undesired ways, for example, in the form of unfavourable analyst reports, credit ratings, or news reports (Prakash and Rappaport, 1977) or in the form of withdrawing community support from the firm. Managers use impression management to counteract such possible negative consequences by either altering the information before it is released, usually by means of introducing reporting bias, or by symbolic management. Symbolic management (Ashforth and Gibbs 1990) involves portraying organisational processes or institutional practices to create the appearance of consistency with social values and expectations. Whereas the former addresses the audience's instrumental rationality concerns, the latter is aimed at the audience's substantive rationality concerns.

In the same vein, investor behaviour may be determined by the social context and thus driven by the behaviour of others manifesting itself in peer pressure and group acceptance. Thus, investment decisions can be regarded as influenced by consensus judgements and by herd behaviour. What is more, as investors operate in a social context, their decisions may be influenced by social norms and rules. This means that they may be guided by substantive rationality in the sense that they use appropriate reason to pursue ends for their own sake, such as investing in companies addressing social and environmental concerns.

2.3 Development of taxonomy

We develop a taxonomy based on four theoretical perspectives on narrative disclosures to explain managerial behaviour, namely ① the economic, ② the psychological, ③ the sociological, and ④ the critical (see Figure 1); and based on three theoretical perspectives to explain user susceptibility to managerial disclosures, namely ① the economic, ② behavioural finance/economic, ③ the sociological (see Figure 2). The different theoretical underpinnings manifest themselves in different assumptions regarding the relationship between managers and shareholders/stakeholders, the type of rationality underlying managerial and investor behaviour, the drivers for providing corporate narrative disclosures and the motivations for providing them. We argue that the explanations underlying the theoretical perspectives on narrative disclosures introduced in this paper depend crucially on assumptions regarding managerial and investor decision-making (rationality) and the motivations underlying their behaviour. We discuss the differences in assumptions underlying these theoretical perspectives in this section.

From an economic perspective managerial impression management is driven by economic rationality. Managers exploit information asymmetries to maximise their utility in the form of increased compensation, via share options, for managers (Adelberg 1979; Rutherford 2003; Courtis, 2004a) by means of deliberately introducing bias into corporate narrative documents with the aim of misleading investors about organisational performance. By contrast, investors are assumed to be susceptible to impression management which results in (short term) capital misallocations. This is based on the implicit assumption that investor behaviour is characterised by bounded rationality, a concept which originates in behavioural finance/economics and was originally borrowed from cognitive psychology. Bounded rationality manifests itself in a variety of cognitive and social biases which render investors unable to 'undo' (Healy and Wahlen 1999: 369) earnings management, and by extension impression management.[2]

Psychological explanations of corporate narrative disclosures are based on attribution theory. Managerial disclosure behaviour is regarded as motivated by either by social psychological or by cognitive-psychological factors. The first interprets corporate narrative disclosures as impression management arising from the anticipation of

[2] If investors are assumed to make decisions based on economic rationality, they are able to 'undo' reporting bias. In fact, managers have economic incentives to engage in unbiased reporting as it enhances their reputation and compensation (Baginski *et al.* 2000). In this scenario, discretionary narrative disclosures are assumed to constitute incremental information, motivated by the desire to overcome information asymmetries, thus aiding, rather than hindering investor decision-making (Merkl-Davies and Brennan 2007).

potential negative consequences of information releases. This drives managers to alter the information content of disclosures by self-serving performance attributions (i.e. attributing positive organisational outcomes to internal factors and negative organisational outcomes to external circumstances). The second regards corporate narrative disclosures as hubris arising from the cognitive dissonance between their self-image and the evidence of performance and reflecting genuine, but biased self-assessment.[3] Thus, the resulting self-serving bias is the result of managerial overconfidence or optimism, rather than a deliberate attempt on the part of management to present organisational performance in the best possible light (Frink and Ferris, 1998). Both explanations are based on the implicit assumption that readers are susceptible to impression management.

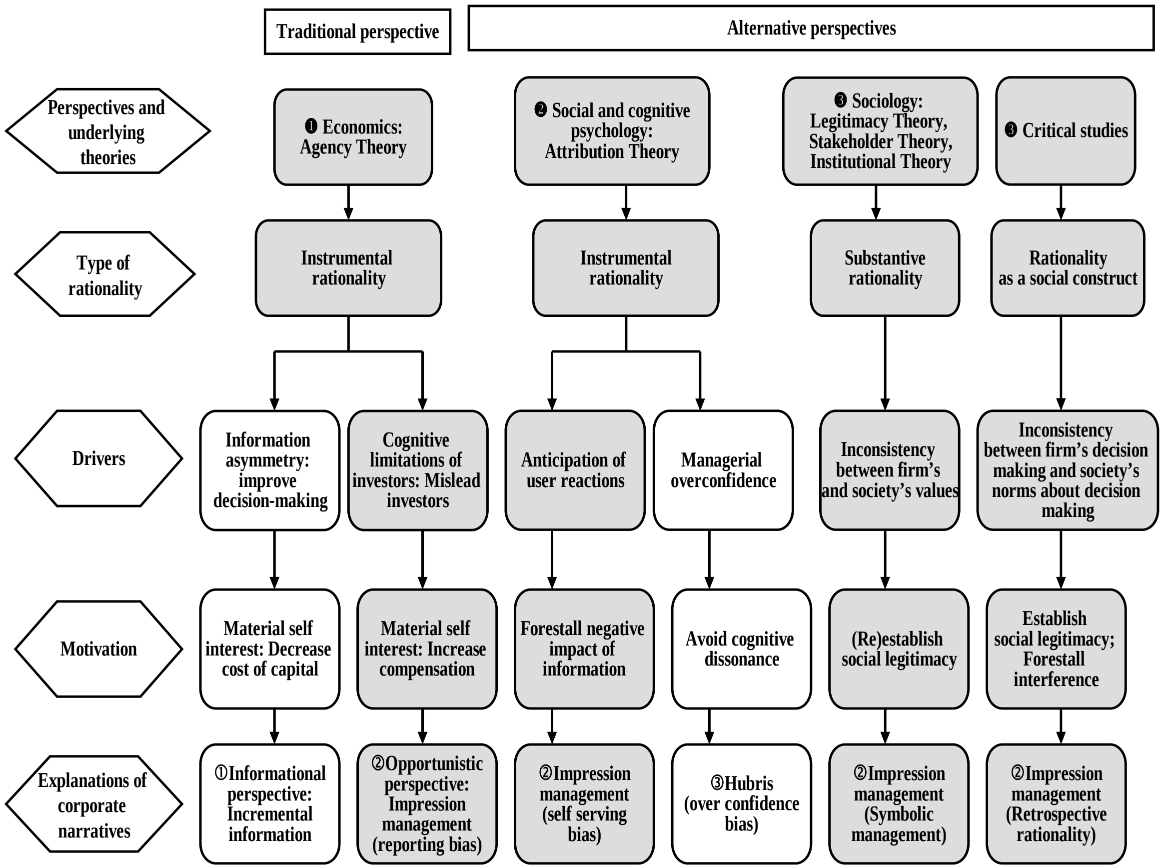
Sociological explanations of corporate narrative disclosures are based on legitimacy theory, stakeholder theory and institutional theory and regard managerial disclosure behaviour as motivated by social legitimacy concerns. Whereas economic and psychological interpretations of impression management regard user concerns with corporate narrative reports as driven by instrumental rationality, sociological interpretations see them as motivated by substantive rationality. Impression management arises in situations where the norms and values of the firm are inconsistent with those of society. This causes instrumentally motivated managers to engage in symbolic management (Ashforth and Gibbs 1990) to (re)establish social legitimacy. Symbolic management entails creating the appearance of a consistency between the firm's and society's norms and values. For example, managers may employ impression management tactics, such as excuses, justifications, and apologies or engage in decoupling by espousing socially acceptable goals, redefining means as ends, or ceremonial conformity (Ashforth and Gibbs, 1990). Similar to the psychological perspective, the sociological view of impression management is based on the implicit assumption that readers are susceptible to impression management.

