



LUND UNIVERSITY
School of Economics and Management

Department of Business Administration

BUSN79

Degree Project: Accounting and Finance

Spring 2017

Numbers vs Narratives in the Eyes of Non-professional Investors

A study of the CEO-statement's effect on non-professional investors

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Abstract

Seminar date: May 30th 2017

Course: BUSN79, Business Administration Degree Project in Accounting and Finance, 15 credits

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Five key words: Dissonance, CEO-statement, Non-professional investors, Narrative reporting, Accounting communication

Purpose: In an explorative manner this thesis aims to research how the content of CEO-statement affects non-professional investors' opinion of a company's prospects.

Methodology: This study is to be considered a qualitative study based on an inductive orientation regarding the role of theory. A cross-sectional design has been followed for the gathering of empirical data. Semi-structured interviews have been conducted along with a self-completion questionnaire. Both methods are used under the overarching structure of a simulation enabling an equity assessment by non-professional investors.

Theoretical Perspectives: Initially, accountancy as a communication process is used to provide a theoretical context for our empirical material. Furthermore, theories for message reception and processing in the form of attribution theory, cognitive dissonance theory and social judgement theory are used. These were used in order to understand non-professional investors' interpretation, organisation, and judgment process regarding the financial statements and the CEO-statement. Also, the Narrative paradigm is used as a theory of narrative in order to understand the persuasiveness of the CEO-statement. Finally, the competing values framework of managerial communication is used as a theory for understanding characteristics of the CEO-statement. The mentioned theories are then summarised and merged into an analysis model.

Empirical Foundation: The empirical material is collected via a structure of simulation for fifteen participants incorporating semi-structured interviews and self-completion questionnaires.

Conclusions: The observations in this study imply that non-professional investors perceive more often than not that a dissonant CEO-statement in relation to the financial statements possess characteristics that alter their opinion. It is demonstrated that the characteristics of dissonance cause non-professional investors' to either revise their opinion in a positive direction or not change it at all. Finally, it is concluded that the opinion of non-professional investors' is affected by both perceived characteristics of dissonance and perceived persuasiveness of the CEO-statement.

Acknowledgements

Before diving into the world of numbers and narratives we would first and foremost like to thank our advisor Niklas Sandell. With patience, understanding and continuous feedback he has guided us through the ups and downs over the last ten weeks.

Last but not least, we would also like to thank our mid-seminar opponents for valuable feedback and insights as well as all the participants for their time and effort.

Lund, May 23, 2017

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Abbreviations

CVFMC – Competing Values Framework for Managerial Communication

FSLI – Financial statement line item

MD&A – Management Discussion & Analysis

MC – Management Commentary

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

SEC – United States Securities and Exchange Commission

FASB – Financial Accounting Standards Board

1. Introduction

This chapter starts with presenting a broad picture of the importance of narratives in the corporate world as well as its connection to financial reporting. The chapter continues by emphasising non-professional investors' appeal for narrative explanations as well as analytical disadvantage in the context of their judgment process. Together with the possibility for an aggregate effect on financial markets this forms the research question and purpose the report intends to answer.

1.1 Background

According to Harari (2015) the success of Homo sapiens' world conquests is not primarily an outcome of our high intelligence. What differentiates us from all other species is our ability to speak about non-reality and fiction, but also our inclination to believe in such stories. One area in today's society where large scale collective stories are prevalent and play an important role is in publicly traded companies (Monarth, 2014; PwC, n.d; Deloitte, 2011). This relates to their ability to successfully raise capital, to sell services or products, and to attract, retain, and motivate employees (Damodaran, 2017). Furthermore, Standard-setters and regulators seem to have realised the benefits that comes with narrative disclosures. They will allow companies to contextualise and to give more in depth information to the stakeholders of the company via narrative reporting in the form of management discussion and analysis (MD&A) or management commentary (MC) (IFRS, 2010a; SEC, 2003). In the IFRS practice statement regarding management commentary it is stated:

Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements.

(IFRS, 2010a p.5)

In connection to the view of public companies as collections of individuals affected by stories in narrative reporting, there also exists a more traditional view. That is, a public company is a legal entity that conducts profit seeking business and reports its financial performance and position in financial statements. Financial statements are a result of a demand for financial information brought upon companies by their stakeholders (Stanton & Stanton, 2002). However, financial information exists not only to inform different stakeholders about a

company's current financial performance and position (Beyer, Cohen, Lys & Walther, 2010), but also in order to help them assess the stewardship and accountability of management (Solomon, 2013; IFRS, 2010b). Together this has resulted in the development of audited financial statements for publicly traded companies. In return, financial statements are today considered to be a primary and reliable information source to company stakeholders in their decision-making process (IFRS, 2010b).

Numbers and narratives are today frequently found in the same context as it concerns companies' communication with its stakeholders. For publicly traded companies the annual report is the most obvious example. The ratio between text and numbers that is present in the annual reports has evolved over time. As the annual report has grown in size over the years, the financial statements have been accompanied by a greater portion of narrative content (Balata & Breton, 2005; Li, 2008; Merkl-Davies & Brennan, 2007; Miller, 2010). For example, the former auditing firm Arthur Andersen found in a survey of 100 listed UK companies that the narrative material of the annual report had increased from 45 % in 1996 to 57 % on 2000 (Arthur Andersen, 2000 cited in Merkl-Davies & Brennan, 2007). Based on today's annual report structure and the rise of narrative reporting in recent years (Stanton & Stanton, 2002), there are both positive and negative factors that have to be taken into consideration for what content that is communicated, and ultimately how it affects the users of annual reports.

1.2 Formulating the Research Question

The annual reports evolution into an integrated document where financial statements are accompanied by narrative disclosures, have extended it beyond a document containing financial information. The main argument behind the use of narrative reporting, MD&A and MC, according to standard-setters and legislators is that it offers managers the possibility to put numbers in a context and give users incremental information in relation to the financial statements (SEC, 2003; IFRS, 2010a). This line of argument could be extended to other narrative sections, such as the popular CEO-statement or Chairman's statement. The negative side of this possibility is that it might endanger financial reporting quality as so far as the narrative content is used with the intention of impression management rather than providing incremental information (Merkl-Davies & Brennan, 2007). On this remark it should be noted that although the narrative segments are presented in the same document as the financial statement, the annual report, only the latter is audited reasonably assured and formally legislated (IAS 1, n.d; ISA 200, n.d; ISA 720, n.d). For non-professional investors in particular, this difference might not be an obvious separation because of the close proximity to the financial statements (Bedard, Sutton, Arnold and Phillips, 2012). As a result, there exist a risk that users attach the same conviction and credibility to the unaudited narrative reporting as the audited financial statements (Neu, Warsame & Pedwell, 1998; Merkl-Davies & Brennan, 2007).

Based on the intertwined nature of the annual report it is no surprise that narrative reporting has caught the interest of several researchers. Particular fields of interest have been the CEO- and Chairman's statements in regard to their purpose, content, and effect (Merkl-Davies & Brennan, 2007). Jonäll and Rimmel (2010) for instance, find evidence in their study of three Swedish companies that the intention of the CEO-statement was to strengthen the reader's

confidence regarding the company's legitimacy, excellence, and survival. This notion is further supported by Amernic and Craig's (2007) finding that the CEO-statement can include positive subjectivity regarding a company's financial figures. For narrative reporting in general Henderson (2004) further argues that directors may narratively smooth a bad year into a good year. Also, Balata and Breton (2005) finds a moderate level of divergence between the narrative sections and accounting data arguing for dissonance between the different parts of the annual report. This means that there exists a possibility that users perceive parts of the annual report to produce an effect of dissonance, due to conflicting messages (Balata & Breton, 2005). Together these findings raise the concern that users of annual reports are exposed to a biased or framed presentation offered by companies themselves (Patelli & Pedrini, 2014). In other words, the annual report is not any longer merely to be considered as an information source but also a strategic communication tool with the intention of affecting its reader's perception (Fogg, 1986; Stanton & Stanton, 2002).

The mere existence of some form of impression management that brings about potential biases for users of annual reports is problematic in itself. Considering van der Zwan's (2014) claim that people of today are more exposed to financial risk without having the education to make informed financial decisions, makes the situation even more worrisome. While Van der Zwan's statement relates merely to financial information, it does, in line with findings of both Smith and Taffler (1992a) and Bence, Hapeshi & Hussey (1995), incline that non-professional investors naturally would turn to the narrative disclosure when making an investment decision. Reason being, that they are easier to comprehend. This is also supported by Hodge and Pronk (2006) as well as Rowbottom and Lymer (2010) in that non-professional investors as a result of the amount of information available tend to rely on qualitative information over quantitative information. Thus, narrative explanations within the annual report seem to be particularly appealing to non-professional users. Research to some extent also supports this in pointing out the CEO-statement, or the similar chairman's statement, to be not only the most understandable (Smith & Taffler, 1992a; Lee & Tweedie, 1977 cited in Balata & Breton, 2005), but also the most popular and used section (Lee and Tweedie, 1977 cited in Bartlett & Chandler, 1997; Hines, 1982; Hodge & Pronk, 2006) of the annual report. This is not hard to believe since it, in line with Balata and Breton (2005), the CEO-statement encapsulates the whole position of the firm in on page. In this context it is important to note that the yearly closure of accounts already is known and publicly available when the annual report is published (You & Zang, 2009). With this view, it is mostly the narrative parts that are new for the user of annual reports.

Individual's practice of using financial reports has in recent years become an area of high priority within FASB, IASB as well as the SEC (Lawrence, 2013). For instance, SEC (2013) highlights on its website that: "As more and more first-time investors turn to the markets to help secure their futures, pay for homes, and send children to college, our investor protection mission is more compelling than ever" (p.1). Similarly, such emphasis on individual investors can be found on IASB website in the form of a programme to enhance investor's participation (IFRS Foundation, 2010), no matter if they have an accounting background or not (IFRS Foundation, n.d). To get some perspective of the situation in Sweden, which this study relates to, 13,5 percent of the Swedish population directly held shares in companies in December 2016, without considering accounts where final owner information were inaccessible (SCB, 2016). Furthermore, researchers have indicated that non-professionals are growing in numbers

(Elliott, Hodge, & Jackson, 2008) and that they as a group can have a substantial impact on the financial markets (Lipe, 1998). Thus, non-professionals whom seem to be more susceptible to potential impression management can have a larger effect on capital misallocation than before (Merkl-Davies & Brennan, 2007). Finally, academic experiments aimed at non-professional investors thus far have presented somewhat inconclusive results for the effect of using narrative reporting and management disclosures on user's opinion and decision making (Smith & Taffler, 1995; Stanton, Stanton & Pires, 2004; Riley, Semin & Yen, 2014). Furthermore, the audience perspective within accounting communication studies have been recognised as under-researched (Merkl-Davies and Brennan, 2017).

The CEO-statement seems due to its nature possess characteristics that in many instances makes it dissonant in relation to the financial statements. Still there do not seem to exist a comprehensive answer to whether users perceive the dissonance in terms of incremental information, impression management, or any other yet unknown factor. Furthermore, based on non-professional investors' appeal for narrative explanations as well as analytical disadvantage, we argue it is important to sort out what such users comprehend and regard as important from a narrative section when they are to make judgments about company's prospects. Based on the preceding argumentation, the judgement process is not only interesting on an individual level, but also since non-professional investors in aggregate can have impact on the financial market.

1.3 Research Question

Based on the previous section's arguments for investigating the CEO-statements possibility of having a transformative effect on non-professional investors, our research question has been formulated as:

How does a dissonant CEO-statement affect non-professional investors' opinion of a company's prospects?

To answer this main question, two sub-questions have been formulated which together makes it possible to answer the main question. These are:

1. Does a dissonant CEO-statement according to non-professional investors possess characteristics that alter an established opinion based on the financial statements?
2. How do these characteristics affect non-professional investors' decision to revise their opinion of the company's prospects?

1.4 Purpose

In an explorative manner this thesis aims to research how the content of CEO-statement affects non-professional investors' opinion of a company's prospects.

1.5 Outline of the Thesis

Chapter 2: In this chapter the choices and limitations of the methodological foundation for this report is presented. That includes research strategy and design, the theoretical framework, the empirical study and a methodological discussion. Finally, ethical considerations being of relevance due to our choice of empirical data generation is considered as well as consideration of sources used in this report.

Chapter 3: Initially a literature review covering previous research on narrative reporting and discretionary disclosure is presented in the form of a user and preparer perspective. Further, the theoretical frameworks used in the report are presented. Finally, it is demonstrated how they together fit into our model for analysis.

Chapter 4: This chapter starts with a presentation of general observations made during the interviews. Further, the main empirical material gathered from the interviews is presented. This is structured around opinions based on the financial statements as well as the decision to revise an established opinion. Finally, the profile of the CEO-statement is presented based on data from the self-completion questionnaire.

Chapter 5: The model for analysis is in this chapter applied to the empirical material. First, the analysis aims to provide context to the empirical material as an accountancy communication process. The analysis then continues focusing on participants' reception and processing of messages followed by an analysis of perceived persuasiveness of the CEO-statement. Together this leads to the development of a situational matrix of communication for non-professional investor.

Chapter 6: In this chapter conclusions, concluding discussion and further research is presented. The analysis has provided the base for forming the conclusions which in turn answers the research questions. All viewed from the perspective of the study's purpose. Furthermore, the concluding discussion focuses on the conclusions' implications and significance from both a theoretical and practical perspective. Finally, three suggestions of relevant future research are provided.

2. Methodology

In this chapter the choices and limitations of the methodological foundation for this report is presented. That includes research strategy and design, the theoretical framework, the empirical study and a methodological discussion. Finally, relevant ethical considerations are presented as well as consideration of sources used in this report.

2.1 Research Strategy and Design

This study is to be considered a qualitative study based on an inductive orientation regarding the role of theory. The reasoning for why such an approach is appropriate is based on our research question of how non-professional investors' opinion of a company's prospects, based on the financial statements, is affected by a dissonant CEO-statement. In other words, the study's interest lies in understanding non-professional investors' process of forming an opinion based on a company's accounting communication. Since the focus therefore is on understanding human activity and behaviour the epistemological underpinnings is in line with interpretivism, as described by Bryman and Bell (2015). Considering that non-professional investors are in a position where they give meaning to companies' communication, the relationship is not an objective matter, but rather a continuous construction where things communicated and meanings ascribed to it changes over time and between individuals. In interpreting Bryman and Bell (2015), this line of thought adheres to the ontological position of constructionism, since it challenges the view of social actors and their actions to be pre-given. Hence, due to our view of how the social world functions and that it is the social actors in it who ascribe meaning, a qualitative research approach and an inductive orientation regarding the role of theory was considered appropriate. The qualitative research approach is further supported by the study's emphasis on words and language, in contrast to quantitative research focus on measurement and calculation (Skärvad & Lundahl, 2016). In the sense of having an inductive orientation, this study will be guided by the view of theory being an outcome of our research. Meaning that it is rather our empirical findings that generate the theorisation, than testing if current theories hold true. This in combination with taking a relatively undiscovered audience perspective on narrative reporting supports the explorative purpose of our report. Important to acknowledge, however, is Bryman and Bell's (2015) comment that inductive and deductive orientations usually are intertwined, and sometimes better to be seen as tendencies in the relationship between theory and practice.

In order to fulfil the purpose of this study a cross-sectional design has been followed. This was deemed applicable since our empirical data, in line with Bryman and Bell's (2015) description of the design, have been based primarily on interviews with many individuals and every occasion of data gathering took place at one single point in time. Three different methods have been employed which should be seen as integrated throughout the study. Semi-structured interviews have been conducted along with a self-completion questionnaire, both methods used under the overarching structure of a simulation enabling an assessment of company prospects, i.e. an equity assessment, by the participants. Important to clarify in this regard, is that the main method is the semi-structured interviews. This is due to the semi-structured interviews having the advantage of providing insights as of how participants have

come to their opinions. In this regard, observations made through the simulation per se would not have generated much data, and therefore merely functions as a structure making the interviews possible. Structured interviews were considered. However, they were deemed not to be beneficial in providing the data needed for our research question as such interviews would introduce a risk of the participants being nudged in a certain direction. In our case we have been interested in the participant's assessment and elaboration of their own thoughts, making a more flexible interview style applicable (Skärvad & Lundahl, 2016). As have been mentioned, an artificial setting was also needed which made the participants go through two sets of information, financial statements and a CEO-statement, facilitating questions regarding their equity assessment to be asked. The closest form to our simulation is what Bryman and Bell (2015) label as organisational simulation, which the same authors describe as having a looser form regarding control of participants' activity. It still gives them great freedom to act upon their own judgement, making it applicable as the alternative would have been an experiment. This looser form is important to our study as explained in the next section's discussion. Finally, the method of providing self-completion questionnaires has been used, addressing all the participants in the simulations and interviews. This have facilitated a more objective generation of data for the participants' view of the CEO-statement. In turn, this has become a triangulation tool for verifying the interview data. Many of the disadvantages associated with self-completion questionnaires are deemed to be of minor importance as interviews also are conducted.

Discussion of problems associated with research design and methods

The choice of research approach, design, and particular methods was initially not clear-cut. According to Bryman and Bell (2015), each strategy and design brings with it certain epistemological propositions and therefore the methods stemming from different paradigms are in need for discussion. Simulations which according to Bryman & Bell (2015) mainly are associated with quantitative research strategy, introduced a sense of deduction from theory for finding an appropriate company to structure the simulation around. The same line of thought applies for the self-completion questionnaire. Quantitative and qualitative strategies are according to Bryman and Bell (2015) generally seen as two opposing paradigms, resulting in conflicting underpinnings regarding objectivism and constructionism that are not easily eliminated. An example is that the artificial setting introduced by the simulation to some extent challenge the view of a natural world being socially constructed. However, in the end, we argued that the primary purpose was to study the participants' perception through the interviews, i.e. that the meaning of the answers they provided was the important part rather than a quantified result of the observations resulting from the simulation itself. Furthermore, Bryman and Bell (2015) also argues that the quantitative versus qualitative associations with certain underpinnings are unperfected connections.

Summary

To summarise, this study is to consider a qualitative study since its focus is on words and language. It is to be seen as having an inductive orientation regarding the role of theory as our empirical data primarily have guided the choice of applicable theoretical perspectives. Due to this study's design certain elements stemming from quantitative research have had some implications for further methodological considerations, especially related to preparation for the simulation.

2.2 The Theoretical Framework

2.2.1 Literature Review

This study has followed what Bryman and Bell (2015) call a narrative review, which they claim to have the purpose to get a better understanding of a certain theme. This makes it suitable for inductive studies. In line with this type of review we first set out to explore the research field surrounding the CEO-statement. Subsequently this led us into the field of narrative reporting and accounting communication. This approach enabled us to explore the boundaries of the field we intended to study, where one extreme was pure communication studies and the other rationales for managerial self-serving behaviour. Particularly, the search introduced us to the fields of narrative reporting, discretionary disclosures, storytelling, and impression management. After this initial search a slightly more systematic approach was conducted, serving the purpose of raising the quality of the review (Bryman & Bell, 2015). This was conducted by using the different fields found as keywords, alone and in combination with CEO-statement, Chairman's letter, president's letter, and letter to shareholders. Regarding the latter keywords, although being different versions of narrative reporting their similarities regarding content and legislation makes research on each one of them applicable to this report. When finally finding ourselves on top of the studies related to accounting communication and narrative reporting, we realised that our approach had enabled us to see the greater picture. This instead of being stuck in the field of impression management which merely is one branch within the broader research field of accounting communication. Earlier literature reviews and theoretical frameworks, was of great help for seeing the greater picture (e.g. Merkl-Davies and Brennan 2017; Merkl-Davies & Brennan, 2007; Beattie, 2014). Especially for the insights of their being two perspectives, a user and preparer perspective. This classification was also deemed as purposive since literature taking a preparer perspective compared to the ones taking a user perspective, may provide different contributions to our analysis as well as development of interviews.

Realising the benefits of introducing a more objective method for data generation a decision was made to include a self-completion questionnaire, which was adopted from Rogers and Hildebrandt (1993). This article was found through reference in Rogers (2000) which previously was found from the above exploration of the research field. This introduced a search for the competing values framework resulting in articles where the framework had been used. The original article developing the model was also found through a reference in Rogers (2000).

Furthermore, in line with our inductive approach, we later included theories of message reception and processing as well as the narrative paradigm. Serving the purpose of making sense of our empirical material. Of these, only the presentation of the narrative paradigm is based on articles. These were found through a reference in Littlejohn (1996) and a follow-up search to attain the original articles.

2.2.2 Choice of Theory

Before our simulations, which include the interviews and self-completion questionnaires, were conducted we had adopted the theoretical model of competing values for managerial communication developed by Quinn, Hildebrandt, Rogers and Thompson (1991). This is the original model for which the self-completion questionnaire adopted from Rogers and

Hildebrandt (1993) has been developed. In line with our methodological approach discussion this contrasts the inductive approach, seeing that this particular theoretical framework does not follow a decision made based on suitability for our empirical material. However, since this theoretical framework is not the key part in this thesis, functioning merely for validation of the interview responses, the implications of this is regarded as immaterial. The model was considered relevant since Stevens (1996) have used the model to analyse corporate ethical codes, and some years later Rogers (2000) used it to analyse audience responses to CEO presentations. Furthermore, Rogers and Hildebrandt (1993) have suggested the model to be useful for characterising messages.

In line with our inductive approach, choices of the main theoretical perspectives have followed progress of the study. Quite early on we realised that a communication model was needed to structure the relationship between companies, their disclosure of information, and investors. The first model that was thought of after conducting the literature review was a transactional model of accounting communication. However, as our work progressed we realised that it was too abstract to fit with our material. We therefore followed up on another theoretical model referred to in the same article. This resulted in the choice of adopting the matrix of communication developed by Bedford and Baladouni (1962). It was chosen since we found it to be particularly relevant to have a model that explained accounting communication through the elements involved in such a process. Hence, we argued it was suitable for providing the context in which non-professional investors receive the financial statements and the CEO-statement.

In the later phase of our study we added four theoretical perspectives. Three of these, attribution theory, cognitive dissonance theory and social judgement theory, are interconnected and adhere to the behavioural and cognitive aspects of message reception and processing (Littlejohn, 1996). Attribution theory was chosen in order to help us understand and analyse the empirical material from a message interpretation point of view, cognitive dissonance theory to help us understand and analyse the empirical material from an information organization point of view and finally social judgement theory helped us understand and analyse the empirical material from a judgement process point of view. We also came to realise that a fourth and final theoretical perspective was needed to understand some of the nuances and differences in the empirical material. For that purpose the narrative paradigm was found suitable which in turn supported us in analysing the material from a perspective of the persuasiveness of narratives. Thus, offering a new dimension specifically aimed at analysing narratives.

