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Differential Patterns of Textual Characteristics in the Chairman's Statement and Company Performance: Evidence from Sri Lanka

[1] Rosa S. J. S. and [2]Kawshalya M. D. P.

[1,2]Department of Accountancy, University of Kelaniya, Sri Lanka

[1]jayanrosa@gmail.com, [2]pubuduk@kln.ac.lk

Abstract

Corporate annual reports are continuously getting important in external reporting. The chairman's statement is one of leading section of annual report that provides information beyond what is required by the regulatory frameworks. It is well-known fact that, those who prepare financial statements have motivation to exercise the content of Chairman's Statements. In Sri Lanka, since Chairman's Statement being a prominent requirement of annual report, this research investigates the textual differences of chairman's statement in companies with higher performance and poor performance in terms of market capitalization. The research question is investigated by examining a range of textual characteristics in the chairman's statements of 25 companies with highest market capitalization and 25 companies with lowest market capitalization listed in the Colombo Stock Exchange (CSE). The results of the current study indicate that content of chairman's statement significantly affected by firm's underlying performance. Since, Chairman's statement is one of the most widely read section of the annual reports, the findings of this study will provide guidelines and enhance the understandability of the stakeholders who make informed judgments and decisions regarding organizations by reading the chairman's statement.

Keywords: *Chairman's statement, Colombo Stock Exchange, Company performance, Sri Lanka, Textual characteristics*

Introduction

Firms' annual reports mainly contain of financial statements and financial information. It always been one of the key building blocks of a firm's reporting (Carraher and Auken,2013). over time the economic environment has largely altered due to globalization. To create value, firms more and more depend on not just on their resources but also on the resources belonging to the public. Therefore, the value-generating procedure is based on the principle of shared costs. As a result, the value generated by an organization should also be shared among its owners and society. Quality reporting by firms is therefore gradually vital for strong and sustainable organizations, financial markets, and economies.

Financial statements alone do not adequately capture a firm's performance and prospects, organizations have been forced to respond to stakeholders' demands and the significance of ithe nclusion of non-financial disclosuhasave increased cumulatively (Staw, Puffer and McKechnie, 1983). According to Badenhorst, Brummer and de wet, the requirements on reporting have changed. An integrated reporting approach where financial , as well as non-financial disclosures, are consolidated within the annual reports. An integrated reporting has become the new period of information disclosure(Badenhorst, Brümmer and de Wet, 2016).

Maroun and Solomon (2014) detected that, since 1970 corporate reporting is rapidly increased and it became more and more complexes. Existing listed entities changed the way they present information. They had include more non-financial information to their financial statements. With the time pass, corporate annual reports presenting a broader perspective. Those provide more information beyond the financial measures. (Kuzey and Kılıc, 2018). According to Deloitte (2012) the average length of annual reports had doubled since 1996. Annual reports provide an important amount of information for its users who will be able to get a good outline of the company's overall performance in the preceding year. It is key to note that many annual reports are not traditional reports with bulky amounts of text; many organizations often incorporate a lot of graphics and images, resulting in a visually attractive document.

The arrangement of annual reports definitely will vary according to each company, but most annual reports will generally comprise the following: The Chairman Statement, Audit report, Performance highlights from the previous year, financial statements, Forecast of future performance

Chairman's statement, also known as Chairperson Statement, President Letter used by both Private and Institutional investors for get Decisions about company. It is a report of summarized details about companies preceding year performance. The companies' chairperson sets it once a year for gives information to stakeholders. According to IGI global institute (IGI Global is a leading international academic publisher) "Chairman Statement is a letter from the chairman of the board to shareholders reporting on the company's condition usually made part of the annual report. The report, typically no longer than two pages, includes a summary of initiatives, activities of the board, and personal perspective of the company's future."

Even the Corporate Annual Report delivers the most reliable information about the company's past performance and future prospects. Chairman's statement is one of the most frequently read segments in the Annual Report (Jones, 1994; Courtis, 1997, 2004).Chairman statement provides financial and non-financial information. It constructs of an image about company. Letter of chairman is a component of the annual report used by investors (e.g. Jones, (1988); Courtis, (2004)). There is also evidence by prior studies that the content of the Chairman's statement affects stakeholder decision making and institutional value. (Segars and Kohut, 2001). It is a well-known fact that those who prepare financial statements have a tendency to exercise the content of the President's statements or at least control the sentiment they express (Beattie and Jones, 2001). Even today, the chairman's letter in the corporate annual report is classified as narrative accounting. So it is still considered a voluntary disclosure. There are no accepted guidelines on what should be included in that statement, so it is often suggested that senior managers can embellish a qualitative explanation of the chairman's letter in an effort to create a positive impression on corporative stakeholders and other users annual reports.