[3] Hubris entails managers suffering from cognitive or social biases which manifest themselves, for example, as optimism about future outcomes, overconfidence about forecasting ability and making correct decisions, and assigning too much weight to confirming than disconfirming evidence. Hubris is a concept which has been predominantly applied in explaining managerial dispositions and motives for mergers. Liu and Taffler (2008) investigate managerial optimism in CEO discourse in Securities and Exchange Commission 8k filings of firms engaged in mergers or takeovers as a proxy for managerial overconfidence.

Critical perspectives on corporate narrative disclosures regard the notion of rationality as socially constructed in the sense that rationality "*does not intrinsically exist in a decision or situation, but is socially conferred upon it*" (Hines 1989: 66). Rationality may be viewed as socially constructed meaning which provide sets of rules for meaningful action. Thus, rationality is a normative construct of acceptable behaviour in organisations (Mumby and Putnam 1992). When making decisions, managers have to be seen to be acting rationally. In this context impression management entails presenting the image of the organisation as a rational entity, often by means of rationalising decisions in order to gain or maintain social legitimacy. This involves presenting organisational outcomes and events in corporate narrative documents as resulting from intentional, reasoned, and goal-directed behaviour (Mumby and Putnam 1992).

Economics-based and psychology-based theories view impression management as inconsistencies between reported and actual organisational performance which manifests itself in the form of reporting bias and self-serving bias. By contrast, systems-oriented theories and critical perspectives regard impression management as inconsistencies between portrayed and actual values and portrayed and actual decision-making of the firm in the form of symbolic management and retrospective rationality.

Figure 1: Theoretical perspectives on competing explanations of corporate narrative disclosures – managerial / preparer perspective



Key: Shading represents impression management, the primary focus of this paper

3. Theoretical perspectives on narrative disclosures by managers

In this section we consider four theoretical perspectives on managerial discretionary disclosure summarised in Figure 1. It illustrates how altering rationality assumptions leads to three competing explanations of managerial narrative disclosures as ① incremental information, ② impression management or ③ hubris. The first two are conscious strategies by managers. Under the impression management perspective, managers are assumed to deliberately introduce biased disclosures, whereas biased disclosures arsing from hubris are unconscious.

The assumptions of the economic approach to research on narrative disclosures with respect to decision-making and motivation are contrasted with those of alternative perspectives, particularly psychology, sociology, and critical perspectives. This enriches our understanding of impression management in a corporate reporting context. They provide us with either alternative explanations or more specific explanations of managerial narrative disclosure practices

3.1. Economic perspective

The economic perspective focuses on the role of impression management in the relationship between managers and investors. The interaction between managers and investors is regarded solely in terms of market exchange (Mouck, 1995). Managers and investors are assumed to strategically compete for wealth and thus use the information in corporate narrative documents as a factor of production with respect to that wealth (Arrington and Puxty 1991: 34). Management wealth is a function of changes in share prices (via shares and share options), and changes in cash bonuses (via compensation plans).

Broadly there are two schools of through concerning the motivations for discretionary narrative disclosures: provision of useful incremental information versus impression management arising from opportunistic behaviour by managers. If discretionary narrative disclosures are used for impression management rather than incremental information purposes, then financial reporting quality will be undermined. Advocates of the incremental information school deny the existence of impression management (Baginski et al., 2000, 2004). On the contrary, managers are assumed to have economic incentives to engage in unbiased reporting as it enhances their reputation and compensation (Baginski et al., 2000).

Impression management is explained by reference to agency theory. Agency theory regards the relationship between managers and investors as solely driven by contractual obligations and utility maximisation. Managers are regarded as rational, self-interested decision-makers. Thus, corporate reporting decisions are taken on the basis of cost-benefit calculations and involve responding to inputs from the external environment. Since managers operate "*in an environment in which their remuneration and wealth is linked to the financial performance of the companies that employ them, managements have powerful economic incentives*" (Rutherford 2003, p.189) to mask negative aspects of firm performance. Impression management thus entails managers taking advantage of information asymmetries with the purpose of maximising wealth, specifically in the form shares and share options (Adelberg 1979; Rutherford 2003; Courtis, 2004a).

Corporate narrative reports are thus considered to be impression management vehicles which can be used to present a self-interested view of corporate performance (Bettman and Weitz, 1983: 166-167; Staw et al.,, 1983: 584; Abrahamson and Park, 1994: 1302; Mather et al., 2000: 68; Clatworthy and Jones, 2006). Impression management entails "*selecting the information to display and presenting that information in a manner that is intended to distort readers' perceptions of corporate achievements*" (Godfrey et al., 2003, p. 96).

The economic perspective regards impression management as a strand of the financial disclosure literature. Impression management constitutes reporting bias by manipulating the presentation and disclosure of information. Focusing on the valence (i.e. favourable or unfavourable) and tone (i.e. optimistic or pessimistic) of disclosures, impression management entails introducing reporting bias by emphasising positive organisational outcomes or obfuscating negative organisational outcomes, for example, by including (more favourable) pro forma earnings numbers in corporate narratives or by displaying positive organisational outcomes more prominently than negative organisational outcomes (e.g. by positioning or highlighting).

