



Impression management observation through textual characteristics in annual reports of South African state-owned entities

By

ANDISWA NGCIZELA

223138083

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Supervisor: Dr Masibulele Phesa

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College of Law and Management Studies



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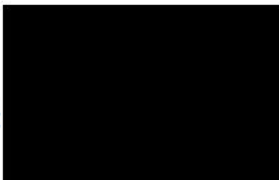
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Abstract

The study sought to investigate the existence of impression management strategies in non-financial information, also known as narrative disclosures, of the annual report of South African state-owned enterprises (SOEs), with a specific focus on the Board chairperson's report. These narrative disclosures are normally voluntary and prone to impression management. The focus of the study was to examine whether the SOEs engage in impression management tactics as a way of concealing and withholding information about their poor governance and maladministration. These SOEs are expected to contribute to the economic development of South Africa, yet the downward trend in performance is alarming, which has resulted in this study being undertaken. The study used secondary data in the form of annual reports that were extracted from the websites of sampled SOEs. A quantitative content analysis approach was followed to analyse the data and conclude on the findings, the Mann-Whitney U test tool was used to assess the extent of the variation between profitable and non-profitable SOEs. Signalling theory was used to interpret the results. Textual characteristics of the chairperson's report linked to impression management tactics were analysed by measuring some key variables, namely length of the chairperson's report, use of the positive disclosure tone through analysing positive and negative sentiments, use of personal reference words, and use of passive language for profitable and unprofitable SOEs. The results showed that profitable and non-profitable SOEs engage in impression management tactics. Profitable SOEs proved to have 1 page more and average 608 number words more than non-profitable SOEs. However, the difference in the length is considered insignificant. . Profitable SOEs also proved to use 22 more personal references than non-profitable ones, while the difference is considered marginal. The results further revealed that both profitable and non-profitable SOEs use 70% percentage of positive tone and that they used more positive tone than negative tone. Equally, non-profitable SOEs used 3% more passive voice than profitable ones, which difference was however considered marginal. The study contributed towards understanding the use of accounting theories, particularly signalling theory in the corporate disclosures of public sector entities. Moreover, this study aimed to help users of annual reports of SOEs in better understanding impression management tactics that can be engaged in for these entities to stay relevant despite their ongoing dismal performance.

Keywords: Impression management; Integrated reporting; State-owned enterprises; Signalling theory; Chairperson's report

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List of Acronyms

SOE	State-Owned Enterprises
PFMA	Public Finance Management Act
AGSA	Auditor General of South Africa
NDP	National Development Plan
IIRC	International Integrated Reporting Council
JSE	Johannesburg Stock Exchange
PRC	Presidential Review Committee

CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 Introduction

The purpose of these study was to examine the existence of impression management in the annual reporting of South African SOEs. This is brought about the current state of public sector entities that continue to face scrutiny about delivering on their mandate. In recent years, South Africa has seen SOEs being the centre of media attention owing to state capture that exposed major misgovernance and maladministration and implicated a number of these entities (Chilenga, 2016). Organisations use more complex language to conceal negative corporate performance (Leung et al., 2015). This can be attributed to the concept of impression management through voluntary narrative disclosures. Outlined in this chapter are the background of the study on impression management in State Owned Enterprises (SOEs) in South Africa, the problem statement, research objectives, research theories, the significance of the study, and the research outline.

1.2 Background to the Study

Impression management is a concept that was founded in the psychology studies and has subsequently proven to be a global concern that scholars around the world have explored. Studies have shown the presence of impression management in different focus areas, including the use of impression management in audit proposals to influence audit fees and appointment thereof in the United States (Chang & Stone, 2023). Other studies showed that impression management is also exercised in social media spaces to manage the disclosure of organisational performance (Yang & Liu, 2017).

Impression management has also been studied in South African context focusing on diverse angles ranging from the use of impression management amongst different cultures in work spaces {see for instance (Mtshelwane et al., 2016); (Delpont et al., 2022)}, to the corporate reporting of Johannesburg Stock Exchange (JSE) listed companies. Many studies have explored impression management in the chairperson's report of JSE listed companies, however, there is limited research on the chairperson's report of SOEs in the South African context.

