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Attributional statements in annual report narratives: the justification of organizational performance

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Abstract

In this paper the nature of organizational discourse is theoretically underpinned by the concept of self-serving attributions, a type of causal reasoning that allows the writer to take credit for good news and avoid blame for bad news. Based on motivational and informational explanations, we incorporate signaling theory in order to develop hypotheses for the expected levels of self-serving attributions in the justification of organizational performance. A sample with 49 companies was selected, both from a bad year and a good year regarding the capital market context. Each company's Letter to Shareholders was content analyzed in order to test our propositions about the roles of different combinations of performance and contextual factors as triggers of self-serving attributions. The results corroborate the theoretical hypotheses advanced, but the sample size is an issue regarding robustness.

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Introduction

This work posits that the use of self-serving attributions in the justification of organizational performance is driven by a combination of motivational, informational and contextual factors. Self-serving attributional patterns are usually manifested in the justification of organizational performance by a tendency to associate positive events to internal causes and negative events to external ones. The pattern is identified as opportunistic, biased or hedonic, because it allows one to take credit for successes and to avoid blame for failures (Staw, Mckechnie and Puffer, 1983). It has also been associated with impression management, a term that embraces a diverse set of strategic behaviors aimed at controlling others' perception of oneself (Gardner and Martinko, 1988; Schelenker and Weigold, 1992).

The use of self-serving attributions is a class of impression management behavior that has long been researched in the psychological and organizational literature, including accounting. Staw (1980), Bettman and Weitz (1983), Staw et al. (1983), Salancik and Meindl (1984), Clapham and Schwenk (1991), Aerts (1994, 2001, 2005), Tsang (2002), and Clatworthy and Jones (2003) have contributed to the analysis of self-serving tendencies at the organizational level.

By and large, research on the use of self-serving attributions is based on psychological theories that postulate either motivational or informational explanations for this organizational behavior. The motivational theory is associated with retrospective rationality and ego-defensive behavior, observed in situations of unfavorable outcomes (Staw, 1980; Bettman & Weitz, 1983). An informational explanation has been derived either from bounded rationality premises or from attributional principles of discounting and augmentation (Bettman & Weitz, 1983; Tsang, 2002; Aerts, 2001).

The motivational explanation is commonly associated with attempts to manage the corporate image (Staw et al., 1980; Salancik & Meindl, 1984). The informational explanation, in turn, is based either on biased internal information processing capabilities (Miller & Ross, 1975) or on other reasoning processes related to the interpretation of environmental events (Kelley, 1971; Huff & Schwenk, 1990).

Results from empirical studies have been mostly controversial. Aerts (2005) presented evidence in favor of a motivational interpretation in his analysis of a sample of Belgium companies' annual reports. Tsang (2002) found evidence to support the informational hypothesis in a sample of Singaporean companies' reports, the same tendency observed by Clapham and Schwenk (1991) in annual reports from US companies. However, Tsang's (2002) rationale is based on cross-cultural variations, while Clapham and Schwenk (1991) suggest an interpretation based on sense making processes. Although Bettman and Weitz's (1983) results pointed in mixed directions, Staw et al. (1983), Clatworthy and Jones (2003) and Aerts (2005) presented evidence that supports the motivational explanation.

In this work we combine an analysis of contextual events with propositions from both motivational and informational theories in order to explain the use of self-serving attributions in the justification of organizational performance. This work is the first to propose and test hypotheses derived from both motivational and informational theories, rather than trying to eliminate one of them. We depart from the prevalent notion that the two archetypical motivational extremities are either the desire to enhance one's self esteem after success or the need to protect one's ego after failure. We incorporate propositions of signaling theory (Spence, 1973) to develop the connections between motivational and informational factors. Contextual events, in the form of mixed combinations of good (bad) year and high (low) performers, are assumed to exert influence on the relative weights of motivational and informational drivers in the process of justification of organizational performance.

This study also contributes to the literature on self-serving attributions by providing results produced in a different institutional setting, based on Aerts' (2005) suggestions that the explanation patterns displayed by companies from different countries are subject to cultural influences. The informativeness of corporate annual reports is affected by the context in which these documents are produced and used. Brazil's institutional setting is usually depicted as a weak institutional environment (Anderson, 1999), and the country is held to have a poor legal regime, enforcement and transparency (Durnev & Kim, 2005). Additionally, Lopes (2006) suggested that Brazilian firms rely on private deals to obtain funding, which reduces the informativeness of accounting reports, and Lopes, Tukamoto and Galdi (2007) concluded that this high level of discretion associated with a poor institutional environment and low level of monitoring creates the conditions for earnings management to emerge. Thus, Brazil's institutional setting leads us to suspect that managers can exercise higher levels of discretion in the process of corporate image management. We formalize this proposition in terms of the use of self-serving attributions in the justification of organizational performance in the Letter to Shareholders, a specific section of annual reports.