Financial performance is a subjective measure of how a company can generate revenue from ordinary business operations using assets. The term is also used as a general measure of a firm's overall finance health over a given time frame. Forecasters and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in collective. Chairman statement is also part of the corporate report. Chairman statement also use by forecasters, investors for get main picture about company.

The chairman's statement is an almost common, and generally read, feature of the annual report. It is use to provide an overview of the company's activities and performance during the year. When reading chairman statement by stakeholders get the basic picture about company from that. The potential for self-serving behavior in the chairman's statement is enhanced by the fact that these statements are generally unaudited. In the Sri Lanka, for example, auditors review the text to ensure that it is materially consistent with the financial statements. An auditor does not issue opinion about chairman's statement individually. This research has a direct bearing on the current state of financial reporting, which auditors do not formally audit but review to ensure its compliance with financial statements. Auditors not guarantee that this review will always present itself in a balanced and objective way that truly reflects the underlying financial performance. Auditors are focusing on frauds, omissions and the material inconsistencies. They only verify the numbers cited are reconcilable with the numbers in the financial statements. Auditing firms do not have specific guidelines and the field of audit account narrative seems very subjective. At present, the auditor is not obligated to formally audit the Chairman's statement and other non - financial disclosures. Instead, the auditor reviews the accounting narrative only to ensure that the narrative is consistent with the financial statements. This study recommends the expand the role of auditor in reviewing the chairman's statement and other accounting information. In some cases Chairman’s statement construct of a good image about company. But there is no guarantee for actual financial performance matched with that. When stakeholders get their decisions based on chairman statement, there is a problem does chairman’s statement is provide accurate image? This study explores whether there is a difference between highest and lowest market capitalized listed companies with the characteristics of the chairman statement within the corporate annual reports.

Accordingly, the purpose of the study is to examine the textual differences of chairman’s statement in companies with higher performance and poor performance in terms of market capitalization.

Research Objectives

The purpose of this study is to determine if impression management techniques are utilized in chairperson’s statements of the highest and lowest market capitalized Sri Lankan companies through the assessment of underlying textual differences in the Chairman statements. The study also aimed to extend the existing understanding of impression management. Lot of prior Studies has been conducted to test the existence of impression management techniques in corporate reporting strategies primarily in developed economies. These studies have focused on impression management techniques making use range of textual characteristics of chairman statement. No studies have been performed in Sri Lankan context on the potential existence of reporting bias and impression management techniques in narrative annual report disclosures. This paper aims to measuring the effect of financial performance on the textual characteristics of the chairman’s statement on the financial year of 2018/19 in Sri Lankan content. It provides opportunity to study about the application of impression management in organizational settings so as to facilitate more efficient capital allocation decisions. In some unwell performing companies encourage to show good picture to adopt impression management. This research is focused on whether companies’ reporting strategies be subject to on underlying financial performance, and examine this issue by comparing the chairman’s statements of extremely profitable and extremely unprofitable listed companies. By measuring range of textual characteristics of chairman statement this research studies of impression management in the chairman’s statement. The research concern to find that chairman statement is linked with the firm’s underlying financial performance. This research is important for a number of reasons. First, the chairman’s statement is a component of the annual report used by investors (Courtis, 2004).It is one of most widely read section of annual report. Second, there is evidence that the content of the chairman’s statement affects investors’ decision-making, and potentially corporate value(Segars and Kohut, 2001). If Chairman statement provide good picture about organization. Then person who reads annual reports, read latter part of the annual report with that mindset. It makes effect on their decisions.

Corporate annual reports are very lengthy documents. Those provide lot of information. But that information consists relevant and non-relevant for the stake holders decision making. When use annual reports, readers have to sacrifice lot of time. And also they have to give more effort to identify relevant information regards to their interest. Chairman statement is like a summary of overall financial performance. It is conclude organization past performance with mentioning future prospect. Chairman statement summarized the very important information that they want to highlight. It can be consist with both financial and Non-financial information which are most important about organizations performance. This study objective is to identify,

1. Relationship between chairman's statement characters and company performance.
2. Significant difference between profitable and non-profitable firms with regards to the characteristics of chairman statement.

Literature Review

It is widely recognized that corporate annual reports are an important medium of Communication between stakeholders and organizations(Bartlett and Chandler, 1997; Healy and Palepu, 2001). A number of researchers have worked in recent decades to expound the strategies used to compile those reports [for example Bettman and Weitz, 1983; Antal *et al.*, (1986); Preston, Wright and Young, (1996); Neu, Warsame and Pedwell, (1998)]. Intentionally adopted strategies, which aim to describe a positive corporate image and control the impressions designed by outsiders of a company, are described as impression management (Leary and Kowalski, 1990). Researchers have been keen to learn about the application of impression management in organizational settings so as to facilitate more efficient capital Allocation decisions.