Impression management is perceived as self-presentational concealment that is not presenting the true status of organisational outcomes. Organisations often take advantage of their position of knowledge to conceal negative performance, thus misleading investors and other stakeholders about the financial performance of the entity (Merkel-Davies et al., 2011).

Organisations tend to focus mainly on positive outcomes. Many researchers have concluded that inclusion of narrative disclosures in the annual reports can be used for useful impactful information (Leung et al., 2015), but these can equally be used for impression management.

Furthermore, impression management in annual reporting entails management tactics that management employs to select how these are disclosed and outlined to mislead users about the financial performance of the organisations and influence users' impressions about the entity (Leung et al., 2015). Merkl-Davies et al. (2011) allude in their study that annual reports are used as a mechanism to disclose more narrative information about an organisation's performance and this information affects the decisions and perceptions of the users of annual reports. This manipulation in disclosure can be revealed through use of textual characteristics that can either be intended to conceal or attribute performance of an organisation. The length of an annual report may indicate the use of impression management as more information may be disclosed to clutter the report to confuse the reader. The use of personal references may be used to attribute good performance to management, while the use of passive voice may be engaged in a way of avoiding claiming good or poor performance to management. Additionally, the tone used in the annual report may also be intended to mislead the reader.

State-owned enterprises are defined as public entities that are owned by the government and whose mandate it is to advance the social outcomes of the state through profits generated from their operations (Surty et al., 2018). An SOE is further defined as a legal entity, wholly or partially owned by the government, that the government has formed to participate in economic activities on behalf of the government (Maleka, 2021). There are various legislations that govern these entities to achieve government priorities towards the National Development Plan (NDP) 2030, with the main being the Public Finance Management Act 1 of 1999 (PFMA), which is aimed at enhancing transparency, sound financial administration, and accountability in government entities (Treasury, 1999). PFMA differentiates among 3 categories of state entities, with Schedule 2 listing 21 major entities referred to as SOEs wholly or partly owned by the state.

Notably, a significant number of these SOEs are dependent on state guarantees and bailouts to continue operating on their different mandates. Despite these bailouts, the SOEs continue not to be financially viable, and this is caused by the high concerns of operating effectiveness, which lead to these entities being a threat to the South African economy as they fail to deliver

on their mandate and to maintain the country's infrastructure (Markets, 2022). Furthermore, the current state of the South African economy cannot be ignored when looking at the basic services that are a major responsibility of SOEs such as Eskom, which has seen the country into major blackouts. The current state of these entities may create an opportunity for management to engage in impression management in a quest to conceal the true status of their affairs. This, therefore, brings about the interest in what management discloses in the annual reports of SOEs.

This study intended to determine the existence of impression management strategies in non-financial information, also known as narrative disclosures of the annual report of SOEs with specific focus on the Chairman's statement (referred to as "The chairperson's report" in this study). The chairperson's report contains a reflection by the governing body that is entrusted with the oversight responsibility of the organisation; hence, the users mostly read this statement to get the overall picture of the organisation's performance (Dhludhlu et al., 2022). There has been an increased public eye for some of the SOEs owing to their financial distress, lack of positive audit outcomes and increase in irregular, fruitless and wasteful expenditure (Kathrada et al., 2021). As a result, the increased poor performance of the SOEs has put so much attention and pressure to secure financial assistance from the state. For instance, the office of the Auditor General of South Africa noted a concerning increase in government guarantees of up to R420 billion, for which a majority of SOEs face challenges with repayments (AGSA, 2022). In particular, this can create an incentive for the SOEs to partake in impression management strategies on the narrative non-financial disclosures such as the chairperson's report in the annual report with an intention to manipulate the perception of government about their performance to secure more funds from the fiscus.

1.3 Problem Statement

Impression management has been noted as a concern in corporate reporting globally as it is used to conceal and mislead the readers of organisational reports and consequently hide the true status quo (Yasseen et al., 2019). This problem result in incorrect decision making by the users of these reports. The use of impression management may be done conveniently in the voluntary narrative disclosures (Mlawu et al., 2023). Considering that the annual report comprises different components such as voluntary narrative disclosures, this affords an opportunity for management to engage in different strategies to portray a positive image of the SOEs (Kathrada et al., 2021). In fact, previous studies conducted by (Phesa & Sibanda, 2022;

