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The Role of Financing Systems in Causal Reasoning

A content analysis of companies from Germany and the United Kingdom

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Summary

Title	The Role of Financing Systems in Causal Reasoning - A content analysis of companies from Germany and the United Kingdom
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Keywords	Financing systems; Causal reasoning; Self-serving attributions; Attribution theory; Impression management
Purpose	The purpose is to highlight the importance of the split, equity/outsider and credit/insider, in financing systems. More specifically, it seeks to address whether the split will have an effect on the self-serving attributions made by companies in Germany and the UK.
Methodology	The paper uses a quantitative research design with a deductive approach. A content analysis is conducted. A coding scheme, based on Bettman and Weitz' (1983) guidelines is used to detect self-serving attributions in the letters to the shareholders from Germany and the UK in one year, 2014 or 2015. Six null hypotheses are stated, which are later on tested using statistical tests.
Theoretical perspectives	The theoretical framework of this study is based on financing systems and attribution theory.
Empirical foundation	Letters to the shareholders from a total of 66 companies from Germany and the UK are used as primary data for the empirical results. The formats of the annual report tend to vary. Therefore, the most standardised component of the report discussing performance is analysed, which is claimed to be the letter to the shareholders (Bettman & Weitz, 1983).
Conclusions	The results show that for the profitable companies, the mean differences of Germany and the UK in regards to self-serving and self-enhancing attributions are statistically significant at the 0,05 level using one-tailed <i>t</i> tests. However, the mean difference of self-protective attributions of the two countries is not statistically significant using one-tailed <i>t</i> tests. For the unprofitable companies, no mean rank difference is statistically significant at the 0,05 level in Mann-Whitney <i>U</i> tests. The implication of the results is that financing systems can be used to explain the statistical significant differences are found. However, we also find that sometimes a credit/insider can reveal characteristics that equity/outsider systems tend to exhibit. This can explain why some results are not statistically significant.

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Wordlist

Attribution	an outcome linked to a cause
Causal reasoning	to give attributions, that is give a cause to an outcome
Letter to the shareholders	can be the equivalent to the CEO letter, the chief executive's review, the president's letter, the CEO's message, and the chairman's statement
Self-enhancing attribution	favourable outcome, internal cause
Self-protective attribution	unfavourable outcome, external cause
Self-serving attribution	the use of self-enhancing and self-protective attributions
Self-serving bias	the manager's verbal strategy to uphold a certain image

Abbreviations

D/E	debt/equity
FE	favourable outcome, external cause
FI	favourable outcome, internal cause
UE	unfavourable outcome, external cause
UI	unfavourable outcome, internal cause

1. Introduction

1.1 Background

Crowther, Carter and Cooper (2006) describe financial reporting as operating through two different languages, called “linguistic registers”. The first language is that of accounting, whereas the other is the natural language of the company. In the annual report the language of accounting is represented by the measures, statistics and numbers, while the natural language is represented by textualisations and contextualisations of these numbers in the form of descriptions, stories and explanations. The language of accounting and the natural language of the company complement each other, since the financial numbers of the annual report are better understood with the help of contextualization (Svensson & Sandell, 2016). In the same way the quantitative (financial portion) parts help strengthen the qualitative (narrative portion), which in turn communicate the company image (Jonäll & Rimmel, 2010).

One concern with the narrative, or rather qualitative section of the reports, is that it is not regulated and hence not audited (Schleicher & Walker, 2010; Geppert & Lawrence, 2008; Jonäll & Rimmel, 2010). This can therefore lead to the narrative being subject to impression management (Clatworthy & Jones, 2003; Merkl-Davies, Brennan, & McLeay, 2011). Impression management is defined as a company’s use of annual reports to influence the perceptions stakeholders have about a company (Hooghiemstra, 2000). Reputations can be beneficial or harmful for a company; a good reputation offers a competitive advantage (Hooghiemstra, 2000). Therefore, there is a tendency for companies to attempt to present themselves in the most favourable light by reporting good news willingly and becoming reluctant to report bad news (Buttny, 1985; Hooghiemstra, 2000). This might cause “selective financial representation” (Revsine, 1991). In other words, companies may try to influence their reputation through corporate reporting with the use of impression management (Hooghiemstra, 2000). This risks conflicting with the purpose of annual reports; providing an accurate, transparent representation of a firm’s financial position (Falschunger, Eisl, Losbichler & Greil, 2015). Accordingly, because it challenges the main purpose of annual reports, impression management has become a crucial topic of research.

1.2 Problematization

Studies have agreed that impression management is apparent in different ways and in different parts of the annual reports. Yekini, Wisniewski, & Millo (2015), for example, chose to study the positive tone revealed in the annual report as a whole. Other research (Clatworthy & Jones, 2003; Clatworthy & Jones, 2006; Cen & Cai, 2013; Cen & Cai, 2014; Cen & Cai, 2015) reviewed the chairman’s statement as it has been proven to be the most read part of the annual report (Cen & Cai, 2015). These studies also focused on the comparison between least and most profitable companies. Finally, a portion of studies (Falschunger et al., 2015; Beattie & Jones, 2000; Beattie, Dhanani & Jones, 2008; Dilla & Janvrin, 2010) reviewed impression management appearance using graphs as a visual. The vast research regarding the different aspects of impression management illustrates how the subject is prevalent.

Research has discussed the use of impression management relating to attribution theory. Attribution theory looks at the justification that managers give for their actions, in other words their causal reasoning (Gollan & Witte, 2008). Attributions refer to any outcomes, favourable or unfavourable, that is linked to a cause, internal or external. Favourable or unfavourable outcomes could be related to, for example, increased or decreased performance, whereas internal or external causes could be related to, for example, company strategy (internal) or market prices (external). The research field on attributions is mainly concerned with self-serving attributions (Bettman & Weitz, 1983; Staw, McKechnie & Puffer, 1983; Salancik & Meindl, 1984; Aerts, 1992, 1994, 2001, 2005; Clatworthy & Jones, 2003; Merkl-Davies, Brennan & McLeay, 2011). Self-serving attributions refer to when a company management attributes favourable outcomes to internal causes and attributes unfavourable outcomes to external causes, hence, presenting themselves in the best possible light (Bettman & Weitz, 1983; Clatworthy & Jones, 2003).

In a United States (US) context, Bettman & Weitz (1983) wanted to see if there is a difference in the use of self-serving attributions between companies operating in a “good” or “bad” year according to external factors, not company performance. Company performance was reviewed by Staw, McKechnie and Puffer (1983) and Salancik and Meindl (1984), who were interested in whether company performance and financial health determined the amount of self-serving attributions used. In an European context, Aerts (1992, 1994, 2001 & 2005) conducted several studies of Belgian companies in the interest of understanding how self-serving attributions are used in these companies. Also in a European context, Clatworthy and Jones (2003) compared the most and least profitable companies in the United Kingdom (hereinafter referred to as UK) to see whether there is a significant difference in their reporting of self-serving attributions. Following in the footsteps of prior literature, we are also interested in comparing the use of self-serving attributions. However, to add to prior research we are interested in making a further distinction which, to the best of our knowledge, has not been done before, namely to compare the use of self-serving attributions between countries with different financing systems

The key cause of international differences in financial reporting lies in the differences in equity/outsider and credit/insider systems, which is the financing systems (Nobes, 1998; Nobes & Parker, 2012). The split between equity and credit and outsider and insider affect the two aspects of financial reporting, namely, measurement and disclosure. Measurement refers to information regarding financial reporting. Disclosure, on the other hand, refers to the amount of information (Nobes, 1998). By using the label for the countries as equity/outsider and credit/insider we are essentially looking at both measurement and disclosure. Our interest in this study, however, is solely to discuss disclosure and not measurement. Thereby, we will focus on the insider/outsider split. Although this is describing aspects of financial reporting, we have stated that the financial and narrative parts of an annual report complement each other (Svensson & Sandell, 2016). By basing our study on this notion, we are assuming that if a company discloses, for example. Less information in the financial parts, then the company will disclose less in the narrative parts.

Following the argument above, we feel as though an interesting comparison would be to look at the letter to the shareholders in the annual report of companies coming from one country with a credit/insider system and one country with an equity/outsider system. According to Nobes and

Parker (2012) companies from the equity/outsider system are assumed to disclose more information. By looking at these particular companies' letters to the shareholders, we are, therefore, interested in whether companies coming from an equity/outsider country will make significantly more self-serving attributions than companies coming from a credit/insider country. Based on the assumptions made by Nobes and Parker (2012) we are expecting to see significantly more self-serving attributions made in companies coming from an equity/outsider country.

In order to address the gap defined above, we must choose two countries that differ in their financing system. This will help determine what attributions are made in the narrative parts of the annual report. According to this criterion we have chosen Germany and the UK. Franks and Mayer (2001) and Nobes and Parker (2012) both agree that Germany and the UK are token examples of credit/insider systems and equity/outsider systems, respectively.

1.3 Aim

Our aim is to study how the management of a company justifies certain actions or events by what factors they attribute to the results of the company's performance. We aim to highlight the importance of the two systems, equity/outsider and credit/insider, and whether they have an effect on the extent to which self-serving attributions are made. By doing so we would like this study to indicate the importance and impact of financing systems, as they are claimed to be the most important factor for international differences.

1.4 Research question

Based on the aim, we seek to answer the following question:

1. Do companies from an equity/outsider system make more self-serving attributions than companies from a credit/insider system in their letter to the shareholders of the annual report?