Our sample consists of 49 companies from the Economatica database. We analyzed the Letter to Shareholders from the annual reports for each company in the years of 2002, classified as a bad year, and 2003, a good year. The Letter to Shareholders of each annual report was content analyzed in order to identify and code attributions presented in sentences that discussed performance issues.

The results support the theoretical hypotheses developed here. The narrative sections of annual reports in Brazil are marked by the presence of significant levels of self-serving attributions. The results also point to explicit attempts to create a positive corporate image to external stakeholders, even when the company is surrounded by a combination of negative performance in a clearly unfavorable context.

Development of hypotheses

Staw (1980, 1983) was one of the first authors to introduce the management of public impressions rationale to analyze the textual portion of corporate annual reports. Using the impression management theory that had been previously developed by psychology researchers, Staw (1980) argued that both individuals and organizations strive for rational and goal-oriented behavior. Nevertheless, actions generally fall short on these ideals, which motivate individuals to rationalize or justify their course of action. The farther the results are from the ideal, the greater are the forces that drive the justification process (Staw, 1980). This process involves both self-justification as well as an external form of justification termed impression management (Staw, 1980).

The justification of organizational performance is compulsory for listed firms, which face higher levels of accountability related to the effective use of resources and goal achievement. Moving from the individual to the organizational level, Staw et al. (1983) tested for the presence of self-serving attributions in organizations' reporting of performance information. One of their research goals was to determine whether self-serving attributions are best explained by either an internal form of justification, expressed by the use of defensiveness attributions, or by an external form, which involves the use of enhancing attributions (Staw, et al., 1983). Also, defensive attributions are observed as a pattern of crediting positive events to internal sources and negative events to external factors (Staw et al., 1983). Staw et al. (1983) successfully demonstrated the existence of self-serving attributions in the Letter to Shareholders, but they did not find organizational performance to determine causal attributions, as they expected.

Bettman and Weitz's (1983) study was centered on the analysis of reasoning patterns in the justification of corporate performance in order to shed light on the nature of self-serving attributions. Letters to Shareholders for a sample of corporations were analyzed considering any instance in which a company's performance outcome and its causes were discussed (Bettman & Weitz, 1983). Bettman and Weitz (1983) developed motivational hypotheses for the use of self-serving attributions based on ego-defensive rationalizations. They also used Kelley's (1971) attributional principles of discounting and augmentation, which involve the search for plausible arguments top explain the occurrence of performance related events, to develop the informational hypotheses for the use of self-serving attributions.

The informational rationale of discounting and augmentation proposes that, when an unfavorable outcome occurs in a good year there are fewer plausible external causes to assign to the outcome (Bettman & Weitz, 1983). On the other hand, if an unfavorable outcome occurs in a bad year, the role of external causes would be more relevant (Kelley, 1971).

Bettman and Weitz (1983) observed the typical self-serving pattern of attributions in the Letter to Shareholders, but neither a purely informational nor a purely motivational explanation was supported by these attributions. The results for unfavorable outcomes supported the informational explanation, while the results for favorable outcomes appeared to be more consistent with the motivational explanation (Bettman & Weitz, 1983).

Tsang (2002) analyzed the Letters to Shareholders of 94 firms listed on the Singapore Stock Exchange from 1985, classified as a *bad year* and 114 companies in 1994, a *good year*, in an attempt to replicate Bettman and Weitz's (1983) study. According to Tsang, although Bettman and Weitz’s data did not allow them to clearly demonstrate that only one hypothesis prevailed, the informational explanation was strongly supported by Tang’s data.

In addition, Tsang (2002) provided solid evidence for the informational explanation, and made a significant contribution to the motivational–informational debate by bringing cross-cultural differences to the analysis. He suggested that a critical cultural difference exists between East Asian managers and Western managers in explaining self-serving attributions. Tsang’s results were consistent with evidence provided by cross-cultural psychological research indicating East Asians’ greater sensitivity to situational influences (Choi et al., 1999). Tsang interpreted that Asian managers are prone to adopt a more holistic perspective than their Western counterparts in the decision making process, which results in more objective and higher quality decisions. Also, “[…] Singapore managements, compared with their Western counterparts, tended to have a more stable amount of causal reasoning across different outcome scenarios” (Tsang, 2002 p. 62).

Despite his discussion about cross-cultural differences, Tsang (2002) did not translate it into hypotheses subject to empirical testing. The author also presented motivational and informational motives as rival explanations but he did not report how he tried to eliminate one of them. Moreover, he did not discuss whether the explanations overlap or interact.