Varachia & Yasseen, 2020; Yasseen et al., 2017) determined the existence of impression management through textual characteristics in the chairperson's report of JSE listed companies and they confirm the existence of impression management strategies in annual reports. On the other hand, Maleka (2021) confirmed that SOEs use impression management through selection of favourable graphs., However, these studies have not interrogated the chairperson's report of SOEs for impression management tactics through textual characteristics. This then brings about the question of whether narrative disclosures such as the chairperson's report in the annual reports of South African SOEs contain impression management, which is the focus of this study. The recent poor performance and media attention of the SOEs, which may result in the decline in stakeholder and public interest on these entities presents an opportunity for misuse of impression management tactics to preserve and possibly enhance the image of the SOEs. The increased poor performance of SOEs and the current state of the South African economy may be clear motives for SOEs to partake in impression management to manage users' perceptions. This study investigates the use of impression management through textual characteristics in the chairperson's report of SOEs to hide the poor performance and mislead the stakeholders and the general public that want to hold them accountable. In addition, SOEs may engage in impression management in a quest to remain relevant to the government by claiming good performance while attributing poor performance to external forces that are portrayed to be beyond the organisation's control.

1.4 Objectives of the Study

The study investigated whether voluntary narrative disclosures, in the form of the chairperson's report, of South African SOEs annual reports use impression management strategies through textual characteristics. The objectives of this study were adopted from the replicated study conducted by Phesa (2021):

- To examine whether profitable and non-profitable SOEs engage in impression management through the length of the chairperson's report in annual reports;
- To evaluate whether positive tone, in the form of sentiments, is used as an impression management tactic in the chairperson's report in annual reports of profitable and non-profitable SOEs;
- To establish whether personal reference words are used as impression management tactics within the chairperson's report in the annual reports of profitable and non-profitable SOEs, and

- To assess whether profitable and non-profitable SOEs use passive language as a form of impression management in their chairperson's report.

1.5 Statement of the Hypothesis

This study is a replication of the study done by Phesa (2021) that assessed impression management in the chairperson's report of entities listed on the JSE. Phesa's study used a hypothesis, and consequently, this study adopted the same approach. This study differs from the replicated study in that it is focused on analysing impression management in a different population, that it is public sector as opposed to private companies that are listed in the JSE. This population brings a differentiation factor as the mandate of the SOEs is different from the mandate of other private companies, and the accountability. Therefore, the targeted audience and contribution of the study is different. Since this study is explanatory, a null hypothesis was used instead of research questions. The null hypothesis is outlined below:

H1: The textual characteristics contained in the chairperson's report show no noticeable difference between profitable and non-profitable SOEs listed in Schedule 2 of PFMA.

The null hypothesis was examined through the following sub-null hypotheses:

H.1.1: The length of the Chairperson's report will be identical for both profitable and non-profitable SOEs.

H.1.2: The percentage of positive disclosure tone in the Chairperson's report will be the same for profitable and non-profitable SOEs.

H.1.3: The Chairperson's report will contain a similar number of personal references for profitable and non-profitable SOEs.

H.1.4: The percentage of passive language in the Chairperson's report will be similar for both profitable and non-profitable SOEs.

A significance level will be determined by a p-value, where $p > 0.05$ will conclude that there is no significant difference in textual characteristics of profitable and non-profitable SOEs.

1.6 Significance of the Study

Given the rise in public interest on the mismanagement and corruption in South African SOEs as evidenced by media coverage, the length taken by constitutional entities responsible for audit of annual financial statements, the length of time taken to conclude the state capture inquiry,

this study is of significant importance. The main beneficiaries targeted to benefit from this study are the public, which includes taxpayers that fund the government guarantees that are advanced to the SOEs in the form of bailouts. It is therefore paramount to examine the degree to which annual reports of SOEs are subject to impression management strategies. There are numerous studies conducted on impression management in integrated reporting, including JSE listed entities. However, a few have focused on impression management in South African SOEs' annual reports. (See, for instance (Phesa & Sibanda, 2022; Varachia & Yasseen, 2020; Yasseen et al., 2017) A recent study was done by Kathrada et al. (2021) with a focus on the analysis of graph disclosures in South African SOEs and was also undertaken in a masters dissertation in the same focus area. Another study by (Shaikh, 2022) was focused on the six capitals of the integrated report of SOEs, and it covered a majority of the disclosures in the annual report. This study differs from the previous studies done specifically on SOEs as it focuses on textual characteristics in narrative disclosures, specifically the chairperson's report as opposed to focusing on the holistic annual report. The annual report comprises different components that include voluntary narrative disclosures, one being the chairperson's report. These narrative disclosures afford an opportunity for management to engage in different strategies to portray a positive image of the SOEs (Maleka, 2021, p. 15). Leung et al. (2015) note in their study that impression management in annual reporting entails management tactics to deliberately select how to disclose non-financial information in a way that is envisioned to mislead users' views of financial performance and influence their impressions about the entity.