3.2 Social psychology perspective

The social psychology perspective regards the decision-making processes of preparers and users of corporate narrative documents as neither completely rational in the sense that the expected consequences of each choice are taken into account, nor solely driven by material gain. Social psychology regards corporate narrative reporting as embedded in and dependent on social relations.

As impression management involves "*the process by which people attempt to control the impressions others form of them*" (Leary and Kowalski 1990, it is characteristically social in character. This means that corporate narrative reporting decisions are influenced by "*the actual, imaged or implied presence*" (Allport 1954: 5) of the readers of corporate narrative sections, particularly the shareholders and stakeholders to whom management is accountable to. Impression management is triggered by conditions of accountability, as individuals aim to counteract the potential undesirable consequences of an evaluation of their conduct (Frink and Ferris 1998).

Schlenker et al. (1994: 634) defines accountability as "*the condition of being answerable to audiences for performing up to certain standards, thereby fulfilling responsibilities, duties, expectations, and other charges*". On the one hand, accountability entails the obligation of one party to provide explanations and justifications for its conduct to another party. On the other hand, it involves the first party's behaviour being subject to the scrutiny, judgment and sanctioning of the second party. Accountability involves three components which affect judgement and decision-making in different ways, namely (1) the inquiry component, (2) the accounting component, and (3) the verdict component (Schlenker 1997). The inquiry component entails anticipating or submitting to an inquiry by an audience who evaluates one's actions and decisions in relation to specific prescriptions. The accounting component involves presenting one's version of events. This gives the individual the opportunity to describe, document, interpret, and explain relevant information with the purpose of constructing a personal account of events and providing reasons for their occurrence. The verdict component entails the audience delivering a verdict. This comprises both a judgment of the individual and the application of both social and material rewards or sanctions. Thus, the experience or anticipation of an evaluative appraisal is crucial to the concept of accountability.

Frink and Ferris (1998), who apply the concept of accountability in organisational research, establish the link between accountability and impression management. They argue that in an accountability context individuals engage in impression management in anticipation of an evaluation of their conduct. Impression management thus serves as a way of influencing the impressions and decisions of relevant parties in order to win rewards and avoid sanctions. Thus, conditions of accountability foster impression management.

Managers are accountable to outside parties, including both shareholders and stakeholders for their decisions and actions by means of the corporate reporting process, with the annual report serving as an accountability mechanism to react to the concerns of external parties (Stanton and Stanton 2002: 492). Thus, impression management can be conceptualised as arising from the inquiry component of the corporate reporting process with managers engaging in impression management in anticipation of an evaluation of their actions and decisions by (primarily) shareholders. If corporate narrative documents are regarded as a description of the decision behaviour of the firm's management and thus reflect managerial performance (Prakash and Rappaport, 1977, p. 35), then managers may be prompted to engage in impression management with the expectation that shareholders and stakeholder may respond in undesired ways. Managers thus engage in impression management to counteract undesirable consequences of information releases in the form of unfavourable analyst reports and credit ratings, negative share price movements, and loss of stakeholder support.

Prior accounting research has focused on the accounting component of the accountability process by means of analysing the impression management strategies used in corporate narrative documents to present its version of events. Impression management is viewed as self-serving bias entailing the attribution of positive organisational outcomes to internal factors (taking responsibility for good performance) and of negative organisational outcomes to external circumstances (assigning blame for bad performance) (Aerts, 1994, 2001; Clatworthy and Jones, 2003). Self-serving bias is explained by reference to attribution theory (Heider, 1958; Jones and Davis, 1965; and Kelley, 1967) which is concerned with people's explanations of events. Research suggests that, in an interactive context, people's attribution of actions and events is biased in the sense that they take credit for success and deny responsibility for failure (Knee and Zuckerman, 1996). Merkl-Davies et al.'s (2009) analysis of the use of emotion words in chairman's reports of 93 UK listed companies provides evidence of the strong emotional components inherent in corporate report documents. This serves as evidence that management introduces an affective bias into corporate reporting documents, suggesting that managers use both cognitive and emotional strategies to influence investor behaviour. Thus, impression management in a corporate reporting context has to be regarded in the context of 'moody investing'. It involves rational managers deliberately manipulating irrational investors' perceptions of firm performance and prospects by introducing both cognitive and emotional bias into financial reporting.

3.3. Sociology perspective

The sociology perspective regards corporate narrative reporting as determined by structural constrains exerted either by different community groups or by society at large. Decision-making and action are regarded as being affected by "*the dictates of consensually developed systems of norms and values, internalised through socialisation*" (Granovetter, 1985: 483). Thus, decision-making is driven by substantive, rather than instrumental rationality. Substantive rationality (Weber 1968) is concerned with ideals, goals and ends which are pursued for their own sake, such as equality, justice, and freedom.

Stakeholder theory regards impression management as an attempt on the part of management to react to the concerns of various stakeholder groups or to respond to public pressure and media attention (Hooghiemstra 2000). Legitimacy theory regards impression management as arising from inconsistencies between the firm's and society's norms and values. It constitutes an attempt on the part of management to gain or restore social legitimacy by seemingly aligning the firm's norms and values with that of society, particularly in situations where firms face legitimacy threats, such as corporate scandals and environmental disasters

There are a variety of mechanisms firms can adopt to become or appear congruent with society's norms and values. Ashforth and Gibbs (1990) differentiate between substantive and symbolic management, the former entailing a real change in organisational processes or institutionalised practices, including corporate reporting, for example in the form of coercive isomorphism. This involves, for example, increasing the quantity and quality of environmental information provided due to increasing environmental awareness in society and environmental reporting by other firms. By contrast, symbolic management constitutes impression management in the sense that it entails portraying organisational processes or institutional practices in a way that they only appear to be consistent with social values and expectations.

Symbolic impression management includes the use of impression management strategies, such as providing excuses, justifications, and apologies for corporate misdemeanours and scandals, but also decoupling strategies, such as (1) espousing socially acceptable goals, (2) redefining means as ends, and (3) ceremonial conformity (Ashforth and Gibbs, 1990). Espousing socially acceptable goals involves claiming customer-focus or equal opportunities employer status, when, in effect, the opposite is the case. Redefining means and ends involves recasting the meaning of its ends or means, for example by justifying the closure of employee pension schemes on the basis of the introduction of a new accounting standard.