An annual report is a document that Companies must make available for specific period (Annually) to general public that describes their operations and financial conditions. It contains an impressive combination of graphics, pictures, and an accompanying narrative, all of which stories the company's activities over the preceding year and may also make predictions about the future of the business. The latter part of the document contains financial and operational details. An annual report is a corporate document communicated to shareholder that spells out the company's financial situation and operations over the preceding year. General purpose annual reports are expected to deliver decision valuable information required by their various informed stakeholders. In producing company annual reports, it is expected that meeting the information needs of investors who provide risk capital will also satisfy the information needs of other user groups(Zoysa and Rudkin, 2010).

In Sri Lanka, the overall guidance on financial reporting has been provided by two institutions namely The Institute of Chartered Accountants of Sri Lanka (CASL), Colombo Stock Exchange and one legislation which is No 7 of 2007 Companies Act guide the reporting method of annual reports. In addition to the listing rules and regulations provide by the CSE, several other laws directly or indirectly emphasize the requirements of immediate disclosure of annual reports. The Companies Act and the CSE's listing regulations specify mandatory disclosure requirements, while the ICASL has regularly adopted, with necessary modifications, several accounting standards and auditing guidelines set out by some international bodies for the improvement of reporting practices in Sri Lanka.

The impression management literature originally focused on earnings management [for example, (Shipper, 1989)], but more recently consideration has focused on areas such as financial graphs [e.g. (Steinbart, 1989; Beattie and Jones, 1992)], photographs [e.g. (Graves, Flesher and Jordan, 1996; Mckinstry, 1996)] and accounting narratives. The former researches show that impression management commonly occurs in annual reports. Impression management can be seen as trend of selectively use the data of individuals or organizations to present a favorable light about themselves. This may be encouraged by management's need to dictate the corporate reporting agenda and present a confident view of corporate performance. These incentives are common for all organizations, but those may be actually poor performing company. Recent corporate failures in the united States (such as Enron and WorldCom), which were a arrangement of fraud and impression management [e.g. (Davidson *et al.*, 2004)] illustrate that point and also demonstrate that impression management can have significant economic consequences and make affect for investors and other stakeholders.

The annual report has usually been the main corporate vehicle of information to communicate with stakeholders (Abrahamson and Amir, 1996; Campbell, Mcphail and Slack, 2009) and the Chairman's statement is one of the most frequently read segments in the Annual Report (Courtis, 2004; Fanelli and Grasselli, 2006). The annual report have to be valuable to users in making decisions (IASB, 2010). Accordingly, firms should "use plain language only well-defined terms consistent terminology and easy-to-follow structure". (Financial Report Council, London 2009). The use of a fixed terminology word reduces the likelihood of being reported as biased. However, textual features can be used to influence stakeholder perspectives and to cover up bad performance. Research that analyzes several textual features of corporate narratives has so far focused on different organizations in one year or two consecutive years. (Clatworthy and Jones, 2006; Cen and Cai, 2013a).

Methodology

The study is carried out to determine whether the underlying financial performance of a company influences its corporate reporting strategy. The aim of the research was to investigate the textual differences of chairman's statement in companies with higher performance and poor performance in terms of market capitalization The research hypotheses were developed based on following seven textual characteristics to identify significant difference between two groups.

Based on findings from Kohut and Segars, (1992) and Clatworthy and Jones, (2006), companies may provide narrative reports of different lengths according to their financial performance for the reporting year Profitable companies tend to provide longer reports than non-profitable companies. So we expect that profitable companies will show a propensity to devote more words and space in the annual report to communicating their success than unprofitable companies will devote to their failures. Accordingly:

H1a. The chairman's statements of profitable and unprofitable companies will be similar in length.

Previous research has shown that presidents' companies follow a style of writing the statement continues on the basis of financial performance. Thomas, (1997) and Sydserff and Weetman, (2002) found find that the narratives of organizations suffering poor financial performance are written in a style, which separates the writer from the message. So, the use of passive construction is negatively linked to finance Performance. The use of passive voice is probably an indication of poor performance in this regard. We therefore expect the accounting narratives of profitable companies to use the active voice to associate managers with the results; whereas we expect unprofitable companies to use passive sentences to distance managers from negative corporate performance. Thus:

The use of passive voice is often an indication of poor performance in this regard. We therefore hope that managers will use active voice to link the account narratives of profitable companies with the results; we expect non-profit company managers to use the passive sentences to remote managers from negative corporate performance. According to:

H1b. The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences.

The point identified by Thomas (1997) is that there is a positive relationship between the company's performance and the use of personal referrals. This is not surprising, since more profitable companies tend to organize their narratives in corporate annual reports, to organize the success of the corporation in a way that is felt by readers.

However, less profitable companies are more likely to divert the attention of readers by using less "we". Since this finding in Clatworthy and Jones (2006) has not been substantiated, further investigation is needed to determine whether Thomas' (1997) conclusion is limited in its ability to generalize because she used only one sample. We expect companies to use language as a metaphor for internalizing the functioning of companies. Profitable companies are therefore more likely to use first-person pronouns (personal references).Therefore, a third hypothesis was developed for analysis:

H1c. The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references.

