Corporate Accounting Narratives and Self-Presentational Dissimulation Technique: An Analysis of Fraudulent Financial Reporting Firms

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Abstract

This study seeks to investigate the motivation for impression management among Malaysian public listed firms. The sample used in this study consists of 80 firms classified into two categories; fraudulent financial reporting firms and non-fraudulent financial reporting firms. Content analysis of impression management technique of self-presentational dissimulation in the use of accounting narratives is performed based on the methodology introduced and refined by Merkl-Davies et al. (2011). The findings indicate that firms do not use impression management to create an inaccurate image of organisational outcomes which is inconsistent with the view held by management (self-presentational dissimulation). Specifically, the result indicate that fraudulent financial reporting firms have no greater motivation to engage in self-presentational dissimulation than their non-fraudulent financial reporting counterparts. The implication of this study suggests that impression management motivations and strategies can also be explained from social psychological perspective and complements the use of economics-based theories in this research area.

Keywords: Impression Management, Fraudulent Financial Reporting, Accounting Narratives

Introduction

Accounting is defined as the process of identifying, measuring and communicating economic information to allow informed judgements and decisions by the users of the information (Belkaoui, 2004). This is usually communicated to relevant outside parties in the form of financial reports, thus implies that high quality information is required to ensure efficient and effective allocation of resources. Fraudulent financial reporting (the term earnings management is also used interchangeably) may occur anywhere and has become increasingly prominent in the eyes of the public as well as accounting regulators worldwide as it may be committed by any individuals across all professions. A report on global economic crime in 2014 for example, indicates a steady increase from 30% in 2009 to 37% in 2014 on reported global fraud rates and among the most commonly reported economic crime is financial reporting fraud at 22% level (PwC, 2014). The increase in fraud suggests a strong need for

research that aims to identify effective methods for detecting financial frauds. McNeil (1992) argues that fraud detection is an important prerequisite of rooting out any sort of fraud.

Further, reports have also shown cases of financial reporting fraud occurring in Malaysian companies such as the cases of Transmile Group Berhad and Megan Media Berhad, causing them to be labelled as the Malaysian mini-Enrons (Zaimee, 2007). Transmile Group Berhad, for example, an air cargo was reported to have accounting irregularities, overstating revenues in 2004 until 2006 by RM622 million. The huge amount involved and also the involvement of the company's top management in the financial scandal has led to the investigation of other listed companies such as Megan Media Berhad and Welli Multi Corporation Berhad (Hawariah et al., 2014). Hence, it is not surprising that fraudulent financial reporting has received much attention from the public, the financial community as well as the regulatory bodies. Since financial statements are regarded as fundamental barometer of a business, any accounting fraud (including misleading or falsely prepared financial statements) can lead banks, lessors, vendors and investors into risky or misguided investment decisions. Due to the ubiquitous use of financial reports in business operation, this type of fraud can impact a variety of business processes.

The link between fraudulent financial reporting and the manipulation of financial information can also be viewed from the perspective of impression management concept. Impression management is a strand of the financial disclosure literature that examines managers' attempts to manage the interpretation of financial reports (Neu, 1991). It happens when management selects the information to display and presents that information in a manner that distorts readers' perceptions by enhancing corporate achievements. Impression management occurs predominantly in less regulated narrative and graphical accounting disclosures which focus on interpreting financial outcomes (Brennan et al., 2013).

Financial information is frequently communicated through written narratives and graphical presentations which are largely qualitative in nature and which are sometimes referred to as 'soft' or unquantified information (Brennan and Merkl-Davies, 2013). This implies that in the case of possible fraudulent financial reporting, firms facing certain financial predicaments may employ impression management as a tool to manipulate the presentation of financial statements. This is motivated by the assumption that managers use such tools to obfuscate corporate performance, especially negative performance. Unlike other studies to date that utilise audited financial information (Nelson, 2012; Khairul Anuar and Wan Adibah, 2014; Hawariah et al., 2014; Hosseini Nia, 2015; Aghghaleh, Takiah and Zakiah, 2014; Mohamed Yusof et al., 2015), this study adds to the understanding of fraudulent financial reporting activities using unaudited information in the form of accounting narratives by incorporating impression management concept. Unaudited information has higher tendency to be exposed to managerial manipulation, thus this should enhance the usefulness of the findings of this study.

Hence, the aim of this study is to investigate the motivation for impression management among Malaysian public listed firms. This study is essential because current accounting disclosure practices might be flawed due to the use of impression management tools. Manipulation of financial statements especially the unaudited information to obfuscate

negative performance leads to firms not reporting a true and fair view of their financial position, resulting in misallocation of resources by potential investors.