Finally, ceremonial conformity involves adopting specific practices considered consistent with rational management, even though they do not improve organisational practices, such as public sector organisations producing extensive annual reports in an attempt to emulate reporting practices in the private sector or organisational restructuring as a distancing the organisation from a negative event, such a financial fraud (Linsley and Kajüter, 2008).

Yuthas et al.'s (2002) analysis of the corporate narrative documents of fourteen US firms with either positive or negative earnings surprises focuses on communicative norms, rather than social norms. For this purpose, they use Habermas' theory of communicative action which is based on the notion that communication is based on a set of norms or validity claims which are accepted by all members of society, including comprehensibility, truth, sincerity, and legitimacy. Communication can either be characterised by communicative action which “*seeks mutual understanding*” (144) or by strategic action which aims to “*influence the perceptions of other groups as a means of accomplishing our own strategic objectives*” (144). Strategic action violates the four norms or validity claims of communication and thus constitutes impression management. It entails the use of jargon and complex logic to reduce comprehension, the distortion of facts to reduce the truth content, the presentation of a view which is inconsistent with a view we hold privately to reduce sincerity, and the use of language inappropriate for the particular context to reduce legitimacy.

Ogden and Clarke (2005) use legitimacy theory to analyse the impression management strategies used in the annual reports of recently privatised UK water companies. Linsley and Kajüter (2008) use legitimacy theory to analyse the annual report of Allied Irish Banks plc following a fraud. They focus on the use of symbolic management in the form of defensive impression management strategies and decoupling in order to restore their reputation and legitimacy.

Aerts and Cormier (2009) contend that managers use narrative disclosures to manage perceived environmental legitimacy of the firm by signalling to relevant publics that their behaviour is appropriate and desirable, and that they react to public pressure by adapting their environmental information dissemination processes. Following symbolic management theory, these processes are used as a perception management tool, using symbols, values and methods of operation that are believed by users/stakeholders to be legitimate.

3.4 Critical perspective

The critical perspective regards rationality as a social construct which can be used in corporate narrative documents as an impression management mechanism to convey the image of organisational rationality by portraying organisational outcomes and events as resulting from ordered decision-making processes. The use of retrospective rationality is an impression management mechanism arises from the desire to be seen to conform to the rules and norms of society and to forestall the interference of external agencies in the operation of the organisation (Hines 1989). Corporate reporting can be conceived as constructing a managerial account of organisational outcomes and events and providing reasons for their occurrence. Thus, performance explanations by managers can be interpreted as a process of 'retrospective-sense making' (Aerts, 2005: 497, footnote 4).

Critical sociology represents a view of organisational agents as powerful actors who use corporate narrative documents to provide a hegemonic account of organisational outcomes, often by means of using dominant discourses. Corporate narratives are used to establish and maintain unequal power relationships in society. Language is regarded as a medium in which prevailing power relations are articulated. For example, Crowther et al. (2006), who analyse the corporate narrative reports of ten recently privatised UK water companies, show how top management uses binary opposition in corporate narrative documents to "*control the way in which the corporate story is interpreted*" (Crowther et al., 2006: 199).

3.5 Illustration of taxonomy to prior research on managerial narrative disclosures

The perspectives and assumptions discussed in this section are illustrated by reference to prior research in Table 1. This literature review is illustrative only and is not intended to be exhaustive. Accordingly, only 16 papers are selected for review. Selection was derived from a subjective consideration of the key papers appearing in the accounting literature. The prior literature is categorised into three streams by reference to explanations of corporate narratives – incremental information (2 papers), impression management (13 papers) and hubris (1 paper). Within impression management, there are four sub-categories based on the four theoretical perspectives adopted in this section of the paper.

Table 1: Illustrative application of taxonomy for corporate disclosure research – manager/preparer perspective

Paper	Theory	Rationality	Drivers/motivations for managerial behaviour	Assumed impact on / response by investors /users/readers	Findings
① Incremental information - Economic perspective					
Baginski et al (2000)	Semi-strong market efficiency	Rational managers	Material self interest – Attributions in management forecasts are motivated to hasten the investor expectation adjustment process.	Causal attributions are designed to aid investors interpret a disclosure.	Causal attributions are more likely with bad news forecasts. Attributions enhance precision or credibility of the forecasts.
Baginski et al (2004)	Semi-strong market efficiency	Rational managers	Material self interest – Attributions in management forecasts are motivated to hasten the investor expectation adjustment process.	Causal attributions are designed to aid investors interpret a disclosure.	Causal attributions are more likely for larger firms, bad news forecasts, maximum-type forecasts; are less likely in regulated industries and in longer-horizon forecasts; are associated with greater absolute and more negative price reactions to management forecasts.
② Impression management – (i) Economic perspective – Agency theory – Opportunistic					
Rutherford (2003)	Weak market efficiency. Agency theory	Rational managers	Material self interest. Managerial behaviour is self serving to manage the perceptions of external and internal constituencies.	Not explicitly addressed in the paper.	Firms' discretionary narrative disclosures are closely associated with financial performance, as measured by firm survival.
Courtis (2004a)	Weak market efficiency. Agency theory				
Clatworthy and Jones (2006)	Weak market efficiency	Rational managers	Material self interest. Managers want to present a positive view of corporate performance.	Users need to adopt healthy scepticism when reading the chairman's statement.	Accounting narratives of unprofitable companies are not totally consistent with performance and do not present a balanced view.

Table 1: Illustrative application of taxonomy for corporate disclosure research – manager/preparer perspective

Paper	Theory	Rationality	Drivers/motivations for managerial behaviour	Assumed impact on / response by investors /users/readers	Findings
② Impression management – (ii) Social psychology perspective– Attribution theory – Self-serving bias					
Aerts (1994)	Cognitive and social psychology: Self-presentation theory – people are more likely to offer explanations to support positive social identities or images	Instrumental rationality; Bounded rationality	Self-serving bias to be perceived favourably. Managers are motivated to engage in more elaborate cognitive measures and interpretations beyond the accounting information system	Investors not explicitly mentioned	Corporate narrative explanations are biased, revealing ego-centric verbal tendencies on the part of managers.
Aerts (2001)	Attribution theory – managers develop verbal coping strategies and use explanations for image management	Instrumental rationality; Bounded rationality	Self-serving bias to be perceived favourably. Managers align verbal framing behaviour in accounting narratives to changes in the reporting environment	Traditional, habitual framing patterns could be the result of cognitive legitimation by reference to external investors and the benefits of reducing investor uncertainty and surprise.	Inertia effect evident, with attributional content and framing in annual reports remaining consistent over time.
Clatworthy and Jones (2003)	Attribution theory – managers seek to attribute good news to themselves and bad news to the environment	Instrumental rationality; Bounded rationality	Self-serving bias to be perceived favourably. Managers have incentives to represent company performance in the best possible light	Managers engage in impression management to influence the perceptions of users.	Good news and bad news firms emphasise positive performance. Both groups take credit themselves for good news and blame bad news on the external environment.
Merkl-Davies et al., (2009)	Social psychology view of impression management, resulting from social biases caused by the accountability relationship with shareholders and stakeholders	Bounded rationality	Self-serving bias to save face: The social ‘presence’ of others is an essential part of impression management, with the determinants of impression management behaviour located externally in the social context, rather than internally within managers.	Corporate annual report sections may not be primarily used to shape outsiders’ perceptions of organisational outcomes, but rather, to construct an account of organisational outcomes.	Firms do not portray a public image of organisational performance inconsistent with internal managers’ views. Rather, corporate narratives provide explanations of managerial actions and organisational outcomes as a way of making sense of otherwise random events.