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

Beattie & Jones, 1992; and Clatworthy & Jones, 2006 studies point out that references to quantitative information containing financial tables, charts and general descriptions of market developments can be used as means for impression management as well. For this research, quantitative information is defined as performance-related numbers in absolute or proportional form, following the assumptions of Clatworthy and Jones (2006).This includes any reference to Earnings per Share (EPS), profit, sales, and dividends. Previous analysis indicates that firm performance is positively related to the use of key financial variables in the chairman statement. Therefore, we expect profitable companies to be more likely to report key financial variables than non-profit companies:

H1d. The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators.

Taking a closer look at the frequency can be an indicator of how willing companies are to reveal their performance. Referrals were calculated into two categories monetary and percentage. As Skinner, (1994) predicts, profitable companies use more intelligent quantitative references than non-profit companies. There for we developed hypothesis as;

H1e. The chairman's statements of profitable and unprofitable companies will contain a similar number of quantitative references.

There is another possible difference in the information disclosed at will the level at which companies emphasize future development. This was the first raised and examined by Kohut and Segars, (1992). Then many other studies have examined the use of information on the outlook of chairpersons statements in Corporate Annual Reports For example, Aljifri and Hussainey, (2007) was found to be comparable to the extent of future information disclosure corporate debt ratio. M. Clatworth and Jones (2006) state that managers of nonprofit companies use the discussion of the future beyond their adverse performance. Managers of profitable companies pay more attention to current policies. We therefore expect the accounting narratives of profitable companies to focus more on current results than the future, but that unprofitable companies will look more to the future. Hence:

H1f. The chairman's statements of profitable and unprofitable companies will focus equally on the future.

According to Stanton, Stanton and Pires, (2004) study found that language is used to explain the causes of poor functioning. It has been explained that it is easier to read the statements of good performers than the narratives of poor performers.

H1g: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

Table I: The hypotheses development based on textual characteristics

H1. There is no systematic difference in the textual characteristics of information in the chairman's statements of profitable and unprofitable companies.	
Textual Characteristic	**Hypothesis**
(a) Length of the chairman's statement	H1a. The chairman's statements of profitable and unprofitable companies will be similar in length.
(b) Passive voice sentences	H1b. The chairman's statements of profitable and unprofitable companies will contain a similar number of passive sentences
(c) Personal references	H1c. The chairman's statements of profitable and unprofitable companies will contain a similar number of personal references
(d) Reference to key financial indicators	H1d. The chairman's statements of profitable and unprofitable companies will contain a similar number of key financial indicators.
(e) Quantitative references	H1e. The chairman's statements of profitable and unprofitable companies will contain a contain a similar number of quantitative references
(f) Reference to the future	H1f. The chairman's statements of profitable and unprofitable companies will focus equally on the future.
(g) Flesh readability score	H1g: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

The research is focusing on finding out the differential patterns of textual characteristics and company performance in the chairman's statements in Sri Lankan content. Accordingly, the population of the study consists of all the companies listed on the Colombo Stock Exchange. These companies were ranked by Market capitalized amount as at 31.03.2019. The top 25 and bottom 25 Colombo Stock Exchange listed companies were chosen as sample to ensure samples consists of extremely profitable and extremely unprofitable companies. The sample thus consists of Sri Lankan companies with strongly improved and strongly declined performance during the financial period of 2018/19. The required data in the Annual Reports and the Chairman's Statements were collected from an electronic version of the Chairman's Statements. Annual reports of 2018/2019 accounting year for all sample companies were downloaded from Colombo Stock Exchange web site.

There have been previous studies on the content of accounting narratives using computer-assisted analysis packages. (Abrahamson and Amir, 1996; Balata and Breton, 2005)This study involves a mixture of computer and manual analysis. Computer analysis is mainly use to add frequency data and flesch readability score. However, the manual exam is use for definition coding and content analysis. Manual analysis was prescribe not only for words but also for the need to identify their context and properties. Each chairman's statement of the sample was examined in detail. We counted the number of pages devoted to the chairman's statement, the total number of words; the number of quantitative references (i.e. monetary references and percentage references); the number of references to four key financial variables (sales, profit before taxation, earning per share and dividends per share); the number of references to financial performance variables; the number of personal references in the text (i.e. first person singular (I, me, my) and first person plural (our, us, we); the number of passive sentences; and the number of words in future orientated sentences.

The textual characteristics were analyzed as follows:

Length of the chairman's statement

To investigate this figure, the chairman's letter was examined for two features. Those are;

1. Number of pages of the chairman's statement.
2. Number of words in the chairman's statement.

The word count functionality in Microsoft Word was used to determine the number of words in the chairman's statement. The number of pages as well as the number of words was recorded as an absolute number.