1.7 Limitations of the Study

This study focused on the annual reports of the South African Schedule 2 SOEs and excluded other schedules, such as Schedule 1 and 3 entities. Furthermore, it only focused on the chairperson's report without considering other narrative disclosures of the annual report. As a result, the results of this study are limited to the chairperson's narrative disclosure.

1.8 Organisation of the study

The study is organised in the following manner:

Chapter 1: Introduction and background

A synopsis of the study is captured in this chapter, giving the objectives and the justification for conducting the study.

Chapter 2: Literature review

Existing literature is reviewed in this section following a systematic literature review. It is focused on theoretical literature, the history of integrated reporting and its relevance in SOEs, SOEs in the South African context, impression management, and the importance of the chairperson's report.

Chapter 3: Research methodology

This chapter explains and outlines research methods and the approach taken to conduct the study. It further elaborates on the techniques used to gather and analyse the data to reach the conclusions of the study.

Chapter 4: Data presentation and analysis

Outlined in this chapter are the results of the study based on the techniques and tools employed to analyse the data.

Chapter 5: Summary, conclusions, and recommendations

The chapter includes a summary of the findings, study conclusions, and recommendations based on the results of the study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter evaluates the presence of impression management tactics in the chairperson's report of the SOEs by reviewing existing literature. The literature review explores the theoretical frameworks linked to impression management, with a specific focus on the signalling theory. Impression management tactics employed by management in the annual report, integrated reporting in theory, and integrated reporting within SOEs literature are reviewed. SOEs have adopted the code on corporate governance, known as King code, in preparing their annual reports; hence the majority of them use the term integrated report. It is in this premise that this chapter reviews the integrated reporting literature as it is relevant to South African SOEs. Lastly, the chapter covers state-owned enterprises and the significance of the chairperson's report in the annual report.

2.2 Theoretical Literature

This study evaluates impression management in SOEs using the signalling theory.

2.2.1 Signalling theory

Signalling theory was explored by Spence (1978) in the context of economics, and applied it to job market signalling. Spence used hiring a candidate for a specific job in which the candidates provide information that is distinguished into two, namely information that cannot be changed and that which is subject to changes, which is what is referred to as signals because it is subject to manipulation. Spence (1978) further explains that the signalling information may lead to hiring of an individual based on the information provided, but the employer will only get to understand the individual's capabilities and whether they match the information provided when they have been hired already.

Similarly, a psychology study undertaken by Wilhelmy et al. (2017) also explored signal theory in the context of impression management through the hiring process, with the focus being on the employers being the sender. They observed that employers send signals of impression management through the interview process. Furthermore, they noted that employers can send signals to interviewees in an oral form to influence their perception of the hiring company.

Notably, signalling has also been viewed as an act where management or the organisation withholds information from external stakeholders. As a result, shareholders may have information about the true risks of an organisation while lenders are not simply because of the information being withheld from them (Wang et al., 2009) and the term used for this is information irregularities (Taj, 2016). Bae et al. (2018) view signal theory to be the solution to the agency conflict in a manner that it eliminates information irregularities. This elimination is brought about by the characteristics of signalling, by which managers send signals to the stakeholders who receive signals and provide feedback based on those signals. As a result, there is information dialogue between the parties involved. (Morris, 1987) concurs with this conclusion.