Table 1: Illustrative application of taxonomy for corporate disclosure research – manager/preparer perspective

Paper	Theory	Rationality	Drivers/motivations for managerial behaviour	Assumed impact on / response by investors /users/readers	Findings
② Impression management – (iii) Sociology perspective – Legitimacy theory – Symbolic management					
Yuthas et al., (2002)	Agency theory – (i) annual reports are relied on to provide a fair representation of economic reality; (ii) annual reports are used to shape investor perceptions of the firm		Firms exhibiting worse than expected financial performance are likely to distort/strategically influence the message being communicated	Public discourse supplements the financial information available to investors to represent economic reality or to shape investor perceptions.	The Habermasian tenets of communicative action are more likely for firms with good and bad news earnings surprises, than for firms with no unexpected earnings surprises.
Ogden and Clarke (2005)	Legitimacy theory – corporate reports used as legitimation tool to address specific problems of legitimacy.		To gain, maintain and repair legitimacy	Persuade customers that privatisation is good	Corporate reporting is an important resource for legitimacy management. Disclosures did not wholly succeed in persuading customers of the legitimacy of privatisation.
Linsley and Kajüter (2008)	Legitimacy theory – strategies to restore reputation and repair damaged legitimacy.		To re-establish legitimacy and restore reputation following a crisis event.	Readers' perceptions of the organisation in respect of the risk event are influenced.	Legitimacy theory can explain disclosures. Disclosures were not wholly effective in re-establishing legitimacy.
Aerts and Cormier (2009)	Legitimacy theory – assessment of socially acceptable, appropriate, desirable practices		Managers are motivated to use impression management to enhance perceptions of corporate environmental legitimacy	Users discount the credibility of disclosures that are consistent with managers' incentives for disclosure.	Environmental legitimacy is significantly influenced by the quality of environmental disclosures.

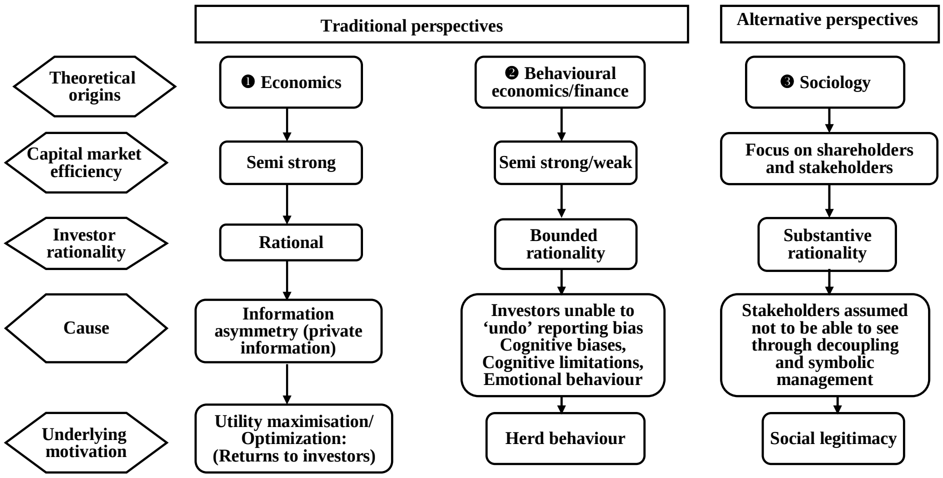
Table 1: Illustrative application of taxonomy for corporate disclosure research – manager/preparer perspective

Paper	Theory	Rationality	Drivers/motivations for managerial behaviour	Assumed impact on / response by investors /users/readers	Findings
② Impression management – (iii) Sociology perspective – Legitimacy theory – Retrospective rationality					
Aerts (2005)	The study points to the importance of information not only as a commodity in principal-agent relationships but as a context sensitive communication device with symbolic as well as intrinsic substance.	Instrumental rationality; Bounded rationality	Self-serving bias to be perceived favourably. Managers self-serving attributional bias is motivated by the social and organisational environment in which the attributional behaviour occurs.	Building support, convincing investors, sustaining confidence and credibility.	Attributional biases could be a result of cognitive information processes rather than impression management. Results point to a motivational impression management explanations for self serving bias.
② Impression management – (iv) Critical theories					
Crowther et al. (2006)	Theory of reading, with interpretation of text being dependent on the mode of reading.	Rationality as a social construct	Authors of corporate reporting seek to control the way the story is interpreted. Managers control the script of corporate reporting and corporate activities.	The audience is viewed as segregated between shareholders and other readers. The audience is characterised as acolytes, with a common cultural identity bond between authors and audience.	Concepts from structural poetics are applied and binarisms inherent in the corporate story of the annual reports of ten UK water companies are analysed.
③ Hubris – Social Psychology perspective – Overconfidence bias					
Liu and Taffler (2008)	Psychology and behavioural theory of human overconfidence bias		Merger and acquisition activity is motivated by CEO overconfidence manifest in the subconscious reflection of CEO overconfidence / hubris in narratives in CEO statements in SEC 8k filings	Not applicable as this is a form of subconscious bias.	DICTION score for CEO optimism (as a proxy for CEO overconfidence) significantly related to merger and acquisition activity.

4. Theoretical perspectives on responses by users to narrative disclosures

A taxonomy capturing the user perspective is developed in Figure 2. This taxonomy has three theoretical perspectives: ① economics, ② behavioural finance/economics and ③ sociology.