Salancik and Meindl (1984) presented a longitudinal study that examined the reasons given by CEOs to explain their firms' performance in the Letter to Shareholders over an 18-year period, comparing firms with stable and unstable performance. They observed that, contrary to psychological theories, managers of firms with unstable performance claim responsibility for both positive and negative outcomes more than the managements of firms with stable performance do. Managers of firms with unstable performance also seemed reluctant to attribute poor performance to uncontrollable environmental events. They argued that this provides evidence that, as the lack of real control over organizational outcomes increases, managers of these firms strategically manipulate causal attributions to manage impressions of their control (Salancik & Meindl, 1984).

An interesting point that Salancik and Meindl (1984) brought up was that the psychological motives used to explain the use of self-serving attributions were not designed to take political considerations into account. These considerations are preeminent in the case of corporate annual reports, since explanations of a firm’s performance are relevant for investors and other stakeholders (Salancik & Meindl, 1984). Thus, managers might use attributions to take credit for positive outcomes not only due to selective bias or egocentric bias, but because they need to communicate to constituents that they are capable of producing good results (Salancik & Meindl, 1984). However, Salancik and Meindl (1984) also stressed the difficulties associated with the detection of bias in the use of attributions, since the true causes of an event can never be known. Salancik and Meindl (1984, p. 241) suggested that “[…] when the environment's impact is greater, a selective bias will show up as a greater tendency to take credit for positive outcomes.”

A tendency of managers to credit themselves for positive outcomes and blame negative effects on the environment were also observed in Salancik and Meindl’s (1984) results. The authors argued that the low correlation between attributional tendencies with past performance suggests that these management tendencies are more likely to result from presentational biases. They also suggested that “[…] the evidence points to the possibility that attributional styles result from intentional strategic attempts to create a sense of management's effectiveness and control over the welfare of the corporation” (Salancik & Mendl, 1984 p. 252).

Salancik and Meindl (1984) added a new interpretation to the analysis of self-serving attributions, since they found a tendency shown by unstable firms to take more responsibility for outcomes, regardless of whether their performance is good or bad. They also explored the relation between the use of attributions and future corporate performance, an association also investigated by Staw et al. (1983) and Clapham and Schwenk (1991).

Clapham and Schwenk (1991) explored whether the use of self-serving attributions represents attempts to manage corporate image. They investigated annual reports from heavily regulated companies with the premise that "[…] attempts at impression management through the use of self-serving attributions would be more readily detected by the regulatory agency and less likely to be effective" (Clapham and Schwenk, 1991 p. 221). Thus, one should expect a weaker and more subtle pattern of self-serving attributions in regulated industries, which could be interpreted as evidence that the use of these attributions is due to impression management aims (Clapham and Schwenk, 1991). Conversely, if the pattern of attributions is derived from informational issues, the regulatory context should not necessarily affect it and one could expect the same levels of self-serving attributions in annual reports (Clapham and Schwenk, 1991).

Clapham and Schwenk's (1991, p. 226) results showed the same basic pattern of attributions, since they observed that "executives tended to take credit for good outcomes and lay blame on the environment for poor outcomes". However, they found that the self-serving pattern of attributions may be detrimental to future performance. They suggested that this is evidence of self-serving attributions being determined by informational factors, because "[…] it is unlikely that executives would persist in these patterns of attributions in the face of the fact that they do not have positive effects on the stakeholders and future earnings" (Clapham and Schwenk, 1991, p. 226). They bring up Huff and Schwenk's (1985) and Huff's (1985) propositions to suggest that the attributional pattern often found in annual reports results from a type of cognitive bias which affects how managers recall events that occurred before positive and negative outcomes.

Aerts (1994), more than a decade after Bettman and Weitz (1983) and Staw et al., (1983), was the first author to add an accounting dimension in the research about self-serving attributes. The author proposed the compelling argument that accounting logic is the source of technical-calculatory relationships that can be rhetorically transformed into attributions of causality (Aerts, 1994). For instance, he pointed out that managers explain financial actions and results using the internal logic of the financial accounting model.

Moreover, accounting language has a more preeminent formal meaning than natural language, because of its deductive nature (Aerts, 1994). Thus, by starting with a set of logical relations between a limited set of concepts, the financial accounting model allows the development of intermediary concepts that tend to be analytic rather than descriptive as in a natural language context (Aerts, 1994). Then, causes or reasons are developed between those intermediary concepts. However, in the accounting explanation, the discussion of causality stops at the intermediary level. The specific actions, decisions and influences, as well as the original motives or causes are not discussed at all (Aerts, 1994). The corporate financial report model in itself does not demand that. As a result, the accounting explanation allows one to more than depersonalize the accountability process: it is also a source of retrospective rationality and it creates an objectified ambiguity (Aerts, 1994).