2.3 The Empirical Study

2.3.1 Population

Based on this study's focus a natural approach was to introduce the simulation and conduct the interviews on a population reflecting non-professional investors. From a sampling perspective, this way of selecting participants with a purpose in mind is known as purposive sampling. In other words, we use a non-probability sampling method and select the participants with a purpose in mind. Trochim (2006) argues that the purposive sampling method is useful when you want to get the opinions of a target population. However, the same author argues that negative side of this equation is that such subgroups are more readily

accessible and that there is a risk of researching a population that may not represent the population well. Since our research question is not aimed at being answered via probability theory and our method is of qualitative nature, the negative side of purposive sampling can be argued to be a minor issue in our case. In methodological discussion, section 2.4, we have further discussed the implications of this choice as well as how these have been dealt with.

The population chosen have been master students from M.Sc. Accounting and Finance program of Lund University School of Economics and Management. Our reasoning for classifying masters' students as non-professional investors are partly based on the fact that earlier research have used MBA's as surrogates for non-professional investors (see Merkl-Davies & Brennan, 2007; Stanton & Stanton, 2004; Cianci & Kaplan, 2010; Arnold, Triki & Sutton, 2015). In addition, MBA's can generally not be considered to have any in depth work experience from professional investing but are still enough familiar with reading financial statements. Thus, they will be able to perform given tasks. There has been no further screening process for the population of this study.

The purposive sampling resulted in a population consisting of 15 master's students, three women and twelve men. The reason for not including more participants is twofold. First, a sense of saturation in regard to answers provided during the interviews was felt when going above ten participants. Second, due to the qualitative approach taken, 15 participants were considered as more than enough for answering this study's research question and fulfilling its purpose. All participants were familiar with reading annual reports and none had any idea of which company the information provided during the simulation adhered to. Eleven of the participants directly held shares in some company, while the rest did so indirectly through pensions and funds.

2.3.2 Preparations Simulation

The simulation provides the overarching structure for our interviews to take place. The structure provided by the simulation is the presentation of two information sets, financial statements and a CEO-statement. An assessment of the two information sets is a prerequisite for the participants to be able to answer our interview questions. This design resulted in a need to select a company to draw financial statements as well as a CEO-statement from. For the purpose of researching how non-professional investors' opinion of a company's prospects based on the financial statements is affected by a dissonant CEO-statement, it has been our interest to select a company where the same situation holds true in relation to the financial statements. How non-professional investors cope with such a bicameral context is an important first step to study. Reason being, if the non-professional investors cope with it well there would be less reason to consider companies were lower degree of dissonance is expected. Following the selection process below the company finally chosen for this purpose was Beijer Electronics Group (Beijer). The simulation ends with the provision of the self-completion questionnaire in relation to the CEO-statement.

Finding Dissonance

In the first phase of finding a company where the CEO-statement was dissonant in relation to the financial statements we went through our literature review for considerations of importance. Main takeaways were that companies which from both a financial performance and position perspective was struggling, would provide a good area to look for in order to find

dissonance (see Cen & Cai, 2013; 2014; Kohut & Segars, 1992; Leung Parker & Courtis, 2015). In the second phase we analysed the financial statements of companies that fit our phase one criteria, in relation to their CEO-statement. This was done in order to establish that traces of dissonance seemed to exist. Evidence of dissonance that was searched for consisted of non-disclosure methods of impression management (see Leung, Parker & Courtis, 2015), refocusing of the narrative reporting from past and present performance to future (see Cen & Cai, 2013; 2014; Kohut & Segars, 1992), and methods of storytelling and narrative control that engages the reader (see Breton, 2009; Gendron & Breton, 2013; Hyland, 1998; Jonäll & Rimell, 2010; Jameson, 2000). Below follows a qualitative analysis where this processes is applied on the company that finally was chose for our simulation. In the methodological discussion, section 2.4, we critically discuss this process of selecting a company with applicable disclosures.

Qualitative analysis case company

This part aims to demonstrate the analytical process that led to Beijer being elected as the case company for this report. As outlined in the previous section the analytical process consisted of two phases. The Swedish annual report has been used due to previous research highlighting the importance of readability and understanding from the user's point of view (e.g. Smith & Taffler, 1992a). Therefore, providing Swedish students with an English version could cause unwanted effects and provide us with an empirical material that had defects of linguistic misunderstandings.

Regarding phase one, the conclusion that Beijer is currently struggling with its financial performance is based on the arguments that: their revenue has decreased by 18 percent, their operating income has gone from positive to negative in terms of absolute outcome, there have been a large increase in financial expenses, and profit after tax has gone from positive to negative in terms of absolute outcome (Beijer Electronics Group, 2017). Regarding the conclusion that Beijer struggles with their financial position is based on: a large decrease of their position in associated companies, increase in short term debt, and that their cash-flow would be negative without the increase in short term debt (Beijer Electronics Group, 2017). Furthermore, by extrapolating the financial performance of 2016 the liquidity position is at risk. From the financial statements there are clues to what has caused the raise in financial expenses, however, regarding the decrease in revenue there exist no clear details.

In phase two the CEO-statement also posted in Beijer's annual report 2016 have been analysed. The following was noted in relation to the financial statements for what we regarded as evidence of the dissonance earlier mentioned. On an overall basis we first conclude that out of the CEO-statement four headlines, three is focusing on the company's future in a positive context: "*well positioned for new internet- and cloud solutions*" (Beijer Electronics Group, 2017, p.8, translated), "*the development points in the right direction*" (Beijer Electronics Group, 2017, p.8, translated), "*prospects for a better 2017*" (Beijer Electronics Group, 2017, p.9, translated). Analysing the text under each headline we conclude that the CEO-statement continues to put emphasis on what the future will hold. This is primarily done within a context of explaining that the company is in a transition and development phase where they have over the last years built a platform that they argue is good for their success in the long term. This is illustrated in the two following statements: "*Beijer Electronics Group emerged stronger from the past year and created a new platform for long-term, profitable growth*" (Beijer

Electronics Group, 2017, p 8. translated) and further “*The group is changing into a more customer-oriented direction while the cost base simultaneously has been reduced significantly*” (Beijer Electronics Group, 2017, p.8, translated). Furthermore, it was noted that the quantitative disclosures made in the CEO-statement refer to the amount of orders at year end as well as goals regarding revenue growth and operating margin for year 2018 (Beijer Electronics Group, 2017). In other words, numbers and ratios focused on the future which cannot be found in the company’s financial statements. Also, no numerical or quantitative references are made to the company’s financial performance or position as displayed in the financial statements. Furthermore, there exist no explanations for why the performance of 2016 was so different from 2015, there exist only an expression of dissatisfaction in the CEO-statement: “*We are still not satisfied. The outcomes for sales and earnings for the full year 2016 remained at an insufficient level.* (Beijer Electronics Group, 2017, p.8 translated) For example, the CEO-statement does not state or comment on anything related to the 30-year-old contract with Mitsubishi Electric that was cancelled or the company’s decision to close down its operations in Finland and the Baltic countries (Beijer Electronics Group, 2017). These events are, however, stated in other parts of the annual report to have affected the company’s revenue by a decrease of 170 million Swedish crowns (Beijer Electronics Group, 2017). Furthermore, the CEO-statement gives no comment or any explanation to the large impairment of the company's Brazilian operations which to a large extent explain the increased financial cost. It is also the reason for why the financial statement line item (FSLI) for associated companies has decreased by the same amount (Beijer Electronics Group, 2017). From this we concluded that signs of non-disclosure methods of impression management also was prevalent.

Based on the two phases explained above, we argue that there are signs of dissonance between the CEO-statement and the financial statements. It is important to note that Beijer was not disclosed to the participants of this study. This has been done by renaming names of the company, its subsidiaries, and branded products, in line with the approach used by Smith and Taffler (1995). The financial statements and the CEO-statement provided to the participants of this study are attached in **Appendix 3 and 4**. Note that these are the Swedish versions.

2.3.3 Preparations Interviews

Before conducting the first real simulation some preparations were made. First an interview guide was made. In putting the guide together, the literature review was considered as a base-point for formulating questions from the right perspective. In our case, questions aimed at finding out participants’ own opinion and thoughts of a company’s prospects, based on an assessment of financial statements and a CEO-statement. Furthermore, as a result of our research question, we argued that the interview required both questions related to the establishment of an opinion as well as questions regarding why such an opinion was formed. This regarding both sets of information, the financial statements and the CEO-statement. Naturally the guide therefore became structured around these two sets, dependent on the sequence the information sets were provided. The nature of the questions was formed with the intention to permit participants to freely choose where to start, facilitating follow up questions rather than directing the participants into specific answers. Not making the questions too specific is an important aspect of qualitative interviews (Bryman & Bell, 2015). The full

interview guide is attached in **Appendix 1**. Although it is labelled as an interview guide there are some influences from the simulation that not have followed the process described above.

Furthermore, for our own preparation for the first session, the interviewer elected for being in charge practiced with the interview guide. This was done to facilitate a more sensitive style of interviewing. This was deemed important in making the participants comfortable with the situation and establish a personal connection. Creating such an atmosphere is according to Skärvad and Lundahl (2016) important when searching for deep and detailed answers. In addition, the second author of this paper, being the observer and note taker, formed a simpler template for writing down comments. The same person was the interviewer respectively note-taker on every occasion.

2.3.4 Preparations Self-completion Questionnaire

The self-completion-questionnaire has been adopted in its entirety from Rogers and Hildebrandt (1993) who developed a profiling tool for the competing values framework for managerial communication (CVFMC). Both the CVFMC and the procedure of profiling will be addressed in the Theoretical Perspective, Chapter 3. Since the questionnaire has been adopted in its entirety there has only been minor work in putting it together. In this part we go through the process of making the questionnaire operational. Since the questions were in English and the wording used were rather complex, a translation was deemed necessary in order for the population to understand the questions. However, since meaning of the words used in the questionnaire is important for the functioning of the model a quite extensive process for translating the questions correctly was performed. This involved researching for what part of speech each wording adhered to as well as grasping the intended meaning of the words used in the question. An example of a question is: “*is the presentation emphatic, forceful, and powerful?*” (Rogers & Hildebrandt, 1993, p.131). Regarding this question, grasping the three words intended meaning relates to a translation in line with the quadrant they adhere to in the CVFMC model. Thus any Swedish word substitute could not be accepted. However, through our detailed translation process we argue that the result makes the original model justice. The self-completion questionnaire used (i.e. the Swedish version) is attached in **Appendix 6**. For the original version we refer to Rogers and Hildebrandt (1993).

2.3.5 Pilot Test

Before starting our collection of empirical data we decided to test our company material and interview guide for possible flaws and questions that could arise from the simulated decision situation. We conducted a pilot test with a student from M.Sc. in International Marketing and Brand Management. The student had some experience in accounting from undergraduate level as well as relevant work experience. We used the same form as the real test, although without some basic questions regarding for example age and gender. The pilot test had many objectives. The two most important ones were to: first, see if any unforeseen problems would arise regarding the two information sets, and second, what kind of answers our general questions would give rise to. The latter was of some concern before the pilot test was conducted, since it was hard to imagine if a participant would be willing to elaborate enough on his/her opinions and thoughts. In additions the pilot test was a way to estimate how time-consuming a session would be as well as trying out the wordings used in the self-completion questionnaire.

The results were satisfying. The pilot participant's engagement in the task as well as willingness to elaborate was satisfactory. We saw this as evidence that the formulated questions provided enough space for the participant to answer freely and that the interview technique was suitable. The whole session took 20.58 minutes without limiting any elaboration in the interview. Some insights were also made, of which one particularly had influence on the formation of the real simulation. This was that we deemed it necessary to put a time limit on five minutes for assessing the financial statements. The reason for this was that we saw a risk that some participants, without having an idea of how much time they had at their disposal, would dig too deep into certain aspects or remain at one sheet of the financial statements. This would lead to distorted answers regarding what factors the participants focused on to assess the prospects of the company.

2.3.6 A Session of Simulation, Interview, and Questionnaire

In this section we present what a participant in this study went through in one session. This is to provide a firm understanding for how the empirical foundation of this study has been gathered. This process is as explained earlier, to some extent also visible in the interview guide, see **Appendix 1**.

Prior to the Session

Each participant in our study was contacted in advance with the purpose to check whether he or she was interested in partaking in what was described as a case solution simulation. Information was provided for the amount of time needed to participate (15-20 minutes) and that a lottery ticket would be given as a complementary thanks for their effort and time partaking in the study. After the participant contacted accepted the offer to partake, a date and time was set for the simulation and interview to take place.

During the Session

Below follows three steps illustrating not only what was presented to each participant, but also in which order.

The first step involved information set one, see **Appendix 3**. The participant was welcomed and introduced. General background information about was gathered and thereafter s/he was introduced to the first information set. After reading the brief introduction about the company s/he was asked to form an opinion about the company's prospects based on the set of financial statements, consisting of an income statement, balance sheet and cash flow statement. The participant was informed that the financial statements were from the same company as the brief introduction related to. After an assessment of five minutes had been conducted, the interview continued in line with the interview guide.

The second step involved the CEO-statement, see **Appendix 4**. The set of financial statements were removed and the participant was introduced to the CEO-statement and asked to read it without time limit. When finished, the interview continued in line with the interview guide. The order of introducing the CEO-statement after the financial statements was chosen due to it being more realistic to the flow of information in reality. This is due to the annual report, in which the CEO-statement is presented, lag behind the release of the yearly closure of accounts constituting the financial statements.

The third step introduces the self-completion questionnaire, see **Appendix 5** or for English version Rogers and Hildebrandt (1993) The participant completes the questionnaire without having the CEO-statement or the financial statements available. The material is removed in order to capture the participant's perception of the CEO-statement.

After the Session

When the three steps are completed, each participant was thanked sincerely for their participation. An explanation for the study was provided and the possibility to ask questions was given. As a final check in relation to what the participant have answered during the session, s/he was asked whether s/he had recognised the company. In direct connection to the session we summed up what we have observed and experienced in notes.

2.3.7 Transcription of Interviews

It's a common practise to transcribe interviews when it comes to qualitative research as it serves several purposes and advantages (Heritage, 1984 cited in Bryman & Bell, 2015). For this report it provided a way to cope with extensive empirical material beyond the scope of what is possible to memorise. Furthermore, as a result of the process of transcribing, we also benefitted from re-examining the participants' answers, which provided an in depth understanding. However, because transcription relates to matters concerning how participants are to be understood from the information they provide it should be handled with care (Oliver, Serovich, & Mason, 2005). In order to make our empirical material, analysis, and conclusions more transparent we present our method for transcription below.

After all 15 interviews were done, an independent transcription of the recorded audio material was conducted. It should here be noted that all interviews were conducted in Swedish and therefore all the recorded material was transcribed in Swedish. In a later stage, the material that has been presented in the empirical foundation section as well as the summary table of empirical extractions attached in **Appendix 2**, has been translated into English. A more in depth discussion about the translation process can be found in section 2.4. Everything that was said and discussed by the participants and the interviewer during relevant parts of the interview was transcribed into the exact formulation. By relevant parts we refer to all audio material starting from the point where each participant is guided to the financial statements (information set 1) and until the self-completion questionnaire was handed out to the participants. This approach is supported by Bryman & Bell (2015) stating that it is of low relevance to transcribe material that is unlikely to be considered of value. Repetition of words and 'humming' by the participants and the interviewer was not included in the transcription. However, in order to capture certain factors and contexts that the authors found important in relation to *how* and *what* was said by the participants a codification was conducted. Sentences that the participants or the interviewer did not finish were marked by [...]. Moreover, proverbs and idioms were marked in the transcript by quotes and nonverbal expressions such as pauses, laughter and sigh were marked as [PAUS], [LAUGHTER] and [SIGH]. Finally, text within () regards non-verbal communication, for example pointing at a FSLI in the financial statements.

The original transcribed interview material is not included in this report because of its extensiveness but also that the authors argue that it provides no incremental value to the

empirical findings presented in this report. However, for replicability and validity reasons the whole transcribed material is saved and available on request.

2.4 Methodological Discussion

According to Bryman & Bell (2015) there has for a long time, and continues to be, an ongoing discussion of whether reliability and validity are applicable and relevant in the qualitative field of research. This is related to the fact that reliability and validity is to a large extent concerned with evaluation of issues related to measurement (Bryman & Bell, 2015). In other words, the thoughts behind reliability and validity are created with a purpose of a quantitative research design. Also, the use of reliability and validity in qualitative research implies that there exist absolute truths in the social world and that these are possible to capture via qualitative research. As a reaction to these flaws writers have developed alternative approaches for evaluating qualitative research. Lincoln and Guba (1985) have developed one of the more highlighted alternative approaches that is based on the criteria aimed at trustworthiness. Trustworthiness consist of four sub-criteria; credibility, transferability, dependability, and confirmability. Below is a presentation of these criteria and how they relate to our study.

2.4.1 Credibility

The credibility criterion is a matter of questioning the truth of research findings. This in order to come up with conclusions about the findings credibility (Lincoln & Guba, 1985). In order to increase the credibility it is recommended to strive towards a research design that investigates findings from more than one perspective (Bryman & Bell, 2015). One method that is recommended for achieving this purpose is to use triangulation (Bryman & Bell, 2015). Credibility is a direct parallel to internal validity (Bryman & Bell 2015).

Being aware of the fact that, based on our qualitative study design, few if any conclusions can be drawn about absolute truths of our findings. Although earlier research has tried to established wider truths from their findings, mainly because they are quantitative, the authors of this report argue that it is not only difficult but maybe even not something to strive for. The reason being is that there exist neither a right nor wrong in the context of truth. By that we are referring to that a revised opinion and the basis for what affects our participants' opinion about a company's prospects can both result in a financially good and bad outcome. However, since we collect opinions and thoughts from participants that remain anonymous, there exist no reasons for them to lie in their answers. In other words, our overall finding is based on a collection of individual truths. We argue this increases the credibility of our findings. Finally, we argue that our findings have good credibility since multiple methods are used in the collection of empirical evidence. That is, we use a triangulation method in order verify the empirical material.

2.4.2 Transferability

The transferability of qualitative research is directly parallel to what is otherwise known as external validity (Bryman & Bell, 2015). Qualitative studies focus on depth in the context studied, relates to the notion made by Lincoln & Guba (1985) that there are several aspects of the social world and because of that contextual uniqueness exists. However, if findings are context or time dependent this is an empirical issue. The solution is partly, according to

Bryman and Bell (2015), to realise the limitations of a qualitative study but also to try to provide readers of the research with thick description. A thick description enables outside readers to make their own judgements about the findings transferability (Lincoln & Guba, 1985)

This study's focus on non-professional investors makes the transferability to other types of investors and stakeholders questionable from a context perspective. Our narrow frame is not only an outcome of an intentional limitation based on the research question but also that qualitative studies in general have the characteristic of being more in depth. Moreover, since we have limited our self in our definition of non-professional investors as M.Sc. students the transferability of our findings can be questioned from a perspective of whether our population is representative of whom we aim to research. While there are no bulletproof solutions in order to address these problems we have strived toward giving as thick of description as possible in our presentation of empirical findings for such a sample. This will hopefully give readers the possibility of analysing the empirical material from similar or other perspectives.

2.4.3 Dependability

Dependability is the direct parallel of what is otherwise known as reliability (Bryman & Bell 2015). In other words, this criterion is related to the concept of replication. In order to succeed with this criterion of trustworthiness Lincoln & Guba (1985) pointed to the importance of not only informing what has been done but also providing detailed material for all the phases of the research process. For example, the argumentation of selection of participants and interview transcripts.

Because of the qualitative nature of our study it is natural that a direct replication is problematic for other researchers to conduct. This is mainly related to the fact that we have chosen to keep the participants anonymous. Even if that was possible, other intangible factors such as participants' mood, temperament of the day, and knowledge at that point in time, would make a complete re-test impossible to conduct. In other words, the consistency of our findings is not only a problem from a perspective of participants studied but also that the participants themselves could provide inconsistency when they are researched at other points in time. However, as we have in detail outlined our exact approach for conducting our study and the information sets derived from Beijer is available, it is with the exception of factors caused by our population of participants possible to replicate our study.

2.4.4 Confirmability

Neutrality is a central objective in both quantitative and qualitative research. Bryman & Bell (2015) note that while complete objectivity is impossible it should be obvious to the reader that the authors have acted in good faith. By that they are referring to not letting personal values or theoretical inclination affect the research and the findings (Bryman & Bell, 2015). In other words, research should be shaped by the participants and not the researcher. This notion parallels to what is otherwise known as objectivity.

Although we, as everyone else, are coloured by previous knowledge and research we have had a firm aim of conducting our research from a neutral perspective. In our study this primarily meant that we both considered an inductive research strategy to be more applicable. It could also be seen from the fact that we wanted to explore what is often taken for granted.

By that we primarily refer to impression management and incremental information aspects of dissonance between CEO-statement and the financial statements.

Furthermore, as our findings consist of direct answers and interpretations by the participants we have sought to use these as much in their original form as possible. However, since the interview was conducted in Swedish there exists another layer of problem. That is, the translation process of the empirical material into English has to be done in a manner that represents the linguistic nuances in a true and fair manner. In order to address this problem a translation process aimed at capturing the essence of what the participants were saying was used in favour of using a word-by-word translation process. Both authors of this report has been involved in the translation process in order to increase the likelihood of retaining a high confirmability. It should also be noted that although there exists a risk for lowered neutrality as a result of our translation process we argue that without it the quality of the empirical material would be inferior. Finally, we would argue that by giving an in depth review of how we have conducted our study, the material used, and to what purpose, it provides good evidence of our confirmability.

2.5 Ethical Considerations

When conducting research there are always ethical considerations that are in need to be addressed. Although there might not be a straight answer for what is right and what is wrong, Bryman & Bell (2015) point out that it is important to acknowledge that certain ethical principles exist and that each principle's role can be of different importance. The most sensible thing to do was therefore to gain understanding of the common ethical principles that have been established, and thereafter let our own moral compass guide us in our interaction with the participants in this study. For this purpose we read about Diener and Crandall's (1978, cited in Bryman & Bell, 2015) four main areas of ethical issues; harm to participants, lack of informed consent, invasion of privacy, and deception. Below it is presented how we have dealt with issues relevant for this study.