Literature Review
High quality accounting information is a pre-requisite for well-functioning capital markets and economies as a whole and as such should be of importance to investors, companies and accounting standard setters. Among the principal qualitative characteristics that accounting information should have in order to be useful to users is reliability. Several indicators have been identified in previous accounting literature for financial reporting quality which include earnings management, frequency or magnitude of restatements, fraud or likelihood of fraud, magnitude and direction of the market's response to earnings surprises as well as voluntary disclosures (Cohen et al., 2008).

The definition of fraud as given by the Association of Certified Fraud Examiners (ACFE) is "the intentional, deliberate, misstatement or omission of material facts, or accounting data to mislead and, when considered with all the information made available, would cause the reader to alter his or her judgement in making a decision, usually with regards to investments'. This definition is important to be highlighted because it infers that investors' decision making process relies on the provided financial statements. Thus, it can be seen that fraudulent financial reporting is related to the reliability aspect of financial quality since it concerns the issue of truthfulness of the quality of earnings disclosed (Akers et al., 2007).

A review of previous studies in this area (Raziah et al., 2010; Saliza et al., 2014; Mohamed Yusof et al., 2015) indicate the utilisation of audited financial information to examine the likelihood of fraudulent financial reporting activities. This current study however, will fill in the gap from the impression management perspective through the use of unaudited information (accounting narratives) contained in the annual reports. Hooghiemstra (2000) argues that impression management refers to the study of behaviours or strategies put in place by an individual in order to be perceived favourably by others. It may be either a conscious or unconscious action to control or manipulate impressions formed by others. In accounting literature impression management theory has been adopted and applied to explain the response of organisations dealing with legitimacy challenges.

Impression management can contribute to a firm's reputation and, when faced with a predicament, effectively handle legitimacy threats that could affect this reputation (Hooghiemstra, 2000). This implies that in the case of possible fraudulent financial reporting, firms facing certain financial predicaments may employ impression management as a tool to manipulate the presentation of financial statements. In Merkl-Davies et al. (2011) impression management is considered from two different perspectives; (i) presenting an inaccurate view of organisational outcomes (self-presentational dissimulation) and/or (ii) as presenting an accurate, albeit favourable, view of organisational outcomes (enhancement). Specifically, self-presentational dissimulation suggests creating an impression at variance with the overall reading of the annual report whereas impression management by way of enhancement entails creating an impression consistent with the overall reading of the annual report. Merkl-Davies et al. (2011) adapt a content analysis approach based on the linguistic style associated with self-presentational dissimulation developed by Newman et al. (2003). They argue that prior studies in psychology (such as DePaulo et al., 2003; Newman et al., 2003; Zhou et al.,

2004) suggest that the texts of individuals who engage in deception exhibit the following characteristics; shorter, contain fewer self-references, contain fewer references to others, contain fewer positive emotion words, contain more negative emotion words and contain fewer words indicative of cognitive complexity. Thus, based on these specific characteristics, proxies for self-presentational dissimulation in corporate reporting is developed.

Negative organisational outcomes can motivate firms to engage in impression management. Hence, it can be predicted that firms with negative organisational outcomes such as those identified as fraudulent financial reporting firms are more likely to present a public image of organisational performance inconsistent with the managerial view of actual organisational performance than firms with positive organisational outcomes (non-fraudulent financial reporting firms). Therefore, self-presentational dissimulation can be argued to be directly associated with fraudulent financial reporting firms. However, as these fraudulent financial reporting firms are already in public (shareholders, regulators, creditors and other stakeholders) eye and are subject to greater regulatory scrutiny than non-fraudulent financial reporting firms, this can prevent them from engaging in self-presentational dissimulation. Hence, no prediction is made regarding the direction of difference between these two types of firms and the following hypothesis is presented:

H_{01}: *There is no significant difference in self-presentational dissimulation between fraudulent financial reporting firms and non-fraudulent financial reporting firms.*

Research Design
Sample firms to be used in this study are selected from the list of public listed companies on the Main Board of Bursa Malaysia between the years 2011 to 2016. The six-year period is chosen preliminarily to ensure data availability and sufficiency. List of firms involved in fraudulent reporting are obtained from Bursa Malaysia media centre. The list summarises firms according to the offences made against the Listing Requirements of Bursa Malaysia Securities Bhd, most of which are reporting material misstatements in the financial reports. The procedure yields a total of 86 firm for the preliminary sample. Firms from the financial and insurance and real estate investment trusts (REITs) sectors are excluded from the final sample due to different accounting policies and financial reporting requirements. In addition, firms with missing annual reports are excluded from the sample, leaving 40 firms in the fraudulent financial reporting pool.