In the context of self-serving attributions, Aerts (1994, p. 341) introduced the accounting bias as "[…] a tendency to explain negative performance more in technical accounting terms", with positive performance being expressed more in strict cause-effect terms. His overall results reinforced findings in other studies. He also argued that the accounting explanation interacts with the self-serving attributional pattern, in which the former "[…] obscures the perception of the tendency to use (external) excuses and justifications" (Aerts, 1994, p. 349).

In a subsequent study, Aerts (2001) used a research design suitable to evaluate the relative strength of consistency and inertial forces on the attributional behavior in annual reports. He proposed that an interaction between listing status and performance history constrains the variability of the attributional content over time. This implies that the attributional content, as well as other explanation patterns, would be very similar year after year (Aerts, 2001).

Aerts (2001) drew on the propositions of Gibbins, Richardson, and Waterhouse (1990) to explain and predict corporate financial disclosures. Gibbins et al., (1990, p. 122) developed a theory supported by two initial dimensions of the disclosure process: “an uncritical acceptance of rules and norms and a propensity to seek firm-specific advantage in how disclosures are made and interpreted.” These two dimensions are affected by “market factors as well as firm-specific factors” (Gibbins et al., 1990 p. 122). The authors also argued that the disclosure attributes are managed not only with relation to what is presented or absent from the narratives, but also with respect to their timing and interpretation.

Other factors affecting the disclosure process include organizational structure, the internal demands for information, external mediators and consultants, and perceived opportunities and norms in the situation at hand (Gibbins et al., 1990). Therefore, a corporate disclosure strategy is congruent with the propensity to select specific opportunistic disclosure choices. However, managers’ discretion in the process of corporate financial disclosure is “[…] constrained by the firm's dependence on capital and other factor markets, by product market opportunities, and by disclosure regulations” (Gibbins et al., 1990 p. 138).

In addition, a firm’s disclosure history, what Gibbins et al. (1990) termed the disclosure position’s ritualistic dimension, also affects the prevalent disclosure position, in a effect similar to the concept of path dependence. Based on this, Aerts (2001) argued that disclosure procedures can be embedded in organizational routines, marked by an uncritical adherence to prescribed disclosure norms that cause these procedures to tend toward persistence. According to Aerts (2001), organizational inertia derives from spontaneous habits, the existence of structures and routines, professional standards, education and training, precedents, rituals and traditions.

Aerts (2001) elaborated further on the financial performance forces that trigger corporate verbal behavior. He asserts that high economic performance and low risk are assumed to signal the intrinsic quality of management. In addition, accounting data constitute the primary source of information for the interpretation of a company’s economic performance. Thus, the presentation of accounting numbers tangibly associated with an unstable performance should be accompanied by some kind of narrative justification, since management’s reputation is at stake (McGuire et al., 1988).

The results from Aerts’ (2001) longitudinal study indicated that the attributional content presented in accounting narratives showed a high degree of stability over time, arguing against a purely calculative view of attributional behavior. Also, evidence of an inertial effect of company listing status and performance history was also deemed to affect the assertiveness aspects of attributional behavior and the differential use of accounting language in the explanation of financial accounting outcomes (Aerts, 2001).

Clatworthy and Jones (2003) motivated their study on the importance and usefulness of accounting narratives. The authors continued the current of research established by Aerts (1994, 2001), which incorporates an accounting rather than a managerial perspective. Also, Clatworthy and Jones (2003) added the distinction between explicit and implicit attributions in their research design. They also found that declining performers accentuate the presentation of good news rather than discuss the poor financial performance. Clatworthy and Jones’ (2003) results buttressed the idea that accounting narratives are an important data source to study the management of corporate image.

In consonance with Aerts' (1994) propositions, Clatworthy and Jones (2003) found that companies in general avoid explicit causal attributions. The prevalent attributional strategy observed was to avoid specific blame for bad news. They also argued that improving performers are more assertive in the language they use in their annual reports.

Aerts (2005) treated the capital market context as a critical variable to discern situations of strong and weak motivational influences on the use of self-serving attributions. He considered that previous studies overstated the relative importance of the informational explanation in their attempts to understand the presence of biased patterns of attributions. This mistake is derived from the fact that most of previous research did not consider "the specifics of the social and organizational environment in which attributional behaviour occurs" (Aerts, 2005 p. 494). For instance, increased accountability demands, as invoked by the capital market context, and retrospective scrutiny are significant contextual forces in shaping motivational attributional behavior in listed companies (Aerts, 2005).

Aerts' (2005) study was aimed at substantiating the attributional dimensions of opportunistic disclosure behavior advanced by Gibbins et al., (1990). He also explored the effect of attributional statements' thematic content nature on the strength of the attributional bias. The nature (cost, income, revenue, etc.) and measurement level (group, corporate, divisional) of the explained effect, and the knowledge of domain-specific jargon and related inference rules are deemed to be important in the interpretation of self-serving attributions (Aerts, 2005).