Harm to Participants

Regarding harm to participants it is only the subtler risk of there being any possibility to identify any participant's involvement that was in need of consideration. According to Bryman and Bell (2015) this is a point particularly problematic in qualitative studies and relatively small sample sizes. Since no gathering of personal information except gender and age have been conducted, this risk relates to participants being possible to identify. Age and gender have for this purpose also been considered with caution in the study.

Lack of Informed Consent

The issue of informed consent is to a large extent concerned with the fact that participants being observed without their knowledge of the researcher's intent (Bryman & Bell, 2015). Except the recordings during the interviews, this has not been troublesome since all the participants freely have agreed to participate. However, regarding the recording of interviews we had a short briefing where we informed each participant and gaining their consent for recording their answers. No participant had any trouble with being recorded.

Invasion of Privacy

This principle is according to Bryman and Bell (2015) related to the ethical issue of there being no right for a researcher to intrude on private life matters or disrespect the integrity of other individuals. For this study, this has been a minor issue since we did not ask any questions about the participants' private life matters. Thereby, also this ethical issue can be considered to have been handled in a satisfying way by getting the participant's consent.

Deception

To deceive participants in the form of false impressions or withholding of information is an aspect that on the other hand is highly relevant for us to deal with. The simulation provided a setting where the participants believed that a decision-making process was imitated, leaving them to wonder what the study really was about. From an ethical perspective this can be questioned since the participants' feelings and values to some was disrespected. Bryman and Bell (2015) argue that false impressions are common in business research, since it sometimes is not desirable having participants understanding what the research is about. We argued the same argument to be applicable to this study as the data otherwise would have been considered biased by participants already knowing the questions being researched. However, although the participants to some extent were mildly deceived we made up for it by explaining the true purpose in the end of each interview.

2.6 Consideration of Sources Used

In conducting the literature review as well as finding relevant theoretical frameworks, articles from academic journals have been used. In searching for academic journals the criterion peer reviewed have been used to the greatest extent, thereby to some extent assuring the articles credibility as they have been examined by professional reviewers. However, in some cases, cross references have been used to follow up on articles, leading to the risk of a few articles not being checked for the above criterion. To the greatest extent possible primary sources have been used. Only for those articles where the original source has been unattainable secondary sources have been used.

Furthermore, literature in the form of books has been used. The books used for methodology purposes have been assigned course literature during our time at Lund University School of Economics and Management. Furthermore, a book written by Littlejohn (1996) has been important for the thesis, as it has been used as a source for theories of message reception and processing. The edition of this book was not the latest edition however being the only one available via the library. Since the theories in themselves are old, using an older edition of his book should not provide a different depiction of the theories as would have been derived in a later edition.

3. Theoretical Perspectives

Initially a literature review covering previous research on narrative reporting and discretionary disclosures is presented in the form of a user and preparer perspective. Further, the theoretical frameworks used in the report is presented and finally how they together fit into our model for analysis.

3.1 Literature Review

From the concepts of corporate narrative reporting and discretionary disclosures two important articles for our study has been Beattie (2014) and Merkl-Davies and Brennan (2007). The article by Beattie (2014) focuses on developing an understanding of how research in the field of narrative accounting in external reporting has developed over the years. The article by Merkl-Davies and Brennan (2007) on the other hand focuses on covering research from a preparer and user perspective, in the scope of discretionary narrative disclosure strategies in corporate documents. Based on the two articles we have created our literature framework of prior research from a preparer versus user point of view. This in order to understand the complex field of narrative reporting and where our study can be positioned as well as contribute.

3.1.1 Preparer Perspective of Narrative Reporting

Merkl-Davies and Brennan (2007) conclude that almost all research from a preparer perspective has been based on investigation of impression management in what they call a routine corporate reporting context. Also, they conclude that agency theory has been the most frequently used theory in these studies and that the majority of studies have aimed at answering whether and why management engage in impression management. To answer this aim most studies have used some form of content or linguistic analysis technique (Merkl-Davies & Brennan, 2007).

Beyond what Merkl-Davies and Brennan (2007) conclude to be common characteristic for many of the articles that take a preparer perspective we note that *organisational financial outcome* and how it affects the *amount of content* have been a recurring theme in many articles. Kohut & Segars (1992) analyses the content of 50 president letters of high and low performing firms with the help of word and sentence count, content analysis, and discriminant analysis to search for patterns in communication strategy. Their findings indicate that firms with high return on equity (ROE) tend to elaborate more than firms with low ROE. This is supported by two similar studies by Cen and Cai (2013; 2014), which investigate chairman's statements in Chinese and Australian corporate annual reports from an impression management perspective using content and linguistic analysis. Their study is specifically focused on assessing the presence and degree of impression management comparing the most profitable with the least profitable companies. In both studies they find that the most profitable companies write longer chairman's statements than the least profitable. Furthermore, they find that the most profitable companies tend to use more quantitative references than the least profitable. To some extent the findings of Kohut and Segars (1992) and Cen and Cai (2013; 2014) are supported by Yuthas, Rogers and Dillard (2002) findings in

MD&As and President's letters. However, Yuthas et al. (2002) further conclude, based on software identifying words with specific thematic and Habermas's theory of communicative action, that firms with both positive and negative earnings surprises generally adopts a more communicative role. That is, communication seeking mutual understanding rather than seeking success by influencing rational opponents. The studies focusing on the *amount of content* as a factor of *organisational financial outcome* are therefore not entirely conclusive in their findings when it comes to the relationship between organisational performance and the amount of information that this entails. However, it is suggested that companies seem to be more verbal when there are positive things to write about.

The articles by Cen and Cai (2013; 2014) also conclude that the least profitable companies referred to future operations at a level significantly higher than the most profitable. The different *focus on past or future* in CEO-statement in relation to *organisational financial outcome* is another recurring theme. Similarly to Cen & Cai (2013; 2014) Kohut & Segars (1992) findings indicate that firms with low ROE placed more emphasis on the future compared to firms with high ROE. Contrary to these findings is Merkl-Davies, Brennan and McLeay's (2011) article, which used a content analysis based on psychological dimensions of word use to investigate chairmen's statements of 93 UK listed companies. Their results indicate that negative organisational outcomes tend to induce managers in retrospective sense-making, rather than to present an inconsistent view. However, it is important to note that their study intentionally focused on ex post accountability. The studies that have focused on the relationship between *organisational outcome* and *focus on past or future* seems to indicate a somewhat conclusive picture. That is, when times are tough it is more likely that companies will write about the future than focus on what has happened. However, the article by Merkl-Davies, Brennan and McLeay (2011) indicate that that there are nuances to this picture.

Continuing on the research theme of *organisational financial outcome* there are articles that have focused on the *tone and degree of impression management* in the CEO-statement. Patelli and Pedrini (2014) conduct a thematic analysis of the wording in 660 CEO-letters of large publicly traded U.S firms. The purpose of their study is to explore the association between firm performance and the rhetorical tone of the CEO-letter. More specifically, the statistical association between optimism and both past and future accounting returns. They conclude that there is a significant association between optimism and financial performance as well as that past performance significantly affect the optimism of the CEO. Accordingly, optimism is also found to be highest in firms with good accounting returns. This is contrary to Oliveira Azevedo and Borges (2016) findings whom, via content analysis of 45 chairman's statements, aim to understand how managers build their communicative narrative in order to manage the perception of the company. The authors' findings do not indicate that organisational outcomes influence whether companies use impression management or not. However, they argue that factors such as public visibility and consumer proximity matters for the degree of impression management in chairman's statements. Taking a slightly different approach Leung, Parker and Courtis (2015) analyses concealment of information regarding minimal narrative disclosure (MND), i.e. non-disclosure of narrative information. Their study takes an impression management and agency theory perspective and conclude that MND is more prominent in the operating review and company overview, objectives and strategies. In connection to this, they find that MND behaviour is more likely to be used by companies that are poorly performing or in financial distress. They argue that MND in narrative reporting is a deliberate impression

management strategy to distract investors' attention away from a firm's weakness or negative news. Based on the articles focusing on *tone and degree of impression management* as a variable to the company's *organisational financial outcome* the findings are quite conclusive. That is, impression management and a positive tone in the CEO-statement is present independent of company financial performance.

Another recurring theme in articles based on a preparer perspective is *storytelling and narrative control*. Breton (2009) uses a semiotic analysis approach for analysing the text of annual report. A semiotic approach looks beyond the typical content analysis (counting words) and instead focuses on the structure and meaning of the text at different levels. He finds that annual reports are clearly telling stories and that they are a good arena for this type of discretionary disclosures. This is also supported by Gendron and Breton's (2013) semiotic analysis of CEO-statements of State-owned enterprises. Their purpose was to explore narrative instruments, mainly storytelling, used prior to privatisation. The authors find that CEO's advocate for privatisation and that storytelling is used to convey readers in line with this purpose. Similar findings can be found in Jameson's (2000) study, conducting narrative analysis of low return mutual funds explanations and communication via shareholder reports. The study shows that relatively low return funds uses different narrative tools to make readers active participants in constructing the investment story. The actual outcome, according to Jameson (2000), will depend on readers' intellectual understanding as well as their emotional interaction with the person who is the narrator of the story. Also, Hyland's (1998) textual and linguistic analysis of 137 CEO-letters explore whether CEOs tries to influence readers and project a positive image of him/herself and the company. The author shows that meta-discourse allow CEOs to control the information they provide and as a result how readers should understand and appraise the matter. Similarly, Jonäll and Rimell's (2010) analysis based on a discursive action model show that CEOs wish to persuade readers of the company's legitimacy, excellence and future survival. This in order to strengthen the reader's confidence in the company. The studies grouped as *storytelling and narrative control* thus indicate that companies, as well as funds, actively control their narrative reporting, seeing it as an opportunity where storytelling becomes a tool for audience support of company claims and ambitions.

Lastly, two studies that doesn't fit into the above themes but are equally interesting and important are the articles by Thomas (1997) and Smith and Taffler (2000). Thomas (1997) conducts a linguistic study of verb structure, thematic structures, as well as context and cohesion. Such an approach is called a systematic approach (Systematic theory) through which Thomas (1997) finds that when news becomes more negative, the linguistic structures of the CEO-letter points to circumstances which is not directly attributional to any specific person. Thomas (1997) also points out that it rarely is the CEOs themselves who write the section, but that it is rather a product of more than one person, continuing with questioning whom one should hold responsible for the text when negative events are blamed on other circumstances. Smith and Taffler (2000) on the other hand use content analysis to explore whether the content of the chairman's statement can be used to measure risk of bankruptcy. Their findings indicate that chairman's statements can be closely linked to both positive and negative firm performance using a content analysis focused on keywords and phrases. Based on these findings they argue that the chairman's statement seems to contain useful information, although it is not audited.

To summarise the preparer perspective, the important takeaways are that sections like the CEO-statement in tough times seem to focus on the future, while performance is irrelevant for the occurrence of positivism and impression management. It is also suggested that these narratives contain stories with the possibility to gain the audience support for company ambitions. Times of more negative news have accordingly been argued to be directed to external circumstances.

3.1.2 User Perspective of Narrative Reporting

Merkl-Davies and Brennan (2007) conclude that almost all research from a user perspective has been based on either capital markets or behavioural implications and effects. Also, they conclude that psychological and behavioural theories have been the most frequently used in these studies and that the majority of studies have aimed at answering whether discretionary disclosures influence decision-making of users. To answer this aim most research has used some form of share price reaction studies or experimental studies to base the analysis on (Merkl-Davies & Brennan, 2007).

One recurring theme that we have found in the studies taking a user perspective is the focus on *reputation and plausibility*. Barton & Mercer (2005) conducts an experiment with 124 financial analysts which indicate that when analysts perceive manager's disclosures of poor financial performance on temporary external factors as plausible, the analyst provide higher earnings forecast and stock valuations. However, when these disclosures are perceived as implausible the effect is the opposite. Similar findings are presented by Cianci & Kaplan (2010). They conduct two experiments in which MBA students make judgements about a company's future performance and management's reputation. The judgement is done after the company reports poor financial results. Their results indicate that management's explanation for poor financial results influences investor judgment of company future performance. This outcome is affected both by management's pre-existing reputation (favourable, unfavourable or none) and the plausibility behind the explanation of poor financial results. Arnold, Triki & Sutton's (2015) study on the other hand focused on examining the effect overly optimistic impression management in MD&A disclosures has on non-professional investors' decision. The study is based on a decision-making experiment on 40 non-professional investor. The authors theorise that optimism and certainty may positively affect the credibility of disclosures, thus indirectly affecting investors' willingness to invest. However, they further argue that too much optimism or too much certainty equally can affect disclosure credibility negatively. Based on earlier research their study finds support for such a theory. Based on the above, *reputation and plausibility* of management disclosures are both important factors for the effect on user's perception and reaction

From our literature review we have found two articles that takes a user perspective and that rather focus on content which we label *content analysis*. The earlier of these two articles is Smith and Taffler (1992b) that analyse the relationship between narrative complexity and measures of financial performance in testing two separate measures of readability and one of understandability on users. The narrative used is the Chairman's statement and findings are analysed from an agency and signal theory perspective. They find that readability of the Chairman's statement is significantly related to overall financial performance, and most notably for liquidity. Concluding that the implications of their findings is that company's obscure messages which convey bad news and actively signal good news. Another approach

is used by Balata & Breton (2005) who uses a content analysis of optimism in the president's letter and compares the results with key figures and financial ratios. The authors find a moderate level of divergence between the narrative sections and the accounting data which indicate that a certain level of narrative manipulation might affect the user. They conclude that the effect of dissonance is sufficient enough to raise the question of need for regulation of narrative sections of annual reports. Their study is based on theory on impression management and behavioural economics. These two studies acknowledge the user's perception while focus still remains on *content analysis*. Findings show that some levels of dissonance in information exists between narrative sections and financial information as well as that the level of readability in chairman's statement is associated with good respectively bad performance.

Lastly, three studies conduct experiments, leading to the grouping of *experimental studies*. The first one by Smith and Taffler (1995) takes an explorative approach. The study is designed to investigate if, and how, participants can determine between failed and non-failed cases providing them with a Chairman's statement, profit and loss accounts and balance sheet, as well as ratios. The study concludes that the narrative section alone is a useful discriminator between failed and non-failed cases. Furthermore, they find that there is no improved classificatory ability by integrating sources and that the narrative has a slight negative impact on the quality of decisions. The experiment is administered to 270 UK students. Stanton, Stanton & Pires (2004) conducts another experiment based on evidence from earlier research on impression management to test whether readers' perceptions of a company's performance differed depending on what part of the annual report that they had read. They find that the participants who read the full annual report, including financials, gained a more favourable impression than those who read only the narrative part of the report. This is contradictory of what earlier impression management studies have argued from a theoretical standpoint. They also found that those lacking accounting education was more positive about the performance than those with accounting knowledge. Riley, Semin and Yen (2014) uses both a linguistic analysis and conduct an experiment to study the effect of language categories on investors' decision. They conclude that language in press releases is more concrete (abstract) when the associated financial information is positive (negative). The experiment is based on non-professional investors' analysis of an earnings press release where it is manipulated as either abstract or concrete and positive or negative. They find that investors are least (most) likely to invest when a negative (positive) narrative is written concretely. The above *experimental studies* thus indicate that while the narrative section seemingly has some value for distinguishing between failed and non-failed companies, there are also findings suggesting that readers' perception is more favourable after reading a whole report. Still, negative narratives communicated objectively are associated with lower likelihood of investments.

To summarise the user perspective, the important takeaways are that reputation and plausibility of management disclosures are both important factors for the effect on user's perception and reaction. Contents analyses conclude that there is a connection between the level of readability and firm performance and that dissonance between the narratives and accounting data exists. Finally, experimental studies have found somewhat inconclusive results for the effect of narrative reporting on user's decision making, although suggesting a low likelihood for investments when negative disclosures are communicated objectively.

3.2 Accountancy as a Communication Process

In an attempt to conceptualise the accounting communication process Bedford & Baladouni (1962) developed a matrix of communication. Accounting is argued by the authors to be an integrated system, constituted by a mix of interrelationships of different elements, such as the very organisation itself, accounting staff, auditors, shareholders, and creditors. The Matrix is an attempt to simplify this interrelated process, and thus it only includes the elements regarded as necessary in describing the field of accounting as a communication process (Bedford & Baladouni, 1962). The resulting model is structured around four basic elements, the world of economic events (EE), the accountant (A), accounting statements of the firm (AS), and the user of accounting statements (U) (Bedford & Baladouni, 1962). As visualised in **Figure 1** below, these four basic elements all are within the boundaries of the economic system, illustrated by the surrounding circle (Bedford & Baladouni, 1962).

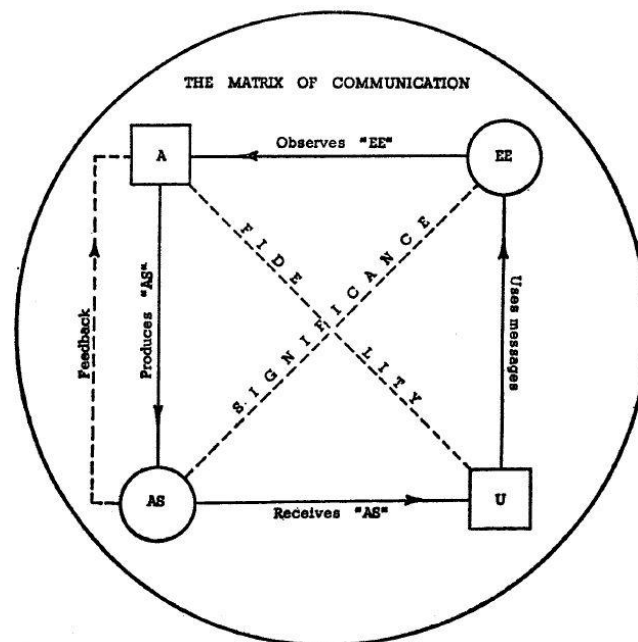


Figure 1: *The Matrix of Communication. Bedford & Baladouni (1962)*

Bedford & Baladouni (1962) describes that the model assumes a counter-clockwise flow of information where each line represents the relationship between the elements. Furthermore, there are two crossing lines *fidelity* and *significance*. Fidelity, the authors argue represents correspondence between the intention of the message and the actual understanding of the user. Significance on the other hand represents relevance and adequacy of the accounting statements put in relation to the economic events (Bedford & Baladouni, 1962). Lastly there is a feedback loop between the accounting statement and the accountant, which the authors describe as the accountant having the possibility to interpret his or her own statements and correct it before release. The accounting statements is argued by the authors to be an attempt to provide a picture, something symbolising, of the organisations' economic events. It is, however, is important to acknowledge that accounting statements never are more than tools referring to reality (Bedford & Baladouni, 1962).

Due to the orientation of this thesis it is necessary to further elaborate on the link between the user and the accounting statement. To start, the accounting statement is in the model considered as an output from the organisation carrying informative messages to the user. Bedford & Baladouni (1962) highlight that the message itself is independent, i.e. an output of linguistic code from one party and that become input to another. The authors continue stating that if there would be a hundred percent fidelity, i.e. correspondence of intention and understanding, there would be perfect communication. Further the significance is argued to be of highest importance for accountants, since what they decide to communicate becomes evaluated by actors of society (Bedford & Baladouni, 1962). In this context, the authors then refer to the issue of meaning, making clear that meaning is a human trait, not contained in messages. In relation to accounting statements the two primary functions of the users are argued by the authors to be to interpret and use the statement. The interpretation part is described to be concerned with reconstruction and understanding of the message, whereby the use of message rather is concerned with the attachment of meaning. This means that if the user does not contain necessary skills to interpret a message, fidelity will not be at desirable level (Bedford & Baladouni, 1962). Regarding the attachment of meaning, this is a function of many different factors, ranging from the economic situation to the users' personality.

3.3 Message Reception and Processing

In order to understand the whole intertwined process of message reception and processing three theories have here been organised in a step-by-step framework. Message reception and processing can be divided into three interrelated stages for how humans come to interpret, organise, and use the information contained in messages (Littlejohn, 1996). This interrelatedness comes from their underlying base of cognitive and behavioural theories and that they all focus on the actual effect on the individual (Littlejohn, 1996).

3.3.1 Attribution Theory

The first stage in message reception and processing concerns the interpretation of message and communication. A theory that explains the process by which individuals comes to understand and interpret both their own behaviour and that of others is attribution theory. In other words, attribution theory is concerned with how people interpret the causes of behaviour in messages that they receive (Littlejohn, 1996).

Attribution theory consists of three underlying assumptions (Kelley, 1972 cited in Littlejohn, 1996). The first assumption is that people will attempt to determine the causes of behaviour. When people are in doubt they look for information that will help them answer what have caused a certain behaviour. The second assumption is that people assign such found causes to the message that they receive. People are assumed to do so on a systematic basis. This is related to the psychological function of human beings inherent need of assigning meaning to what is observed in order to make sense of the world (Littlejohn, 1996). Considering that individuals are not very objective when they make their causal inferences the outcome is in large determined by the communicator's given attributions for the situation (Littlejohn, 1996). The third and last assumption is that the attributed causes will have an impact on the perceiver's own feelings and behaviour. This is in many cases to such a degree that once an attribution is made the individual tend to stick to it (Littlejohn, 1996).

3.3.2 Cognitive Dissonance Theory

The second stage in message reception and processing focuses on the how new information is organized and managed and how that in turn affects the cognitive system of the individual. A theoretical field that starts where attribution theory left off is consistency theories. Those theories focus on the potential attitude change and persuasion of messages (Littlejohn, 1996). The underlying assumption is that individuals are more comfortable with consistency than inconsistency. This in turn results in a continuous evaluation, cognitive processing, of the information at hand, in order to evaluate and cope with potential dissonance. (Littlejohn, 1996)

A consistency theory that specifically focuses on the dissonance effect on individuals is the cognitive dissonance theory. Dissonance is created when the causal effect between two sets of information is not logical from the individual's point of view (Festinger, 1957 cited in Littlejohn, 1996). In other words, the consistency or inconsistency of new information in relation to old is an individual matter that is controlled by the person's own psychological system (Festinger, 1957 cited in Littlejohn, 1996). However, there are two premises that more or less control the outcome and effect on the individual as a result of present dissonance (Festinger, 1957 cited in Littlejohn, 1996). The first premise is that individuals tend to change as a result of pressure and tension created by dissonance. This in order to reduce the level of dissonance which is uncomfortable for the individual. As a result, the likelihood of change (reduce dissonance) is directly correlated with level of un-comfortability (level of dissonance). The second premise is therefore a natural outcome of the first, that is, individuals try actively to avoid situations where additional dissonance might be produced.