1.5 Outline

In order to answer our research question effectively, this paper is structured in the following manner. Following the introduction there will be a chapter regarding the theory. In which we talk about the appearance of impression management and introduce attribution theory as a self-presentational strategy within impression management. Furthermore, in the theory chapter we also present and describe the existence of a split in financing systems from which we derive the hypotheses. The next chapter will discuss the method. In the method chapter we will explain the research design and sample selection. Following that we will present our results, which will then be discussed. Through that we will establish a conclusion, which will include the limitations and future research suggestions of our study.

2. Theory

Impression management, or self-presentation, is defined as people needing to present themselves favourably or make a good impression on others (Sadler, Hunger & Miller, 2010). It was first introduced in psychology, of which Schlenker was among the first researchers in 1980. Schlenker viewed impression management as the core of interpersonal relations. He proposed that individuals tend to control perceptions (unconsciously or consciously) in interactions (real or imagined) (Cen & Cai, 2014). This can sometimes mean that a person organizes his or her behaviour to make an impression and affect the perceptions of surrounding people (Mažeikienė & Peleckis, 2009). This process is also referred to as self-presentation strategies. In other words, it will be an active nonverbal and/or verbal behaviour that strives to create an image for the surrounding people of the environment. This image is created to be favourable in order to strengthen and sustain a certain goal. This goal will depend on what skills or abilities the individual wants to present (Mažeikienė & Peleckis, 2009).

These aforementioned self-presentation strategies can be beneficial to managers as it can reinforce reputations as well as help managers address and effectively handle threats (Brennan, Guillamon-Saorin & Pierce, 2009). This can be achieved through the annual reports. Annual reports consist of financial and narrative reports. The narrative reports should focus on disclosing the reasons for the outcome of the financial reports (Crowther, Carter & Cooper, 2006). This can be done in different ways, as will be apparent in the upcoming section.

2.1 Appearance of impression management in reports

The perceptions of investors have become increasingly important for companies. Clarke and Murray (2000) explore the role that annual reports play in communicating with shareholders. It is crucial that the impressions that companies leave are positive and build confidence. There are a series of studies that are dedicated to analysing this tone. Yekini, Wisniewski & Millo (2015) for example, assessed the tone of annual reports, and whether narrative reports are used as an impression management tool or for disclosing essential information. Ultimately, they discovered that markets react positively to a positive tone in annual reports, and thus offer an indicative reasoning to certain market reactions. Schleicher and Walker (2010) created a similar study by focusing on the tone in reports, and specifically regarding reports that are forward looking. These studies both reveal that firms with imminent decreases tend to have a more positive tone. Narrative reports are vulnerable to impression management, which has raised the demand for regulation of narratives (Schleicher & Walker, 2010). Impression management can appear in various reports and in various forms. Below we will discuss studies regarding impression management in chairman's statements. Following that, different forms of impression management will be discussed, such as graphs and paratext.

2.1.1 Graphs

One way impression management is apparent is in graphs, as graphs are inclined to portraying a positive impression of the company's performance. Graphs are a convenient tool that influences the reader's impression and decisions (Falschlunger et al., 2015). Using graphs in annual reports

has become an universal phenomenon. Graphs have been portraying more operating issues rather than the traditional depiction of key financial figures (Beattie, Dhanani & Jones, 2008). The core advantage of using graphs is that readers can process information in graphs more easily than tables. Impression management is evident through the distortion of graphical measurement and selectivity (Dilla & Janvrin, 2010). Through Beattie, Dhanani and Jones' (2008) study they revealed that management has more incentive to manage impression than comply with the norms of reporting. Beattie and Jones (2000) find that companies use graphs to manage readers' impressions, and therefore call for reporting standards for graphical reporting.

2.1.2 Accounting narratives as a method of impression management

The chairman is legally responsible for the actions, or governance, of the company (Clarke & Murray, 2000). Thereby, there has been considerable focus on the chairman's statement when considering the financial health of a company. Clarke and Murray (2000) provide a research contributing to the view that the chairman's statement is crucial in the communication with investors. Clarke and Murray (2000) focus on the chairman's statement and the role it plays in communicating the actions of the company in this one sided exchange. Impression management has several aspects that need to be taken into considerations. This section divides these aspects into subsections. The trust in a chairman's statement depends on various determinants, such as the number of years that a chairman has been in office. Also, according to Cen and Cai (2015), the chairman's statements is the most read part of the annual report, hence, it is said to be more prone to impression management.

By studying the chairman's statement of the 50 most and least profitable listed companies in the UK, Clatworthy and Jones (2003; 2006), sought to understand whether the reporting style changes in accordance to the financial success of the company. These studies concluded that positive performance is emphasised, while negative performance is blamed on external causes, with both the most and least profitable companies. Clatworthy and Jones (2003) state that this contributes to the notion that impression management appears in accounting narratives. It reveals that the chairman's statement is prone to impression management. Clatworthy Jones (2006) found this to be evident as managers' tendency to relate their actions with the financial results was associated with whether the firm performed positively or negatively.

The focus of the tone of the chairman's statement changes in many ways, regarding the underlying performance of the firm (Schleicher & Walker, 2010). Clatworthy and Jones (2006) state how companies that are unprofitable tend to focus more on the future rather than the past. Additionally, there is reluctance in unprofitable companies to provide a lengthy chairman's statement. Moreover, chairmen are hesitant to use personal pronouns, or focus on key financial indicators (Clatworthy & Jones 2006). Cen and Cai (2014) and Schleicher and Walker (2010) concur that there are differences in the statements of negatively performing companies regarding textual differences. Moreover, firms that are considered 'riskier' will tend to take on a more positive tone.

In 2013, Cen and Cai looked into the study of impression management in Chinese companies' chairmen's statements, again looking at the 50 most and least profitable firms. The difference of

this study is that China is a developing country. This makes a difference as globalization is progressing and economic reform may demand managers to assume Western practices to attract shareholders. Overall, impression management is present in chairmen's statements. Cen and Cai (2015) held a similar study to Clatworthy and Jones (2003; 2006) and Cen and Cai (2013), but in the context of Australian companies. Similar to Clatworthy and Jones (2006), Cen and Cai (2015) assessed the difference, or lack thereof, in the characteristics of the text of chairman's statements. The results were similar as well, revealing that impression management existed in chairmen's statements, regardless of the profitability of the company.

The studies mentioned above have all proven that impression management is present in annual reports using different self-presentational strategies. As it has been explained above, managers use self-presentational strategies to influence the perception of the firm that readers receive (Brennan et al., 2009). One of these strategies is described as self-serving attributions which is a part of attribution theory described below.

2.2 Attribution theory

The management of a company has a tendency to blame external factors for poor performance and attribute good performance to themselves (Bradley, 1978; Bettman & Weitz, 1983). This is related to attribution theory where it is assumed that management will act in a self-interested manner (Brennan et. al., 2009). Attribution theory looks at the justification that managers give for their actions (Gollan & Witte, 2008). In 1958, a psychologist, Fritz Heider, drew the theoretical base for the theory of attribution, summarising his ideas and concepts in a monograph, *The Psychology of Interpersonal Relations* (Gollan & Witte, 2008). Gollan and Witte (2008) concern themselves with a specific chapter in this monograph titled 'Oughts and Values'. Oughts are described by Heider as beliefs that are culturally shared regarding what actions are right and wrong. The nature of the beliefs, according to Heider, is defined by five properties.

1. Command: "oughts are subjectively experienced as a form of command"
2. "Suprapersonal objective order": This refers to oughts exist objectively and are impersonal
3. Intersubjective validity: This means that all individuals must meet the same 'ought requirements' in a certain situation. In other words, every individual's moral judgements should be socially shared, regardless of that individual's wishes.
4. "The perception of an ought requirement has implications for action."
5. "Although oughts are socially shared and to a large extent invariant, they still depend on situational factors."(Gollan & Witte, 2008)

Individual's actions are compared and evaluated against these oughts properties. The individual acts in complying manner because they want to maintain the social approval of the community. The aforementioned properties are sometimes violated due to actions resulting from oughts are conflicting. For example, the requirements for oughts are sometimes violated as it clashes with the individual's personal desires (Gollan & Witte, 2008). Gollan and Witte (2008) mention that if there is an incongruence between the ought standard and the action of the individual, the

individual must support their behaviour. In regards to impression management, attribution theory regards the alteration and development of manager's verbal strategies to uphold a certain image. This is regarded as self-serving biases in organisational literature (Aerts, 2001).

Self-serving bias of attribution theory can be present in two ways, through defensive characteristics or by an assertive component. The assertive component refers to stressing or exaggerating the relevance, scope, and importance of positive actions or outcomes. On the other hand, defensive characteristics refer to "downplaying" the significance of events that are evaluated negatively (Aerts, 2001). This is evident in Bradley's (1978), Bettman and Weitz's (1983), Buttny's (1985) and Clatworthy and Jones's (2003), among other studies. These studies showed that companies' management tend to attribute the responsibility of negative outcomes to external factors, such as market prices, business climate, weather, government policy, and claim responsibility for positive outcomes, hence, presenting themselves in the best possible light. In the literature, these type of causal attributions have been labelled "self-serving", "hedonic" or "motivational" attributions, whereas the tendency to make such attributions has been labelled "attributional egotism" (Bettman & Weitz, 1983). When a company attributes favourable outcomes to internal causes this is called self-enhancing attributions, whereas when a company attributes unfavourable outcomes to external causes this is called self-protective attributions. The combination of the two is referred to as self-serving attributions (Bettman & Weitz, 1983).

2.2.1 Prior research on self-serving attributions

This paper argues that one of the reasons that managers' take part in self-serving biases is to manage the impressions of the public. The changes that they tend to manage are those that could have an effect of the view of the public regarding the organization (Bozeman & Kacmar, 1997). There are several studies, which will be explored below, that have explored the self-serving bias of attribution theory.