Furthermore, the theory suggests that for signalling to exist, there should be two parties involved, one party being the sender and the other the receiver. This thus means that, because of their position, management is the sender, as they have information about the organisation, and the users of information are the receiver, as they rely on the information provided by management through reporting. Therefore, management usually use their position of access to information to signal to the receiver through choosing what information to communicate and how to communicate to the users of financial and non-financial information and choosing how to interpret the information communicated (Connelly et al., 2011). This information is usually communicated in the annual report of an organisation. Ben-Amar et al. (2022) also conclude that organisations tend to use signalling and impression management tactics on disclosures about the diversity practises on corporate governance. Moreover, they note that organisations exercise bias in narrative disclosures to signal good performance and manage stakeholder impressions.

Signalling disclosure

Signalling disclosure is viewed as an act where management sends signals to the stakeholders through voluntary disclosures and, in return, the organisation receives signals from the recipients of the information (Bae et al., 2018). The study by Bae et al. (2018) was based on the influence of corporate sustainability disclosures in the context of signal theory, stating that the quality of information reported conveys positive signals while poor information sends negative signals, thus resulting in reduced market prominence.

Moreover signalling has been further explored by scholars such as Morris (1987) who conducted a study on signalling theory in voluntary disclosures in annual reports. Morris concluded that management in good performing organisations select information to reveal the organisation's quality results as opposed to poor performing organisations that disclose information in a manner that conceals the poor performance. It is also argued that highly performing organisations tend to adopt voluntary standards and disclosures such as integrated reporting to maintain being perceived as good performing (Karasek III & Bryant, 2012). Moreover, the signalling theory was applied to determine whether the tone of narrative disclosures is used as a signal and impression management tactic to predict the future performance of an organisation and the findings revealed that the tone was not related to impression management (Tran et al., 2023).

State-owned entities are accountable to the National Assembly and the general public. In terms of the PFMA:

The executive authority responsible for a department or public entity must table in the National Assembly or a provincial legislature, as may be appropriate the annual report and financial statements referred to in section 40 (1) (d) or 55 (1) (d) and the audit report on those statements, within one month after the accounting officer for the department or the accounting authority for the public entity received the audit report.(Treasury, 1999)

This means management would want to send signals to the National Assembly about their performance. Therefore, the National Assembly is deemed the major receiver of these voluntary disclosures.

2.3 Empirical Literature

2.3.1 Impression management

The concept of impression management originated from the literature of social psychology where it is defined as a manner in which people carry themselves to be seen favourably by others (see for instance, (Brennan et al., 2009; Hooghiemstra, 2000; Merkl-Davies & Brennan, 2007). The concept of impression management has extended to accounting, particularly to corporate reporting. Thus, scholars such as (Brennan et al., 2009; Merkl-Davies et al., 2011) have explored research and revealed that impression management is perceived as self-

presentational concealment that is not presenting the true status of organisational outcomes. As a result, organisations often take advantage of their position of knowledge to conceal negative performance, thus misleading investors and other stakeholders about the financial performance.

Moreover, in corporate reporting managers are faced with the temptation to disclose historic performance in a quest to be perceived as having achieved good performance and, consequently, they manipulate the perception of users (Yasseen et al., 2017). Leung et al. (2015) have concluded in their study about “*impression management through minimal narrative disclosure*” that inclusion, in the annual report, of non-financial information disclosures, known as narrative disclosures, can be used for useful impactful information, while it can also be equally used for impression management.

In addition, Bozzolan et al. (2015) conducted a study that investigated how managers use disclosures to drive the impression of various stakeholders of the organisation. The study focused on assessing the use of tone in the narrative disclosures of corporate reporting, and their findings suggested that tone varies based on the prominence of the intended users. Likewise, the use of tone by corporate leaders to suit the audience does impact users’ perception about the company. This is associated with impression management and cannot be isolated to issues related to ethical conduct.

Furthermore, Kathrada et al. (2021) conducted a study on the analysis of graph disclosures in SOEs and they note that voluntary narrative disclosures can be used to distort users’ view regarding a company’s performance. The result of their study indicated that the inclusion of graphs relating to non-financial information constitutes a higher percentage of graphs relating to financial information. Organisations consider the use of considerably prepared “legitimation” tactics to control and manipulate users’ view about the legitimate status of the organisation to manage the impression of the community in which it operates (Bozzolan et al., 2015).