Passive voice

This was measured by the percentage of passive sentences in the chairman's letter as a percentage of total sentences in the chairman's letter. Information on this characteristic was obtained using the proofing tool within Microsoft Word which calculates the percentage of sentences in the passive voice contained within an analyzed piece of writing. The passive voice was recorded as a percentage.

Personal references

To test the hypothesis, the chairman's statements were examined for specific personal references. Personal references which were scanned for were 'I', 'me', 'my', 'our', 'us' and 'we'. The chairman's statements were examined to measure how many times each of these personal references appeared in a single statement. The search function of Microsoft Word was used to determine the frequency of each of the personal references in the chairman's statement. The data recorded was the frequency of occurrences of the personal references within the chairman's statement.

Quantitative references

The chairman's statement was manually inspected for all quantitative references related to the financial performance of the company for the financial year. It was further examined for the specific quantitative references such as profit before tax, revenue, earnings per share and dividends.

References to the future

To measure this variable for future references it was considered that individual future words have no meaning by themselves, without a sentence or sentences for context. Therefore sentences were used as the unit of measure as these are more reliable. Sentences which included future words were therefore considered to be references to the future for the purpose of this study. These were manually counted.

Readability scores

To determine the readability of the chairman's letter, the Flesch reading ease score was calculated. The most common measure of syntactical complexity and readability is the Flesch readability formula which was developed by Rudolph Flesch in 1948 (Courtis, 1997; Clatworthy and Jones, 2000). A readability formula uses 'calculations of language variables in order to provide an indicator of possible difficulty for readers' and does not require participation by readers (Subramanian, Insley and Blackwell, 1993). The Flesch test is based on the McCall- Crabbs Standard Test Lessons in reading and comprehensions and uses the co-efficients of regression from two linguistic features, average sentence length in words and a letter count which is expressed as the number of letters per 100 words (M. Clatworthy & Jones, 2001). The Flesch test is computerized and is available on Word packages. The proofing tool developed in Microsoft Word was used to calculate the readability of the President's statement.

Findings of the Study

Length of the chairman's statement

The length of the chairman's statement was measured in two ways. The numbers of pages that chairman's statement consists and the number of words used in the chairman's statement are the measurements which used to determine length of the statement. The results are presented in Table II.

Table II: Length of chairman's statement

	Profitable				Unprofitable				Statistical test for length of chairman statement			
	Minimum	Maximum	Mean	Std. Deviation	Minimum	Maximum	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
number of pages	1	8	2.48	1.358	1	3	1.52	.653	147.00	472.00	-3.413	0.001
total number of words	644	7480	1531.12	1326.710	138	1484	691.36	366.983	86.00	411.00	-4.395	0.00

Source: Compiled by the author, 2021

The length of the chairman's statement of profitable companies was found to be on average over 2.5 pages in length (n=2.48) and comprising 1531 words (n= 1531.12). Unprofitable companies were found to be on average under 1.5 pages in length (n=1.52) and comprising 691 words (n=691.36). Chairman's statements of unprofitable companies therefore contain on average 840 words fewer than profitable companies.

Accordingly, profitable companies were more verbose than unprofitable companies. On average, the chairman's statements of the two groups are differ significantly. Indeed, according to both measures of length used, profitable companies chairman's statements were marginally longer overall.

A Mann-Whitney non-parametric test performed (Table II) comparing the length of the chairman's statement based on number of pages, of profitable companies compared to unprofitable companies are statistical significant ($p=0.001$, $p<0.05$) between the two groups. The Mann-Whitney non-parametric test was then performed (Table II) comparing the average length of the chairman's statement based on number of words, of profitable companies compared to unprofitable companies also are statistical significant($p=0.000$, $p<0.05$) between the length of chairman statements of profitable and unprofitable companies in terms of the word count.

Passive Voice

The second textual characteristic tested was the use of passive voice in the chairman's statements of profitable companies compared to unprofitable companies

Profitable companies were found to use on average 18% (n=0.1800) passive sentences in their chairman's statements and unprofitable companies were found to use on average 13.24% (n= 0.1324) passive sentences in their chairman's statements. Unprofitable companies therefore use on average 4.76 % less passive sentences than profitable companies.

Table III: Passive sentences in the chairman's statement

	Profitable companies					Unprofitable companies								
	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
the number of passive sentences (%)	25	0.06	0.37	0.18	0.08977	25	0	0.36	0.1324	0.10982	218.5	543.5	-1.826	0.068
Valid N (listwise)	25					25								

Source: Compiled by the author, 2021

To determine whether there is a significant statistical difference between the use of passive sentences of profitable companies and unprofitable companies, the results (Table III) of the Mann-Whitney non-parametric test performed find a significant difference between the two groups at the 5% level of significance.