Results from Aerts' (2005, p. 495) research suggested that "listed companies offer more attributional explanations on a wider range of accounting outcomes, although these are not more extensive or profound." It was also observed that "listed companies exhibited a higher degree of defensiveness in explaining negative accounting outcomes" (Aerts, 2005 p. 514). Interestingly, the moderate degree of attributional defensiveness, in comparison with previous research that used US data, pointed to potentially significant cultural influences on the explanation patterns displayed by companies from different countries (Aerts, 2005).

All the previous studies discussed so far documented the asymmetry in the attribution of causality in performance related attributions. However, the theoretical bases from where researchers try to detect and to interpret this empirical regularity vary, as well as the results.

Our attempt here is to reconcile the contributions of other researchers by including a new dimension of analysis to explain the presence of self-serving attributions in annual reports. We suggest that the theory of signaling is useful in providing a better understanding on the phenomenon. Based on signaling theory, we suggest that companies whose performance is superior to that of the market as a whole will seek ways to signal the superiority of that performance (Smith & Taffler, 1992) if the signaling costs are lower than the expected benefits (Spence, 1973). We also interpret the signaling situation in different contexts. Table 1 summarizes the schematic representation of the rationale proposed here.

Table 1: Rationale for the development of hypotheses

PERFORMANCE	*CONTEXT (YEAR)*					
	Good			*Bad*		
	Ego defensiveness	*Discounts/ Augments*	*Signaling*	*Ego defensiveness*	*Discounts/ Augments*	*Signaling*
Negative	High	Discounts	Absent	High	Augments	Low
Positive	Low	Discounts	High	Low	Augments	Absent

We first consider the case of negative performers in a bad year. Higher levels of ego-defensive behavior are expected, since the company's performance is negative. Even though the ego-defensiveness is not as high as in the combination of negative performance in a good year context, we suggest that the situation of bad performance in a bad year will elicit the highest levels of self-serving discourse, since the external conditions can be used to enhance the role of external causes. The informational perspective, in the presence of augments, will interact with the ego-defensive behavioral perspective.

Let us now consider the combination of negative performance in a good year. Although ego-defensiveness is expected to be preeminent, the informational perspective suggests that allegations of external causes to justify performance will be discounted by rational readers.

A similar situation should be observed in the combination of positive performance in a good year context. From the signaling perspective, companies in this situation will aim to signal their superior performance, but a rational reader will discount excessive allegations to internal causes if they are used to justify performance.

The last case is the combination of positive performance in a negative year. There is neither a need to defend one's ego nor to signal superior performance. So, we expect that companies with this combination will display the lowest levels of self-serving attributions in their discourse.

From the preceding discussion we present the following hypotheses:

H1: The presence of self-serving attributions in the CEO's Message of companies with negative performance in a bad year is the highest in comparison with all other combinations of performance and context.

H2: The presence of self-serving attributions in the CEO's Message of companies with positive performance in a bad year is the lowest in comparison with all other combinations of performance and context.

In the next section we present the procedures used to gather data and test the hypotheses proposed.

Data, variables and methods

The annual reports of companies listed on the São Paulo Stock Exchange (Bovespa) were sampled for the years of 2002 and 2003. Content analysis was performed in the Letter to Shareholders section of each annual report. Content analysis has frequently been used in accounting research (Jones & Shoemaker, 1994; Abrahamson & Amir, 1996; Bryan, 1997; Smith & Taffler, 2000).

The Letters to Shareholders were first parsed in sentences for subsequent coding and classification according to previously defined rules. The aim of the analysis was to identify and code occurrences of causal attributions in a company's explanations of performance.

Even though the narrative sections of corporate annual reports as a data source can be regarded as comparable between companies, their form of presentation varies a great deal. Since the Letter to Shareholders is the most frequently read portion of the annual reports, and is more standardized (Clatworthy and Jones, 2006), we chose it as the object for our analysis.

Sampli ng procedures

In order to provide variation in the context variable within the sample, a good year and a bad year were selected using the per capita gross domestic product and the Ibovespa (Bovespa index) as proxies.

Within a scope to the last ten years, we initially chose 1998 as the bad year. However, annual reports were not readily available for that specific year in a satisfactory number, so instead we chose 2002 as the bad year.

In 2002 the per capita GDP decreased .32% and the Ibovespa showed a negative variation of 17 percentage points. We chose 2003, with a 4.19% increase in the per capita GDP and a positive variation of 97.33 points in the Ibovespa, as the good year.

We selected 49 companies to compose the sample based on the criteria that: (1) the company presented the Letter to Shareholders in the annual report and (2) information about net earnings was available for 2001, 2002 and 2003 in the Economatica database.