3.3.3 Social Judgment Theory

The third and final stage in message reception and processing focuses on how the interpretation and organisation of messages and information affects the judgements individuals makes. A theory that relates back to the two earlier stages is the social judgement theory. The theory's main standpoint is that people make judgements on the basis of reference points, i.e. anchors (Littlejohn, 1996). In other words, individuals do not judge communication based on the information and messages in absolute terms but in terms of how information and messages stand in comparison to past information, messages and the individual's preferred position on the matter. These internal anchors are always present and therefore influence the way individuals make judgements and decisions based on new messages and information. (Littlejohn, 1996)

As a result of the reference point concept three groups are formed for how individuals respond to new messages and information. The first group concern the *latitude of acceptance*, the second the *latitude of rejection* and the third the *latitude of non-commitment* (Littlejohn, 1996). The first group is defined by the statements that you can agree with, i.e. what you find reasonable. The second those you don't agree with, i.e. what you find unreasonable. The third those you are neutral to, i.e. what you find neither acceptable nor questionable. In other words, the individual's perceived favourability of a message and the placement of the message in one of the three latitudes, will together determine the outcome effect on an individual's attitude. As a result, the message that will have that greatest positive attitude change effect is the one most discrepant from the listener's position, but which still lies within the individual's latitude of acceptance or non-commitment. On the other hand, the change of attitude will be

reduced or non-existent if a message lies within the latitude of rejection or non-commitment (Littlejohn, 1996). The change could therefore be in direct contrast to the message if the individual place it within their latitude of rejection (Littlejohn, 1996).

3.4 The Narrative Paradigm

The theory developed by Fisher (1984) is based on an argumentation that narratives form the basis for human rationality since humans essentially are storytellers, a human nature explained by Fisher's labelling *Homo Narrans* (Fisher, 1984). This is contrary to the traditional view of rationality which is formed on the basis that humans are rational beings themselves, explained by Fisher (1984). The differentiated view of rationality is based on differentiated arguments for how humans make decisions and communicate. Fisher (1984) argues that the *good basis* is the basis for all decisions and that these naturally will vary among communication, situations, genres, and media. What is considered *good* by humans are an outcome of matters such as history, biography, culture and character (Fisher, 1984). From this basis the concept of narrative probability, later explained as the narrative coherence as outlined in a later article (Fisher, 1994), and narrative fidelity is developed which together form the definition of rationality according to the narrative paradigm. That is, all humans has an inherent awareness of what determines a coherent story and all humans has an ability to test that story for its truthfulness (Fisher, 1984). Thus, the narrative paradigm is based on human's knowledge quality and formal reasoning processes. Finally, as result of the defining narrative rationality through narratives coherence and fidelity, the world is seen as a set of stories through which humans navigate and make rational choices from (Fisher, 1984). All in order to live what they consider to be the good life (Fisher, 1984).

The narration according to Fisher (1984) is defined as any verbal or nonverbal story constituted of a sequence of events which has a meaning to those who live, create or interpret them. Based on this definition the narrative paradigm developed by Fisher (1984) can be used to describe what individuals do when they communicate and interact with narrations. In other words, it aims to answer what happens when something is said or written (Fisher, 1985a) and how humans come to adopt stories that guide their behaviour (Fisher, 1985b). This makes the narrative paradigm a descriptive theory that offers accounts, understanding for human reasoning and decision-making (Fisher, 1984). However, according to the same authors it could also be deemed normative in the sense that it insists that humans actively judge stories and that they have a rational capacity to make judgement based on these stories.

What determines the persuasive effect of the story is its *quality*, i.e. its rationality. The two criteria for the quality assessment are the degree of *coherence* and *fidelity* of the story. Coherence relates to the degree that a story makes sense and to which extent it has meaning. Fisher (1994) states that coherence consist of three subgroups, *argumentative or structural coherence*, *material coherence* and *characterological coherence*. The first is concerned with the internal fit of different parts of the story itself. The second is concerned with the external fit and completeness of the story in connection with similar stories and other sources. The third is concerned with the fit and believability of characters, narrators and actors, of the story. Fidelity on the other hand relates to the truthfulness or reliability of the story. In other words, fidelity is present in a story if it is perceived as true and if the story presents values that are deemed by the individual as good reasons (Fisher, 1994). Fisher (1994) conclude that

degree of fidelity is assessed via weighing process that the individual conducts. It concerns the elements of the message, usually regarded as its reasons, and weighing the values it explicitly or implicitly convey (Fisher, 1994).

3.5 Competing Values Framework of Managerial Communication

3.5.1 The Framework

The CVFMC originates from the competing values model of organisational effectiveness (Quinn et al., 1991). The CVFMC is built with the intent to be applicable to oral as well as written communication, facilitating analysis of presentations (Quinn et al., 1991). After its development, the model has gone from being merely an evaluative tool for managerial purposes to a profiling tool of both oral and written communication (Rogers, 2000). Before going into details of the model we illustrate the CVFMC, see **figure 2**, as presented in Rogers (2000) based on the original provided in Quinn et al. (1991). The model illustrates how a range of descriptors are grouped into four different orientations of messages, transformational, promotional, informational, and relational.

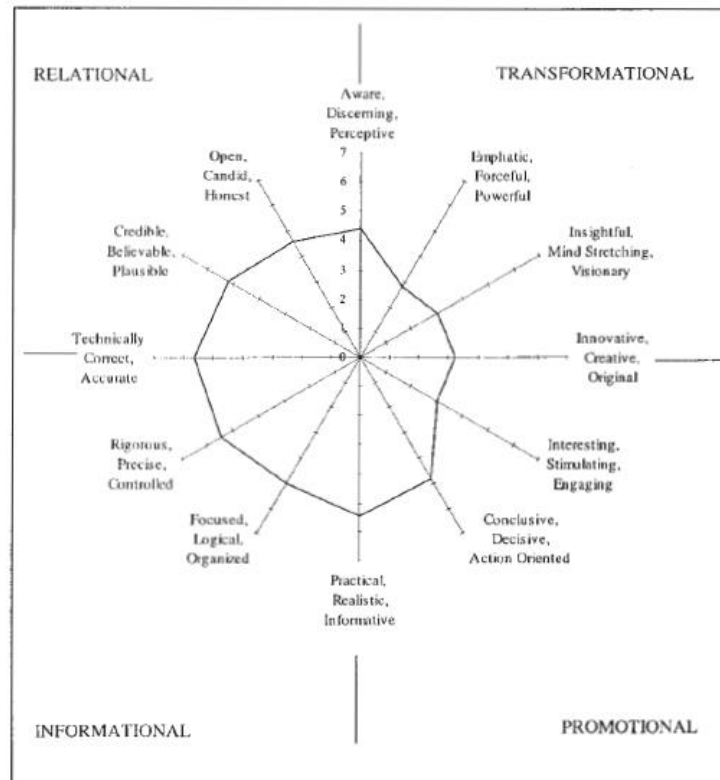


Figure 2: A Competing Values Framework of Managerial Communication. Rogers (2000). Original Model Developed by Quinn et al. (1991).

Although **Figure 2** above has been slightly amended as a result of Rogers and Hildebrandt's (1993) elaboration for making it a profiling tool, its core functions remain intact. The main difference is that there has been a reduction in presentational descriptors on each dimension for the purpose of operationalising the framework (Rogers & Hildebrandt, 1993). Furthermore, a relabelling of the lower right quadrant has been made in the above figure, from Quinn et al.'s (1991) earlier instructional to the current label being promotional. Based on the four different quadrants that is shown, the model illustrates presentational forms that can, in line with Quinn et al. (1991), be summarised as:

- The transformational quadrant represents a focus on change, creating new visions and paradigms in the mind of the audience.
- The instructional (above labelled as promotional) quadrant represents a focus on dynamic content, directing its audience toward specific actions.
- The informational quadrant represents a focus on presenting facts using formal structures.
- The relational quadrant represents a focus on building trust and expression of feeling

The above summary is a result of the different qualities of the descriptors, i.e. the valued characteristic groups in the model, adhering to the quadrant (Quinn et al. 1991). For example, seeing that descriptors like *open, candid, honest* being in the relational quadrant, it is due to such characteristics association with building trust (Rogers, 2000). Opposite characteristics are based on a contrasting relationship where, for instance, the descriptors *technically correct* and *accurate* are highly contrasting characteristics to *innovative, creative, and original* (Quinn et al. 1991). Quinn et al. (1991) propose that the advantage of the model is that it poses a relationship of perceptions of written and oral communication. After the authors constructed the model it has also been elaborated into a profiling tool by Roberts and Hildebrandt (1993). This procedure of profiling and possible inferences from it will be considered in the next section.

3.5.2 Profiling

Bringing the four quadrants of the CVFMC together they illustrate the competing values managers have to handle when forming messages, i.e. "*Managers want to communicate openly (Relational), yet decisively (Promotional), emphatically (Transformational), yet focused (Informational).*" (Rogers & Hildebrandt, 1993, p.127). Rogers and Hildebrandt (1993) introduced the instruments for actually profiling management messages. The authors explain that the instrument is based on the notion that messages needs to be considered in relation to the context they are communicated within. This is reflected in a sequence of overarching questions. The first relating to what type of message that is perceived, the second about what message that is deemed needed for the situation, and the last to what extent the message compares to the one needed (Rogers & Hildebrandt, 1993). For this study, however, only the first one will be used, being the descriptive part of the instrument. The overarching questions are answered through a self-completion questionnaire constituted of questions relating to every category of presentation descriptors. For instance, one question is about how aware, discerning, and perceptive the presentation is of those receiving information (Rogers & Hildebrandt, 1993). The questions are answered on a seven-point scale in which participants

fill out to what extent the message reflects a certain descriptor category. The profiles resulting from the three overarching questions reveal if a message is applicable for a certain situation, and is according to Rogers & Hildebrandt (1993) primarily used for self-evaluation for the sender. If a presentation differs by more than two points from what the audience perceive, the inference is that the presenter needs to amend his presentation to fit the needs of the audience (Rogers & Hildebrandt, 1993). Apart from an evaluative tool, the authors also suggest various other application areas for the model, including for example comparing profiles between different groups and, more applicable to us, to characterise messages, such as the studies by Stevens (1996) and Rogers (2000). For the full questionnaire we refer to Rogers and Hildebrandt's article, although our translated version is attached in **Appendix 5**.

3.6 Model for Analysis

The different theories presented in this chapter will be used to analyse and process the empirical material in way suitable for answering the research question. This being said, the link between the matrix of communication, message reception and processing theories, the narrative paradigm, as well as the competing values framework for managerial communication, is not in every aspect clear-cut. Therefore, an explanation is provided below for why the different theories and models are used together as well as what role they play in this thesis. This ends in a model for analysis visualised in **Figure 3**.

The matrix of communication is used as a way to objectively view the different elements involved in an accounting communication process. The purpose is to facilitate an understanding of where in the accounting communication process the non-professional investors as well as the two information sets are located. At the same time this enables a more holistic analysis by considering how all elements of the process influence and depend on each other.

The message reception and processing theories have been used for the purpose of understanding the link between the two different accounting statements and the participants. This in order to analyse the participants' explanations based on both financial statements and the CEO-statement, from a cognitive and behavioural perspective. This is done through a step by step analysis where we investigate (1) signs of systematic causal search, (2) how participant organise information relating to dissonant accounting communication content, and (3) the decision to revise an opinion about a company's prospect. The three theories represented under the heading message reception and processing are thus to be seen as interrelated.

Next we apply the Narrative paradigm. This is an alternative approach for understanding the link between the CEO-statement and the participants as it targets how humans come to adopt stories that guide their behaviour. The narrative paradigm thus specifically enables an analysis of the participants' interaction with the text and how this guides their behaviour. This is done by an analysis using the determinants for persuasive effect, i.e. the degree of coherence and fidelity of the story.

The descriptive part of the profiling tool for competing values framework of managerial communication is simultaneously used to verify the analysis of participant explanations from both the reception and processing theories and the narrative paradigm. It is therefore used

interchangeably with the other theories providing objective individual descriptions of the CEO-statement.

The explanation above illustrates the analytical process of this report. The theories and models together form a process and analytical tool researching how the two accounting statements used in this report effects non-professional investors' opinion. Finally, this enables us to develop a situational matrix of communication for non-professional investors based on the findings from our analysis. The whole process is also visually described below in **Figure 3**.

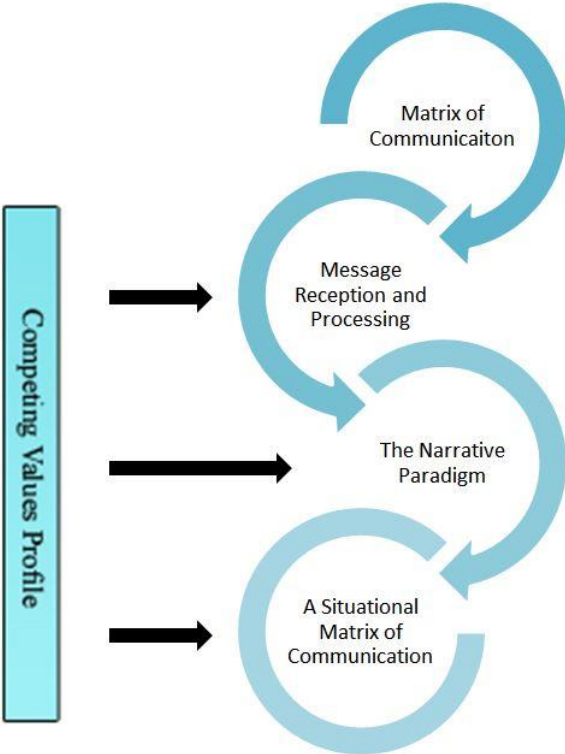


Figure 3: Model for Analysis

4. Empirical Foundation

This chapter starts with a presentation of general observations made during the interviews. Further, the main empirical material gathered from the interviews is presented. This is structured around opinions based on the financial statements as well as the decision to revise an established opinion. Finally, the profile of the CEO-statement is presented based on data from the self-completion questionnaire.

4.1 General Observations

The main empirical data from this study is derived from the interviews conducted. However, the study's design also enabled more general observation of the participants. Although these impressions are of a general art they nevertheless add a dimension to our analysis of the participants' answers.

None of the participants showed any signs of being nervous while assessing the assigned material or in the experience of being interviewed. The concentration level in assessing the material was regarded as high for all participants. Regarding the time limit of five minutes for the financial statements, all except participant six had to be interrupted when the time limit was reached. Particularly two different approaches were applied by the participants when going through the financial statements, one being to go through the sheets in a sequence, starting with the income statement and ending with the cash flow statement. The other being to search for connections between the different sheets simultaneously. Regarding the engagement level in reading the CEO-statement all participants approached it enthusiastically. However, reading time suggests differing levels of in-depth reading. Finally, the self-completion questionnaire was performed without any difficulties and within a time frame that was similar for all participants. **Table 1** below shows date and time of the session from start to finish. It is as such also applicable to the Interviews following in the next section.

Table 1. *Table of Participants*

<i>Participant</i>	<i>Date of session</i>	<i>Time of session (min)</i>
Participant 1	2017-04-18	19
Participant 2	2017-04-18	21
Participant 3	2017-04-18	29
Participant 4	2017-04-18	20
Participant 5	2017-04-19	23
Participant 6	2017-04-19	21
Participant 7	2017-04-19	19
Participant 8	2017-04-19	24
Participant 9	2017-04-20	22
Participant 10	2017-04-20	22
Participant 11	2017-04-20	20
Participant 12	2017-04-20	25
Participant 13	2017-04-21	22
Participant 14	2017-04-20	22
Participant 15	2017-04-21	21

4.2 Interviews

The interview section of our empirical data collection can be divided into two parts. This is directly related to the two information sets, the financial statements and the CEO-statement, specified in the interview guide attached in **Appendix 1**. The first part concerns the participants' initial opinion about the company's prospects and the factors from the financial statements from which they have based their opinion on. The second part concerns the participant's revised opinion after reading the CEO-statement as well as what factors that caused them to revise their opinion or have it remain unchanged. No participant argued for a negative alteration of opinion. Below we present extracts from the empirical data for these two information sets categorised by the participants' answers. In **Appendix 2** a summary table of empirical extractions concerning all 15 interviews is attached, complementing the presentation below with more context and depth.

4.2.1. Opinion Based on the Financial Statements

The empirical findings for the first part of the interview is categorised based on the 15 participants answers to the question: *If 'positive' and 'negative' are endpoints on a scale; where do you place your opinion about the company's prospects based on the financial statements?* Of all 15 participants 14 answered that their opinion was on the negative side of the scale after they had interpreted the financial statements. Below the factors claimed by the participants to have made their opinion positive or negative is presented.

Positive

One participant stated that s/he had a positive opinion about the company's prospect based on the financial statement. S/he initially commented on his/her view for the company's intangible assets in relation to the industry: “[...] *I briefly looked at intangible assets, since it concerns data communication and industrial automation, and I have tried to see how things developed between 2015 and 2016, and their intangible assets have increased*” (Participant 9, Interview, 20/4 2017). Furthermore, the participant argued that the company's loss for 2016, in the context of prospects for this type of company, is not as important when establishing an opinion. The opinion was argued for by the participant to be based on an assessment of the stability in general and the company's asset: “*Then of course, I looked at this year's result, which is negative. But in terms of assets, I still think that... I don't necessarily think that this year's result tells anything about the future, so there is not really anything in my mind that I think stands out. It is has been stable, there are no major changes that have taken place in the last year at least.*” (Participant 9, Interview, 20/4 2017)

Negative

Fourteen participants claimed to have formed a negative opinion about the company's prospects based on financial statements. Each participant focused on FSLI's that either was large in comparison to other FSLI's or FSLI's with larger deviations when compared with 2015, see **Appendix 2**.

In terms of the income statement, all participants highlighted some of the following deviations: negative revenue growth, increased operating costs, increased financial cost, negative earnings growth and the negative net income in absolute terms compared to 2015. For example, Participant 15 highlighted these factors in relation to his/her opinion about the prospects: “*The prospects is lowered since revenue has decreased for 2016. That's not good.*”

However cost of goods sold have decreased a bit as well, so it seems to go hand in hand. Then, it's not fun to see that their overall result for 2016 is negative when they 2015 achieved a good result. Then I noted that financial costs was very large” (Interview, 21/4 2017).

In terms of the balance sheet and cash flow statement, several participants focused on FSLI's with large deviations in relation to 2015. There also existed a focus on certain FSLI's. One of those FSLI's was the company's intangible assets which several participants (Participant 1, 4, 7, 13, and 15) commented on. With the exception of Participant 7, the same participants argued that the level of intangible assets was natural and could be explained by the industry in which the company conducts its business (Interviews, 2017). Participant 15 for example stated: *“Then I noted that they have a lot of intangibles, which on the other hand does not seem to be that strange since what industry they are active in.”* (Interview, 21/4 2017). Several of the participants (Participant, 2, 4, 10, 11, and 13) highlighted that the FSLI for associated companies had decreased in comparison to year 2015. For example, Participant 4 stated: *“Although not a driver of the future but participations in associated companies has decreased a lot”* (Interview, 18/4 2017). Two of those five participants (Participant 10 and 13) also commented on what the decrease in relation to last year's figure might be an outcome of (Interviews, 2017). Participant 13 made the most elaborate one: *“[...] they have disposed a company here and they got 2,954... it is in thousand crowns, it seems that they have made a huge loss, I'm thinking about shares in associated companies that is 72 million, it has decreased to 1,000 [thousand crowns], if they just got 2 million then you understand the negative answer here.”* (Interview, 21/4 2017). A final theme covered by the fourteen participants claiming to have a negative opinion (with the exception of Participant 12, 13 and 15) was the company's debt position. Participant 3 for example state that: *“I have looked at the increased debt position and what that might be a result of, what they use the money for”* (Interview, 18/4 2017). Three of those participants (Participant 1, 7, and 14) made the inference that the increased debt position was the underlying reason for the company's increased financial cost (Interviews, 2017). For example, Participant 1 state: *“You can see if you check the cash flow statement that they have increased their debt, so their debt... Expensive debt to pay interest on which decreases the result I think”* (Interview, 18/4 2017).

4.2.2 Decision to Revise an Established Opinion

The second part concerns the participant's answers in relation to their decision to revise their established opinion after reading the CEO-statement. This followed the starting question: *Has your opinion about the company's prospects changed after reading the CEO-statement?* The results show that three participants maintained their negative opinion, eleven revised their opinion in the positive direction, and one revised his/her opinion to be even more positive. The 15 participants are below grouped accordingly, starting with the one becoming even more positive.

Becoming Even More Positive

The only participant having the possibility to show an even more positive opinion was Participant 9. Reason being that s/he was the only one forming an initial positive opinion about the company's prospects based on the financial statements. The explanation for the positive revision of opinion was initially stated to be based on the communicated expectation for Beijers' three business concepts: *“[...] had a positive conclusion about the financial, and that is what they indicate here and even more positive. And since they have three different*

concepts that they are very hopeful about” (Participant 9, Interview, 20/4 2017). Following this line of thought, Participant 9 elaborates on his/her thinking: “[...] *they do at least have strong ideas and expectations on how to actually get the sales started and thereby the multinational aspects will follow...*” (Interview, 20/4 2017). Continuing to elaborate on multinational aspects the participant then finishes the explanation by referring to the industry in which the company conducts its business: “*Like they say here in the CEO-statement, this is a good industry, and if you are to interpret that, definitely, you are getting influenced by the outlooks of a better 2017*” (Participant 9, Interview, 20/4 2017).

Becoming More Positive

Participants in this category, eleven in total, initially established a negative opinion of the company’s prospects based on the financial statements. However, after reading the CEO-statement they all stated to have positively revised their opinion. One argument related to this is connected to the level of orders received by year end 2016, highlighted by five of the participants in this group. For example, Participant 2 specifically states that “*What it is that makes me look at it in a better sense is that they have settled the orders, which might be a good start*” (Interview, 18/4 2017). Similarly, Participant 14 highlights the order information to be of particular relevance (Interview, 20/4 2017). The other three participants, being Participant 8, 11, and 13, rather express that they have noted the order increase. Participant 11 specifically address the order increase mentioning that it is on record level (Interview, 20/4 2017) while Participant 8 and 13 refers to it as a 20 percent increase (Interviews, 2017).