The Mean Whitney non-parametric test found that there is no significant difference between, use of passive voice in the chairman's statement of profitable companies to the passive voice of unprofitable companies at the 5% level of significance ($p=0.068$, $p>0.05$).

Personal references

The third hypothesis tested was the use of personal references in the chairman's statements of profitable companies compared to unprofitable companies to determine whether the underlying financial performance of the company influences its use of personal pronouns in the chairman's statement.

Table IV: Personal references in the chairman's statement

		Profitable		Unprofitable		Test Statistics			
		Mean	Std. Deviation	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
First person singular	I	5.40	2.784	3.88	1.943	210.5	535.5	-2.015	0.044
	Me	.32	.476	.28	.458	300	625	-0.306	0.760
	My	1.96	1.369	2.12	1.269	289	614	-0.473	0.636
	Total singular	7.68	3.520	6.28	2.807	243.5	568.5	-1.353	0.176
First person plural	Our	17.04	10.192	6.24	5.607	106.5	431.5	-4.003	0.000
	Us	.96	1.369	.68	.945	289	614	-0.502	0.615
	We	10.56	6.653	3.44	3.001	109.5	434.5	-3.953	0.000
	Total plural	28.56	16.699	10.36	8.732	107	432	-3.991	0.000
Total personal references		36.24	16.402	16.64	10.436	92.5	417.5	-4.271	0.000

Source: Compiled by the author, 2021

Use of total personal references by profitable companies and unprofitable companies finds that profitable companies included on average 36 (n=36.24) personal references compared to unprofitable companies who have used on average 17 (n=16.64) personal references. A difference between the average frequencies of total personal references of profitable companies compared to unprofitable companies is therefore noted with profitable companies disclosing on average 19 more total personal references compared to unprofitable companies. The standard deviation (profitable companies std deviation =16.402; unprofitable companies std deviation= 10.436) suggest that there is a wide spread in personal references used by companies in their chairman's statements. The results of the Mann-Whitney test (Table IV) also found that there is a significant difference in the use of total personal references between the two groups. (p=0000,p<0.05)

The personal references used most frequently by both profitable and unprofitable companies is "total first person plural". There is however a difference in how many times these are referred to on average in the chairman's statement of profitable companies compared to unprofitable companies. Profitable companies were found to include the use of "total first person plural" in their chairman's statement on average 29 times (n=28.56) whilst unprofitable companies were found on average to use of 10 times (n=10.36). "Total first person plural" consist 'our', 'us', 'we' separate references. Profitable and unprofitable companies were also found that the use of personal reference 'our' and 'we' more than any of the other first person plural reference. Profitable companies used 'our' on average 17 times (n=17.04) compared to unprofitable companies who used ‘our’ 6 times (n=6.24) in their chairman’s statements. The Mann-Whitney test found that the groups (profitable and unprofitable) differ significantly at the 5% level of significance (p=000, p<.05). With regard to the usage of ‘we’, both profitable and unprofitable companies were analyzed and found ‘we’ in their chairman’s statement of profitable companies use average 08 times more than unprofitable companies. (Profitable companies n=10.04 and unprofitable companies n=3.44). Therefore there is a marginal difference between the uses of ‘we’ (personal pronouns) in the chairman’s statements of profitable companies compared to unprofitable companies, the results of the Mann-Whitney non-parametric test performed found that there is significant difference between the two groups. When concerning ‘us’ reference, Analysis found that ‘us’ in their chairman’s statement of profitable companies and unprofitable companies were averagely same. The results of the Mann-Whitney test also did not find significant difference in the use of ‘us’ reference between the two groups.

The analysis was also concern to first person singular references in the chairman’s statements of profitable companies and unprofitable companies. The chairman’s statement of profitable companies was found to contain on average 2 total first person singular references than the unprofitable companies. Chairman’s statements of unprofitable companies contain on average 6 total first person singular references (n=6.28) and profitable companies contain on average 8 total first person singular references (n=7.68). Therefore it can be seen that on average profitable companies use more personal references compared to unprofitable companies. However the results of the Mann-Whitney non-parametric test performed found no significant difference between the two groups (p=0.176, p>0.05). when concerning to the usage of ‘I’, ’me’, ‘my’ references, the chairman’s statements of profitable and unprofitable companies will contain an average similar number of first person singular references of ‘I’, ’me’, ‘my’. Although there were similarity between the use of first person singular references in the chairman’s statements of profitable companies compared to unprofitable companies, the results of the Mann-Whitney non-parametric test performed found that there is significant difference of ‘I’ reference between the two groups (p=0.044,p<0.05). Other two references are not statistically significant at the 5% significant level in Mann-Whitney non-parametric test.