Net income was chosen as a proxy for performance due to its focus on shareholders, who are remunerated according to it. It is also the proxy for performance that is easiest for an investor to understand. We believe that managers have some discretion in net earnings presentation, but since we are precisely concerned with the management of corporate image as disclosed by managers, the use of net income is justified by the fact that managers will have to provide interpretation for the numbers they present.

Coding of attributions

In each Letter to Shareholders we focused specifically on causal attributions present in performance justifications, individually considered. A causal attribution is defined here as a sentence, phrase or paragraph in which an argument is built to connect performance results, or effects, with their respective presumed causes. The unit of analysis was the specific instance of causal reasoning in the Letter to Shareholders, following Bettman and Weitz (1983) and Tsang (2002).

All instances of causal attribution were retained. A total of 1957 phrases were analyzed, and 234 causal attributions relative to each company's performance were identified. In these, causes and effects were identified and coded. The effects were coded as *good news* or *bad news*. The causes were classified according to the locus of causality as *internal* or *external*.

An effect was considered *good news* when reporting an increase in revenue, sales, profits, investments, productivity or company growth. On the other hand, reporting a decrease or reduction in revenues, sales, profits, productivity, the presence of any kind of loss, closure of plants, etc, was considered as *bad news*.

Regarding the locus of causality, a cause was considered *internal* when referring to factors internal to the organization, such as company strategies, management decisions, know-how and human resources, among others. Otherwise, it was considered *external* when arising from factors external to the organization, such as inflation, market prices, government policies, climate, and so on.

The coding was performed in a three-phase process:

I. Ten Letters to Shareholders, from annual reports of 2006 were coded with the purpose of establishing the general procedure for identifying and coding causal attributions;

II. Afterwards, two undergraduate students in accounting and one of the authors independently coded the 2002 and 2003 Letters to Shareholders;

III. The results of the coding were compared and differences resolved by discussions between the authors and coders.

A total of 234 attributions were coded, with an intercoder reliability of .75 in the coding process. Most of the disagreements were related to what should be codified as a cause and effect argument. This measure of reliability is a little less consistent than previous studies, but it is in accordance with studies about readability of corporate annual reports, which have displayed reading ease scores on the borderline between difficult and very difficult to read (Rutherford, 2003).

Following Bettman and Weitz (1983) and Tsang (2002), we considered attributions individually when analyzing the use of self-serving attributional patterns. The next section presents the results and discussion.

Results

A preliminary analysis of the general pattern of argumentation used by Brazilian companies in the President Letter is presented. The dependent measures are defined at the company level in a given year instead of at the level of individual attributions.

Preliminary analysis

Table 2 presents results from codification at the company level.

Table 2: Length of documents and amount of performance related causal reasoning identified in the Letter to Shareholders

Variables	*Bad Year*		*Good Year*	
	Negative Performance (NB)	*Positive Performance (PB)*	*Negative Performance (NG)*	*Positive Performance (PG)*
Average number of sentences (and variance)	21.9 (11.16)	39.9 (27.3)	31.4 (8.75)	36.7 (27.2)
Average number of classified sentences (and variance)	1.5 (1.55)	3 (3.6)	3.3 (1.56)	2.5 (2.61)

Table 3 presents results from a series of tests of hypotheses performed to assess the equality of measures presented at Table 2.

Table 3: Results obtained from tests of hypotheses

Average number of sentences	*Average number of classified sentences*
Bad Year = Good Year	Bad Year = Good Year
Negative Performance < Positive Performance***	Negative Performance = Positive Performance
NB < PB***	NB < PB*
NG = PG	NG > PG*
NB < NG**	NB < NG***
PB = PG	PB = PG

*: p-value < 0.1; **: p-value < 0.05; ***: p-value < 0.01

With respect to the total of sentences in the Letter to Shareholders, there are no significant differences between the years in sample. However, we found that negative performers' Letter to Shareholders were shorter than those of positive performers, as shown in Table 3. Yet positive performers did not display more performance related causal reasoning to explain their superiority, as seen in the second row of Table 3.

In a bad year context, negative performers (NB) exhibited shorter Letters to Shareholders and also displayed less occurrences of causal reasoning related to their performance in comparison with positive performers in the same context, as shown in the third row of Table 3. In a good year, however, negative performers (NG) presented more instances of causal explanation in their documents, both in comparison with positive performers (PG) and with negative performers in a bad year (NB), as shown in the fourth and fifth rows of Table 3. Finally, positive performers exhibited the same amount of causal reasoning in the bad and good years, as shown in the sixth row of Table 3.

These data seems to suggest that companies with negative performance are motivated to explain their results only when they occur in a good external context.