Figure 2: Taxonomy for impression management research – investor/user perspective



4.1. Economics perspective

Traditional finance theories assume that investors behave rationally and that share prices incorporate information about the firm and that share prices change based on this information. Under agency theory, investors can take for granted that managers act in their self-interest, rationally responding to incentives shaped by compensation contracts, the market for corporate control, and other corporate governance mechanisms. The rational actor model assumes that people unemotionally maximise expected utility functions (Huang, 2003, p. 2). Under the traditional economics perspective, in semi-strong capital markets investors are considered to be unable to assess reporting bias based on private information. This leads to short-term capital misallocations.

4.2. Behavioural finance/economics perspective

The implicit assumption underlying impression management research is that investor decision-making is characterised by bounded rationality, a concept originating from behavioural finance/economics which was originally borrowed from cognitive psychology. As mentioned earlier in the paper, bounded rationality manifests itself in a variety of cognitive and social biases which render investors unable to 'undo' (Healy and Wahlen 1999: 369) impression management.

For example, the incomplete revelation hypotheses (Bloomfield, 2002) views time constraints on the part of investors as a factor in investor susceptibility to impression management. It states that statistics that are more costly to extract from publicly available data are less completely reflected in market prices. The easier information is to extract the more it is impounded into share prices. Since pro forma earnings take time and effort to reconcile with GAAP earnings, investors might be inclined to take them at face value and thus be misled by managers opportunistically choosing income-increasing pro forma earnings.

By employing the incomplete revelation hypothesis, Bowen et al. (2005) use economics-based arguments to explain investor reactions to managerial impression management in the form of emphasis of pro forma earnings. They acknowledge market inefficiency in finding that investors respond to emphasis. Li (2006) also invokes this hypothesis and finds that readability (a disclosure quality measure) in profitable firms is associated with earnings persistence (extent to which current period unexpected earnings affects future earnings). Firms with more complicated annual reports have lower earnings persistence when they are profitable. She concludes that this provides evidence of an association between linguistic features of annual reports and firm performance. However, she acknowledges alternative explanations for these findings and invokes the incomplete revelation hypothesis to explain why managers might manipulate syntactic features to make the annual reports of poorly performing firms difficult to read such that the information is incompletely revealed to investors.

The Belief-Adjustment Model suggests that information processing is affected by the ordering of information. Investors may be either biased towards information presented first (primacy effect) or towards information presented last (recency effect). Thus, investors may attribute less weight to bad news and more weight to good news, depending on the order they are presented in.

Baird and Zellin (2000) test the Belief-Adjustment Model in an experimental setting. They find that the ordering of good and bad news can influence investor perceptions, and that insights gained from the Belief-Adjustment Model are potentially useful to managers. Assumptions underlying the paper and the cognitive and psychological underpinnings of the paper are not discussed.

Evidence on how investors cognitively process pro forma earnings information is provided by Fredrickson and Miller (2004) in an experimental setting. Cognitive processes are divided between information acquisition and information evaluation. They find that MBA students (proxies for non-professional investors) are subject to unintentional cognitive processes rather than consciously perceiving information to be informative. This unintentional cognitive effect is put down to their cognitive limitations arising from their lack of expertise and use of ill defined valuation models.

In an experimental study of the effect of prior period benchmark disclosures, Krische (2005) also finds unintentional investor evaluation effects arising from their memory limitations. Investors adjust for the prior period benchmark provided they are given a reminder for the benchmark. Similar to Krische (2005), Elliot (2006) characterises unsophisticated investor responses to the emphasis of pro forma earnings to arise from an unintentional cognitive effect. She posits that investors may overweigh a less important cue simply because it is emphasised. Managers exploit this salience effect to influence investor perceptions of the firm by emphasising the earnings metric that best portrays the firm.

Although a share price reaction study, Henry (2008) explains investor reactions by reference to a theory from psychology, prospect theory, which predicts that investors are influenced by tone. Framing financial performance in positive terms causes investors to think of performance in terms of increases relative to reference points.

The investor decision-making process is not only driven by the quality of securities' underlying technical fundamentals, but also by affective evaluation. (MacGregor et al. 2000; MacGregor 2002; Pixley 2002; Dreman 2004). MacGregor et al. (2000) and MacGregor (2002) find that affective evaluation is based on the image associated with a particular company. In particular, MacGregor (2002) find image evaluations to be correlated with financial judgments. Firms can exploit this association to their advantage by impression management. It involves pro-actively manipulating their image and thus the perceptions of firm performance and prospects.

The emotional impact of presentational effects has been studied in the context of visual information. Courtis (2004b) examines the effect of colour in annual reports, and finds that some colours are associated with more (or less) favourable perceptions and investment judgements. However, it may also be present in verbal information, as language is an ideal medium for conveying emotion (MacGregor, 2002, p.20). Thus, readers of corporate narrative documents may be influenced by emotionally charged language, particularly similes, metaphors, and other rhetorical figures.

Cianci and Kaplan (2010) consider the influence of trust on investors' judgements concerning management explanations for poor firm performance. Specifically they examine the influence of CEO reputation and the plausibility of management explanations, finding that investor judgements are not influenced by CEO reputation.

4.3 Sociology perspective

Bansal and Clelland (2004) consider corporate environmental legitimacy. They suggest that investors and other stakeholders assess firm legitimacy according to their own distinct and diverse norms, their cognitive maps and their pragmatic preferences. Investors are assumed to assess environmental legitimacy according to the firm's conformance to accepted social structures. Berrone et al. (2009) further refines our insights into investors' reactions to narrative disclosures by showing that symbolic impression management disclosures do not have the same impact on environmental legitimacy compared with substantive actions. However, they do not conclude that symbolic disclosures are not important, and that symbolic and substantive action is complementary rather than supplementary.

4.4 Illustration of taxonomy to prior research on users of narrative disclosures

The perspectives and assumptions discussed in this section are illustrated by reference to prior research. In particular, the theoretical context, predictions of investors/users/readers behaviour and impression management strategies investigated are analysed in Table 2. In total, nine papers are included in the analysis. The prior literature is categorised into three streams – economics (1 paper), behavioural finance/economics (8 papers), and sociology (2 papers).