Key Financial Indicators

The fourth textual characteristic which was tested was the number of key financial indicators in the chairman’s statements of profitable companies compared to unprofitable companies

Table V: Reference to key financial variables in the chairman statement

	Profitable		Unprofitable		Test Statistics			
	Mean	Std. Deviation	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Profit before tax	.80	1.190	.21	.415	208.500	508.500	-2.183	.029
Sales	1.88	2.818	1.40	1.443	296.500	621.500	-.324	.746
EPS	.28	.614	.04	.200	261.500	586.500	-1.755	.079
Dividends	1.40	1.500	.32	.748	174.500	499.500	-3.035	.002
Any	1.80	2.345	1.04	1.020	273.000	598.000	-.798	.425

Source: Compiled by the author, 2021

Profit before tax reference of profitable companies is averagely 0.59 (284%) more than unprofitable companies' average profit before tax reference. Sales, EPS, Dividends, any financial indicators of profitable companies is averagely 0.48 (34%), 0.24 (600%), 1.08 (338%), 0.76 (73%) more than unprofitable companies Sales, EPS, Dividends, any financial indicators reference respectively. Applying the Mann-Whitney test, no significant difference ($p>0.05$) was found between the two groups in terms of sales, EPS, any financial indicators. Profit before tax and dividend are statistically significant between the two groups ($p<0.05$).

Quantitative references

The fifth textual characteristic which was studied was the disclosure of quantitative references.

Table VI: Quantitative references in the chairman statement

	Profitable companies					Unprofitable companies					Test Statistics			
	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Monetary references	25	0	39	7.52	8.884	25	0	13	3.68	2.704	231.5	556.5	-1.584	0.113
Percentage references	25	0	51	8.32	10.443	25	0	9	2.88	2.505	190.5	515.5	-2.383	0.017

Source: Compiled by the author, 2021

From the table above it can be seen that the standard deviation relating to profitable companies indicate that that there is significant differences in the both number of quantitative disclosures provided by companies in the chairman's statements while no significant difference in standard deviation of unprofitable companies. Within the sample, profitable companies disclosed a minimum of 0, 0 quantitative references and a maximum of 39, 51 references monetary references and Percentage references respectively. Whilst unprofitable companies disclosed a minimum of 0, 0 and a maximum of 13.9 quantitative references respectively.

Profitable companies were found to use on average 8 (n=7.52) and 8 (n=8.32) for monetary references and percentage references in their chairman's statements respectively. Unprofitable companies were found to use on average 4 (n=3.68) and 3 (n=2.88) for Monetary references and Percentage references in their chairman's statements respectively. Unprofitable companies therefore use on average 4 & 5 less monetary references and Percentage references than profitable companies respectively.

The results of the Mann-Whitney non-parametric test performed found that there is significant difference of Percentage references between the two groups ($p=0.017$, $p<0.05$). Monetary reference is not statistically significant at the 5% significant level in Mann-Whitney non-parametric test.

References to the future

The sixth hypothesis tested was the extent of future references in the chairman's statements of profitable and unprofitable companies.

Table VII: Number of future references in the chairman's statement

	Profitable		Unprofitable		Test Statistics			
	Mean	Std. Deviation	Mean	Std. Deviation	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Future words	0.84	1.772	0.96	1.306	266.5	591.5	-0.994	0.32
Relative future words	1.36	1.254	1	1	265	590	-0.967	0.333

Source: Compiled by the author, 2021

Statistical analysis showed that Profitable companies include on average 1(n=0.84) and 1(n=1.36) future words references and Relative future words references. Unprofitable companies include on 1(n=0.96) and 1(n=1.00) future words references and Relative future words references. The standard deviation indicate the spread of the results and find that there is smaller variation in the number of future words and Relative future words disclosed by both profitable and unprofitable companies.

According to Table VII, both of test are not statistically significant ($p>0.05$) at the 5% significant level in Mann-Whitney non-parametric test.

Readability scores

The seventh textual characteristic which was analyzed was the readability of the chairman's statements of profitable companies compared to unprofitable companies.

Table VIII: Readability Score for chairman's statement (Independent sample t test)

Independent Samples Test								
	Levene's Test for Equality of Variances		t-test for Equality of Means					
	F		T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference

			Sig.						Lower	Upper
Flesch Readibility Score	Equal variances assumed	.276	.602	-9.16	48	.000	-13.14	1.4337	-16.022	-10.257
	Equal variances not assumed			-9.16	47.33	.000	-13.14	1.4337	-16.023	-10.256

Source: Compiled by the author, 2021

The p-value of Levene's test is showed as ".602" ($p > 0.05$), so can't reject the null of hypothesis. This tells us that we should look at the "Equal variances assumed" row for the t test results. The study is performed on a 95% confidence interval. Thus, a p-value (Sig. 2-tailed) less than 0.05 is to be taken as there is a significant difference in the means of the two sample populations tested. So we have to accept H1g: The chairman's statements of profitable and unprofitable companies will have similar readability scores.