Leung et al. (2015) argue that voluntary narratives are characterised by selectivity and omission that is achieved by selecting how to disclose narrative non-financial information in such a way that is envisioned to mislead users’ views of the financial performance or by omitting narrative disclosure in the annual report. Selectivity in presentation of information is where management manipulates the user’s perception through the information they choose to present and how that

information is presented in the annual report. Management intentionally engages in this strategy to distort the perceptions of users in relation to the financial performance and future operations with the goal to conceal the true reflection of the organisation's status (Oliveira et al., 2016). It is highly common for organisations that are performing badly and are faced with an increased financial distress risk to disclose less information about poor outcomes (Leung et al., 2015). Therefore, this strategy could be seen as adopted because of pressures faced by managers that engage in this behaviour to present the organisation in good light. Leung et al. (2015) further submit that organisations engage in use of language selection to impress the stakeholders that read the integrated report and hide negative performance, and this is known as "rhetorical manipulation".

Other scholars have conducted studies in relation to other corporate governance disclosure. Ben-Amar et al. (2022) state that impression management tactics are used to signal best practices in gender diversity of the organisation, further noting that these are used to manipulate the perspective of users about the gender diversity of the board. Notably, these scholars confirm the presence of use of textual characteristics in narrative disclosures, which characteristics include being transparent about good practices while concealing poor performance (Ben-Amar et al., 2022; Loughran & McDonald, 2016).

Similarly, Moreno et al. (2019) conclude that using textual characteristics indicates the presence of impression management in a chairperson's report, and this is not only applicable to less-performing organisations. However, they further submit that there is a difference in impression management tactics that are engaged by the highly performing organisations. Furthermore, Nel et al. (2022) and Patelli and Pedrini (2014) posit in their study about the optimism in the chairperson's report and chief executive officer's report that the contents of these reports are very optimistic, and this has been further associated with impression management tactics about the future performance of organisations. This conclusion was reached through analysing the writing styles used in the narrative disclosures in the chairperson's reports analysed.

In this light, organisations are said to engage in impression management tactics to portray an organisational image in a way that is in line with the organisation's outcomes. This seeks to enhance the way users understand the annual reports. It is also noted that organisations engage

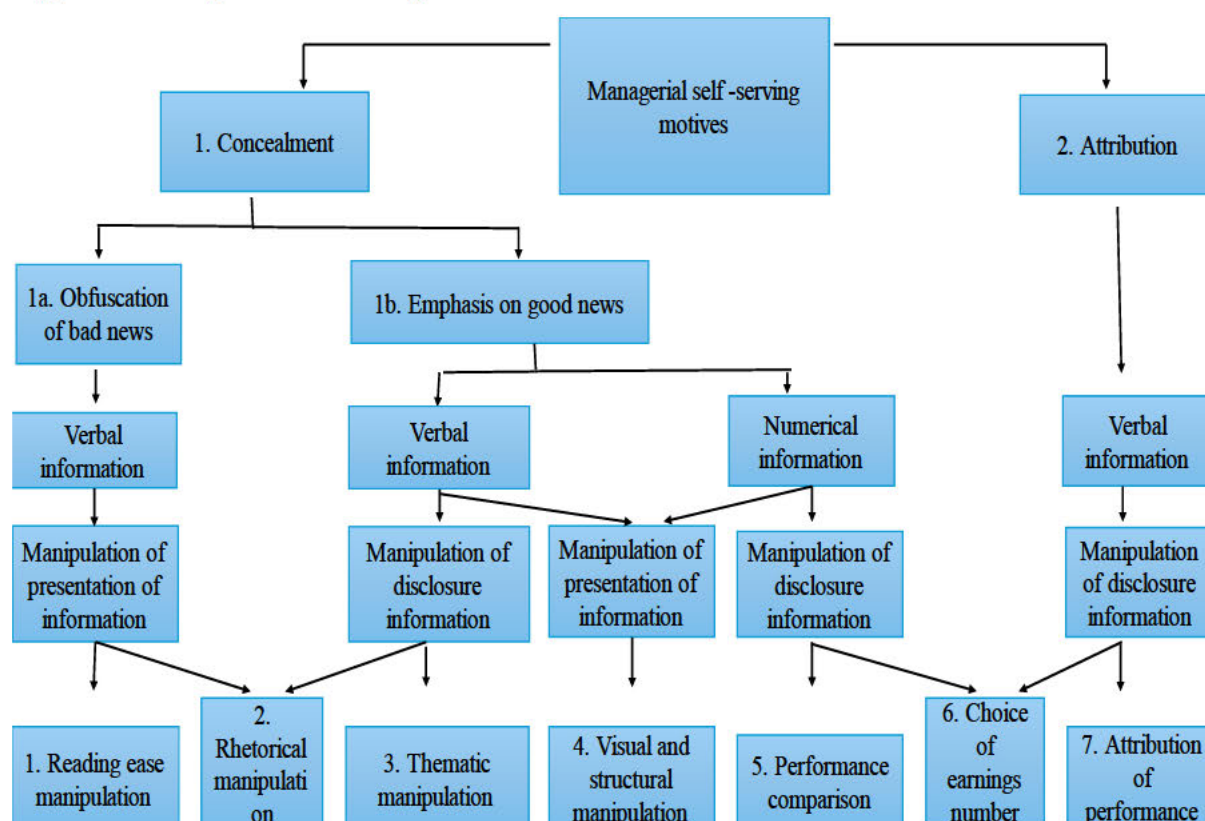
in explanation of past performance of the organisation in a quest to validate the current outcomes (Jaafar et al., 2018; Mahboub et al., 2016a, 2016b).