Bettman and Weitz (1983) looked at 181 annual reports published in 1972 and 1974 and focused on the letter to the shareholders. Although the authors did not choose companies based on company performance, their results showed that that self-serving attributions were used to a larger extent in the case when a company performed worse than expected.

Self-serving attributions were also found as a result of Staw, McKechnie, and Puffer's (1983) study. This study investigated whether there were self-serving attributions in the annual reports in 1977, specifically in the letters to shareholders of 46 companies with significant increases and 29 companies with significant earnings decreases. The authors found that there were more self-serving attributions in negatively performing companies, meaning that the companies were blaming external factors to a larger extent. Therefore, they managed to reveal that the self-serving attributions in the annual reports succeeded in managing the impressions of the public. This was seen as the attributions and improvements in stock prices correlated.

The degree of self-serving attribution varies in companies that have stable or unstable performance, as can be seen by a study by Salancik and Meindl (1984). This study looked at 18 stable and unstable firms in the US for a time span of 18 years (1961 to 1978). The authors found

that self-serving attributions were present in the narrative parts of the annual reports studied. Furthermore, the results showed that favourable outcomes were attributed to internal causes three times more often than any other cause. In the same way, unfavourable outcomes were attributed to external factors three times more often than any other cause.

Aerts developed four separate studies that looked at Belgian companies and specifically focused on the report from the Board of Directors in 1992, 1994, 2001, and 2005. The results from these studies revealed different aspects of impression management. In 1992, Aerts uncovered that the logic of accounting tended to shift towards justificatory and defensive explanations. In 1994, they studied the reports of 50 Belgian companies from 1983. The results showed that management chose to explain negative performance in technical accounting terms, whereas favourable outcomes were explained using causal reasoning, that is favourable outcomes were attributed to internal factors. In 2001, Arts studied 22 companies' annual reports from 1983-1990, that is he made in total 176 observations. He noticed a non-consistent pattern of attributions in that a consistently high level of positive attributions was not affected by overall performance change. Finally in 2005, Aerts revealed that companies tended to have a defensive attributional behaviour.

As was mentioned earlier, Clatworthy and Jones (2003) found that impression management appears in accounting narratives. They studied the chairman's statement of the top 50 and bottom 50 listed companies in UK partitioned by improving and declining performance. They looked at how these two groups reported good and bad news and found that regardless of the performance of the company, both groups were using self-serving attributions.

Merkl-Davies, Brennan and McLeay (2011) came to similar conclusions as Aerts (2005) when they conducted a content analysis on the word use in the chairman's statement of 93 listed companies in the UK. It was found that the chairmen's statements were used for impression management by means of enhancement, that is they were used to give an accurate, but also favourable, picture of the company and its outcomes.

As has been noted in prior research, there is evidence of impression management being present in annual reports, as measured by the use of self-serving attributions. The majority of these researchers looked at companies from one country and focused on either looking at the existence of impression management or comparing between companies with declining or increasing performance. None of the research has taking into consideration another aspect which separates companies in how they choose to disclose information, namely the financing systems. The split in financing systems will be described further below followed by the hypotheses developed for this thesis.

2.3 Financing systems

Since the narrative part of the annual report is not regulated, different factors might affect what managers choose to disclose in this part. One factor might be culture. However, Nobes (1998) states that rather than culture affecting accounting directly, it is instead considered one of the background factors leading up to differences in the financing system. Other factors which are

considered to cause international differences are legal systems, tax rules, external forces (for example former colonies), inflation and international variations in the strength and size of the accountancy profession. For example, the equity/outsider system is associated with the common law system, whereas codified law countries tend to have credit/insider systems (Nobes, 1998). According to Jaggi and Low (2000) companies from common law countries have higher financial disclosures compared to companies from code law countries. The authors also argue that since legal systems have a strong impact on corporate ownership and debt financing, they also have a significant influence on financial disclosures (Jaggi & Low, 2000). Nobes and Parker (2012) state, however, that the strongest influence comes from whether or not there is a strong equity market, in other words financing systems.

In 1983, Zysman distinguished between three different financing systems, the first one being capital market based, where prices are established in competitive markets (the UK and the US) (Nobes, 1998). The second system is referred to as the credit-based system; governmental, in which the government administers resources (France and Japan). Finally, there is the credit-based system; financial institutions, where dominance is held by banks and other financial institutions (Germany). Zysman's three types of financing systems can be simplified to equity and credit (Nobes, 1998). To these two classifications, Nobes (1998) also included the distinction between insiders and outsiders, hence, categorizing the systems equity/outsider and credit/insider systems. The outsider systems are represented by countries such as the UK and the US and are characterized by having large equity markets, dispersed ownership and active markets in corporate controls. Insider systems are represented by countries such as Germany and are characterized by having small numbers of quoted companies, concentrated ownership and low levels of takeover activity (Franks & Mayer, 2001).

It is important to note that measurement and disclosure are two aspects of financial reporting that can be separated. The issues of each, measurement and disclosure, are driven by splits in equity/creditor and outsider/insider, respectively. The split between equity and creditor systems changes the objectives for financial reporting. Equity market systems require more relevant information regarding performance. Additionally, there must information regarding the assessment of future cash flows. This is due to aid with financial decisions. Creditor systems, on the other hand, are more prudent when calculating profit. The insider/outsider split, however, affects the amount of information. In systems that outsiders are important in, the demand for published financial reporting is higher. (Nobes, 1998)

In an equity/outsider system, outsiders refer to people outside of the board of directors. Overall, their relationship with the company is not privileged (by this, Nobes (1998) mentions an example of a privileged relationship to be one a company's banker holds as he is a major shareholder). Outsiders include some institutions and private individual shareholders. In an outsider system, there is a demand for public disclosure and for external audit. The reason for this is because these types of systems involve a large number of shareholders in important equity markets. The demand is present because as there is no involvement in management by the shareholders. There is also no private access for the shareholders to financial information. For this reason when companies prepare annual reports for countries that have an equity/outsider makeup, they are

concerned mostly with outside users. More specifically, their concern lies in enabling outside users of the annual reports to predict future cash flows based on the reported financial performance of the company. (Nobes, 1998)

In a credit/insider system, insiders are defined as institutions whose relationship with their investees is closer and long-term. Examples of insiders include banks, governments, families, and other companies. The close relationship will consist of a private provision of frequent and timely accounting information. Thereby, the formulation of financial reports will be concerned more with the protection of the company's creditors. This means the calculation of distributable profits will be formulated as in a prudent manner. Furthermore, the financier of these companies (insiders) does not call for externally audited and published reports (Nobes, 1998). Germany is considered a credit/insider country, in which the banks are sometimes both important owners and providers of debt finance. In these cases, when the companies are owned and controlled by the banks, the banks are able to for example nominate directors and through them obtain information and, thus, affect decisions (Nobes & Parker, 2012). This means that the need for further information in terms of disclosure is less in the credit countries, such as Germany.

Nobes (1988) noted, however, that the distinctions between equity/outsider and credit/insider were not always clear cut. A credit/insider country could sometimes also be classified as having higher levels of disclosure, that is show characteristics of having an outsider system, especially when the country has unusually large market in listed debt. An example would be the German system for listed companies.

2.4 Hypotheses developed based on prior research and the financing systems

As has been explained in this chapter, the presence of impression management has been evident in different studies and through different self-presentational strategies. One of these strategies has been described in attribution theory as the use of self-serving attributions. The majority of prior studies of attribution theory are focused on the comparison between companies with increasing and decreasing performance. As it will be explained in "sample selection" in the method chapter, we will also make the separation between profitable and unprofitable companies in addition to the distinction between credit/insider and equity/outsider systems, represented by Germany and the UK. Our research question is concerned with whether companies coming from an equity/outsider country will make more self-serving attributions than companies coming from a credit/insider country. In order to give an answer to this question we have developed a set of null hypotheses. The first three hypotheses concern the profitable companies as these will be compared to each other.

Our first main hypothesis responds to our research question:

H1: Profitable companies in the UK do not make significantly more self-serving attributions than profitable companies in Germany.

Under the first main hypothesis, we have two more null hypotheses which look at the self-enhancing and self-protective attributions separately.

H1a: Profitable companies in the UK do not make significantly more self-enhancing attributions than profitable companies in Germany.

H1b: Profitable companies in the UK do not make significantly more self-protective attributions than profitable companies in Germany.

We did the same thing for unprofitable companies. The second main null hypothesis is:

H2: Unprofitable companies in the UK do not make significantly more self-serving attributions than unprofitable companies in Germany.

Following the second main hypothesis, we have the following null hypotheses:

H2a: Unprofitable companies in the UK do not make significantly more self-enhancing attributions than unprofitable companies in Germany.

H2b: Unprofitable companies in the UK do not make significantly more self-protective attributions than unprofitable companies in Germany.

3. Method

3.1 Process of literature search

Initially, we approached this study by researching what has already been studied in impression management. This search was mainly done through the Lubsearch database. We searched for keywords such as “impression management”, “financial reports”, “annual reports”, “narrative reports”, “attribution theory”, “accounts”, “culture”, “financing systems” and “disclosure”. We then made sure to select “peer reviewed” to narrow down the results. We paid special attention to the articles published by more central journals, such as *Accounting, Auditing & Accountability Journal*; *Accounting and Business Research*; *Accounting Horizons*; and *International Journal of Accounting*. These types of journals allowed us to gain a more valuable search. After having found the articles which suited our topic, we then did something called the ‘snowball effect’ which simply means that we had a look at the literature reviews and reference lists of the article’s we initially found. In this way, we were able to find relevant and valuable articles, which we were not able to find with the help of our keywords in Lubsearch. Also it is worth noting that we chose to disregard some of the books cited, such as books by Goffman and Schlenker, in the articles. The reason for this is because, either we were not able to get a hold of the book, or we found that the information in the journal articles that we found was sufficient.