All participants in this category argued that they in one way or another knew more about the future or the ambitions of the firm after reading the CEO-statement. Participant 5, for instance, states that: “*I have become more positive since I have been told more about their future, I have been told more about the company. [...] They have set up pretty ambitious goals. Higher revenue, growth by seven percent, operating income on ten percent, in the time span reaching to 2018*” (Interview, 19/4 2017). While the statement made by Participant 5 refers to having been told more as a reason for the positively revised opinion, other participants have addressed it from a slightly different angle. For example, consider Participant 2 stating that “*Now I have gained a better overview of what they actually have been trying to achieve*” (Interview, 18/4 2017), Participant 7 “*So I guess it is slightly more positive since they go in on trends a bit*” (Interview 19/4 2017), or Participant 8 “*For example one was told a little bit more about [...] the cash flow statement connected to the balance sheet*” (Interview, 19/4 2017). On the topic of perceived gain of incremental information, Participant 10 also explicitly commented upon the focus of production in Taiwan stating that “*[...] it is probably a bit cheaper to produce there and so on*” (Interview, 20/4 2017).

Another topic in the answers from the participants is that of company change and product development. Participant 2, 10, 12 and 13 all comment that the company is undergoing changes or large restructurings. In connection to Participant 2 commenting on that his/her opinion have been positively altered, s/he states that for the company “*[...] it is a little challenging but they have tried to make a big change*” (Interview, 18/4 2017). Similarly, Participant 13 comments on the restructurings in the context that s/he “*Perceive the company in a more positive way at least. [...] They give a confirmation on having done large restructuring at the time being [...]*” (Interview, 21/4 2017). While Participant 2 and 13’s comments are rather broad, Participant 10 comment regarding change on the other hand is

focused on the context of stationing the production in Taiwan (Interview, 20/4 2017). Related to product development on the other hand Participant 14 state that: “[...]it feels like they, emphasise a lot that they are developing so much new products and such, and what I can see in that [the financial statements] they did not put so much, they put less money on it [...]” (Interview, 20/4 2017). Furthermore, Participant 8 argue that s/he perceives that the company invests rather heavily, and that emphasis is put on restructuring and product development (Interview, 19/4 2017). In addition, Participant 10 and 14 referred to the CEO putting more focus on sales or the sales organisation (Interviews, 2017). On this note Participant 10 stated that the general impression that had changed was that the company was perceived as more dynamic (Interview, 20/4 2017).

Differentiating from the earlier described arguments and explanations, Participant 6 and 12 both argued for an awareness of themselves being influenced by texts or positivism (Interviews, 2017). Participant 12 for instance states that “*It lies in the human nature somewhere to be attainable for all this positive prattle [...]*” (Interview, 20/4 2017). Participant 12 continues and later states that “[...] it is easy to make things sound good, even if it is a relatively small thing they do” (Interview, 20/4 2017). Participant 6 on the other hand expressed it as “[...] because of the reason that we have opened our eyes for how text may affect the way I think. The interesting thing here [in the CEO-statement] being I think is that they choose to put certain strong points into light and blame things on something else” (Interview, 19/4 2017). Both Participant 6 and 12 in the end summarise that they nonetheless perceive their opinion as being positively altered (Interviews, 2017)

Lastly, Participant 6, 8, and 11 have provided comments distinguished from the other topics noted. Of these, Participant 6 and 11 highlighted that they questioned if the information in the CEO-statement was representative in relation to the financial statements. Participant 6 for instance state: “*They had a bad result but still they choose to frame the first quarter*” (Interview, 19/4 2017). In a quite similar response Participant 11, in a hesitant manner, responds to the question if there were something particular s/he had noted: “[...] I thought that this sounds much more positive than the numbers show” [...] what I thought was that it feels like I am reading about two different companies almost” (Interview, 20/4 2017). The last one, Participant 8, on the other hand states that “*In general it feels like there simply is stringency in that these strategies which are left much space, in particular restructuring but also product development and investments [...]*” (Interview, 19/4 2017). S/he then continue arguing that it is well balanced with the retrieved information from the balance sheet, providing explanation for the company’s direction.

Maintaining Established Negative Opinion

Three of the 15 participants maintained their established negative opinion. All three participants critically reflected upon the CEO’s focus on the future. Participant 1 explains that s/he did not perceive what the CEO communicated to reflect the numbers arguing that “*it felt like the CEO mentioned [...] the negative but made it a small parenthesis*” (Interview, 18/4 2017). The same participant continues to explain that the attention instead shifted towards how positive one was towards the future. Similarly, Participant 3 highlights that “*They talk a lot about opportunities for increasing revenue*” (Interview, 18/4 2017) and Participant 4 points out that “*Sure the CEO speaks a lot about the prospects*” (Interview, 18/4 2017). Furthermore, Participant 3 directly address that although the CEO-statement mention

opportunities for increasing revenue “*there is nothing real yet [...] What I would like to see is more detailed information about these efforts*” (Interview, 18/4 2017). Similarly, Participant 4 comment that one can go on and on about the market, continuing with that “*It feels like there might be a lack of substance for certain statements*” (Interview, 18/4 2017. Participant 4 further was the only one commenting on the wording used in the CEO-statement, stating that s/he “[...] think it was rather hard to grasp” (Interview, 18/4 2017).

4.3 Competing Values Profile of the CEO-statement

The results from the self-completion questionnaire will be presented below. The questionnaire is based on the descriptive part of the profiling tool developed for the CVFMC, enabling the plotting of participants’ description of the CEO-statement.

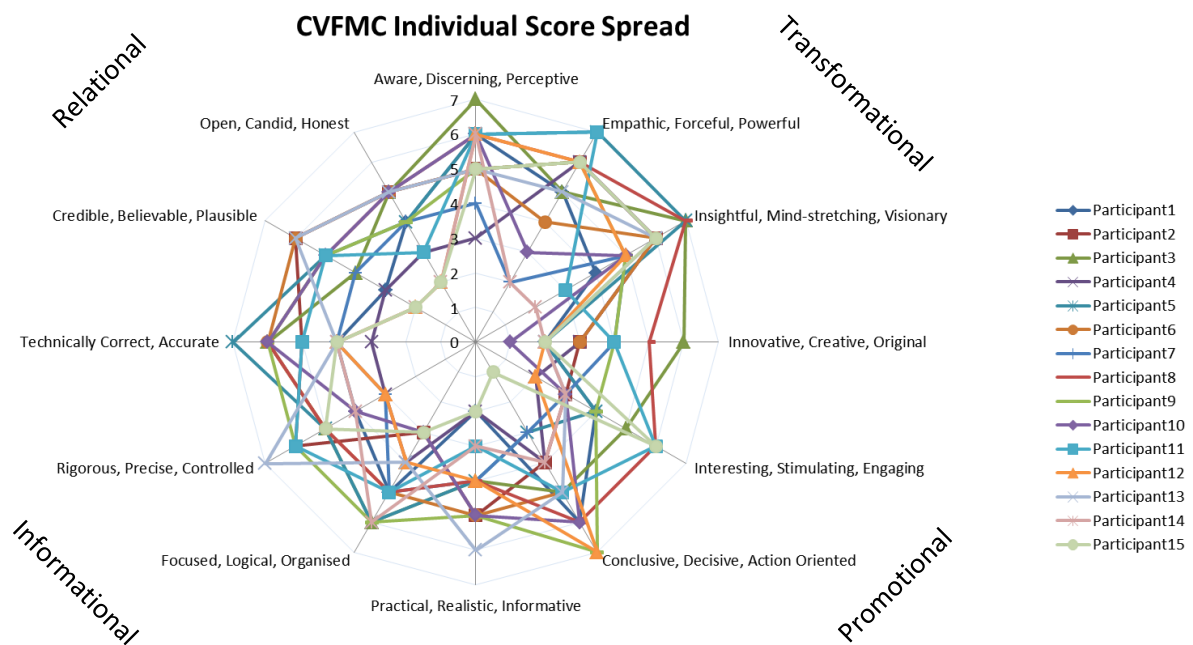


Figure 4: CVFMC Individual Score Spread

In the diagram presented in **Figure 4** each participant’s answers on the self-completion survey have been presented. Each participant is presented by a separate line in accordance with the participant’s individual scoring in **Appendix 6**. The figure demonstrates that the 15 participants have described the CEO-Statement with high diversity. **Figure 4** also shows that there are six headings that on some occasion have received the highest possible score (seven). The heading *Insightful, Mind-stretching, Visionary* received the highest possible scoring by three participants (Participant 3, 5, and 8), whereby the other four high scores were provided once or twice. Furthermore, in **Figure 4** it is shown that the lowest score (one) of the CVFMC was received by two Participants, being Participant 10 and 15 for the heading *Innovative, Creative, Original* respectively *Conclusive, Decisive, Action Oriented*.

Because of the presence of outliers in the self-completion questionnaire material, a median score for all responses have been elected to illustrate a more relevant pattern, presented in **Figure 5** below. It should be noted that Participant 6 is not represented in the median score since one descriptor question was left unanswered in the self-completion questionnaire by mistake. This is true for all average and median scores illustrated in the report.

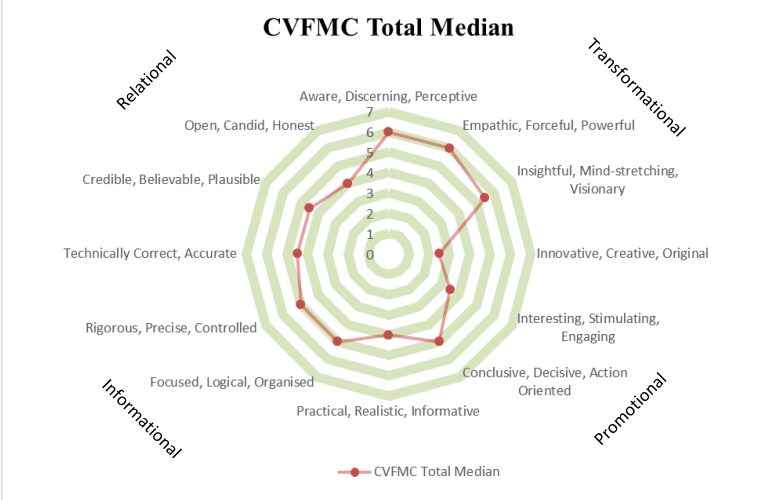


Figure 5: CVFMC Total Median

Figure 5 demonstrates the descriptive profile of the CEO-statement as a median score for all responses on each shaft. The highest score received in this median view is (6). This score is received for two headings both related to the Transformational quadrant. The lowest score (2,5) is received for the *Innovative, Creative, Original* heading. Worth highlighting are those two headings receiving a score of (4). These are mid-points on the scale, i.e. neither perceived as in agreement or not in agreement with the CEO-statement.

Since the values of the different shafts adhere to certain quadrants of the model there is also a need to consider the averages of the different quadrants. In **Table 2** the scores of all the participants alone, as well as in aggregate are presented, as quadrant mean scores. The possible score for each quadrant amounts to a high of 28 and a low of 4. The high and low is reached if all headings in a quadrant receives 7 respectively 1.

Table 2: CVFMC Quadrant Mean Scores

<i>Participant</i>	<i>Transformational</i>	<i>Promotional</i>	<i>Informational</i>	<i>Relational</i>
Participant 1	17	14	15	17
Participant 2	20	15	19	21
Participant 3	25	20	21	22
Participant 4	18	11	12	12
Participant 5	22	13	22	22
Participant 6	N/a	N/a	N/a	N/a
Participant 7	15	14	16	16
Participant 8	24	21	20	22
Participant 9	20	20	23	20
Participant 10	15	15	18	22
Participant 11	20	18	19	19
Participant 12	19	15	15	14
Participant 13	18	16	21	20
Participant 14	12	12	17	14
Participant 15	19	11	14	13
Mean Scores	18,9	15,4	18,0	18,1

The mean scores in **Table 2** shows that the highest quadrant score when considering all participants' answers is the transformational quadrant, with a score of 18,9. The lowest scoring quadrant being the promotional received 15,4. A score of 18 and above were also received for both the informational quadrant (18,0) and relational quadrant (18,1). Furthermore, the highest individual scoring (25) was received for the transformational Quadrant by Participant 3. Conversely the lowest scoring (11) was received for the Promotional quadrant by Participant 4 and Participant 15.

While the previous figures target individual or average scores, it is also of interest to illustrate the descriptive plotting of participants according to their opinion based on the financial statements and the CEO-statements effect on their established opinion. **Figure 6** on the next page shows the participants who, after reading the CEO-statement, did not change their opinion about the company's prospects in comparison to the participants who perceived their view of the company's prospects to have been positively altered. By doing this classification two different patterns of position measurement emerge. However, it should be noted that neither the mean or median scores for differences are to be considered statistically tested or significant.

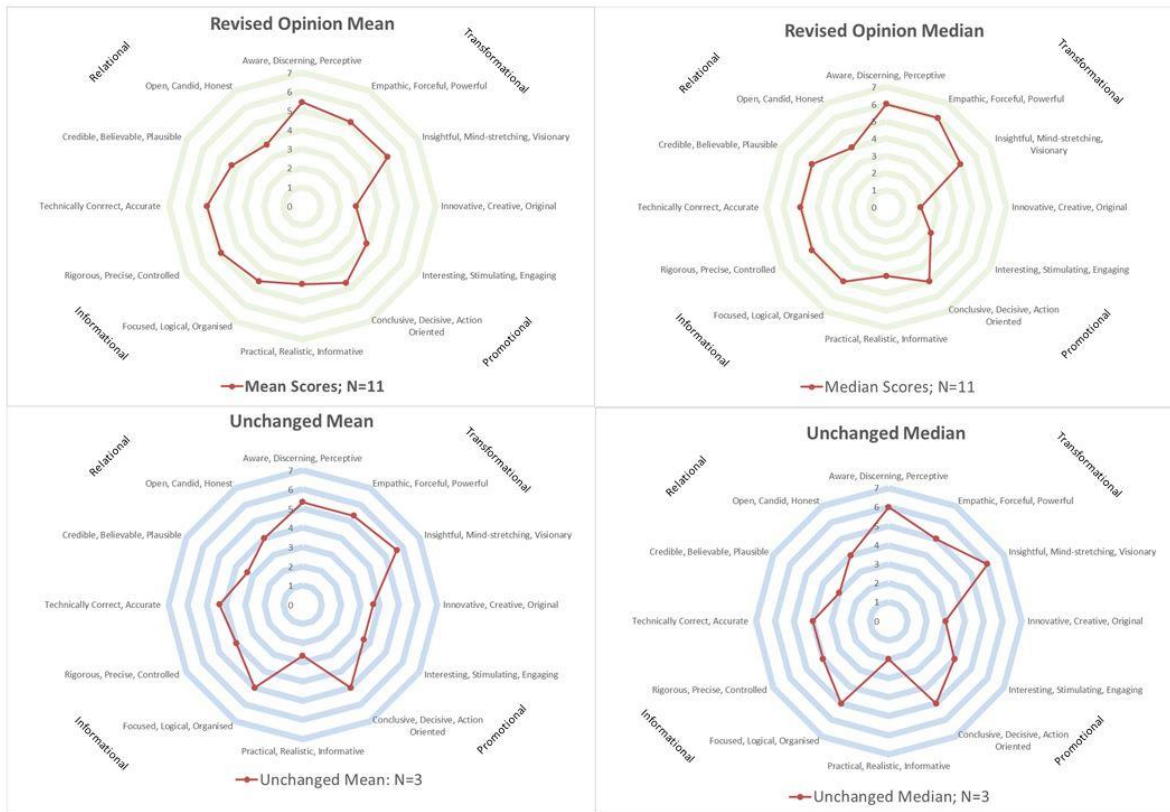


Figure 6: A Comparison of Unchanged and Revised Opinion Position Measurement

5. Analysis

In this chapter the model for analysis is applied to the empirical material. First, the analysis aims to provide a context to the empirical material as an accountancy communication process. The analysis then continues by focusing on participants' reception and processing of messages followed by an analysis of perceived persuasiveness of the CEO-statement. Together this leads to the development of a situational matrix of communication for non-professional investor perception of the CEO-statement.

5.1 Accountancy Communication Process for Non-professional Investors

In line with the Matrix of Communication developed by Bedford & Baladouni (1962) in their consideration of accountancy as a communication process, the accounting statement serves as a key function for an organisation. As illustrated in the modified matrix, see **Figure 7**, this study considers two types of accounting communication. The first being the financial statements, and the second being the CEO-statement.

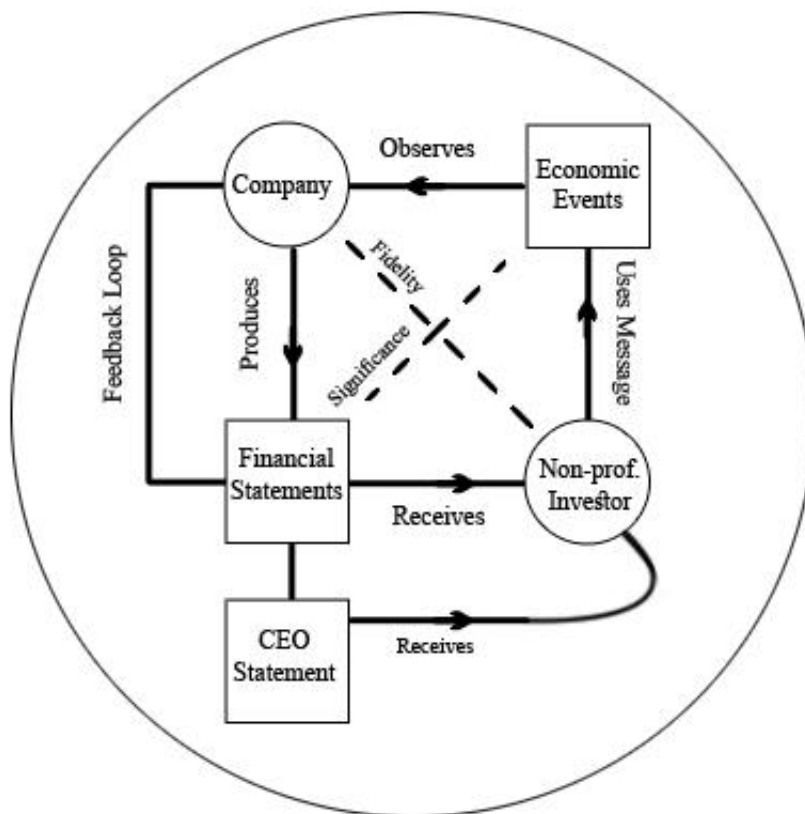


Figure 7: A Modified Matrix of Communication. Inspired by Bedford & Baladouni (1962.)

The accountancy communication process takes place within the economic system illustrated by the surrounding circle in **Figure 7**. With this in mind, non-professionals' view the financial

statements and the CEO-statement in the light of the economic system. In our participants' case as of April 2017, the time of our interviews. This incorporates a lot of factors possibly affecting their opinion about a company's prospects. For example, the current low interest rate environment might affect the judgment of debt ratio. The same kind of argument applies to prior knowledge and insights about a company's industry. This is demonstrated by Participant 15's explanation that the company's industry has been of importance in determining that the level of intangible assets is reasonable (Interview, 21/4 2017). Furthermore, Participant 9 argued for the type of industry in determining the relevance of current negative earnings as a factor for the company's prospects (Interview, 20/4 2017). Knowledge of different underpinning facts for the economic system is thus visible in the interview material, suggested to be a component in a non-professional investor's interpretation of accounting statements. Of course, information that might be known in reality might not be known in the simulated environment, such as general information about the company, as argued by Participant 5 (Interview, 19/4 2017), or the existence of different business units, as argued by Participant 9 (Interview, 20/4 2017). Nonetheless, even in an isolated environment like the simulation for our study, the economic setting is apparent.

Unfortunately, the model by Bedford & Baladouni (1962) does not reveal how users proposedly interpret and assign meaning to the accounting statements. With that in mind, the task of forming an opinion about the company's prospects based on the financial statements and the CEO-statement needs to be analysed with help of an additional set of theoretical tools. Tools facilitating an analysis of how interpretation and assignment of meaning is done by individuals are needed. Therefore, the following parts of this analysis will focus on understanding the interpretation and assignment of meaning as it relates to non-professional investor and the two types of accounting statements.

Summary

In this section of the analysis the financial statements, the CEO-statement, and the non-professional investors are positioned within the accounting communication process. This provides a context within which investors approach a company's accounting statements. By the context given, the analysis shows that the economic setting in some cases influences how non-professional investors integrate with the two different accounting statements.

5.2 Non-professionals' Reception and Processing of Accounting Statements

In the sections below the behavioural and cognitive perspectives of reception and processing, laid out in the theoretical section 3.4 of this report, is applied to our empirical material. Those perspectives are considered as tools facilitating an understanding of both patterns and differences for how non-professional investors interpret and uses the two different accounting statements, i.e. the financial statements and CEO-statement. The analysis starts with *message interpretation*, investigating signs of systematic causal search. Thereafter, the focus is on understanding *information organisation*, specifically as it relates to investigating the effect of dissonant accounting communication content. Finally, message interpretation and information organisation is analysed in combination from a *judgement process* perspective in order to investigate the decision to revise an opinion about a company's prospects.

5.2.1 Message Interpretation

According to attribution theory, individuals attempt to establish and determine the cause behind the content which they are exposed to (Kelley, 1972 cited in Littlejohn, 1996). Indeed, all 15 participants of our study show signs of a systemic and recurring causal search. On an overall level, this is illustrated by some participants for how they approach the financial statements, outlined in section 4.1. That is, they search for connections between the income statement, balance sheet, and cash flow statement, simultaneously. On a more direct level, as has been demonstrated in 4.2.1, that all participants conduct some form of year-over-year analysis for the financial statements. This was primarily done for those factors that the participants argued to be of importance in forming an opinion about the company's prospects. In other words, the participants searched for causal links related to factors in the financial statements that are perceived as important. These findings are named *causal observations*. For example, Participant 2 (Interview, 18/4 2017) noted that the earnings for 2016 was much worse than 2015 and that this was considered to be due to both increased expenses as well as decreased revenue. More complex causal observations were also noted, as demonstrated by Participant 8 (Interview, 19/4 2017) and his/her comparison of the negative income with the balance sheet and an equity calculation. S/he stated that his/her concern had decreased since no notable deterioration was found and that the financial position seemed quite stable. For a presentation of other causal observations see **Table 3** in the final part (5.2.3) of non-professionals' reception and processing analysis.