Table 2: Illustrative application of taxonomy for corporate disclosure research – user/shareholder/stakeholder perspective

Paper	Theory	Rationality	Predictions of investor behaviour	Method	Findings
① Economics					
Kothari et al. (2009)	Efficient markets hypothesis – Disclosure impacts on firm's cost of capital.	Rational – Disclosures reduce information asymmetry between managers and investors	Disclosure enables investors reduce the degree of error in estimating stock returns	Capital markets, share price reaction study	Disclosure (positive and negative news) influences market risk measures such as cost of capital. The market weighs disclosures by credibility of their sources.
② Behavioural finance/economics					
Bowen et al. (2005)	Incomplete revelation hypothesis – information that is more costly for investors to extract is less completely revealed in market prices.	Bounded rational – information that is emphasised is processed differently by investors	Two opposing perspectives: (i) Analysts and institutional investors find emphasised information more useful; (ii) Sophisticated investors, such as analysts and institutional investors find information useful, whether emphasised or not;	Capital markets, share price reaction study	The use of emphasis of earnings metrics in press releases influences current and future investors.
Li (2006)	Incomplete revelation hypothesis – the market reacts less completely to information that is difficult to extract	Bounded rational – Investors cannot process all information similarly and suffer information processing costs	Investors will suffer higher information processing costs in respect of information managers do not want uncovered	Capital markets, share price reaction study	Annual reports of firms with lower earnings are harder to read. Positive earnings of easier-to-read annual reports are more persistent.
Baird and Zelin (2000)	Belief adjustment model which predicts different types of order effects on the characteristics of the information sets.	Bounded rational – Information is not equally used but is influenced by a primacy effect	Investor perceptions are influenced by corporate presentation strategies	Experiment	Impression management was effective; investors' perceptions were biased and a primacy effect was found.
Frederickson and Miller (2004)	Intentional and unintentional cognitive effects on unsophisticated investors; Sophisticated investors are unlikely to perceive proforma earnings as containing incremental information	Bounded rational – Stimuli can affect judgements through intentional and unintentional cognitive effects	Proforma earnings will influence unsophisticated investors, but not sophisticated investors	Experiment	Unsophisticated investors suffer from unintentional cognitive effects – they assign too high a share price to pro forma earnings numbers in press releases, whereas the judgments of sophisticated investors (financial analysts) are unaffected by the reporting bias.

Table 2: Illustrative application of taxonomy for corporate disclosure research – user/shareholder/stakeholder perspective

Paper	Theory	Rationality	Predictions of investor behaviour	Method	Findings
① Economics – Behavioural finance/economics					
Krische (2005)	None explicit in the paper	Bounded rational – Availability of information in working memory and explicit presentation of information influences judgements	Investors judgements are influenced by managers strategic disclosure of prior period benchmarks in earnings announcements	Experiment	Due to their memory limitations, investors are unable to assess the bias in the benchmark comparisons of earnings as their memory of prior-period earnings is inaccurate or incomplete
Elliot (2006)	None explicit in the paper	Bounded rational – the way in which information is displayed influences how it is processed	Two opposing perspectives: (i) Mangers use their discretion to provide investors with more useful information; (ii) Or mangers use their discretion to manipulate investors' perceptions.	Experiment	Unsophisticated investors suffer from unintentional cognitive salience effects, overweighting information that is emphasised by managers; Task specific knowledge or expertise mitigates these unintentional salience effects for sophisticated investors.
Henry (2008)	Prospect theory	Bounded rational – Individual's probability-dependent judgements are affected by the terms in which expected outcomes are expressed.	Investor choices will differ when outcomes are framed in positive versus negative terms	Capital markets, share price reaction study	Tone, even controlling for financial performance, is found to influence investor reactions.
Cianci and Kaplan (2010)	None explicit in the paper	Bounded rational – trust is tied to interpretation of intentions	Credibility or reputation of a source of information influences reactions to a message.	Experiment	Managements' explanations and managers' reputation influence investors judgement about future firm performance

Table 2: Illustrative application of taxonomy for corporate disclosure research – user/shareholder/stakeholder perspective

Paper	Theory	Rationality	Predictions of investor behaviour	Method	Findings
⑤ Sociology					
Bansal and Clelland (2004)	Institutional theory directed towards risk-reducing behaviours that support the stability and persistence of organisational forms and actions in meeting the expectations of societal stakeholders. Disclosure of environmental liabilities acts as a normalising account to reassure investors.	Substantive rationality – Investors assess firm legitimacy based on passive conformance to social structures	Investors and other stakeholders assess firm legitimacy according to their own distinct and diverse norms, their cognitive maps and their pragmatic preferences; Other stakeholders can influence investors' assessment of firms' environmental legitimacy.	Regression analysis – impact of legitimacy on firm unsystematic risk	New negative environmental information influences investor judgements and influences firm unsystematic risk.
Berrone et al. (2009)	Institutional theory and stakeholder theory. When firms adhere to institutional norms, satisfied stakeholders grant them social legitimacy, ensuring the firm's long term survival and success.	Substantive rationality – Investors care about the social construct of firms	Stakeholders may respond to symbolic and substantive actions and grant firms environmental legitimacy	Regression analysis of the determinants of environmental legitimacy	Symbolic impression management disclosures do not have the same impact on environmental legitimacy compared with substantive actions. Symbolic and substantive action is complementary rather than supplementary.

5. Implications for future research

The theoretical perspectives presented in Section 3 and Section 4 provide three explanations for motivational factors involved in corporate narrative disclosures and for investor and stakeholder decision-making processes. These can be used in future research to gain insights for making predictions and for interpreting results (Koonce and Mercer 2005). Research is likely to be enhanced that explicitly addresses managerial rationality and managerial motives for impression management, and investor rationality and responses to impression management.

5.1 Decision-making (rationality)

Research on impression management tends to assume that preparers are rational in their choice of impression management strategies. While managers many consider themselves rational, it is implicit in impression management that managers must assume investors / users to be irrational and incapable of seeing through their impression management practices. Without a different approach to corporate reporting impression management research, which is primarily content analysis based, insights into what really motivates managers and their assumptions concerning investor responses to impression management will not be clearly understood. Jetty and Beattie (2008) is an exception. They interview eight annual report preparers of charities.