Impression management tactics

Merkel-Davies and Brennan (2007) developed a model of impression management tactics which includes 7 seven components. Figure 2.1 below illustrates these tactics in which management engages. They categorise impression management to fall under two categories, namely “concealment” and “attribution”. Concealment involves management clouding disclosures with information that is intended to mislead the perception of the users. Attribution involves management associating themselves more with positive results while distancing themselves from negative results. The two categories then breed the seven techniques outlined in Figure 2.1 below.

In the same light, Cooper and Slack (2015) distinguish between assertive and defensive impression management tactics, citing that assertive tactics are as a result of management initiating the need to establish themselves within the ambits of its existence and enhance the disclosures, while defensive tactics arise as a result of management responding to unfavourable conditions in which they find themselves. Attribution is noted to fall within both the ambits of assertive and defensive tactics, that is, self-attribution is revealed to be an assertive tactic while distancing and attributing to external factors is revealed to be a defensive tactic. Concealment is classified as defensive tactic as it seeks to distort and select what to be disclosed (Dunne et al., 2021).

Figure 2.1: Impression management tactics model



Source: Merkl-Davies and Brennan (2007)

Because of the position that the SOEs are currently in, namely that of increased public attention, media coverage, and misgovernance reported over the recent periods, this study covers both assertive and defensive tactics, which also fall into both categories of Merkl-Davies and Brennan (2007). The SOEs have been associated with negativity in the eyes of the public as one of the major stakeholders. However, they still may see the need to send signals of their positive outcomes to manage the impressions of the stakeholders at large (Shaikh et al., 2024). Furthermore, they may want to attribute the unfavourable outcomes and publicity to external factors (Dunne et al., 2021).

Table 2.1: Linking the objectives of this study and impression management tactics:

	Objective	Impression management tactics	
1	To examine whether profitable and non-profitable SOEs engage in impression management through	Defensive	Reading ease manipulation

	the length of the chairperson's report in annual reports;		
2	To evaluate whether positive tone, in the form of sentiments, is used as an impression management tactic in the chairperson's report of annual reports of profitable and non-profitable SOEs.	Assertive	Thematic manipulation
3	To establish whether personal reference words are used as impression management tactics within the chairperson's report in the annual reports of profitable and non-profitable SOEs	Assertive	Attribution of performance
4	To assess whether profitable and non-profitable SOEs use passive language as a form of impression management in their chairperson's report	Defensive	Rhetorical manipulation

Source: researcher's compilation

2.3.2 Impression management in chairperson's report

The chairperson's report plays a crucial role and is one of the significant aspects of the annual report that investors mainly focus on (Clatworthy & Jones, 2006). Scholars have evaluated the susceptibility of this report to impression management practices in companies from different industries. Oliveira et al. (2016) conducted a study on impression management and self-representation in chairperson's reports, particularly focusing on how management engages in tactics that seek to manage stakeholders' views about the company and interpretation of disclosed information. The findings revealed that there is no correlation in organisation results and impression management tactics; however, managers of big corporations present the companies in a favourable way through high levels of verbatim statements.