A majority of the participants developed their year-over-year and important factor analysis to also include *causal explanations* for the outcomes observed. The participants developed a speculative second level of analysis in order to explain their first level of observation analysis, i.e. give causal explanations for the causal observations. The participants that gave causal explanations also did this with ease. By that we are referring to that the participants had no difficulty in developing their line of argument or to provide us with evidence for their claims. This is especially interesting considering that only a short description about the company and their financial statements was provided. For example, Participant 15 (Interview, 21/4 2017) concluded that the high level of intangible assets was not strange considering the industry of the company. Participant 10 (Interview, 20/4 2017) went as far as stating that his/her observations indicate an aim of slimming down the organisation and that this is an explanation for the negative development in recent time. For a presentation of other causal explanations see **Table 3** in the final part (5.2.3) of non-professionals' reception and processing analysis.

We would argue, in line with attribution theory, that the participants' inclination to provide causal explanations for causal observations is an indication that there exists an inherent need of assigning meaning to what is observed. This in order to make sense of the economic events that constitutes the company's reality. There even seemed to be an urge to give causal explanations even though the participant failed to find argument supporting it. This was demonstrated by Participant 14 (Interview, 20/4 2017) who stated that there might exist historical explanations not visible in the financial statements which could explain the outcome for 2016 in comparison with 2015. As we will see, the majority of the participants, being twelve out of fifteen, revised their opinion in a positive direction after reading the CEO-statement although all of them have first based their opinion on causal observations and explanations. This is something attribution theory cannot explain as it claims that once an

attribution is made the individual tend to stick to it, i.e. it creates an anchor that no matter the compelling evidence it is hard to dislodge (Littlejohn, 1996).

Summary

In the above analysis we have demonstrated examples of a systematic and recurring causal search, done by all 15 participants in line with what attribution theory assumes. Some participants show this inclination in how they approached the financial statements. All participants are found to form a year-over-year analysis and search for causal links to factors in the financial statements that are perceived as important. Furthermore, a majority of the participants is argued to conduct a second level of speculative analysis for the casual observations made, demonstrated by two examples.

5.2.2 Information Organisation

When reading the CEO-statement the participants are exposed to a second set of information. This set of information, although concerning the same company, is quite different both in its content and tone compared to the financial statements, as demonstrated in part 2.3.2. Focusing on the participants who revised their opinion about the company's prospects, being all participants except Participant 1, 3, and 4, they all seem to not only identify but also perceive inconsistencies between the financial statements and the CEO-statement. In line with cognitive dissonance theory, the CEO-statement seems to have created enough tension and pressure for the majority of participants to have their opinion based on the financial statements affected. Since the theory states that the perceived dissonance created by new information is an individual matter controlled by the individual's own psychological system, the three participants whose opinion remained unchanged therefore seem to deal with consistency and dissonance differently than the rest.

We argue that there exists a recurring theme of tension and pressure for all of the 15 participants. Although explained in some varying forms the gist of it all could be summarised as: the participants argued that the CEO-statement provided a more positive view of the company than what can currently be observed via the financial statements, see **Appendix 2** for validation of this claim. The explanations' leading to this recurring theme of tension and pressure is named *characteristics of dissonance* in this report. Characteristics of dissonance is stated by the participants in varying forms of (1) *information about current company operations and situation that creates a more positive view of the future* and (2) *speculative statements of a more positive future*. In order to illustrate, here follows an example of each type of characteristic. Related to information about current company operations, Participant 7 (Interview, 19/4 2017) argues that the newly developed products and trends make the conclusion more positive. Participant 12 (Interview, 20/4 2017) on the other hand argues for the positivism and bright future statements of the CEO-statement in its entirety as affecting his/her opinion. The first example indicates that the participant perceives the CEO-statement to contain supplementing and complementing content in relation the financial statements. The other example suggests that the participant perceives speculative statements to be of guidance for the formation of opinion. For a presentation of other characteristics of dissonance see **Table 3** below in part 5.2.3.

Characteristics of dissonance, was the underlying cause for a positive revision of opinion by all the participants arguing for such an effect. Going back to attribution theory, this pattern for

what have caused a revision of opinion could be supplemented when looking at it from a slightly different angle. That is, there exists a possibility that the participants acquire the attributed causes provided in the CEO-statement and that these will have an impact on his/her own feelings and behaviour. Attribution theory states that individuals are not very objective when they make their causal inferences and that the situation largely is determined by the given attributions for the situation (Littlejohn, 1996). Considering this, acquiring provided causes without enough scrutiny is probable to have made direct impact on some of the participants. It therefore complements our understanding for why the characteristics of dissonance results in a positively revised opinion for the majority of the participants. That is, for the majority of participants, the opinion based on the financial statements, can be dislodged by a high degree of tension and pressure created by the CEO-statement being dissonant in relation to the financial statements. A question that nevertheless remains unanswered is why the degree of tension and pressure is perceived differently by the participants, i.e. why did some participants remain unchanged.

Summary

As the above analysis has demonstrated, the decision to positively revise an opinion is likely to be a combination of; (1) information about current company operations and situation that creates a more positive view of the future, (2) speculative statements of a more positive future, and (3) an outcome of acquiring attributed causes from the CEO-statement without objective scrutiny.

5.2.3 Judgement Process

As has been demonstrated in 5.2.2, the participants do not seem to evaluate the CEO-statement and revise their opinion based on the content in absolute terms, but rather in terms of how it stands in comparison to their opinion based on the financial statements. In line with social judgement theory, it seems that their causal observations and explanations for their opinion of prospects, based on that the financial statements, creates a unique reference point for each participant. The characteristics of dissonance as well as the likelihood of acquiring the attributed causes provided by the CEO-statement, would therefore be a unique outcome of how the CEO-statement is evaluated by the participants in relation to their reference point. This line of thought could be supported by the varying descriptions provided for the CEO-statement in **Figure 4**, framing the CEO-statement to be a multifaceted text. Proposedly, the explanation for the varying descriptions is in fact the participants' different reference points. Furthermore, this cognitive process is explained with the help of the social judgement theory's concept of latitude. That is, new information and messages is placed in either the participant's latitude of acceptance, latitude of rejection, or latitude of non-commitment (Littlejohn, 1996). The characteristics of dissonance are therefore evaluated by each participant as reasonable, unreasonable or neutral. This in turn will determine the effect of a participant's revision of opinion.

Going back to the participants who revised their opinion in a positive direction, it would therefore be assumed that they both found the characteristics of dissonance in the CEO-statement as favourable in relation to their reference point, while at the same time placing them within their latitude of acceptance or non-commitment. That is, they found the characteristics of dissonance to be reasonable or at least neutral. On the other hand, the participants whose opinion remained unchanged would be assumed to have placed the

characteristics of dissonance provided by the CEO-statement within their latitude of rejection. That is, they found the characteristics of dissonance to be unreasonable. With the help of the empirical data collected via the self-completion questionnaire, demonstrated in section 4.3, this argument and analysis could be supported.

The descriptive profile of the CEO-statement for participants who have remained unchanged is different from that of the participants who revised their opinion, see **Figure 6**. In other words, the two groups of participants seem to evaluate the CEO-statement differently. Going into the details it is interesting to note that when the two profiles are compared for deviations, on both a mean and median basis of descriptor scores, two descriptors stand out. Both the descriptors *practical*, *realistic*, *informative* as well as *credible*, *believable*, *plausible* for the group of participants revising their opinion scored higher than the group of participants not changing their opinion. With this outcome it seems like the analysis made above based on the social judgement theory hold true. That is, the group of participants revising their opinion in a positive direction view the CEO-statement and the characteristics of dissonance to a higher extent to be reasonable and favourable than the participants not revising their opinion. In other words, they perceive them as more favourable in terms of *practical*, *realistic*, *informative*, while simultaneously placing them within their latitude of acceptance, i.e. perceive them as more *credible*, *believable*, and *plausible*.

Additional evidence for the connection of latitude of rejection with the three participants who did not change their opinion (Participant 1, 2 and 4) is provided by their answers after reading the CEO-statement. For example, Participant 1 (Interview, 18/4 2017) demonstrated that s/he had placed the characteristics of dissonance within the latitude of rejection by arguing that the CEO-statement did not reflect the numbers. In other words, the participants who remained unchanged seemed to have applied more objective scrutiny to the CEO-statement compared to participants who revised their opinion in a positive direction. This in turn made them place the characteristics of dissonance within their latitude of rejection which also explain why their opinion remained unchanged. A similar presentation for the participants who positively revised their opinion is hard to demonstrate. Reason being that the absence for evidence of rejection is evidence that they have placed the characteristics of dissonance within their latitude of acceptance or non-commitment.

From the analysis presented in the 5.2 part of this report a final judgement process summary for all participants has been compiled in **Table 3**. Note that what is presented below is extracts from what also can be found in the empirical summary table, see **Appendix 2**. The first column presents one causal observation or one causal explanation stated by each participant, demonstrating a part of their reference point, as outlined in part 5.2.1. The second column presents a characteristic of dissonance that each participant stated after reading the CEO-statement, as outlined in part 5.2.2. Finally, the placement of characteristics of dissonance within the latitude of acceptance/non-commitment or rejection is an outcome of the decision to revise an opinion as outlined in 5.2.3 is displayed in the third column. Again we would like to emphasise that the below table only shows extracts of all factors leading to the reference point. The same applies to the characteristics of dissonance. Therefore, column three cannot be understood only by assessing the two first columns.

Table 3: Judgement Process Summary Table

<i>Participant</i>	<i>Reference point</i>	<i>Characteristic of dissonance</i>	<i>Latitude = Decision to revise opinion</i>
1	Finds by looking at the financial expenses as well as cash-flow that a possible reason for the decreased earnings is an increased debt position. (CE)	[...] statements about the bright future. (SPEC+)	Rejection = (U)
2	The earnings for 2016 was argued to be much worse than in 2015. This was considered to be due to both increased expenses as well as decreased revenue. (CO)	[...] the amount of orders that are recognised at year end. (INFO+)	Acceptance/Non-commitment = (P)
3	[...] cash-flow statement adjustments were highlighted as affecting the cash-flow positively. (CO)	[...] new products have been developed and that the company now targets new markets and segments. (INFO+)	Rejection = (U)
4	[...] the decrease in revenue was noted and argued as a warning signal for sales problems. (CE)	[...] the CEO speaks a lot about future prospects [...] (SPEC+)	Rejection = (U)
5	[...] what caused the lower earnings figure. Mainly recognise the revenue decrease and financial expenses as large differences. (CO)	[...] more information about the company's future (SPEC+), and the company in general is provided. (INFO+)	Acceptance/Non-commitment = (P)
6	[...] increased administrative costs could be a result of them taking in an external consultant or similar. (CE)	[...] certain information is highlighted and bad result is blamed on other things, for example the market (INFO+). Notice the company argues that things point in the right direction. (SPEC+)	Acceptance/Non-commitment = (P)
7	[...] financial costs have increased by a large amount and that this might be related to the company's financial position. (CE)	[...] the CEO-statement focus on new product programs, newly developed products and trends for the company [...] (INFO+)	Acceptance/Non-commitment = (P)
8	[...] based on a balance sheet and equity ratio calculation the concern based on the negative earnings has decreased since no significant deterioration was found and that the financial position seemed quite stable. (CO)	[...] it seems large investments are made (INFO+)	Acceptance/Non-commitment = (P)
9	Focus on intangible assets due to type of industry [...]. (CE)	It is perceived that there are strong ideas and enthusiasm to really get the sales going. (SPEC+)	Acceptance/Non-commitment = (P)
10	[...] mentioned factors indicate an aim of slimming down the organisation and that this is an explanation for the negative development in recent time. (CE)	[...] focus on engineering and sales which indicate a development towards a more dynamic company which also gives an explanation for the negative factors noted in the financial statements. (INFO+)	Acceptance/Non-commitment = (P)
11	Compared all FSLI's for 2015 and 2016 [...]. (CO)	[...] there seems to be a plan for how to progress, and that next year starts with record order levels. (INFO+)	Acceptance/Non-commitment = (P)
12	[...] revenue decrease and R&D decrease, and that based on those parameters there is nothing that indicates that a positive momentum for the company. (CE)	[...] the reoccurring positive and bright future related statements [...] (SPEC+)	Acceptance/Non-commitment = (P)
13	[...] financial expense increase is huge and traces it back to a divestment of business noting a big loss as only two million is recognised of earlier 72 millions, and a low amount of inflow in the cash-flow statement. (CE)	[...] the company has given confirmation of major restructurings carried out (INFO) as well as that a vision for how the business can be improved. (SPEC+)	Acceptance/Non-commitment = (P)
14	[...] revenue have decreased arguing that this seems to be the main reason for the negative earnings. (CO)	[...] amount of orders information both related to the last quarter in 2016 and beginning of 2017 [...]. (INFO+)	Acceptance/Non-commitment = (P)
15	[...] the FSLI for intangible assets was large, however, argues that this is not so strange considering the industry of the company. (CE)	[...] captured by the positive future presented by the CEO. (SPEC+)	Acceptance/Non-commitment = (P)
Explanation	<i>Causal observation (CO) = causal links to factors in the financial statements that are perceived as important</i>	<i>(INFO+) = information about current company operations and situation that creates a more positive view of the future</i>	<i>Acceptance = Latitude of acceptance</i>
	<i>Causal explanations (CE) = causal explanations for causal observations</i>	<i>(SPEC+) = speculative statements of a more positive future</i>	<i>Rejection = Latitude of rejection</i>
			<i>Non-commitment = Latitude of non-commitment</i>

The above analysis does not to its full extent show the complexity of the situation and context. By that we are referring to specific empirical findings that cannot be explained on a general basis as well as those being contradictory to other participants within the same group. In order to explain some of these nuances and differences we argue that we have to move beyond the theories of human behaviour and cognition aimed at message reception and processing and address these from a different perspective. This will be addressed in the next part of the analysis.

Summary

In the final stage of non-professional's reception and processing analysis we have shown that the opinion based on the financial statements, the reference point, can affect the outcome that the characteristics of dissonance have on the participant's judgement process. We have demonstrated that participants with a positively revised opinion regard the characteristics of dissonance to a higher extent as favourable and reasonable than the participants not changing their opinion. Leading to a placement of the characteristics of dissonance within the latitude of acceptance or non-commitment respectively latitude of rejection. Finally, our findings indicate that the unchanged participants applied more objective scrutiny which caused them to place the characteristics of dissonance within their latitude of rejection.

5.2.4 Summary

First, the message interpretation analysis demonstrated that a causal search was conducted by all participants when forming an opinion about the company's prospects based on the financial statements. This opinion was an outcome of casual observation regarding factors perceived as important as well as speculative causal explanations for those observations.

Second, the analysis targeted participant's organisation of information showing that the majority of the participants presumably revised their opinion in a positive direction as a result of a dissonant CEO-statement. The characteristics of dissonance were found to be: (1) information about current company operations and situation that creates a more positive view of the future and (2) speculative statements of a more positive future. Also, the decision to positively revise opinion was argued to be an outcome of acquiring attributed causes from the CEO-statement without objective scrutiny.

Finally, the opinion based on the financial statements has shown to affect the outcome that the characteristics of dissonance have on each participant's judgement process. Participants with a positively revised opinion are shown, to a higher extent than participants not changing their opinion, to deem the characteristics of dissonance as reasonable and favourable. This results in a placement within their latitude of acceptance or non-commitment. Participants not changing their opinion are shown to have applied more objective scrutiny to the CEO-statement. This has caused them to place the characteristics of dissonance within their latitude of rejection.

5.3 The Persuasiveness of the CEO-statement

The fact that the participants form different opinions based on the same numbers and narrative could to some extent be understood by taking the economic setting into consideration. It has

also been shown to be associated with the individual's interpretation, organisation, and judgment process of the two information sets. To increase the understanding of some nuances and differences the alternative approach of the narrative paradigm is applied. This enables an analysis of the participants' interaction with the CEO-statement and how this guides their behaviour. The analysis will be structured around two specific examples involving two separate pairs of participants.

5.3.1 Different Opinions but Similar Argumentation

The first pair of participants argues that they deemed parts of the CEO-statement not to match the view presented by the financial statements. What is interesting is that although they state similar thoughts, one participant's opinion about prospects remained unchanged while the other one was positively altered. In the unchanged opinion case, Participant 1 (Interview, 18/4 2017) presents a short explanation, arguing that the CEO-statement does not reflect the numbers. This was presented in association with the same participants' perception that the CEO-statement's composition being overly represented by statements of a bright future. In another case, where the opinion was positively altered, Participant 11 (Interview, 20/4 2017) provide similar argumentation regarding the CEO-statement not reflecting the numbers and having a focus on the positive outcomes. The difference in the latter case was that the company had established plans for how to progress successfully in the future and that they did not seem to be satisfied with their current results.

In relation to Fisher's narrative paradigm, both Participant 1 and 11 seem to perceive that the CEO-statement lacks structural coherence as well as material coherence. This means that pieces of the story in the CEO-statements is perceived as having low internal fit and that it is flawed in relation to the financial statements. What then makes Participant 11 positively revise his/her opinion could be hypothesised to be due to either the third type of coherence, the believability of the narrator and actor, or that the fidelity is deemed as higher. If this holds true Participant 11 would deem either the CEO/the company as more believable or the CEO-statement to be more truthful or reliable than Participant 1. In line with Fisher's (1994) determinant of persuasive effect, this would imply that Participant 11 prescribed higher quality to the story by deeming the CEO-statement as making sense and providing good reasons. As a result, the theory suggests it has a persuasive effect. Important to remember when considering the labelling of a persuasive effect is that it not necessarily is a bad thing, as often is the view from a strict impression management perspective. Reason being that it can contribute to investors having a belief in the company. This in turn is a critical function for both the well-being of companies and the capital market system as a whole. Seen from an investment perspective, being persuaded might result in a good investment outcome or it might not.

If the above reasoning based on Fisher's narrative paradigm is correct, it would also be expected that Participant 11 and Participant 1 descriptive profiles of the CEO-statement would differ. At least regarding the descriptors, *credible*, *believable*, and *plausible*, being part of the relational quadrant in the CVFMC. The grading shows that Participant 11 has deemed the CEO-statement to be rather *credible*, *believable*, and *plausible* by ascribing this descriptor a score of five. For the same descriptor, Participant 1 has ascribed it with a score of three. Interestingly, Participant 1 and Participant 11 ascribes the CEO-statement a score of four and three respectively on the *open*, *candid*, and *honest* descriptor, thereby suggesting no material

difference. This in turn indicate that in Participant 11's case it is probably a higher coherence, due to the *credible*, *believable*, and *plausible* score, rather than higher fidelity that contribute to a perceived rationality of the story. Individual scores are presented in **Appendix 6**. If looking at the mean scores for the relational quadrant, which these two descriptors adhere to, the difference however is low between the two participants. Although Participant 11's mean score still is higher, see **Table 2**. The above analysis adheres merely to two participants' explanations, but nevertheless highlights the applicability of the narrative paradigm in describing the participant's interaction with the material and the story within.

5.3.2 Positive Revision of Opinion but Contradictory Argumentation

It is also interesting to consider the opposite situation demonstrated by a second pair of participants. In relation to the company's development and restructuring process two participants, both revising their opinion in a positive direction, state contradicting arguments regarding the CEO-statement's coherence with the financial statements.

Participant 13 (Interview, 21/4 2017) argued after having read the CEO-statement that the large restructurings was a good match with what had been observed in the financial statements. On the contrary, Participant 14 (Interview, 21/4 2017) argued that there is an emphasis in the CEO-statement to explain all developments that the company is conducting, although arguing to remember that less money was spent on research and development. In the first case the statements provided in the CEO-statement thus makes sense for the participant, while in the other it does not. Assessing the two examples in terms of persuasive effect as it relates to coherence, this point in isolation would contribute to Participant 14 deeming the CEO-statement as less rational than Participant 13. Here we would like to emphasise that this is only one variable the participants weigh into the rationality of the entire CEO-statement. Analysis of this point in isolation is nevertheless relevant since we already know that both participants revised their opinion in a positive direction.

If the other criterion for determining persuasive effect of a narrative is considered, the fidelity, it would be logical to assume that Participant 13 also would deem the CEO-statement as being more truthful or reliable in relation to Participant 14. Again, the reason is that Participant 13, in contrast to Participant 14, finds a good match between the statements made in the CEO-statement with what had been observed in the financial statements. In order to verify this line of thought, both participants descriptive profile of the CEO-statement can be considered. We focus on the relational quadrant since it involves qualities building trust (Rogers & Hildebrandt, 1993). Participant 13 has deemed the CEO-statement to be rather relational, ascribing a mean score of 20, which is comparable to Participant 14 mean score of 14, see **Table 2**. This means that when considering the two participants' reference to the CEO-statement focusing on the development and restructuring process, in isolation, this part of the CEO-statement has contributed to Participant 13 deeming it as rather persuasive. For Participant 14 on the other hand the part of the CEO-statement considering development had a slight contrary effect. This being said, Participant 14's revision of opinion is indicated to be based on other arguments having greater influence, proposedly the information regarding increase in orders received, see **Appendix 2**.

5.3.3 Two Examples of Narrative Persuasiveness

Based on the above analysis the narrative paradigm seems to provide a logic that fits the participants' reasoning. Thus, there seems to exist something on a subconscious level for how the participants relate to narrative statements in their evaluation of a company's prospects. At the same time, the narrative paradigm does not provide exhaustive results. As highlighted in the Participant 14 case above, it might instead be that the CEO-statement was perceived as carrying other content of value. Thereby the persuasive effect might be small in comparison to the value of new information. However, the above analysis does suggest that the CEO-statements persuasive effect, the narrative's rationality, in the eyes of the participants is part of their navigation system between stories to believe in and not to believe in.

5.3.4 Summary

The above analysis has indicated that the two criteria, coherence and fidelity, determining narratives' persuasive effect, can increase the understanding of how the CEO-statements affect participants in some cases. Based on detailed investigations of two pairs of participants the analysis show that the persuasive effect of the CEO-statement seems to vary in accordance with the contradicting reasoning of the participants. This is validated by the descriptive profile of the CVFMC. However, the narrative paradigm alone cannot provide an answer to when the CEO-statement makes a participant revise an opinion based on the financial statements or when that opinion remains unchanged.

5.4 A Situational Matrix of Communication

In the original matrix of communication the authors Bedford & Baladouni (1962) contextualized the arena of accountancy as a communication process. Naturally, we therefore started our analysis from this perspective in order to try to understand our empirical material. However, as we argued for in section 5.1 this theoretical model could not address the complexity of our situation and empirical material as a standalone tool. In the succeeding analysis, section 5.2 and 5.3, it was demonstrated that findings exist which are complementary to the original matrix of communication in section 5.1. Under the following two subheadings we demonstrate how the original matrix could be developed into a situational matrix of communication for non-professional investors. Finally, we visually present the situational matrix of communication for non-professional investors, see **Figure 8**.