3.2 Research design

The paper uses a quantitative research design with a deductive approach. In comparison to the qualitative studies, which tend to be inductive and relatively subjective, the quantitative research is based on quantification and is focused on generalizing results to a certain population (Bryman & Bell, 2003). This is relevant to us as we are interested in what attributions the management of a company chooses to make in the letter to the shareholders in the company’s annual report.

3.2.1 Content analysis

Content analysis aims to focus on specific characteristics of a certain message by making an inference by being systematic and objective. The analysis is achieved by systematically applying rules that are specified beforehand. The rules are used to assign raw materials, for example newspaper articles, or in our case letters to the shareholders, into categories. These rules act as an observation schedule. This schedule aids the systematic processing of the letters to the shareholders. Additionally, it will help curb personal biases by the analysts (the authors of this paper) in the process of analysing the statements. In other words, creating a schedule will increase the transparency of the analysis. Furthermore, being systematic will encourage a consistent application of the set rules. This will further decrease any bias provided that it is followed out correctly. By involving these two qualities (being systematic and objective), content analysis hopes to allow for replications and follow-up studies to be feasible. An appropriate coding schedule which is set out clearly aims to allow for future studies to achieve similar results. The concern lies in the formulation of the rules. This refers to the possibility of the researcher’s concerns and interests reflecting in the rules. (Bryman & Bell, 2007)

Content analysis can be an advantageous research method. One advantage is that content analysis is a non-reactive method. In other words, it is an unobtrusive method. This refers to the fact that the participants in a study do not have to take a researcher into account. This is evident when analysing newspapers and television programs as these are not written knowing that a content analysis will be carried out on them. However, letters to the shareholders may be influenced by a reactive effect, the reactive effect being that chairmen expect the letters to the shareholders to be scrutinised by, for example, analysts, shareholders, competitors, suppliers, and employees. Thereby, since they know that they will be scrutinised, they will react appropriately. Therefore, it is not the content analysis that introduces this reactive effort, rather is it already present in the letters to the shareholders. Furthermore, content analysis is a flexible method in the sense that it can help analyse a variety of types of unstructured information. Finally, content analysis creates the opportunity for information about social groups, which can be difficult to gain access to, to be generated. One example of such groups would be company directors. The information gathered regarding company directors has been generated from content analysis of their publications. Another advantageous aspect of content analysis is that it aims to uncover what the content is clearly about. It seeks to identify the meaning that may not be apparent on the surface. Content analysis refers to the ‘latent content’, or rather content that is meant to give an impression. In particular it looks at the themes and linguistic structure apparent in the content. This requires identifying certain ideas within the content. (Bryman & Bell, 2007)

3.2.2 Framework for content analysis

The analysis we have chosen, content analysis, can be used to measure different ‘units of analysis’ (words, subjects and themes, and dispositions). We want to explore whether companies from a country with an equity/outsider system make more self-serving attributions than companies from a country with a credit/insider system. In order to do this, we have followed the guidelines on how to detect attributions in general and self-serving attributions in particular, described by Bettman and Weitz (1983). Bettman and Weitz (1983) based their guidelines on the model developed by Weiner (1979). Weiner’s model considers three factors to explain the properties of causal reasoning; the locus of causality, controllability of the cause; and causal stability. The locus of causality refers to if the cause is internal or external. Causal stability refers to whether this cause persists over time, then it is considered stable, and if not then it is unstable. Finally, the controllability of the cause refers to whether the company can do something about the cause (Bettman & Weitz, 1983). Bettman and Weitz (1983) studied self-serving attributions in two years. As it will be explained in the sample selection, we are only studying self-serving attributions in one particular year. Therefore, we will only consider locus of causality, as causal stability and controllability of the cause will not help answer our research question. In summary, the guidelines described in Bettman and Weitz (1983) will be used when coding the letters to the shareholders.

Before the coding commenced, what we took into consideration should be considered. Our primary aim is to evaluate the letter to the shareholders of each company. In order for it to be considered a letter to shareholders it must meet one of these certain criteria. When we talk about the letters to the shareholders, this could entail any of the following labels in the annual report:

chairman's statement, the CEO letter, the chief executive's reviews, the president's letter, the CEO's message (Jonäll & Rimmel, 2010). Our consideration of the letters also followed that order, which means that if there was a section that was not labelled "Chairman's Statement", then we considered the CEO letter and so on. The important aspect was that the letter had to be clearly addressed to the shareholders. Throughout our study we had to reject certain companies because they did not fulfil any of these requirements. One example of a company that we had to reject was the German company, ProSiebenSat.1 Group. This company had a report from the supervisory board. It also had interviews with the members of the Board of Executives. Even though the letter from the supervisory board was directed towards the shareholders, it did not revolve around the company performance, and it did not attribute any causes to the outcomes. Therefore, this was rejected. Once the letter to the shareholders was selected, then the coders could apply the guidelines to code. Both coders, in this case the authors themselves, coded all the companies, and their results were compared and discussed. The guidelines we followed are, as mentioned above, based on the guidelines in Bettman and Weitz (1983), which will be described below.

The first was to identify all instances where we found causal reasoning. Causal reasoning is another word for making attributions. An instance of causal reasoning is a sentence or a phrase, in which a performance outcome is linked with a cause for that outcome (Bettman & Weitz (1983). In the letter to the shareholders a performance outcome referred to sales, profits, return on investment, divestment, acquisitions, and anything that had to do with a strategic move of the company. This would also include a change in strategy. Further clarification regarding the first step and the detection of attributions:

- Statements were dismissed if they only had an outcome and no cause. An example of this would be "profits increased". Thereby, there must be a cause related, otherwise the attribution should not be considered.
- If outcomes were just restated, then they were not considered as attributions. In other words, if there is no cause, but two outcomes it will not be considered. For example, "Profits increased, because sales increased" just discusses two outcomes.
- Similar to the previous point, we did not consider statements that discussed the company achieving favourable outcomes despite unfavourable circumstances if there was no clear cause stated. For example, "we were able to further strengthen the cooperation with our customers despite the more difficult market conditions" (Shumag, 2015) would not be considered an attribution. The reason for this is that there is no causal reason provided for their ability to strengthen the cooperation with their customers.
- "Because of" and "in spite of" statements can be interpreted as causal statements. However, we chose to not include them because they are ambiguous when coding them. If we consider the example "Profits increased, because sales increased", we do not know whether it was an internal or external cause that caused sales to increase.
- In order for the phrase to be considered attribution the causal reason and the outcome were considered if they appeared close to each other. This would mean that the attribution statement, both the outcome and causal information, would be found within one or two statements.

- If a performance outcome had more than one cause then we would consider each cause as a separate attribution. For example, the sentence “The improved results is basically due to the implemented measures for productivity increase as well as further cost savings in financing and other expenses.” (Schumag, 2015) was attributed as two attributions. In this case “improved results” is the outcome and “the implemented measures for productivity” is one cause and “further cost savings in finance and other expenses” is the other cause.
- The attributions had to refer to the performance of the year of the annual report. However, the attributions could refer to causes leading up that particular outcome in the year of the annual report. For example, “The group saw a continuation of positive trading trends with strong contribution from dealerships acquired in the past two years” (Vertu Motors, 2014)”. Sentences that stated anticipated performance of the company in the future were not considered.
- Any causes that were ambiguous for any reason were not considered. One example could be the following, “inevitably, improvements in financial performance lag operational changes” (JD Sports Fashion, 2014), which is incomprehensible. Another example is, “Cultural transformation has ... been on the priority list and we are already seeing tangible results” (Impellam Group, 2015). This is ambiguous as it does not link the cause and outcome. Additionally, “tangible results” is considered ambiguous as it does not state whether it is a favourable or unfavourable result.
- We considered any strategic move by the company as a cause. This included acquisitions, investments, divestments, new products, and finally efforts of employees. The attributions were not limited to this list, but they have to comply with all the guidelines.

Once we identified an attribution, the second step was to code whether the performance outcome was favourable or unfavourable. A favourable outcome would be considered one that states an improvement in performance of profits, sales, or costs. Any statement showing the opposite would be considered unfavourable.

The third step consisted of determining whether the cause of the attribution was internal or external. What this refers to is whether it was actions of the firm (internal) that managed to produce the outcome, or whether it was due to an external factor. An example of an external factor could be, “the_low oil price_made a major contribution to the good result” (Lufthansa Group, 2015). If we continue with this example, we can see that it is a favourable outcome “good results” and it is due to an external cause “low oil price”.

As mentioned previously, we only coded the attributions (causes and outcomes) that were unambiguous and related to performance. Statements that could be interpreted as ambiguous were not coded. The reason we did not code these was that it would have possibly decreased the reliability of the study. Thereby, to maintain a level of reliability, the letter to the shareholders should be interpreted in line with the abovementioned guidelines.

Finally, the last step was to group the outcomes with the causes and list them in a spreadsheet. This way of listing the attributions is also the basis for how we compared the attributions between the companies later on. This is also the step that differs slightly from how Bettman and Weitz

(1983) compared their results. Once we had found the outcome and the cause, we grouped them into “favourable and internal” (FI), “favourable and external” (FE), “unfavourable and internal” (UI), or “unfavourable and external” (UE). These “units” (FI, FE, UI, UE) were later on compared between the companies (see Appendix 1). Bettman and Weitz (1983), on the other hand, tested the differences between the outcomes and causes separately between companies. What is important to note is that FI, FE, UI, and UE represent the attributions, that is an outcome linked to a cause. However, when we want to compare self-serving attributions, we are only interested in comparing FI and UE separately and FI and UE in combination, since this is essentially what we are testing (see our hypotheses in the theory chapter).