Previous studies that examine fraudulent and non-fraudulent financial reporting firms have employed a maximum ratio of 2.5 on the sample size (Aghghaleh et al., 2014; Hawariah et al., 2014; Mohamed Yusof et al., 2015). In this study, each fraudulent firm is matched to a corresponding non-fraudulent firm on the ratio of 1:1 on the basis of size (total assets), industry and financial year, consistent with Hawariah et al. (2014). This leaves a final sample of 80 firms for both fraudulent and non-fraudulent financial reporting firms

Fraudulent financial reporting firms has an average of RM213,923,352 in total assets compared to RM212,257,061 in total assets for the matched non-fraudulent firms. An independent sample t-test indicates that there is no significant difference in the size of the matched-pair samples (p=0.982) and, therefore, both groups of sample firms have comparable size, operated in the same industry and same financial year.

Data Collection and Analysis

In order to achieve the required level of details in content analysis, relevant accounting data will be hand-collected from the annual reports in order to extract the written narratives. Annual reports needed to conduct the analyses will be obtained online (if available) or from Bursa Malaysia Knowledge Centre database. In this study, content analysis of the narrative disclosures in the annual reports or more specifically the Chairmen's Statements is employed.

Analysis of impression management techniques in this study will be based on the methodology introduced and refined by Merkl-Davies et al. (2011). First, the annual reports are obtained in pdf format. Next, photographs (and the captions), images, charts, graphs, forms of address (Dear Shareholders) and greetings (Yours faithfully) are removed from the Chairmen's Statements and converted into text format. These texts are then analysed based on six linguistic indicators associated with impression management.

A computerised text analysis program, developed by psychologists for the purpose of analysing linguistic style; Linguistic Inquiry and Word Count (LIWC), is used to measure the reporting bias in the Chairman Statement of sample firms. LIWC is a transparent text analysis program that analyses written text on a word-by-word basis and counts words in psychologically meaningful categories (Tausczik and Pennebaker, 2010). Table 1 illustrates the linguistic indicators used, data sources and measurement.

Table 1:
Variable Measurement and Data Source

Linguistic Indicator	Measurement	Data Source
1. Word count	Log of total word count in text	LIWC: Number of word count
2. Positive emotion words	% of total word count in text	LIWC: Positive emotions
3. Negative emotion words	% of total word count in text	LIWC: Negative emotions
4. Cognitive complexity	% of total word count in text	LIWC: Overall cognitive words
5. Reference to self	% of total word count in text	Custom dictionary: Merkl-Davies et al. (2011)
6. Reference to others	% of total word count in text	Custom dictionary: Merkl-Davies et al. (2011)

In order to test for self-presentational dissimulation, the measure for each linguistic indicator as shown in Table 1 is converted to *z* scores. A *z* score is a standardised measure which is derived by considering the distance in terms of standard deviation from the mean to the raw score. Following Merkl-Davies et al. (2011). the composite of *z* scores is derived as follows:

Self presentational dissimulation = - *z*Word Count + *z*Positive Emotion + *z*Negative Emotion – *z*Cognitive Complexity – *z*Reference to Self – *z*Reference to Others.

It is assumed that the higher the score, the more likely it is that a firm is portraying a public image of organisational outcomes which is inconsistent with the managerial view of organisation outcome, hence to the potential for reporting bias.

Research Findings
Table 2 presents the descriptive statistics for the six linguistic indicators and the composite of *z* score for self-presentational dissimulation for our sample of Chairmen Statements. It can be seen in Table 2 that the mean for number of word counts for the whole firms used in the sample is 1079.81, with a minimum of 381.00 and maximum of 2742.00 word counts used in the Chairmen Statements. These minimum and maximum word counts both come from the non-fraudulent financial reporting group. Meanwhile, the minimum and maximum word counts (results not tabulated) for the fraudulent financial reporting group are found to be 413.00 and 2319.00, respectively. Further, the results (not tabulated) also reveal that on average, fraudulent financial reporting firms have lower word counts than their non-fraudulent financial reporting counterparts with a mean of 988.02 and 1171.6, respectively. This is consistent with DePaulo et al. (2003) who argue that among the linguistic characteristics of deception is shorter text for it provides less details in the accounts of events.