5.4.1 Financial Statements

In line with what has been presented in this thesis there exists more than financial statements that should be taken into consideration for what constitutes *accounting statements*. This is something that is not highlighted in the original Matrix of Communication. In other words, parts of financial reporting and narrative reporting provided in the annual report is to be considered as two different sets of information. Before moving on to the second set of information, the CEO-statement, and its implications for the situational matrix of communication we should first like to address the 'receive accounting statement' link of the original matrix. This in order to develop the understanding of this link based on the analysis of our empirical material as it relates to non-professional investors.

In line with the article where the original communication matrix is laid out we would like to highlight the notion of *interpretation* and *meaning* as it relates to the accounting message when the user receives the accounting statement:

“[...] in order to understand the accounting message, it is necessary first to interpret (decode) the set of signals which contain the message. It is well to remember, therefore, that what is transmitted by the accountant to the various groups - management, stockholders, etc. - is a codified message, awaiting for accurate interpretation by the destination.”

(Bedford & Baladouni, 1962 p. 656)

This study has provided insights for how non-professional investors approach the financial statements and interpret the material in order to assign meaning to it. It is demonstrated that non-professional investors seem to have an inherent need to search for causal observations and to give causal explanations when forming an opinion of a company's prospects. This is an important finding offering understanding of the reception process of accounting statements. It is important because the causal search will determine how non-professional investors view the company's economic events and ultimately how non-professional investors use the message. This is explained in the following subheading.

5.4.2 CEO-statement

Introducing the second set of information in the form of narrative reporting, exemplified as CEO-statement in our report, the communication matrix takes on a new shape. As argued before, since the financial statements are published before the CEO-statement it is relevant to separate the CEO-statement as an independent set of information. More importantly, as a result of our analysis we have demonstrated that the flow of communication is of fundamental importance. Not only in order to understand how non-professional investors view accounting communication but also how non-professional investors revise their opinion based on the financial statements. From our analysis we have demonstrated that non-professional investors form their revised opinion about a company's prospects based on a comparison of the content of the CEO-statement in relation to their established reference point, i.e. their opinion based on the financial statements. In **Figure 8**, A Situational Matrix of Communication for Non-professional Investors, we therefore add an additional link going from the “Non-prof. Investor” down to the second information set, the “CEO-statement” that symbolises the reference point “R.P” that the non-professional investor has established before reading the CEO-statement.

Finally, two separate lines start from the “CEO-statement” labelled as “P.C.D” (Perceived Characteristics of Dissonance) and “P.P” (Perceived Persuasiveness). The two lines move on to merge as one as they connect with the “Non-prof. Investor”. The initial separation as two independent lines and placing of the “P.P” line below “P.C.D” is made with the intention to visually demonstrate that they are to be viewed as separate transformative dimensions, although derived from the same information set. By that we are referring to the possibility of the story within the CEO-statement to cause a persuasive effect on a subconscious level while the effect of the perceived characteristics of dissonance in the CEO-statement occur as a result

of them being more tangible. Tangible in the sense that the characteristics of dissonance are directly visible in the text, which is a result of non-professional investors' established reference point. Finally, merging the "P.C.D" with "P.P" line connecting with "Non-prof. Investor" is done in order to demonstrate that the interpretation of, and assignment of meaning to, the CEO-statement is indicated by our analysis to be done in coexistence. This creates the final accounting message which ultimately will be the one that the non-professional investor uses.

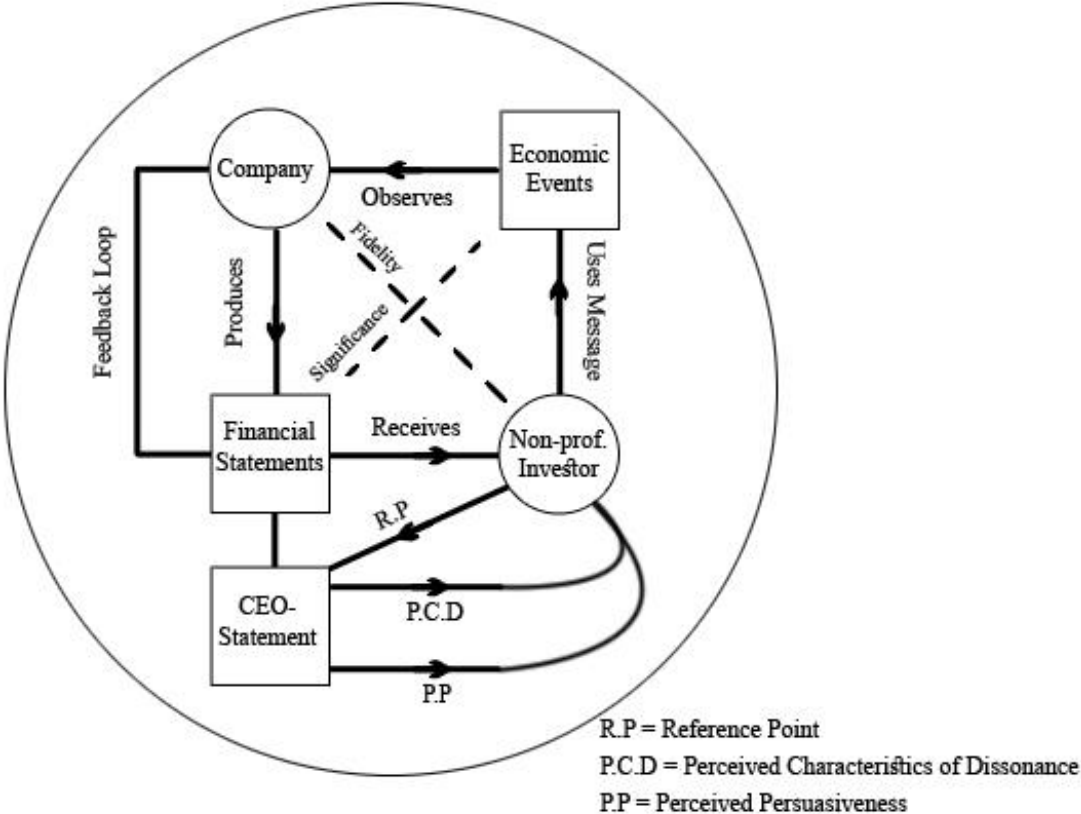


Figure 8: A Situational Matrix of Communication for Non-professional Investors. Inspired by Bedford & Baladouni (1962)

5.4.3 Summary

This section of the analysis revisits the Matrix of Communication and provides insights for how it could be developed to better fit the situation non-professional investors' find themselves in when interpreting financial statements and the CEO-statement. A developed matrix of communication visualise that the financial statements is received before the CEO-statement, emphasising the importance of non-professional investors own causal search for understanding of economic events. Furthermore, the illustration shows that the CEO-statement is not merely another received accounting statement but also a narrative with characteristics of dissonance and persuasive effect, affecting the non-professionals' interpretation and assignment of meaning.

5.5 Analysis Summary

In the beginning of this chapter the financial statements, the CEO-statement, as well as the non-professional investors were positioned within an accounting communication process. This leads to the notion that non-professional investors are influenced by the economic setting.

In the second analysis section the non-professionals' interpretation, organisation, and judgment process regarding the financial statement and the CEO-statement is analysed. This primarily showed that: (1) all participants conducted a systematic and recurring causal search when forming an opinion about the company's prospects based on the financial statements, (2) the majority of the group presumably revised their opinion based on the financial statements in a positive direction as a result of high dissonance created by the CEO-statement, and (3) the opinion based on the financial statements affects the outcome that the characteristics of dissonance have on each participant's decision to revise opinion.

The third section indicates that narrative persuasiveness provides increased understanding of differences in participants' interaction with the CEO-statement. At least in cases where the same kind of argument has different outcome or contradicting reasoning is presented. The determinants coherence and fidelity is validated through the competing values descriptive profile.

In the last section, the analysis revisited the accounting communication process presenting insights for how the Matrix of Communication could be developed to reflect non-professionals interaction with financial statements and CEO-statements. The insights provided are demonstrated in the Situational Accounting Communication Matrix for Non-professional Investors. The situational matrix visualises that the CEO-statement follows sequentially after the financial statements giving emphasis to reference point thinking. Furthermore it shows that the CEO-statement is not merely another received accounting statement but also a narrative with characteristics of dissonance and persuasive effect. Together they affect the non-professionals interpretation and assignment of meaning.

6. Conclusions

In this chapter the report's conclusions, concluding discussion and suggestions for further research are presented. The analysis has provided the base for forming the conclusions which in turn answers the research questions. All viewed from the perspective of the study's purpose. Furthermore, the concluding discussion focuses on the implications and significance of the conclusions from both a theoretical and practical perspective. Finally, three suggestions of relevant future research are provided.

6.1. The CEO-statement Effect

This thesis has been concerned with non-professional investors' interaction with two types of accounting statements, the financial statements and the CEO-statement. In an explorative manner, the purpose has been to research how the content of CEO-statement affects non-professional investors' opinion of a company's prospects. In taking this approach this study has come to three conclusions. Each conclusion is presented in conjunction with a brief account of its relevance.

Non-professional investors perceive more often than not that a dissonant CEO-statement in relation to the financial statements possess characteristics that alter their opinion.

Alterations of opinion are shown to be due to perceived dissonance in the CEO-statement. Characteristics of dissonance have been found to be (1) information about current company operations and situation that creates a more positive view of the future as well as (2) speculative statements of a more positive future. The former indicates that a dissonant CEO-statement is perceived as supplementing or complementing a company's related financial statements. The latter on the other hand suggests that speculative statements are recognised and more often than not considered by non-professional investors to be of guidance for a company's prospects. The two previous inferences suggest that non-professionals generally find it appealing to believe in narratives provided by companies. To the least extent, a CEO-statement being dissonant in relation to the financial statement put non-professional investors in a situation where they reconsider or even question their own previous assessment.

The characteristics of dissonance cause non-professional investors to either revise their opinion in a positive direction or not change it at all.

The majority of participants considered their opinion to be altered in a positive direction after reading a related and dissonant CEO-statement. The other participants considered the CEO-statement to not provide a basis for altering their opinion in either direction. No negative alterations have been found in this study. The two outcomes are suggested to be dependent on non-professional investors' placement of characteristics of dissonance in either their latitude of rejection or latitude of acceptance and non-commitment. This decision is related to the individual reference point established by the financial statements. Rejections of characteristics of dissonance are suggested to be associated with a higher degree of objective scrutiny.

The opinion of non-professional investors is affected by both perceived characteristics of dissonance and perceived persuasiveness of the CEO-statement.

The CEO-statement has been shown to affect the opinion of non-professional investors by not only providing characteristics of dissonance but also in transmitting a story to believe in. Both of which non-professional investors perceive, and therefore interpret and assigns meaning. A company with a financial performance and position that is worrisome is thus proposed to offer non-professional investors a path leading into a more prosperous future. This put emphasis on the importance of non-professionals attaining an awareness of there being characteristics of dissonance in the CEO-statements as well as their nature to believe in good stories.

6.2 Concluding Discussion

By taking into consideration a narrative section of the annual report this study is to be placed within the research field of accounting communication. Non-professional investors' perception of accounting communication is an important area of research in order to understand how this population of today's financial markets deal with legislated and voluntary disclosures from publicly traded companies. This study's theoretical underpinnings, derived from message reception and processing theories and narrative interaction, has contributed to an improved understanding for how the rather unattended group of non-professional investors actually perceives and are affected by narrative disclosures. Thereby, this study's focus on non-professional investors in an equity assessment context has also shed light upon the otherwise rather unrepresented audience perspective. Also, previous research with an audience perspective has to a large extent focused on readability variances of texts or experiments aimed at certain effects. The perception of non-professional investors is on the other hand, from our literature review, not well represented.

The greatest contribution of this study has been the theorising of there being coexisting ways to get affected by the CEO-statement, leading to the visualisation of the CEO-statement as consisting of not only content to decode but also a story to believe in. The importance of reference thinking as well as the positive nature of the CEO-statement has been mentioned in earlier research. However, capturing the basis upon which the group of non-professional investors actually formed their opinions provide insights which outplay speculations of probable effects. For instance, it has earlier been suggested that the CEO-statement could contain stories with possibility of gaining support from its audience. Our study suggests that non-professionals, being one group of the audience, actually perceive and are affected by them. Although providing insights from a different perspective, the findings of this study to a great extent support existing literature (e.g. Jonäll & Rimell, 2010; Arnold, Triki & Sutton, 2015; Merkl-Davies, Brennan & McLeay, 2011).

From a practical point of view, the insights generated in this study offers an understanding that helps both regulators and standard-setters to engage with the effects of the loosely regulated narrative sections of the annual report. Since, based on our findings, a CEO-statement containing characteristics of dissonance with a positive nature is perceived more often than not to alter non-professional investors opinion, this implies that non-professionals could be in need of further protection. Also, seen from a preparer perspective, our findings suggest that in times with worrisome financial performance and position it is probable that providing information that creates a more positive view of the future as well as speculative statements of a more positive future would pay off. In other words, it can be used to successfully retain and attain capital.

Both the theoretical and practical contribution should be interpreted with caution as the conclusions, due to the study's explorative and qualitative design, are only indications of non-professionals' perception of the CEO-statement. Furthermore, the practical contributions could possibly have been more substantial if a real investment decision was simulated. However, such a simulation would require the incorporation of risk of losing a significant amount of money as well as knowing the financial outcome of the company in advance. The latter point could, in hindsight, also have given a greater depth of analysis even to this study.

6.3 Future Research

The conclusions drawn from our study have raised supplementary questions which have not been able or intended to answer. As the area we investigated may be considered relatively unexplored, there are several ways to move beyond the point we have reached and address these unanswered questions. Below we clarify three areas in which we personally would like to see future research conducted.

The first area of future research that we would suggest is to focus on different types of investors. In our study we have intentionally selected non-professional investor as a group since previous literature argued for both analytical and cognitive disadvantages as it concerns their decision-making in a financial context. It would be interesting to test if this assumption holds true when compared to other groups that are perceived as more professional. In other words, is there a significant difference in effect of the CEO-statement and how a professional investor forms an opinion about a company's prospect compared to a non-professional investor? A study that could not establish such a significant difference would indicate that the findings of our report have a wider applicability as well as it would further prove the theoretical underpinnings of this report.

The second area of future research that we find interesting would be to replicate our study and test the research question on a wider base of companies. By that we are primarily referring to include companies with a current financial performance and position that when extrapolated into the future would likely provide a positive opinion about its prospects. Also, it would be interesting to research multiple randomly selected companies simultaneously in a similar methodology as the one presented in this report. Not deliberately selecting companies with an obvious dissonant CEO-statement in relation to the financial statements could potentially provide interesting results. With these two future research areas in mind we believe that an improved understanding of the reference point concept could be attained. Furthermore, it would provide a better understanding whether perceived characteristics of dissonance and perceived persuasiveness are an outcome of current financial performance and position or if there are other explanatory factors.

The third and final area that we would suggest for future research is to apply a different design and theoretical base than what has been done in this report. It would be relevant to apply a quantitative research design to a similar study as this one. The argument for a quantitative study would primarily be to establish whether the alterations of opinion as a result of reading the CEO-statement could be regarded as significant or not. Furthermore, since the theoretical base could be described as the glasses which one views the empirical material through and it would therefore be interesting to apply other theoretical frameworks

than the one we have used. Other theoretical frameworks would therefore most likely improve the understanding of the complex context of financial statements and CEO-statements, i.e. parts of the annual report, and the effect on its users.

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Appendix 1 – Interview Guide

Interview Guide

Pre participation information

You will be put in a decision making situation for a case that we provide. We will guide you with both verbal and written questions. Your answers will both be in verbal and written form. We would like to inform you that your answers will be used in the final report of this study. We ask for your permission to record. On this note we would like to inform you that the recordings and your participation will remain anonymous. Also, we would like to point out that this is completely voluntary and should you want to end the process any point that is allowed.

Participant information questions

How old are you?
What are you currently studying?
Have you every directly held shares in a company?
Have you ever used an annual report?

Description of case company

Guiding the participant *The participant are asked to read the description about the company.*

The Financial Statements (Information set 1)

Guiding the participant *The participant are asked to create an opinion about the company's prospects based on the financial statements. participants are informed that the financial statements are from the same company as the provided company description.*

Questions *Questions asked after the participant has finished assessing the financial statements.*
What factors (numbers, ratios, FSLI, etc.) from the financial statements do you base your opinion regarding the company's prospects?
Follow-up questions in relation to answers provided by the specific participant.
If 'positive' and 'negative' are endpoints on a scale; where do you place your opinion about the company's prospects based on the financial statements?

The CEO-statement (Information set 2)

Guiding the participant *Participants are asked to read the CEO-statement. participants are informed that the CEO-statement are from the same company as the provided company description and financial statements.*

Questions *Questions asked after the participants has finished reading the CEO-statement.*
Has your opinion about the company's prospects changed after reading the CEO-statement?
Why did you revise/not change your opinion?
Was there something particular that you reacted upon that explains your revised/unchanged opinion?
Follow-up questions in relation to answers provided by the specific participant.

Self -Completion Questionnaire

Guiding the participant *Please fill in the self completion questionnaire in relation to your perception about the CEO-statement.*

Post participation information

We would like to inform you that although we have put you in a decision-making situation our primary purpose has been to explore how your opinion based on the financial statements is affected by the narrative of the CEO-letter, i.e. how you as a non-professional investor asses it and how you perceive it. In other words, we are not primarily interested in if your opinion changes or not.

Appendix 2 – Summary Table of Empirical Extractions

The below table is extractions from the interview material, i.e. it is not quotations. The sources are the interviews conducted in the study, as illustrated in the end of this Appendix section.

<i>Participant</i>	<i>Explanation for opinion based on the financial statements</i>	<i>Opinion N=Negative P=Positive</i>	<i>Explanation for revised opinion</i>	<i>Direction of change (U)=Unchanged (P)=Positive</i>
Participant 1	A rather big decrease in earnings between 2015 and 2016 is noted. Finds by looking at the financial expenses as well as cash-flow that a possible reason for the decreased earnings is an increased debt position. Further investigates what the loans might be used for, and argues that financing of tangibles and intangibles might be the answer. Explain that large investments in intangible assets might be necessary in this kind of high tech company. Considers the negative earnings important in forming an opinion.	N	The CEO mentions the negative numbers but the share amount of space covering the negative earnings was small in comparison to statements about the bright future. Perceived the CEO-statement as not reflecting the numbers.	(U)
Participant 2	The earnings for 2016 was argued to be much worse than in 2015. This was considered to be due to both increased expenses as well as decreased revenue. Regarding the balance sheet, short term liabilities was argued to have increased quite a bit while long term liabilities had decreased. Questioned why the debt position had increased. Accounts receivables, accounts payables, and inventory is examined. Argue that the inventory position has increased with the inference that products might be stacked on the shelves instead of being sold. Position in associated companies is noted to have decreased a lot. Some attention was given to operating activities in the cash-flow statements while concluding arguments targeted concerns of decreased earnings and debt capacity. Stated a need for more information in order to draw conclusion about future prospect.	N	The familiarity of this kind of business is considered low. States that the CEO-statement provides an overview of what the company is trying to achieve. Argues that, while challenging big changes have been made. What changed the perception of the company was that the amount of orders that are recognised at year end. This was considered a good start but argues that further sales is needed, the products needs to be of good quality, and customers have to be reoccurring.	(P)
Participant 3	Focuses first on the largest FSLI in the balance sheet and perceives the equity number to be too small. Further investigates the debt position and questions why it has increased and where the money has gone. In the profit and loss statement decreased revenue and earnings is noted and that financial expenses have increased. The cash-flow statement adjustments were highlighted as affecting the cash-flow positively. Overall perception is negative since the equity is low while debt has increased between 2015 and 2016.	N	States that new products have been developed and that the company now targets new markets and segments. The company is perceived to talk a lot about opportunities for growing revenue while providing limited information about these efforts and customers. Would have liked more hands-on evidence.	(U)
Participant 4	The decrease in revenue was noted and argued as a warning signal for sales problems. The operating expenses were considered, where administration expenses in relation to revenue was argued to have increased which called for further investigation of fixed and variable costs, considering operational leverage. Notes that EBIT is negative in comparison to 2015. Amount of intangible assets raised concerns, argued to be approximately 50 percent of the total assets which no matter if it is a high-tech company or not is perceived as a risk. Noted year to year differences and argued for decrease in position of associated companies to be significant and the equity ratio was considered low. Regarding the cash-flow statement, primarily focus was to consider if it was positive after operating activities, noting that so was the case for both 2015 and 2016. Investment activity was regarded as high as well as noting that the operating activities did not cover paid dividend.	N	Argues that although the CEO speaks a lot about future prospects it is a high-tech company. Some statements are perceived as lacking substance. The CEO-statement was perceived as rather complex and hard to grasp. Notice the positive outlooks but opinion remains the same.	(U)
Participant 5	States that it is hard to make a conclusion based on the financial statements alone. Looks at FSLI change between 2015 and 2016 trying to derive what caused the lower earnings figure. Mainly recognise the revenue decrease and financial expenses as large differences. Argues for a connection between the decreased revenue and operative cash-flow decrease. The balance sheet is generally regarded as stable, but decrease in equity is recognized as well as a smaller increase in debt.	N	Have become more positive as a result of more information about the company's future, and the company in general is provided. Perceive the company's goals as rather ambitious refereeing to higher revenue and increased operating profit prospects for 2018, arguing that this points in the right direction for the company but is still sceptical. Explains that more information and explanation is sought for, referring to the CEO-statement stating that the company has created a good foundation for long-time growth and profitability.	(P)

Continuing...