Attributional patterns

To delve into the patterns of argumentation observed in the sample of listed Brazilian companies, we prepared contingency tables for each variable and its respective associations. Each table was submitted to Chi-square and Fisher exact tests to determinate whether the association between variables was due to chance.

Table 4 presents the aggregated results for the coding of effects and their respective locus of causality. The self-serving pattern of attributions is apparent from the results, since 90% of the *good news* is associated with *internal causes*. Also, 83.3% of the *bad news* is associated with *external causes*. This pattern of association is significant at 1%, as indicated by both the Chi-square and the Fisher-exact statistics.

<table>
<tr><th colspan="5">Table 4: Aggregated results from locus of causality and the polarity of the news presented in the Letter to Shareholders</th></tr>
<tr><td colspan="5">2002 and 2003</td></tr>
<tr><td colspan="2"></td><td>Internal</td><td>External</td><td>Total</td></tr>
<tr><td rowspan="5">Good News</td><td>Observed</td><td>162</td><td>18</td><td rowspan="2">180</td></tr>
<tr><td>Expected</td><td>131.5</td><td>48.5</td></tr>
<tr><td>% of Total</td><td>69.2%</td><td>7.7%</td><td rowspan="3">76.9%</td></tr>
<tr><td>% of Row</td><td>90%</td><td>10%</td></tr>
<tr><td>% of Column</td><td>94.7%</td><td>28.6%</td></tr>
<tr><td rowspan="5">Bad News</td><td>Observed</td><td>9</td><td>45</td><td rowspan="2">54</td></tr>
<tr><td>Expected</td><td>39.5</td><td>14.5</td></tr>
<tr><td>% of Total</td><td>3.9%</td><td>19.2%</td><td rowspan="3">23.1%</td></tr>
<tr><td>% of Row</td><td>16.7%</td><td>83.3%</td></tr>
<tr><td>% of Column</td><td>5.3%</td><td>71.4%</td></tr>
<tr><td colspan="2" rowspan="2">Total</td><td>171</td><td>63</td><td>234</td></tr>
<tr><td>73.1%</td><td>26.9%</td><td>100%</td></tr>
<tr><td>cl = 0.01</td><td>Df</td><td>Critical</td><td>Value</td><td>p-value</td></tr>
<tr><td>Chi^2</td><td>1</td><td>6.6349</td><td>113.5398</td><td>0.0000</td></tr>
<tr><td colspan="4">Fisher-exact</td><td>0.0000</td></tr>
</table>

Tables 5 and 6 present the association between locus of causality and polarity of news as found for both years (2002 and 2003). Again, the association between *internal causes* and *good news* and between *external causes* and *bad news* is significant at 1% by both the Chi-square and the Fisher-exact statistics. The proportion of *good news* relative to the overall coded effects is not different from a good year to a bad year (p-value = 0.23). This result is also consistent with previous studies (Hildebrant & Snyder, 1981; Staw et al., 1983; Clatworthy & Jones, 2003), which found that no matter how bad the performance is, the tone of the Letter to Shareholders is predominantly positive.

Table 5 shows that the proportion of *good news* attributed to *internal causes* is .975 for companies with positive performance in a good year. In the case of positive performance in a bad year, *good news* is attributed to *internal causes* in a proportion .868, as seen in Table 6.

Table 5: Causal attribution and polarization of news in a good year

		2003				*Total*
		Pos. Performance		*Neg. Performance*		
		Internal	*External*	*Internal*	*External*	
Good News	Observed	77	14	15	2	108
	Expected	67.2	18.7	12.8	9.4	
	% of Total	60.6%	11%	11.8%	1.6%	85%
	% of Row	71.3%	13%	13. 8%	1.9%	
	% of Column	97.5%	63.6%	100.00%	18.2%	
Bad News	Observed	2	8	0	9	19
	Expected	11.8	3.3	2.2	1.6	
	% of Total	1.6%	6.3%	0.00%	7.1%	15%
	% of Row	10.5%	42.1%	0.00%	47.4%	
	% of Column	2.5%	36.4%	0.00%	81.8%	
Total		79	22	15	11	127
		62.2%	17.3%	11.8%	8.7%	100%
cl = 0.01	*Df*	*Critical*		*Value*		*p-value*
Chi^2	3	11.3449		58.8004		0.0000
Fisher-exact						0.0000

In Table 6 the proportion of *bad news* attributed to *external causes* is 1 in the scenario of a bad year and negative performance. In the scenario of a good year and negative performance depicted in Table 5, the proportion of *bad news* attributed to *external causes* is .818.