3.2.3 Inter-coder reliability

When designing a coding scheme as a method of analysis, there can be some potential pitfalls. If these pitfalls are not addressed they can harm the quality and accuracy of the whole study. There are several dangers that we will briefly discuss. First, we should consider discrete dimensions. This refers to ensuring that our dimensions are completely separate, meaning that there cannot be an empirical or conceptual overlap. Next, we must ensure that the categories we address are mutually exclusive. Thereby, if there is an overlap in the categories, the coders could be unsure how to code a certain item. Additionally, the coding scheme must be exhaustive. This refers to the concept of having a code for every possible category. Moreover, the instructions must be clear. The coders must have a clear understanding of what code to assign for each category. This will also ensure a uniform coding throughout the study. Finally, we must be clear about the unit of analysis (Bryman & Bell, 2007). We have been clear in this as we have defined precisely what attributions we will consider.

As the pitfalls have been discussed above, it is understandable that a great concern of a content analysis is the reliability of coding. In other words, the coding has to be consistent between the two coders; this is defined as inter-coder reliability. To ensure a high degree of reliability, both authors coded all of the material. To enhance the quality of our coding, we started with a pilot trial. A pilot trial can reveal difficulties that could occur relating to an uncertainty about what code to employ when considering a specific dimension. Another difficulty that can occur is that there was no code for a specific case. Piloting can also indicate whether a category has to be broken down. This could be necessary if one dimension subsumes a large percentage of items (Bryman & Bell, 2007). Our pilot served to help identify any difficulties similar to the ones that have just mentioned. What this meant in our case is that we started coding all letters to the shareholder from German companies and then compared our results. One of the authors had found a total of 99 attributions (total of FI, FE, UI, UE) and the other had found a total of 107 attributions (total of FI, FE, UI, UE). At this stage we had an agreement of 92 percent¹. We discussed the importance and relevance of every aspect of our code so that when we coded the rest of the letters to the shareholders, there would be even less errors.

¹ To find the agreement we took the following approach: $percentage\ difference = \left(\frac{\text{difference of values}}{\text{average (mean) of values}} \right) \times 100$

After the pilot trial, we then went back to coding the rest of material, that is all of the companies from the UK, separately. After having finished coding, we compared our results once again. One of the authors had found a total of 107 attributions and the other had found a total of 100 attributions. This time we had an agreement of 93 percent, which is a slight improvement from the first sample we compared. Both of our interpretations on our coded samples are considered as high percentages since 80 percent is recommended as an acceptable level of inter-coder reliability (Hackston & Milne, 1996; Milne & Adler, 1999). This means that the guidelines we followed were comprehensible and we are confident that if the same study were to be repeated, it would produce similar results. Finally, as we were discussing our coded material, we made a new list with the final attributions which we both agreed on. This list can be found in Appendix 1.

Coding all of the material manually, as we did, is a more subjective and sensitive approach, than computer-based coding. Although Clatworthy and Jones (2003) highly recommend an objective approach, they find that a degree of subjectivity is inevitable. This is inevitable as we are analysing narrative information and a level of interpretation is required. Therefore, even computer-based approaches will require an interpretation and judgement of the systematic counts of keywords (Clatworthy & Jones, 2003).

3.2.4 Ethical considerations

As aforementioned, content analysis is an unobtrusive method. Thereby, there are no major ethical issues that must be taken into consideration. The letters to the shareholders are taken from listed companies. Hence, the information is already public, and we do not have an issue of anonymity or confidentiality. We do not have to consider the informed consent as letters to shareholders are written with the knowledge that they will be subject to scrutiny. These observations about ethical consideration are based on Bryman and Bell's (2007) chapter on ethics.

3.3 Statistical analysis of content analysis

Creating a list of attributions for each country, and coding them into specific categories is not enough to answer our research question. Our research question asks whether companies from an equity/outsider system make more self-serving attributions than companies from a credit/insider system. As it will be explained in the section about sample selection below, in order for us to be able to compare the companies from the two countries we separated the companies that had been performing well in that particular year from those who had performed worse in terms of profits before tax. This allowed us to give a clearer comparison of the attributions made in the two countries. That being said, in the previous chapter we developed two main hypotheses, under which two more sub-hypotheses were developed.

The first main hypothesis (H1) and sub-hypotheses (H1a-H1b) concern the profitable companies with a total sample of 48 companies (we will describe how we ended up with the number of samples in "sample selection" below). Independent samples *t* test (hereinafter referred to as *t* test) are popular to compare two samples and is used when the samples are unrelated, with different participants in each sample. It is also used when the sample has more than 30 participants. We

have to be cautious when imputing our data, as t test will not let us know if we have made a mistake. It is just a statistical technique. This will help us determine whether there is a difference in the two samples (Germany and the UK), but it will not show the cause of the difference. The basis of t tests is reliant on certain assumptions. Firstly, the two samples must be chosen randomly and independently. Then, the data must ratio and normally distributed. Ratio regards data that is measured using a scale that has zero as the lowest value. Finally, the two sets of samples must have an equal population variance (Hinton, Brownlow, McMurray & Cozens, 2004). All of the assumptions mentioned are applicable to the sample of profitable companies.

What a t test will establish is to compare the two samples. First, it will determine the mean scores of each sample. Additionally, it will calculate when the null hypothesis is true, what it would expect the difference in means to be. This difference will help determine whether the null hypothesis should be rejected or not. If the expected difference is bigger than the difference in means, than the null hypothesis cannot be rejected. That means, that if the expected difference is less than the difference in means, we must see if the difference is enough to reject the null hypothesis. The null hypothesis will be rejected if the difference is large enough to have a statistically significant effect. In sum, we simply reject a null hypothesis when the p value (typically labelled the “sig.” 2-tailed) is below the significance level, which is generally set at 0,05. (Hinton et al., 2004)

The second main hypothesis (H2) and two sub-hypotheses (H2a-H2b) concern the unprofitable companies with a total sample of 18 companies. Since the sample has less than 30 companies, the assumptions for a t test are not fully met and instead we conduct a nonparametric test, which does not require these assumptions. The nonparametric equivalent of the independent samples t test is called the Mann-Whitney U test. The Mann-Whitney U test ranks the complete set of scores from the lowest to the highest. The tests provide us with a statistic so that we can decide when there is a difference between the samples. There are two U values representing the two countries. If the values of the U values are approximately the same, that means there is no difference between countries. However, if there is a separation of the groups amongst the ranks, that means that one of the U values is higher than the other. To reject a null hypothesis in the Mann-Whitney U test, the same rule applies as for the t tests - we reject a null hypothesis if the p value (even here labelled “sig. 2-tailed”) is less than 0,05. Hinton et al., 2004

The tests conducted here (both t tests and Mann Whitney U tests) show the p value for a two-tailed test (referred to as “sig. 2-tailed” in the tables generated by SPSS). This value answers a two-tailed hypothesis where you simply state that there will be a difference between the means, but you do not predict the direction of the difference. Our null hypotheses are all one-tailed, which means that we want to know the direction of the mean differences. To obtain the p value for a one-tailed test, you simply divide the “sig. 2-tailed” by two. To reject a one-tailed null hypothesis, the same rule applies as before - we reject a null hypothesis when the p value is below the 0,05 level (Hinton et al., 2004). We have gathered all of our interpretations of the values from the tables generated by SPSS in Appendix 2.

3.4 Data collection method

The formats of the annual report tend to vary and therefore we decided to only analyse the most standardized component of the report discussing performance, which is claimed to be the letter to the shareholders (Bettman & Weitz, 1983). The letter to the shareholders is also considered as the most read part of the annual report (Cen & Cai, 2015). We chose companies from two separate countries, one belonging to a credit/insider system (Germany), and one belonging to an equity/outsider system (the UK) (Franks & Mayer, 2001; Nobes & Parker, 2012).

3.4.1 Sample selection

In order to find the companies, we used the database ORBIS, an online source which we had access to through the Lund University database. Through the database ORBIS we selected “location” and then “World region/Country/Region in country”. First we selected Germany. Finally, we also selected “Stock data” and then “Listed/Unlisted companies”. We chose “listed companies”. The reason for choosing listed companies is because the incentive to present their company in the best possible light is the most present in listed companies (Aerts, 2001). This gave us a total of 827 companies to choose from. We went through the same steps for the UK and ended up with a total of 1,921 companies to choose from.

In order to select the relevant companies for our study, we set some criteria. When determining whether the companies belonged to the credit/insider system or the equity/outsider system, we looked at the gearing ratio debt/equity (D/E). Although these systems are characterized by factors other than just gearing ratio, this is what we are selecting as our proxy when categorizing our companies. According to Nobes and Parker (2012), Germany is a country financed by more than two times more debt than equity (236,35 debt as percentage of common equity). Therefore, we identified companies with a D/E ratio of more than 200 percent as belonging to the credit/insider systems. On the other hand, we identified companies with a D/E of under 100 percent as belonging to the equity/outsider system, in this case represented by the UK. In ORBIS, you are able to select “gearing ratio” (D/E) in percent². This calculation has been noted to be consistent with all companies in ORBIS. If there happened to be a company that did not use this calculation of D/E then we did not include this company. We decided to use the gearing ratio as calculated in ORBIS as this ensured that we based our judgement of the company's gearing ratios on the same grounds.