Behaviour changes as a result of personal characteristics and situational characteristics. Investors have different information needs, cognitive processing styles and personalities. Knowledge of the social and affective variables that influence investors'/users' responses to impression management tactics by managers is an area of research that is largely unexplored. Investors engage in cognitive constructions as they try to make sense of social, cognitive and behavioural cues in narrative disclosures. Cognitive and social competencies may be required which will evoke individual responses to impression management strategies. Investors may also rely on instinct, emotion, past market movements and may chase market trends. Rational/cognitive responses might be examined separately from affective responses, although it is more likely that the two interact. The cognitive dimensions and affective dimensions of responses to impression management require deconstruction. Investor cognition and affection need to become a greater focal point in analysing impression management in a corporate reporting context. Insights from other disciplines, particularly marketing, HR and politics where impression management is of interest, are likely to provide new avenues for corporate reporting researchers. Impression management literature could be expanded to examine how different approach to accountability can affect cognitive judgement such as confidence ratings of managers. The diversity of investors has tended to be ignored in prior research and investors have generally been treated either as homogenous groups or as dichotomous groups (e.g., sophisticated / unsophisticated, individual / institutional investors). However, the personal and psychological characteristics of investors and stakeholders are likely to influence their responses to impression management. Research might test the dispositional antecedents of organisation influence tactics, such as investor cognitive styles and types. Cognitive psychologists have examined the schematic processing involved in forming impressions. When faced with incomplete information, mental models called schema are activated to complete the missing information. There is an insufficient understanding of these processes in a corporate reporting setting. These mental models are based on aspects such as experience, cultural background and societal norms. The interactions between the complexity of cognitive processing and the complexity of communication require further analysis. Cognitive associations that influence the impressions formed of organisations could be explored in more detail.

Solomon et al. (2009) interview 20 institutional investors in relation to impression management and private social and environmental reporting. While this is not social and environmental reporting in corporate reports, it nonetheless provides an example of a different approach to studying investor perceptions of impression management in a corporate reporting context. Driscoll and Crombie (2001) adopt a single case study method to study impression management from the perspective of both managers and one stakeholder, thus enhancing our understanding of the interactions between the two parties. The study is based on conflict between a large timber company and a small monastery and used semi structured interviews, a site visit, participant observation and documentary analysis to approach the problem.

Actions of organisations and individuals may be justified by formal rationality, substantive rationality or both. Accounting has been characterised as constructing and shaping reality, rather than merely describing reality, with a dichotomy between formal rationality and substantive rationality. Future research should distinguish more between impression management from a managerial self-interested perspective to impression management being motivated to achieve certain values and ideals. The calculation orientated profit/gain motive needs to be distinguished from values orientated social concerns. The ultimate end of impression management is shaped by economically orientated social action, driven by ethical, political or egalitarian reasons.

Hines (1989) and Lodh and Gaffikin (1997) argue that the notion of rationality is a social construct in the sense that rationality "*does not intrinsically exist in a decision or situation, but is socially conferred upon it*" (Hines 1989: 66). Thus, rationality may be viewed as socially constructed meaning which provide sets of rules for meaningful action. The legitimacy of a firm thus depends on it conforming to social ideologies about organisations which prescribe, amongst other things, rational decision-making (Hines 1989: 66). Thus, when making decisions, managers have to be seen to be acting rationally. Hines (1989) argues that accounting plays a substantial role in creating the image of an organisation as a rational entity. Thus, managers may use corporate narrative documents for the purpose of rationalising decisions. Similarly, Mumby and Putnam (1992) argue that rationality is a normative construct of acceptable behaviour in organisations. In order to gain or maintain social legitimacy, managers have to present organisational outcomes and events in corporate narrative documents as resulting from intentional, reasoned, and goal-directed behaviour (Mumby and Putnam 1992). This involves 'retrospective rationality' (Aerts, 2005: 487), i.e. "*a process of ex post explanations or restatements of organizational outcomes and events in order to sustain or restore the image of rationality of the actor*". Retrospective rationality thus restores social legitimacy of organisational agents as rational decision-makers.

In this context, impression management constitutes giving the impression of rationality in order to be seen to conforming to the rules and norms of society, in order to forestall the interference of external agencies in the operation of the organisation (Hines 1989). In a longitudinal study of Amcor's annual reports, White and Hanson (2000) note that "*the more uncertain the general environment became, the more … Amcor intensified its self-presentation as rational*" (307).

Firms may also present themselves as rational in order to gain legitimacy in a controversy. Driscoll and Crombie (2001) show how a Canadian logging company embroiled in a conflict of interest with a one of its stakeholders, a local convent, portrays itself as rational (by strategically using quantification in its argumentation) and the convent as irrational.

5.2 Motivations

Impression management is studied in prior research as a mechanism for organisations to gain legitimacy. Driscoll and Crombie (2001) take quite a different perspective by showing how a company can use impression management and rhetoric to decrease the legitimacy of a stakeholder. Using legitimacy theory, Driscoll and Combie's (2001) show that in a conflict of interest, firms may not only use impression management to manipulate the public's perceptions of their own legitimacy, but also to manipulate the legitimacy of stakeholder groups. Adopting an instrumental approach, they view legitimacy as a resource that can be manipulated. Analysing a conflict between J.D. Irving (JDI), a Canadian logging firm and a convent situated in a forest where the firm is operating, they show how JDI uses language and symbolic activity strategically to increase their own legitimacy and decrease the legitimacy of the convent. The use of impression management as a means of discrediting a stakeholder group during a crisis could also be examined in a corporate reporting context.

Breton and Cote (2006) examine the reactions of banks faced with legitimacy threats by means of analysing press releases. This study is interesting in that it measures corporate legitimacy by analysing newspaper articles and then examines corporate responses to legitimacy threats. In the prior literature, legitimacy threats have only been studied in the context of prior scandals and environmental disasters.

These two papers show how new insights can be gained by challenging the assumptions underlying prior impression management research and by viewing impression management through different lenses.

5.3 Concluding comments

This paper has made explicit assumptions underlying prior studies on narrative corporate disclosures that are generally implicit in prior research. Consideration of these assumptions in an explicit manner is likely to enhance the quality of future research. Assumptions that need to be better understood are the rationality assumptions concerning preparers and users of corporate documents. Consideration of behavioural assumptions of preparers and users, taking into account psychological and social biases and limitations will further enhance research approaches. If researchers increasingly consider the possibility (likelihood?) that managers and investors/stakeholder suffer from cognitive and affective limitations, there is an opportunity to address new questions from new angles in future research that will generate significant new insights to an area of corporate activity that is as yet little understood.

Future research would also benefit from insights from sociological theories, such as legitimacy theory and institutional theory. This allows the focus of analysis to shift away from specific impression management tactics (e.g. obfuscation of negative organisational outcomes by means of reading ease manipulation or emphasis of positive organisational outcomes by means of pro-forma earnings numbers rather than GAAP numbers) to broader strategies used to manipulate the perceptions of users of corporate narrative documents, such as rhetoric (see, for example, Driscoll and Crombie 2001) or symbolic management (see, for example Linsley and Kajüter 2008). What is more, insights from research based on the social construction of rationality shows that organisations use rationality itself as an impression management strategy to justify managerial actions, to excuse corporate misdemeanours, and to enhance corporate legitimacy.

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