Table 6: Causal attribution and polarization of news in a bad year

		2002				*Total*
		Pos. Performance		*Neg. Performance*		
		Internal	*External*	*Internal*	*External*	
Good News	Observed	46	2	24	0	72
	Expected	35.7	10.8	16.1	9.4	
	% of Total	43%	1.9%	22.4%	0.00%	67.3%
	% of Row	63.9%	2.8%	33.3%	0.00%	
	% of Column	86.8%	12.5%	100.00%	0.00%	
Bad News	Observed	7	14	0	14	35
	Expected	17.3	5.2	7.9	4.6	
	% of Total	6.5%	13.1%	0.00%	13.1%	32.7%
	% of Row	20%	40%	0.00%	40%	
	% of Column	13.2%	87.5%	0.00%	100%	
Total		53	16	24	14	107
		49.5%	15%	22.4%	13.1%	100%
cl = 0.01	*Df*	*Crít.*		*Value*		*p-value*
Chi^2	3	11.3449		71.4469		0.0000
Fisher-exact						0.0000

Table 7 reports the frequencies observed for self-serving attributions (SSA) in the Letter to Shareholders for companies in the sample. Remember that H1 posits that the presence of self-serving attributions in the Letter to Shareholders of companies with a negative performance in a bad year is the highest in comparison with all other combinations of performance and context. Also, in H2 we proposed that the presence of self-serving attributions in the Letter to Shareholders of companies with a positive performance in a bad year is the lowest in comparison with all other combinations of performance and context.

Table 7: Frequencies of self-serving attributions in the Letter to Shareholders for companies in the sample

Variables		*Negative Performance*		*Positive Performance*	
		Bad Year (NB)	*Good Year (NG)*	*Bad Year (PG)*	*Good Year (PB)*
Good News	*Internal Causes*	24 (100%)	46 (96%)	77 (85%)	15 (88%)
	External Causes	0 (0%)	2 (4%)	14 (15%)	2 (12%)
Bad News	*Internal Causes*	0 (0%)	7 (33%)	2 (20%)	0 (0%)
	External Causes	14 (100%)	14 (67%)	8 (80%)	9 (100%)
N		26	23	41	8

The results from tests for differences in proportions are presented now. For companies with a negative performance in a bad year (NB), the proportion of *good news* attributed to internal causes is no different than that for companies with a negative performance in a good year (NG) (p-value = .16). However, the proportion of *bad news* attributed to *external causes* is higher for PB companies in comparison with NG companies (p-value = .001).

The proportion of *bad news* attributed to *external causes* is higher for companies with negative performance in a bad year in comparison with companies with positive performance in a good year (p-value = .04). Finally, the proportion of *good news* attributed to *internal* causes for companies with positive performance in a bad year is no different in comparison with NG companies and PG companies (p-values = .13 and .35 respectively). However, the proportion of *bad news* attributed to *external causes* is higher than both NG and PG companies (p-values = .08 and .02 respectively).

The results must be interpreted with caution because the sub-sample sizes are not large enough to ensure robustness. However, since nonparametric tests for difference in proportions are not currently available in the literature, the results indicate that both H1 and H2 are corroborated.

Conclusion

This work explored the nature of organizational discourse in different combinations of contexts and company performances. The nature of organizational discourse was theoretically underpinned by the concept of self-serving attributions, which is a specific instance of causal reasoning that allows the writer to take credit for good news and avoid blame for bad news.

Two samples were selected, one in a bad year and the other in a good year, regarding the capital market context. Based on different motivations for impression management behavior, namely motivational and informational explanations, we added contributions from signaling theory in order to develop hypotheses for the expected levels of self-serving attributions in the justification for organizational performance.

The preliminary results show that companies with positive performance are more prolix than bad performers. Still, positive performers do not explain more in their company reports. Moreover, negative performers feel obliged to provide more explanations only in the context of a good year. Finally, preliminary results show that no matter how bad the performance is, the tone of the Letter to Shareholders is predominantly positive. This result is consistent with previous works.

Testing the theoretical hypotheses advanced in this study proved difficult, since the size of the sub-samples used in the comparisons were not as large as needed to ensure robustness. Nevertheless, the results corroborated the hypotheses developed to explain the use of self-serving attributions in the justification of organizational performance.

Our conclusions are subject to a number of limitations. As mentioned, sample size is the first. We also suggest that other studies might be developed considering the presence of self-serving attributions conditional to corporate governance indexes. This might be an interesting way to incorporate the institutional setting in the discussion.

Contemporaneity is also a motivating issue with respect to Brazilian companies' annual reports. Due to its theoretical propositions, this study used data from 2002 and 2003. To our best knowledge, no study has been conducted about self-serving attributions in the context of the Brazilian capital market, which is gaining increasing economic relevance.

Moreover, other verbal strategies plausibly associated with impression management may be intertwined in a structure that includes legitimacy needs, impression management tactics, accounting explanations, the use of attributions, and elements of metadiscourse. It is a challenge to develop research designs that allow uncovering the complex relation between these elements.

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