Another distinction which we thought was important to make was the one between decreasing and increasing profitability of the companies. Prior research has focused on this metric when studying self-serving attributions (Bettman & Weitz, 1983; Staw, McKechnie & Puffer, 1983; Salancik & Meindl, 1984; Clatworthy & Jones, 2003). Even though our focus is to look at the difference between credit/insider and equity/outsider systems, it still makes sense to also include the distinction between decreasing and increasing profitability, the reason being that the management has reasons to justify their financial results to the shareholders. What is important to note is that this does not mean that we are conducting the same study as prior researchers, as we

² The way ORBIS calculates gearing ratio is: $Gearing (\%) = \left(\frac{\text{Non-current liabilities} + \text{Loans}}{\text{Shareholder funds}} \right) \times 100$

are also adding a further distinction. This further distinction is the split in financing systems of the countries, and seeing if this affects the extent to which the companies belonging to these systems make self-serving attributions.

There are different ways to measure the profitability of the companies. In this paper we use the term profitability in the sense of looking at whether the company has had a profit increase or decrease before tax, compared to the previous year. We looked at profit increase or decrease before tax, because the two countries belong to different systems, as described earlier, which leads to differences in how they calculate tax. Ultimately, this affects the profits in the companies to different extents, which is why we decided to only look at profit before tax. The detection of the effects of performance on the narrative reports is possible by viewing companies by their change in profit. Furthermore, percentage change in profit is also a measure that managers usually use to assess their own performance (Clatworthy & Jones, 2006). Hence, in each country we chose some companies with a positive percentage change in profit before tax and some companies with negative percentage change in profit before tax.

Another important criterion was that the annual reports had to be available in English and they had have a letter to the shareholders. This criterion, that the reports must be English, has resulted in our choice to look at only one year. This year will be the most recent annual report, either 2014 or 2015. The reason for choosing only one year was because German companies did not consistently report in English (they would report in German one year and the next year they would report in English). Our criteria was also the reason we started selecting the German companies first, as we knew it would be more difficult to find a large sample following the criteria we had designed, as many companies had German as their reporting language. Unfortunately, following our criteria (having the right gearing ratio, finding a letter to the shareholders and having the latest annual report be available in English) we only managed to find 24 German companies with an increase in profit before tax and 9 German companies with a decrease in profit before tax. Although it was possible to find more companies following our criteria in the UK, we limited our selection to the same number as for Germany in order for us to compare the samples. The choice of companies can be found in Appendix 1.

4. Results

First and foremost, we found that the majority of the attributions were self-serving. The table below presents the percentage³ of self-serving attributions out of the total attributions found in the profitable and unprofitable companies in Germany and the UK. These were derived from the results gathered in Appendix 1. This table is presented below to show that we found a high degree of self-serving attributions.

	Germany	UK
Profitable	83%	93%
Unprofitable	79%	97%

Notes:

The percentages are rounded to the nearest whole number.

Our statistical analysis, that is the hypotheses tested below, will consider only the self-serving (FI+UE), self-enhancing (FI), and self-protective (UE). Thereby, they will not be carried out based on these percentages.

4.1 Profitable companies

As was explained in the method, the first three null hypotheses, concerning the profitable companies, have been tested in an independent samples *t* test in SPSS. Our first main hypothesis (H1) is presented below. An interpretation of the table will follow.

	Germany	UK	Mean difference
Mean FI+UE	2,5000 ⁴	3,8750	-1,37500 ♦ ♦

Notes:

- ♦ significant at the 0,05 level in a two-tailed *t* test.
- not significant at the 0,05 level in a two-tailed *t* test.
- ◇ significant at the 0,05 level in a one-tailed *t* test.
- not significant at the 0,05 level in a one-tailed *t* test.

³ *percentage of self – serving attributions* = $\left(\frac{FI + UE}{FI + FE + UI + UE}\right) \times 100$

⁴ All results are presented using UK English punctuation (comma).

In Table 2, the mean values for self-serving attributions, that is the combination of self-enhancing (FI) and self-protective (UE), are presented. The mean difference (-1,37500) represents a significant difference in self-serving attributions ($p = 0,0496$)⁵ between the two countries. As has been described earlier, we are more interested in the one-tailed tests, which in this case also shows us that the mean difference is significant at the 0,05 level ($p = 0,0248$). As has been explained in the method chapter, a figure of less than 0,05 is considered to be an indication of significant difference. Therefore, since $p < 0,05$, we can reject our first main null hypothesis (H1), thus, profitable companies in the UK make significantly more self-serving attributions than profitable German companies.

Our two sub-hypotheses (H1a-H1b) are presented in Table 3 below.

Table 3
Self-enhancing (FI) and Self-protective (UE) attributions in profitable companies in Germany and the UK

	Germany	UK	Mean difference
Mean FI	2,2083	3,2500	-1,04167 ●◇
Mean UE	0,2917	0,6250	-0,33333 ●○

Notes:

- ◆ significant at the 0,05 level in a two-tailed t test.
- not significant at the 0,05 level in a two-tailed t test.
- ◇ significant at the 0,05 level in a one-tailed t test.
- not significant at the 0,05 level in a one-tailed t test.

By looking at the mean values for FI, we can see that profitable companies in the UK make more self-enhancing attributions than profitable companies in Germany. The difference in means (-1,04167) is not significant at the 0,05 level in two-tailed tests ($p = 0,08$). However, in our one-tailed test, the mean difference (-1,04167) is significant at the 0,05 level ($p = 0,04$). Since $p < 0,05$, we can reject our first sub hypothesis (H1a). This means that profitable companies in the UK make significantly more self-enhancing attributions than profitable companies from Germany.

In Table 3 we also have the mean values for UE. Here we can see that profitable companies in the UK make more self-protective attributions than profitable companies in Germany. However, the mean difference (-0,33333) is not significant at the 0,05 level in neither two-tailed ($p = 0,391$) tests nor one-tailed tests ($p = 0,196$). This means that we cannot reject our second sub-hypothesis (H1b), hence, profitable companies from the UK do not make more self-protective attributions than profitable companies in Germany.

⁵ Four decimal points are used in order to show whether the p value had been rounded up or down.

In summary, the results from the t tests on the profitable companies show that companies from the UK make significantly more self-serving attributions than companies from Germany. Furthermore, companies from the UK make significantly more self-enhancing attributions than companies from Germany. However, companies from the UK do not make significantly more self-protective attributions than companies from Germany.

4.2 Unprofitable companies

As was explained in the method, we used Mann-Whitney U tests for the three remaining null hypotheses. The results from the Mann-Whitney U tests are presented below.

Table 4

Self-serving (FI+UE) attributions in unprofitable companies in Germany and the UK

	Germany	UK	Mean rank difference
Mean rank FI+UE	9,72	9,28	0,44 ●○

Notes:

- ◆ significant at the 0,05 level in a two-tailed Mann-Whitney U test.
- not significant at the 0,05 level in a two-tailed Mann-Whitney U test.
- ◇ significant at the 0,05 level in a one-tailed Mann-Whitney U test.
- not significant at the 0,05 level in a one-tailed Mann-Whitney U tests.

The mean ranks of the self-serving attributions, show us that unprofitable companies in Germany make more self-serving attributions than unprofitable companies in UK. However, these mean ranks are not significant at the 0,05 level in neither two-tailed tests ($p = 0,859$) nor one-tailed tests ($p = 0,430$). Therefore, we cannot reject our second main hypothesis (H2).

Table 5

Self-enhancing (FI) and Self-protective (UE) attributions in unprofitable companies in Germany and the UK

	Germany	UK	Mean rank difference
Mean rank FI	10,39	8,61	1,78 ●○
Mean rank UE	9,28	9,72	-0,44 ●○

Notes:

- ◆ significant at the 0,05 level in a two-tailed Mann-Whitney U test.
- not significant at the 0,05 level in a two-tailed Mann-Whitney U test.
- ◇ significant at the 0,05 level in a one-tailed Mann-Whitney U test.
- not significant at the 0,05 level in a one-tailed Mann-Whitney U test.

By examining the mean rank FI, we can tell that unprofitable companies in Germany make more self-enhancing attributions than unprofitable companies from the UK. However, these mean

ranks are not significant at the 0,05 level in neither two-tailed t-tests ($p = 0,474$) nor one-tailed tests ($p = 0,237$). Therefore, our first sub-hypothesis (H2a) cannot be rejected.

Turning to the mean rank UE, the table shows us that unprofitable companies in the UK make more self-protective attributions than unprofitable companies in Germany. These mean rankings are not significant at the 0,05 level in neither two-tailed tests ($p = 0,845$) nor one-tailed tests ($p = 0,423$). Once again, we cannot reject our second sub-hypothesis (H2b). Unprofitable companies in the UK do not make significantly more self-protective attributions than unprofitable companies in Germany.

In summary, the results from the Mann-Whitney U test on the unprofitable companies show that companies from the UK do not make significantly more self-serving attributions than companies from Germany. Furthermore, companies from the UK do not make significantly more self-enhancing attributions than companies from Germany. Finally, companies from the UK do not make significantly more self-protective attributions than companies from Germany. A discussion of the results presented in this chapter will be further developed below.

5. Discussion

The results presented in the previous chapter show a consistency with prior research in self-serving attributions. Prior research (Bettman & Weitz, 1983; Staw, McKechnie & Puffer, 1983; Salancik & Meindl, 1984; Aerts, 1992, 1994, 2001, 2005; Clatworthy & Jones, 2003; Merkl-Davie, Brennan & McLeay, 2011) revealed that there are self-serving attributions in the annual reports of companies. Similarly, our results also indicate that there are self-serving attributions in the letters to the shareholders of both profitable and unprofitable companies in Germany and the UK. For the profitable companies, we found 83 percent and 93 percent self-serving attributions in Germany and the UK respectively. For the unprofitable companies, we found 79 percent and 97 percent in Germany and the UK respectively. Salancik and Meindl (1984) found that the companies he was analysing made significantly more self-serving attributions than any other attributions. The results showed that favourable outcomes were attributed to internal causes (self-enhancing attributions) three times more often than any other cause and that unfavourable outcomes were attributed to external factors (self-protective attributions) three times more often than any other cause. Hence, this finding is consistent with our findings, as the majority of attributions made in each category were self-serving (over 50 percent).