Table IX: Readability Score for chairman's statement

Descriptive Statistics

	Profitable Companies					Unprofitable companies				
	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation
Flesch Readibility Score	25	10.50	40.50	25.71	8.1049	25	18.60	39.70	27.376	6.53359

Source: Compiled by the author, 2021

Profitable companies on average achieve a readability score of 25 (n=25.7160) whilst unprofitable companies achieved an average score of 27 (n=27.3760) as well. There is no significant difference between the two groups in terms of readability. This is further evidenced by the similarity between minimum and maximum figures.

Discussion and-Conclusion

In the current study, the 25 companies with highest market capitalization and lowest market capitalization were identified as the sample from the financial year of 2018/19. The chairman' statements of all of these companies were then analyzed to determine whether there is a significant variance in the textual characteristics of information in the chairman's statement of highest and lowest market capitalized companies in the sample.

This study firstly analyzed the length of the chairman's statement of profitable and unprofitable companies in terms of both number of pages as well as number of words contained in the statement. The findings of the statistical analysis conclude that there is significant difference between the length of the chairman's statement of highest and lowest market capitalized companies both in terms of number of pages constituting the chairman's statement as well as word count of the chairman's statement. In the study of M Clatworthy & Jones, (2006) found that, on average the length of the chairman's statements of profitable companies in UK was 827 words whilst the length of the chairman's statements of unprofitable companies was on average 901 words long (Clatworthy and Jones, 2006). In a similar study conducted on Chinese listed companies, Cen and Cai, (2013)found that the average length of chairman's statements of profitable and unprofitable companies in China were 1897 words and 1712 words respectively (Cen & Cai, 2013).

The second textual characteristic which was studied in the chairman's statement was the extent of use of passive sentences by profitable companies compared to the extent of use in unprofitable companies. The result of this study suggests that when companies are profitable they are more likely to write in the passive voice and companies which are unprofitable are less likely to write in the passive voice. This finding is inconsistent with research conducted by (Thomas, 1997) which found that an unprofitable company is more likely to use passive sentence construction with the aim of detaching the writer from the message (Thomas, 1997). Also this is inconsistent with the results found by M Clatworthy and Jones (2006). Their study finds that profitable companies in the UK use, on average, 25.8% passive sentences in their chairman's statements whilst unprofitable companies use 26.8% passive sentences.

The third hypothesis tested was the use of personal references in the chairman's statements of profitable and unprofitable companies respectively. Results of the use of personal references by profitable companies compared to unprofitable companies found that whilst profitable companies use marginally more personal references compared to unprofitable companies and there is a significant difference between the two groups. This is accidence with findings by M Clatworthy and Jones (2006) whose study confirmed that, for companies listed in the UK, profitable companies do use more personal references compared to unprofitable companies. This finding was however significant at the 10% level of significance in two-tailed t-tests.

The fourth textual characteristic which was tested was the disclosure of key financial indicators in the chairman's statements of profitable companies compared to unprofitable companies. This is accedence with findings by M Clatworthy and Jones (2006) whose study confirmed that, profitable companies are keener to discuss their results in specific terms than unprofitable companies.

The fifth textual characteristic analyzed was the disclosure of quantitative references in the chairman's statements of profitable and unprofitable companies respectively. The study found a significant difference in the disclosure of quantitative references by profitable and unprofitable companies respectively with profitable companies disclosing more quantitative references. The findings that profitable companies use more quantitative references than unprofitable companies is consistent with findings of the M Clatworthy and Jones (2006), which found that both monetary references and percentage references, profitable companies used more specific quantified references than unprofitable companies.

The sixth hypothesis tested was the extent of future references in the chairman's statements of profitable companies and unprofitable companies respectively. The findings of this study do not find conclusive evidence that unprofitable companies use more future references in their chairman's statements compared to profitable companies respectively. This is incompatible with findings of M Clatworthy and Jones (2006). M Clatworthy and Jones (2006), have suggested that discussion of the future is used by managers of unprofitable companies to deflect from their unfavorable performance whilst managers of profitable companies are more likely to focus on current results.

The seventh hypothesis tested was the readability of the chairman's statement of profitable companies compared to unprofitable companies. The findings suggest that no significant difference was noted relating to readability of profitable companies compared to unprofitable companies. Findings of this study is consistent with the expectation that the readability scores of profitable and unprofitable companies will have similar readability scores.

In conclusion, the current study found evidence of difference in the textual characteristics of chairperson's statements of profitable and unprofitable companies for four out of the seven hypotheses. This study investigates the narrative reporting practices of 25 profitable and 25 unprofitable listed in Colombo stock exchange. We find different patterns of reporting based on the chairman's statement, depending on companies market capitalized position. Lowest capitalized companies tend to pay less attention to the length of the chairman's statement, less passive and less phrasing, less personal referrals, and less reference to financial indicators compared to highest market capitalized companies. For References to the future, the Flesh readability score of lowest and highest market capitalized companies is the same.

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