Table 2:
Descriptive Statistics for Linguistic Indicators of Impression Management

Variable	n	Mean	Median	SD	Min	Max
Word count (number of words)	80	1079.81	982.00	568.93	381.00	2742.00
Word count (natural log of word count)	80	2.98	3.00	0.22	2.58	3.44
Positive emotion words (%)	80	3.54	3.43	0.99	1.85	6.62
Negative emotion words (%)	80	0.61	0.50	0.50	0.00	2.62
Cognitive complexity (%)	80	3.03	2.99	0.65	1.66	4.88
Reference to self (%)	80	4.17	3.68	3.42	1.42	31.66
Reference to others (%)	80	0.33	0.26	0.34	0.00	1.89
Composite of *z* scores	80	0.00	-0.02	2.47	-10.23	5.73

The descriptive statistics also show substantial differences in the mean values between positive and negative emotion words (3.54%) and negative emotion words (0.61%). This suggests that, on average, the Chairmen Statements accounted for in the sample tend to contain four times as many positive emotion words rather than negative emotion words. This in a way could imply that such corporate narrative could contain financial reporting bias with firms introducing positive bias into corporate narrative documents. Nonetheless, the findings also indicate that the mean score for positive (negative) emotion words of fraudulent financial reporting firms are 3.50 (0.62) compared to non-fraudulent financial reporting firms that have the mean score of 3.60 (0.61). Such lower (higher) mean scores are contradictory to Newman et al. (2003) argument that increased use of emotion words (both positive and negative) as indicator for deception. This however requires further analysis.

Further, the results for cognitive complexity indicator show that the overall mean score is 3.03 while the minimum and maximum values are 1.66 and 4.88 respectively. Newman et al. (2003)

posit that in order to avoid complex stories, deceptive texts usually contain fewer words indicative of cognitive complexity. However, further analysis (results not tabulated) is inconsistent with this argument, with fraudulent financial reporting firms exhibiting higher mean value for cognitive complexity (3.08) compared to their non-fraudulent financial reporting counterparts with mean value of 2.98.

Table 2 also shows that the mean for self-references and references to other are 4.17 and 0.33, respectively. Both the minimum and maximum values for self-references come from the non-fraudulent financial reporting group while the mean score for this group is also found to be higher (4.28) compared to the fraudulent financial reporting group (4.05). This finding is consistent with firms engaged in deception to avoid using self-referencing words to distance themselves from their stories and avoid taking responsibilities for their behaviour (Newman et al., 2003).

Finally, it can also be seen in Table 2 that the composite of z scores has a mean value of 0.00, a minimum value of -10.23 and maximum value of 5.73. It is stipulated earlier that higher z score indicate higher possibility of self-presentational dissimulation. Consistent with this, further analysis reveal that fraudulent financial reporting firms have higher z score (-0.21) compared to non-fraudulent financial reporting firms (-4.28). Although the difference between the two groups appears to be fairly substantial, further tests are needed to provide a more conclusive explanation.

A Mann-Whitney U test is conducted to compare the differences between the two sample groups, fraudulent financial reporting firms and non-fraudulent financial reporting firms. H_{01} suggests that fraudulent financial reporting firms have higher tendency to engage in self-presentational dissimulation (presenting an inaccurate view of organisational outcomes) than their non-fraudulent financial reporting counterparts. From Table 3, it can be seen that self-presentational dissimulation (as represented by z score composite) in the fraudulent financial reporting group is not statistically significant than the non-fraudulent financial reporting group (U = 709.00, p = 0.381). Thus, the result provides no support for H_{01}.

Table 3:
Test of H_{01}: Self-Presentational Dissimulation

Descriptive Statistics	Fraudulent Financial Reporting Firms (n = 40)	Non-Fraudulent Financial Reporting Firms (n = 40)	U statistics (p-value)
Mean of z score composite	-0.21	-4.28	709.00 (0.381)
SD	2.18	5.43	
Median of z score composite	-0.16	-3.95	
Minimum of z score composite	-4.71	-34.49	
Maximum of z score composite	4.17	2.23	

Discussion and Conclusion

The result (as illustrated in Table 3) fails to reject H_{01}, with no significant difference found in *z* score composite between the two groups. This suggests that firms do not use disclosure of accounting narratives in their Chairmen Statements to present an inaccurate view of organisational outcome by constructing an impression that is at variance with an overall reading of the annual report. Thus, it can be argued that fraudulent financial reporting firms have no greater motivation to engage in self-presentational dissimulation than their non-fraudulent financial reporting counterparts.

One primary reason that can be put forward in support for this finding is due to the level of exposure received by fraudulent financial reporting firms. Since these firms are already under the watchful eye of the authority, shareholders, creditors as well as other interested stakeholders, any information provided to the public that is inconsistent with actual organisational outcome can lead to serious repercussions. As such, no attempts are made by fraudulent financial reporting firms to introduce reporting bias in their corporate narrative documents. This is also consistent with Rahman (2012) who argues that impression management strategies may not always work due to some extended consequences such as financial crisis.

This study can be regarded as an extension of previous studies in the area of impression management. It employs a social psychology perspective to corporate reporting and impression management. Specifically, this study provides greater insights into the role of accounting narratives used by corporations as an impression management mechanism unique to Malaysian setting.

Acknowledgement

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