Our results are somewhat comparable to the findings in Aerts's (2001) study, which showed inertia in the pattern of self-serving attributions. He noticed a non-consistent pattern of attributions in that a consistently high level of positive attributions was not affected by overall performance change, that is profit increase or decrease. Although the number of companies in our samples of profitable and unprofitable companies varies, the results show a high percentage of self-serving attributions in both profitable and unprofitable companies. This is also consistent with the findings by Clatworthy and Jones (2003), who found that regardless of the performance of the company, both groups (profitable and unprofitable) were using self-serving attributions to a large extent.

As it has been explained above, our results are consistent with prior research in the sense that we can see that companies make self-serving attributions in their narrative reports. However, similarly to prior research, we also are interested in the comparison between results. In our case we considered two countries with different financing systems. The profitable and unprofitable companies of one country were compared with the profitable and unprofitable companies of another country. This specific comparison, between companies in separate countries in different financing systems, has not been conducted in prior research. Therefore, we only have the theory regarding financing systems to compare with our statistical analysis that addresses our hypotheses (Section 4.1 & 4.2).

The first main hypothesis (H1) was rejected, as our *t* tests showed that profitable companies in the UK made significantly more self-serving attributions than profitable companies in Germany. As it was described in the theory regarding financing systems, the main cause of international differences in reporting is the difference in financing systems, namely equity/outsider and credit/insider. In the equity/outsider system the outsiders demand more information in the annual report than the insiders in the credit/insider system (Nobes, 1988; Nobes & Parker, 2012). The

results showed this to be the case in our sample for profitable companies, as the mean difference was significant in the one-tailed t test.

When considering the self-enhancing (FI) and self-protective (UE) attributions separately, the first sub-hypothesis (H1a) was rejected due to the t test showing that profitable companies in the UK make significantly more self-enhancing attributions than profitable companies in Germany. This means that profitable companies in the UK tend to attribute favourable outcomes to internal causes more often than companies performing well in Germany do. Again, we link the reason for this result to the theory regarding the split in financing systems, equity/outsider and credit/insider (Nobes, 1998). However, the second hypothesis (H1b) was not rejected, as the t test showed that the mean difference in self-protective attributions in Germany and the UK was not significant. This means that it cannot be stated that profitable UK companies attribute unfavourable outcomes to external factors to a larger extent than profitable German companies. A possible reason for this can be explained by Nobes (1998), as he mentioned that a credit/insider country can sometimes also be classified as having higher levels of disclosure. In this case, it would mean that the reason why there is no significant difference between the self-protective attributions made in Germany and the UK could be explained by the fact that they both would be characterized as exhibiting higher levels of disclosures. Therefore, the distinction between the financing systems is not always clear cut (Nobes, 1998).

In the results chapter we also tested the significance of the difference in mean ranks between unprofitable companies in Germany and the UK using Mann-Whitney U tests. The hypotheses intended to test whether unprofitable companies from UK made more self-serving attributions than unprofitable companies from Germany. However, we found that the mean rankings were higher for German companies when testing for self-serving attributions and self-enhancing attributions. Although the mean rank differences were not significant for any of the two hypotheses (H2 & H2a) in one-tailed Mann-Whitney U tests, it was still interesting to note that Germany was reporting more self-serving and self-enhancing attributions than the UK. This is contrary to our expectations based on the split between equity/outsider and credit/insider systems. As aforementioned, Nobes (1998) noted that sometimes listed German companies can be classified as having higher levels of disclosures, and this could act as an explanation for German companies having higher mean ranks than the UK for self-serving and self-enhancing attributions. It should be noted that since our results for unprofitable companies showed no significant differences, the explanation for German companies disclosing more self-serving attributions and self-enhancing attributions than UK companies is a mere assumption. Our last hypothesis (H2b) was also rejected, due to the difference in mean rank not being significant.

Overall, our results are inconclusive. By testing our hypotheses, we have been able to show that profitable companies in the UK make significantly more self-serving attributions than profitable companies in Germany. This has also been proven for self-enhancing attributions for profitable companies. We have explained these results by the split in financing systems, equity/outsider and credit/insider. Thereby, the financing systems can be assumed to play a role in causal reasoning. These results were in line with our expectations because we expected companies belonging to an equity/outsider country to disclose more information than those belonging to a credit/insider

country (Nobes, 1998). However, four of our hypotheses (H1b, H2, H2a & H2b) had to be rejected. We explained the reason for the mean differences being statistically insignificant by the fact the disclosure levels can sometimes be higher in credit/insider countries, such as Germany (Nobes, 1998).

6. Conclusion

The purpose of this thesis was to highlight the importance of the split in financing systems, namely equity/outsider and credit/insider. More specifically, it aimed to address whether the split would have an effect on the self-serving attributions made by companies in two separate countries, Germany and the UK. These companies were chosen on the basis that their average gearing ratios identified them as credit/insider and equity/outsider, respectively (Nobes & Parker, 2012).

Based on prior research, we made six one-tailed null hypotheses, three concerning profitable companies and three concerning unprofitable companies. These hypotheses were set to answer the research question. The notion that we based these null hypotheses on was that companies coming from an equity/outsider country make more self-serving attributions than companies coming from a credit/insider country. We separated the profitable and unprofitable companies. By doing this, it enabled the focus to be on the difference in financing systems. Our results showed a statistically significant difference in profitable companies from Germany and the UK when regarding the self-serving attributions in t tests. However, when we considered the self-enhancing and self-protective attributions individually, the t tests showed that the mean difference for self-enhancing attributions for profitable companies was significant, whereas the t test for self-protective attributions showed that the mean difference for profitable companies was not significant. Unprofitable companies, on the other hand, showed no significant difference in any of the results when testing the hypotheses in Mann-Whitney U tests. Thereby, the answer to our research question is inconclusive. It is inconclusive because our results, specifically those pertaining to the two main hypotheses (H1 & H2), showed that some companies (in this case profitable) coming from an equity/outsider finance system background can indeed make significantly more self-serving attributions, while other companies (in this case unprofitable) belonging to the same financing system at the same time do not.

The implications of our results should be considered. The split in financing systems can be used as a possible explanation for the significant differences found in causal reasoning between companies belonging to equity/outsider and credit/insider systems. However, our results have shown that the split between equity/outsider and credit/insider systems is not always clear cut. For example, we have seen that some companies from a credit/insider country, such as Germany, in some instances, have a higher mean in attributions than companies from the UK. Therefore, credit/insider countries can sometimes also exhibit disclosure characteristics more commonly found in an equity/outsider system (Nobes, 1998). Furthermore, as our answer to our research question is inconclusive, there might be factors, other than financing systems, that explain why causal reasoning is different in the annual report of companies coming from different countries. These factors have been mentioned in the theory chapter.

This study contributes to two aspects of research, financing systems and attribution theory. Firstly, our study contributes to the notion that companies may step out of the boundaries of the financing systems (equity/outsider and credit/insider) that they operate in. Thereby, they may exhibit characteristics similar to another system (a company operating in a credit/insider system

may show equity/outsider characteristics). This will, in turn, affect the way managers reason in their narrative report. This leads to our second contribution regarding attribution theory in the narrative report. Narrative reports focus on the performance of the company. In this sense, researchers naturally would want to focus on how the performance of the company affects the causal reasoning in narrative reports. This has been conducted in prior research. This study sought to expand the boundaries of research in self-serving attributions, therefore the focus was set on how the difference in financing systems, rather than performance, would affect causal reasoning. This study, as far as we have been able to find with the resources available to us, has not been conducted. Finally, since attribution theory is a self-presentational strategy, by contributing to this, we are essentially also contributing to impression management.

6.1 Limitations and Future Research

Our sample selection was very limited due to the parameters we set. The statistical tests, the t test and the Mann-Whitney U test, and the interpretations taken from them would be more representative of the two countries if the samples were larger. Specifically, our sample selection for unprofitable companies was just nine for each country. One clear solution would be to make the sample larger. However, this was not possible with the criteria set for the sample selection in this study.

Although we have been able to show that some mean differences between our samples are significant, we must still take into consideration that all the companies in the sample selection are listed companies. This means that they may not be influenced, as much as local companies, by the financing system. Thereby, they do not necessarily represent their country accurately.

In the future, studies could be carried out with a larger sample. One reason our sample was so limited was because many of the German companies reported in German. Thereby, a German speaker could carry out a content analysis of more companies. This would be beneficial in the sense that it could show a more statistically significant difference between companies in these two financing systems. In addition to this, looking at companies that are not listed in each country, could reveal even more national differences. This is assuming that annual reports with a narrative part can be found. Eventually, carrying out a study like this could potentially further reveal the importance of financing systems even, as well as other factors that could affect the use of self-serving attributions.

Following the argumentation above, we also believe that an observation consistent of more than one year would expand the contribution of the study to research. If this is done, the remaining factors from Weiner's (1979) model can be taken into consideration. These factors are the controllability and causal of stability. The causal of stability regards whether causes persisted over time (stable/unstable). Controllability refers to whether the company can do something about the cause. This would be beneficial to research as it would reveal any patterns. If a company's causal reasoning is observed over time it could reveal a pattern. By analysing the same companies from an equity/outsider country and a credit/insider country over a longer period of time, this could potentially reveal the true cause behind self-serving attributions.