Participant 6	<p>Lower revenues were recognised, drawing the inference that there might be difficulties in selling the products. Argues this is not the case since inventory has also decreased. The cost base is considered in relation to revenues, arguing that the lower earnings figure seems to be caused by lower sales, notice minor differences in administration expenses. Speculates that increased administrative costs could be a result of them taking in an external consultant or similar. No large differences regarding assets is noted. A small increase in short-term debt is noted. Concerns about short term payment difficulties is neglected after referring to a positive cash-flow. States lack of knowledge regarding a translation reserve item under the equity heading.</p>	N	<p>Argues for an awareness of how texts affects the way people think. Considers that certain information is highlighted and bad result is blamed on other things, for example the market. Notice the company argues that things point in the right direction. Continuing to argue that benchmarking periods chosen in the CEO-statement make things look good which overall result in a more positive opinion about the company. Notes that the sequential order of reading financials before the CEO-statement might affect the view of the company.</p>	(P)
Participant 7	<p>Focuses on intangible assets and argues that it is a very large part of total assets. Questions if goodwill might be included in this FSLI and that is interesting. Questions why the translation reserve has increased and that this might give some clues to what customers they have and where they geographically buy things from. Notes that financial costs have increased by a large amount and that this might be related to the company's financial position. Also, note that the company pays the same amount of dividend as last year even though the financial result is negative. Conclude that these notions are to be considered risk factors.</p>	N	<p>Argues that uncertainty still exist but the CEO-statement focus on new product programs, newly developed products and trends for the company makes the conclusion about prospects more positive. Concludes that the questions asked in relation to the financial statements remain unanswered.</p>	(P)
Participant 8	<p>Focused mainly on the negative earnings and that this was worse than last year. Argues that based on a balance sheet and equity ratio calculation the concern based on the negative earnings has decreased since no significant deterioration was found and that the financial position seemed quite stable. Argued that although the revenue was lower than last year it is not a dramatic decrease and that the cost structure seemed to not have deteriorated. Noted an increased short term debt position, increased account payables and increased account receivables.</p>	N	<p>Argues that more information was attained for understanding the relationship between cash flow statement and the balance sheet, concludes that it seems large investments are made. Argues that this is positive since these could generate return in the future. Increased amount of accounts receivable is stated to be explained by the statement of increased amounts of orders for the last quarter. States an decreased the worry for their day's sales outstanding to be troublesome. Conclude that there is cohesion in their strategies, primarily their conversion process but also product development and investments in relation to what can be observed in the balance sheet. The worry created by the financial statements alone is argued to be decreased when this is put into a long term perspective of where the company is stated to be heading.</p>	(P)
Participant 9	<p>Focus on intangible assets due to the type of industry. Notes an increase during the last year and considers the intangible assets as strong. Decreased earnings is noted but is prescribed low value for future prospects. Business is instead considered to run smoothly without large fluctuations during the last year. Notes that the company is a MNE and considers its debt to rather be not so significant.</p>	P	<p>Gets the established opinion confirmed from what is indicated in the CEO-statement. Receive information about different business concepts that the company seems enthusiastic about. It is perceived that there are strong ideas and enthusiasm to really get the sales going. Argues that the company has started to go multinational and refers to the CEO stating it is a good industry. Notes the move of production to Taiwan. Albeit complaining about high administration expenses it is perceived that the outlook for 2017 is good.</p>	(P)
Participant 10	<p>Noted a decreased equity ratio and an increase debt position. Speculates that this indicate that the company is investing in something. In connection, argues that it is peculiar that R&D spending has decreased. Notes that the position in associated company has decreased and speculates that is related to a sale. Speculates that mentioned factors indicate an aim of slimming down the organisation and that this is an explanation for the negative development in recent time.</p>	N	<p>Argues that the CEO-statement gives an explanation for the relationship between R&D spending and investments. State that there is a focus on engineering and sales which indicate a development towards a more dynamic company which also gives an explanation for the negative factors noted in the financial statements. Highlights the statement of production in Taiwan and speculates that this can have a positive effect on the company's costs.</p>	(P)

Continuing...

Participant 11	<p>Compared all FSLI's for 2015 and 2016, highlighting accumulated profit or loss, position in associated companies, revenues, administration costs financial expenses, and adjustments for non-cash items and debt as large differences.</p>	N	<p>Perceives that the CEO-statement to be more positive than the numbers show. Argues that it feels like reading about two different companies. Notes that the company seems to only talk about things that have turned out good, although acknowledging that the company states that they are not happy with everything. It is not perceived that the state of the company is bad right now. Argues that there seems to be a plan for how to progress, and that next year starts with record order levels.</p>	(P)
Participant 12	<p>Perceives that on most FSLI differences between 2015 and 2016 is not large and questions what conclusions that can be drawn. Argues that the outlook is not so favourable although there are no notable changes, for instance on how much the company invests. Comments on the revenue decrease and R&D decrease, and that based on those parameters there is nothing that indicates that a positive momentum for the company.</p>	N	<p>Argues that it is in the human nature to be attainable for positivism, perceiving the CEO statement to bring up a lot of positive things and all changes that have been made. Further argues for already having an awareness of what the CEO-statement may contain and therefore one would think of oneself to take a more critical view than others. However, perceiving to get a more positive view. Argues that a detailed descriptions is provided about things that goes on in the company, although admitting a lack of knowledge about company's operations. State that it is easy to make small positive things sound big, making it hard to determine the value of the information. Commenting that it is no detail, but rather the CEO-statement in its entirety, the reoccurring positive and bright future related statements that is perceived to have an effect.</p>	(P)
Participant 13	<p>Initially notes the large FSLI of intangible assets, acknowledging that it might be fair since it is a company operating in industrial automation and data communications. Further noted that the liquidity seemed to be rather good based on a comparison between current assets and short-term liabilities. Notes that the revenues are decreasing and that the same goes for cost of goods sold. Argues that the financial expense increase is huge and traces it back to a divestment of business noting a big loss as only two million is recognised of earlier 72 million, and a low amount of inflow in the cash-flow statement. Comments that a multi-year overview would be needed to make any statement of the company's future prospects, further arguing that earnings variations between two years is normal.</p>	N	<p>Argues that the company has given confirmation of major restructurings carried out as well as that a vision for how the business can be improved. Further argues that more context is given in regards to the numbers in the financial statements. Have focused a little bit on the amount of orders increase as well as the CEO's visions.</p>	(P)
Participant 14	<p>Notes that the revenue have decreased arguing that this seems to be the main reason for the negative earnings. Arguing that decreased earnings is a result of lower sales. Administration expense increase along with a rather big increase in financial expense is noted. An increase in short-term debt is argued to be the reason, noted in both the cash-flow and balance sheet. The company is argued to be in a downturn, but also states that there might be historical explanations not visible in the financial statements.</p>	N	<p>Acknowledge the amount of orders information both related to the last quarter in 2016 and beginning of 2017 to positively affect the view of the company. Perceives that there is a lot of emphasis on the development of products and similar activities in the CEO-statement. Does not recall such spending visible in the financial statement and questions if there really is such focus on development. Further notes that the company talks about concentration on the sales organisation which is perceived as good in relation to the revenue decrease since it makes the company more customer oriented.</p>	(P)
Participant 15	<p>Argues that the outlook is lowered as a result of the negative earnings figure as well as the decrease in revenues. Notes that cost of goods sold have decreased accordingly. Financial expenses were regarded as very high. Argues that the FSLI for intangible assets was large, however, argues that this is not so strange considering the industry of the company. Amount of liabilities were considered as very high. Lack of knowledge about the cash-flow statement is mentioned but states that the company invest and that the operating activities generate positive cash flow. Argues that cash flow statement is not really in accordance with the profit and loss statement. Investments are acknowledged to possibly create future benefits. Argues that the outlook for the company is not positive, mostly based on the negative earnings figure but also since no reasonable explanation exist, for instance a financial crisis in 2016. State that it is hard to form an opinion based on the financial statements.</p>	N	<p>Argues that one gets a more positive view based on the CEO-statement. Notes that the company seems to be progressing and develops new things. This is argued to explain some questions raised by the financial statements. However, the negative earnings figure is not explained, arguing it is only mentioned that the first quarter was bad but nothing extreme is mentioned that would explain the drop in earnings. Perceives to be captured by the positive future presented by the CEO.</p>	(P)

Sources for the extractions in the above table:

<i>Participant</i>		<i>Date of session</i>
Participant 1	Interview	18/04/2017
Participant 2	Interview	18/04/2017
Participant 3	Interview	18/04/2017
Participant 4	Interview	18/04/2017
Participant 5	Interview	19/04/2017
Participant 6	Interview	19/04/2017
Participant 7	Interview	19/04/2017
Participant 8	Interview	19/04/2017
Participant 9	Interview	20/04/2017
Participant 10	Interview	20/04/2017
Participant 11	Interview	20/04/2017
Participant 12	Interview	20/04/2017
Participant 13	Interview	21/04/2017
Participant 14	Interview	20/04/2017
Participant 15	Interview	21/04/2017

Appendix 3 – Information Set 1

Kort information om koncernen

Denna koncern är ett teknologiskt företag inom industriell automation och datakommunikation. Koncernens produkter av mjukvara och hårdvara styr, övervakar, kontrollerar och kommunicerar digitala informationsflöden inom en rad olika applikationsområden. Koncernen är ett multinationellt företag.

(Beijer Electronics Group, 2017)

Koncernens resultaträkning

Tkr	2016	2015	Not
Intäkter	1 121 509	1 374 575	2
Kostnad sålda varor	-586 558	-752 120	3
Bruttoresultat	534 951	622 455	
Försäljningsomkostnader	-215 082	-231 286	3
Administrationsomkostnader	-258 198	-227 195	3,5
Forsknings- och utvecklingskostnader	-102 740	-121 430	3
Övriga rörelseintäkter och rörelsekostnader	1 714	9 656	4
Rörelseresultat	-39 355	52 200	6,7,8
Finansiella intäkter	3 886	3 542	
Finansiella kostnader	-88 730	-12 402	
Finansnetto	-84 844	-8 860	9
Resultat före skatt	-124 199	43 340	
Skatt	-1 914	-19 523	11
Årets resultat	-126 113	23 817	
<i>Hänförligt till moderbolagets aktiedagare</i>	-126 061	23 957	
<i>Hänförligt till innehav utan bestämmande inflytande</i>	-52	-140	
<i>Vinst per aktie före och efter utspädning, kr</i>	<i>-6.61</i>	<i>1.26</i>	20

◊ Source: Beijer Electronics Group, 2017

Rapport över totalresultatet

Tkr	2016	2015
Årets resultat	-126 113	23 817
Övrigt totalresultat:		
Poster som inte ska återföras i resultaträkningen		
Omvärdering av nettopensionsförpliktelsen	-6 745	10 854
Poster som senare kan återföras i resultaträkningen		
Omräkningsdifferenser	50 914	13 216
Totalresultat för året	-81 944	47 887
Hänförligt till moderbolagets aktieägare	-81 740	48 266
Hänförligt till innehav utan bestämmande inflytande	-204	-379

Source: Beijer Electronics Group, 2017

Koncernens kassaflödesanalys

Tkr	2016	2015	Not
Den löpande verksamheten			30
Resultat före skatt	-124 199	43 340	
Justeringar för poster som inte ingår i kassaflödet, m m	152 870	64 912	
Betald skatt	-15 998	-29 576	
Kassaflöde från den löpande verksamheten före förändringar i rörelsekapital	12 673	78 676	
<i>Kassaflöde från förändringar i rörelsekapital</i>			
Ökning(-)/Minskning(+) av varulager	12 494	1 639	
Ökning(-)/Minskning(+) av rörelsefordringar	-5 814	21 763	
Ökning(+)/Minskning(-) av rörelseskulder	-9 988	-17 419	
Kassaflöde från den löpande verksamheten	9 365	84 659	
Investeringsverksamheten			
Investeringar i immateriella anläggningstillgångar	-61 234	-45 369	
Investeringar i materiella anläggningstillgångar	-16 487	-17 347	
Avyttring av dotterföretag, netto likviditetspåverkan	2 954	-14 440	
Investeringar i finansiella anläggningstillgångar		-2 809	
Kassaflöde från investeringsverksamheten	-74 767	-79 965	
Finansieringsverksamheten			
Förändring av checkräkningskredit	62 143	-23 246	
Upptagna lån	20 000		
Amortering av lån	-10 000		
Utbetald utdelning	-23 834	-23 834	
Kassaflöde från finansieringsverksamheten	48 309	-47 080	
Årets kassaflöde	-17 093	-42 386	
Likvida medel vid årets början	116 636	156 842	
Kursdifferens i likvida medel	7 685	2 180	
Likvida medel vid årets slut	107 228	116 636	

Source: Beijer Electronics Group, 2017

Koncernens balansräkning

TKR	2016-12-31	2015-12-31
TILLGÅNGAR		
Anläggningstillgångar		
Materiella anläggningstillgångar	82 718	83 493
Immateriella anläggningstillgångar	766 572	718 321
Andelar i intresseföretag	1 000	72 594
Långfristiga fordringar	2 896	2 157
Uppskjuten skattefordran	46 510	33 109
Summa anläggningstillgångar	899 696	909 674
Omsättningstillgångar		
Varulager	175 320	190 001
Kundfordringar	179 897	193 293
Skattefordringar	12 246	10 787
Övriga fordringar	37 938	13 637
Förutbetalda kostnader och upplupna intäkter	18 567	18 976
Likvida medel	107 228	116 636
Summa omsättningstillgångar	531 196	543 330
Summa tillgångar	1 430 892	1 453 004
EGET KAPITAL OCH SKULDER		
Eget kapital		
Aktiekapital	6 356	6 356
Övrigt tillskjutet kapital	25 697	25 697
Omräkningsreserv	111 509	60 443
Balanserat resultat	271 827	428 467
Eget kapital hänförligt till moderbolagets aktieägare	415 389	520 963
Eget kapital hänförligt till innehav utan bestämmande inflytande	5 773	5 977
Summa eget kapital	421 162	526 940
Långfristiga skulder		
Upplåning	350 000	370 000
Övriga långfristiga skulder	3 146	6 790
Avsättningar till pensioner	96 243	84 569
Uppskjutna skatteskulder	60 663	57 459
Övriga avsättningar	4 887	12 145
Summa långfristiga skulder	514 939	530 963
Kortfristiga skulder		
Upplåning	236 260	144 157
Förskott från kunder	5 934	7 437
Leverantörsskulder	116 174	106 059
Skatteskulder	2 761	5 794
Övriga skulder	21 213	26 055
Upplupna kostnader och förutbetalda intäkter	112 449	105 599
Summa kortfristiga skulder	494 791	395 101
Summa skulder	1 009 730	926 064
Summa eget kapital och skulder	1 430 892	1 453 004

Source: Beijer Electronics Group, 2017

Appendix 4 – Information Set 2

Below the Swedish CEO-statement of Beijer Eletronics Group (2017) is presented with renamed names of the company, its subsidiaries, and branded products. This was used in information set 2.

Source: Beijer Electronics Group, 2017, pp.8-9

VD-har ordet

Väl positionerat för nya internet- och molnlösningar

ABC Group har gått stärkt ur det gångna året och skapat en ny plattform för långsiktigt god och lönsam tillväxt. Vi har infriat det vi sade att vi skulle genomföra. Koncernen håller på att ställa om i en mer kundorienterad riktning samtidigt som kostnadsbasen har sänkts väsentligt. Tillverkningen inom affärsenheten A har koncentrerats till Taiwan och investeringar i produktionen har lyft kvalitet och leveranssäkerhet. Produktutvecklingen har varit intensiv och nya produktprogram har lanserats.

Vi är ändå inte nöjda. Utfallen för försäljning och resultat för helåret 2016 låg på en fortsatt otillräcklig nivå. De ambitiösa investeringsplanerna för affärsenheterna B och C har tagit längre tid att implementera samtidigt som marknaden var relativt trög. Omställningen inom affärsenheten A slutfördes i allt väsentligt under året i enlighet med planen, men vissa marknadssegment som olja och gas var fortsatt svaga.

Utvecklingen pekar i rätt riktning

Jag kan trots allt konstatera att utvecklingen pekar i rätt riktning. Verksamheten förbättrades successivt under året. Ett negativt rörelseresultat under det första kvartalet vändes till positiva och allt högre tal under resten av året. Dessutom avslutades året starkt med en uppgång i orderingången på 20 procent jämfört med snittet för de föregående kvartalen.

Vi har månat om produktutvecklingen och behållit utvecklingsresurserna på en hög nivå. A lanserade en ny generation operatörspaneler, X2-serien, uppgraderade mjukvaran iX och introducerade verktyg för uppkoppling till internet. Utvecklingen går nu snabbt inom Internet of Things och uppkoppling mot molnet med olika tjänster. A är väl positionerat för att kunna leverera de nya lösningarna.

B lanserade nya versioner av operativsystemet WeOS och flera switchar med mycket hög överföringshastighet samt nya trådlösa lösningar. C har utvecklat ett konkurrenskraftigt produktprogram inom datakommunikation med fokus på säkerhet och övervakning.

Sammantaget har vi kraftigt förnyat programmet så att större delen av koncernens försäljning i framtiden kommer att genereras av nyligen utvecklade produkter. Säljorganisationen har ändrats och fler medarbetare med olika kompetenser är involverade i säljprocessen. Fokus håller på att flyttas från produkter till lösningar och kundvärde.

Att genomföra stora förändringar frestar på organisationen. Utan ABC Groups mycket kompetenta personal och professionella medarbetare hade inte omställningen kunnat göras så

snabbt och förhållandevis så smidigt. Kort och gott, väldigt förtjänstfulla insatser av våra medarbetare.

Smart Automation

A har parallellt med omställningen lagt fast en ny vision med sikte på 2021. Visionen bottnar i det som kallas den fjärde industriella revolutionen eller Industry 4.0. Digitaliseringen förändrar marknadskraven. Trenden går mot att maskiner och system kopplas ihop och kopplas upp mot internet.

Nya koncept som Smart Automation utvecklas. Lösningarna kännetecknas av styrning, uppkoppling och presentation av data för affärskritiska applikationer. Mjukvara kommer att spela en allt större roll i olika lösningar som bidrar till att kunderna kan optimera sina processer. Kundnytta sätts i främsta rummet och vi söker närmare samarbete med kunderna.

Inom industriell datakommunikation fullföljer B och C de strategiska initiativ och investeringsprogram som beslutats. Målen för respektive affärsenhet ligger fast även om det tar längre tid att infria dem.

Utsikter om ett bättre 2017

B startade det nya året med en orderbok på rekordnivå och antalet projekt som ligger under bearbetning har utökats under året. Med ett bredare och starkare produktprogram har B identifierat nya och intressanta segment. Förnybar energi som sol och vind ställer till exempel helt nya krav på styrning av **eldistributionen**. Under 2016 fick B också ett genombrott inom infrastruktur för järnväg som har en betydande framtida marknadspotential.

Inom C lanserades ett brett program av nya hårdvaruprodukter och utvecklingen av mjukvara påbörjades under året. Vi genomförde även en översyn av säljorganisationen för att bättre passa den nya strategin. Den nya organisationen implementerades i början av det nya året och resurserna till marknad och sälj förstärks under 2017.

Den röda tråden i ABC Group kan sammanfattas i styrning, presentation och uppkoppling av digitala informationsflöden i olika typer av automations- och kommunikationslösningar. Koncernens tre affärsenheter erbjuder avancerad mjukvara och hårdvara som används i en rad olika applikationer men som även kan utgöra ett samlat och komplett erbjudande.

Vi har stakat ut inriktningen för de närmaste åren och vi har säkrat handlingsutrymmet för fortsatta utvecklingsinsatser. Med de åtgärder som genomfördes under 2016 som bas bedömer vi att ABC Group kommer att kunna visa såväl högre omsättning som ett bättre underliggande rörelseresultat under 2017. Samtidigt är siktet inställt på att nå målen om en tillväxt på sju procent och en rörelsemarginal på tio procent under loppet av 2018.

X, VD och koncernchef

Source: Beijer Electronics Group, 2017, pp 8-9

Appendix 5 – Self-Completion Questionnaire

The below questionnaire is directly translated from Rogers and Hildebrandt (1993). For the English version we refer to the original in Rogers and Hildebrandt's article.

Frågeformulär

Ringa in den siffra du tycker stämmer bäst överens med frågan/påståendet.

1 = Stämmer inte alls

7 = Stämmer mycket bra

a) Är texten medveten, omdömesgill och uppmärksam om vem mottagaren av texten är?

1 2 3 4 5 6 7

b) Är texten eftertrycklig, stark, och kraftfull?

1 2 3 4 5 6 7

c) Till vilken grad är texten insiktsfull, sinnesvidgande, och visionär?

1 2 3 4 5 6 7

d) Skulle du säga att texten är innovativ, kreativ, och originell?

1 2 3 4 5 6 7

e) Till vilken grad är texten intressant, stimulerande, och fängslande?

1 2 3 4 5 6 7

f) Är texten bevisande, beslutsam, och handlingsinriktad?

1 2 3 4 5 6 7

g) Uppfattas texten som verklig, realistisk, och informativ?

1 2 3 4 5 6 7

h) Är texten fokuserad, logisk, och organiserad?

1 2 3 4 5 6 7

i) Karaktäriseras texten av noggrannhet, precision, och kontroll?

1 2 3 4 5 6 7

j) Är texten tekniskt korrekt, och riktig?

1 2 3 4 5 6 7

k) Uppfattas texten som trovärdig, trolig och rimlig?

1 2 3 4 5 6 7

l) I vilken utsträckning beskriver termerna öppen, uppriktig, och ärlig texten?

1 2 3 4 5 6 7

Source: Rogers & Hildebrandt, 1993, p. 131

Appendix 6 – CVFMC Individual Descriptor Scores

Descriptor / Participant	<i>Aware, Discerning, Perceptive</i>	<i>Epathic, Forceful, Powerful</i>	<i>Insightful, Mind-stretching, Visionary</i>	<i>Innovative, Creative, Original</i>	<i>Interesting, Stimulating, Engaging</i>	<i>Conclusive, Decisive, Action Oriented</i>	<i>Practical, Realistic, Informative</i>	<i>Focused, Logical, Organised</i>	<i>Rigorous, Precise, Controlled</i>	<i>Technically Concret, Accurate</i>	<i>Credible, Believable, Plausible</i>	<i>Open, Candid, Honest</i>
Participant 1	6	5	4	2	4	6	2	5	4	4	3	4
Participant 2	5	6	6	3	3	4	5	3	6	5	6	5
Participant 3	7	5	7	6	5	5	4	6	5	6	4	5
Participant 4	3	6	6	3	2	4	2	4	3	3	3	3
Participant 5	6	7	7	2	4	3	4	6	5	7	5	4
Participant 6	5	4	6	3	N/a	5	5	5	5	6	6	5
Participant 7	4	2	5	4	3	3	4	5	3	4	4	4
Participant 8	6	6	7	5	6	6	4	5	5	6	5	5
Participant 9	5	6	5	4	4	7	5	6	6	6	5	4
Participant 10	6	3	5	1	3	6	5	3	4	6	5	5
Participant 11	6	7	3	4	6	5	3	5	6	5	5	3
Participant 12	6	6	5	2	2	7	4	4	3	4	2	2
Participant 13	5	5	6	2	3	5	6	4	7	4	6	5
Participant 14	6	2	2	2	3	4	3	6	4	4	2	2
Participant 15	5	6	6	2	6	1	2	3	5	4	2	2

Source: Self-completion questionnaire