Although this is not a part of the study's aim or the research question, we want to include some anecdotal evidence that we found while coding the letter to the shareholders. We noticed a few patterns appearing within the annual reports of each company of each country. These patterns lie outside of parameters of our study. It was interesting to see how the writing styles between German and English varied. We noticed that German reports were easier to comprehend as their language was very clear and concise. The chairman's statements from the UK annual reports would use more complex sentences that were often difficult to understand. We noticed that the worse the performance of the company was, the more ambiguous the sentences became. We suggest that an analysis of the German and UK companies from a qualitative perspective would further evaluate the meaning of the attributions made. This is because it would pay more attention to the meaning of the reasoning. Additionally, it could also bring out factors that a statistical test would perhaps not show.

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Appendix 1

Germany	Attributions				
Profitable companies	FI	FE	UI	UE	Total
Wolkswagen	1	0	0	0	1
Daimler	2	0	0	1	3
BMW	2	0	0	0	2
Deutsche Telekom	6	0	0	1	7
Deutsche Lufthansa	4	1	0	0	5
VTG	4	1	0	1	6
Mutares	6	0	0	0	6
Compugroup Medical	1	0	0	0	1
Constantin Medien	4	1	0	0	5
TAG Immobilien	1	0	0	0	1
KTG Agrar	1	0	0	0	1
Energiekontor	3	1	0	1	5
Accentro Real Estate	2	0	0	0	2
Net Mobile	4	0	0	0	4
HMS Bergbau	0	0	0	1	1
Beate Uhse	5	0	0	0	5
Paragon	1	0	0	0	1
Isaria Wohnbau	1	1	0	0	2
Deutsche Mittelstand Real Estate	0	0	0	0	0
Schumag	2	2	1	2	7
United Labels	0	0	2	0	2
Travel24	2	0	1	0	3
Phoenix Solar	0	0	0	0	0
Centrotherm Photovoltaics	1	1	0	0	2
Total attributions	53	8	4	7	72
Unprofitable companies					
EON SE	3	0	0	0	3
RWE	3	0	2	3	8
Schaeffler	5	0	0	0	5
Deutsche Börse	3	0	0	0	3
Heidelberger Druckmaschinen	4	0	1	1	6
SGL Carbon	3	0	0	1	4
Solarworld	0	1	1	0	2
Adler Real Estate	2	2	0	0	4
Activa Resources	1	0	1	2	4
Total attributions	24	3	5	7	39

The UK					
Attributions					
Profitable companies	FI	FE	UI	UE	Total
Barratt developments	4	1	0	0	5
Vodafone Group	0	0	1	7	8
Taylor Wimpey	0	0	0	0	0
J Sainsbury	5	0	0	3	8
Sports Direct International	1	0	0	0	1
Persimmon	7	0	0	0	7
Land Securities Group	7	0	0	0	7
Amdocs limited	5	0	0	5	10
Carnival	5	1	0	0	6
Berkeley Group Holdings	2	0	0	0	2
Dixons carphone	1	0	0	0	1
Vertu Motors	7	0	0	0	7
Home retail group	3	0	0	0	3
British Land Company	4	1	0	0	5
Bellway	3	1	0	0	4
Easyjet	3	0	0	0	3
Booker Group	1	0	0	0	1
JD Sports Fashion	2	1	0	0	3
Impellam Group	1	0	0	0	1
Costain Group	2	0	0	0	2
WH Smith	3	0	0	0	3
Howden Joinery Group	2	0	0	0	2
Redrow	5	0	0	0	5
Savills	5	1	0	0	6
Total attributions	78	6	1	15	100
Unprofitable companies					
Morgan Sindall Group	2	0	0	0	2
Antofagasta	1	0	1	9	11
Royal Dutch Shell	0	0	0	0	0
BHP Billiton	4	0	0	1	5
Rio Tinto	4	0	0	4	8
WM Morrison Supermarkets	1	0	0	0	1
Royal Mail	2	0	0	0	2
Pearson	0	0	0	0	0
JRP Group	5	0	0	1	6
Total attributions	19	0	1	15	35

Appendix 2

Profitable companies in Germany and the UK.

1. Self-serving (FI+UE) attributions

Group Statistics

	Country	N	Mean	Std. Deviation	Std. Error Mean
Self-serving	Germany	24	2,5000	2,02162	,41266
	UK	24	3,8750	2,65907	,54278

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Self-serving	Equal variances assumed	1,648	,206	-2,017	46	,04960	-1,37500	,68184	-2,74746	-,00254
	Equal variances not assumed			-2,017	42,930	,05002	-1,37500	,68184	-2,75012	,00012

H1: Profitable companies in the UK do not make significantly more self-serving attributions than profitable companies in Germany.

- $F = 1,648, p = 0,206 \rightarrow p > 0,05 \rightarrow$ Look at “equal variances assumed”
- Two-tailed test: $p = 0,0496 \rightarrow p < 0,05 \rightarrow$ reject null hypothesis
- One-tailed test: $p = 0,0248 \rightarrow p < 0,05 \rightarrow$ reject null hypothesis

2. Self-enhancing (FI) and self-protective (UE) attributions

Group Statistics

	Country	N	Mean	Std. Deviation	Std. Error Mean
FI	Germany	24	2,2083	1,86452	,38059
	UK	24	3,2500	2,15184	,43924
FE	Germany	24	,3333	,56466	,11526
	UK	24	,2500	,44233	,09029
UI	Germany	24	,1667	,48154	,09829
	UK	24	,0417	,20412	,04167
UE	Germany	24	,2917	,55003	,11228
	UK	24	,6250	1,78916	,36521

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
FI	Equal variances assumed	.720	.401	-1,792	46	.080	-1,04167	,58119	-2,21155	,12822
	Equal variances not assumed			-1,792	45,086	.080	-1,04167	,58119	-2,21219	,12886
FE	Equal variances assumed	1,680	.201	,569	46	,572	,08333	,14641	-,21138	,37805
	Equal variances not assumed			,569	43,506	,572	,08333	,14641	-,21184	,37851
UI	Equal variances assumed	6,044	.018	1,171	46	,248	,12500	,10676	-,08990	,33990
	Equal variances not assumed			1,171	31,007	,251	,12500	,10676	-,09274	,34274
UE	Equal variances assumed	5,028	.030	-,872	46	,388	-,33333	,38208	-1,10242	,43575
	Equal variances not assumed			-,872	27,309	,391	-,33333	,38208	-1,11688	,45021

H1a: Profitable companies in the UK do not make significantly more self-enhancing attributions than profitable companies in Germany.

Favorable outcome, internal cause (FI):

- F = 0,720, $p = 0,401 \rightarrow p > 0,05 \rightarrow$ Look at “equal variances assumed”
- Two-tailed test: $p = 0,08 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis
- One-tailed test: $p = 0,04 \rightarrow p < 0,05 \rightarrow$ reject null hypothesis

H1b: Profitable companies in the UK do not make significantly more self-protective attributions than profitable companies in Germany.

Unfavorable outcome, external cause (UE):

- F = 5,028, $p = 0,030 \rightarrow p < 0,05 \rightarrow$ Look at “equal variances not assumed”
- Two-tailed test: $p = 0,391 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis
- One-tailed test: $p = 0,196 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis

Unprofitable companies in Germany and the UK

1. Self-serving (FI+UE) attributions

Ranks

	Country	N	Mean Rank	Sum of Ranks
Self-serving	Germany	9	9,72	87,50
	UK	9	9,28	83,50
	Total	18		

Test Statistics^a

	Selfserving
Mann-Whitney U	38,500
Wilcoxon W	83,500
Z	-,178
Asymp. Sig. (2-tailed)	,859
Exact Sig. [2*(1-tailed Sig.)]	,863 ^b

a. Grouping Variable: Country

b. Not corrected for ties.

H2: Unprofitable companies in the UK do not make significantly more self-serving attributions than unprofitable companies in Germany.

- Two-tailed test: $U = 38,500, p = 0,859 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis
- One-tailed test: $U = 38,500, p = 0,430 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis

2. Self-enhancing (FI) attributions and elf-protective (UE) attributions

Ranks

	Country	N	Mean Rank	Sum of Ranks
FI	Germany	9	10,39	93,50
	UK	9	8,61	77,50
	Total	18		
FE	Germany	9	10,50	94,50
	UK	9	8,50	76,50
	Total	18		
UI	Germany	9	11,06	99,50
	UK	9	7,94	71,50
	Total	18		
UE	Germany	9	9,28	83,50
	UK	9	9,72	87,50
	Total	18		

Test Statistics^a

	FI	FE	UI	UE
Mann-Whitney U	32,500	31,500	26,500	38,500
Wilcoxon W	77,500	76,500	71,500	83,500
Z	-,716	-1,455	-1,578	-,195
Asymp. Sig. (2-tailed)	,474	,146	,115	,845
Exact Sig. [2*(1-tailed Sig.)]	,489 ^b	,436 ^b	,222 ^b	,863 ^b

a. Grouping Variable: Country

b. Not corrected for ties.

H2a: Unprofitable companies in the UK do not make significantly more self-enhancing attributions than unprofitable companies in Germany.

- Two-tailed test: $U = 32,500, p = 0,474 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis
- One-tailed test: $U = 32,500, p = 0,237 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis

H2b: Unprofitable companies in the UK do not make significantly more self-protective attributions than unprofitable companies in Germany.

- Two-tailed test: $U = 38,500, p = 0,845 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis
- One-tailed test: $U = 38,500, p = 0,423 \rightarrow p > 0,05 \rightarrow$ cannot reject null hypothesis