Consistent with other scholars, Clatworthy and Jones (2006) also assessed patterns of textual characteristic and company performance in the chairperson's report, and they conclude that the chairperson's report is amongst the disclosures that are more susceptible to impression management styles. Furthermore, the management of profitable companies tends to claim the performance of the company while non-performing companies disclose less of quantitative information with less use of self-claiming tactics. However, they focus on the future rather than the past. Their study on assessing patterns of textual characteristics concludes that it is not clear whether these impression management styles engaged in the chairperson's report are used intentionally or unintentionally. Cen and Cai (2013) study on the Chinese companies also concurs with these findings.

Furthermore, examined impression management for JSE delisted companies, using the stakeholder theory. This study tested a number of tactics such as use of passive voice, use of self-proclamation, length of the reports and so forth, with the comparison of performing and unperforming companies. Their findings concluded that JSE delisted companies engaged into impression management styles of disclosure in chairperson's report prior to their delisting, with the ratio of results indicating more use of impression management by non-performing companies.

The chairperson's report is analysed using the four measures as follows:

Length of chairperson's report

Firstly, existing literature tested the chairperson's report length using two variables, namely page numbers and word count (see for instance (Clatworthy & Jones, 2006; Moola, 2016; Phesa, 2021; Yasseen et al., 2017)). These studies tested the chairperson's report length between profitable and non-profit organisations. They revealed that the chairperson's report of non-profitable organisations was slightly less than that of the profitable. While both categories were tested on extremely profitable and extremely non-profitable organisations, the results indicate the inverse where extremely non-profitable organisations proved to be longer than extremely profitable even though the difference was deemed marginal on the number of words.

Positive disclosure tone in the chairperson's report

The measure was tested by Bozzolan et al. (2015) on a study of impression management in the FIAT Group and its interaction with organisational stakeholders. Their study employed this

measure by determining the basic meaning of sentences, thus identifying use of positive words and negative words. In the same way, Phesa (2021) and Mgoyana and Phesa (2023) also include this measure and use the percentage of positive words and negative words as a means of test. Melloni et al. (2016) investigated whether manipulation of the tone of business model disclosure presented in the integrated report is adopted by companies as an impression management tactic. The findings of this study revealed that disclosures that are focused on the future contain a significant positive tone; this can be associated with the manipulation of disclosures to manage impressions about the reporting entity.

Use of personal references

According to prior literature, the measure has been tested by considering self-proclaiming words, including; “we”, “us”, “I”, “me”, “my”, and “our”. Clatworthy and Jones (2006) indicate that performing companies use more self-proclaiming words than poor-performing companies in their chairperson’s report. Furthermore, (Yasseen et al., 2017) reached the same conclusion that performing companies use more self-proclaiming words than poor-performing companies, with just a marginal difference. Concurringly, Moola (2016) conclude the same as the other scholars, noting that the difference between the two groups was insignificant. Phesa (2021) concludes contrary to the study of Yasseen et al. (2017), who tested the measure on the extremely profitable versus extremely non-profitable, which indicated the inverse, namely that extremely profitable companies use fewer personal references than extremely non-profitable companies.

Use of passive language

Lastly, existing literature investigated use of passive language by employing statistical analysis techniques (Yasseen et al., 2017) while others used two t-test and median test (Clatworthy & Jones, 2006). Clatworthy and Jones (2006) conclude that non-profitable companies use more passive language than profitable companies, with a negligible difference. Others (see for instance (Moola, 2016; Yasseen et al., 2017)) indicate that there is a noticeable difference where non-profitable companies use more passive language in the chairperson’s report than profitable companies.

2.3.3 Integrated reporting

Flower (2015) undertook to investigate the main objective of the existence of the International Integrated Reporting Council (IIRC), which was formed in August 2010. Flower also

investigated the progress the council has made from its inception. He then argues that this council was established to promote sustainability accounting. As a result, Flower notes that sustainable accounting breeds a sustainable society, which in turn requires organisations to develop strategies that communicate how long term value is created without neglecting the needs of other stakeholders (Eccles & Serafeim, 2011; Flower, 2015). The existence and operation of the IIRC then brought about the concept of Integrated Reporting (IR), which is defined in the Integrated Reporting Framework. Thus, integrated reporting is defined as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time. It includes related communications regarding aspects of value creation” (IIRC, 2013) in the Integrated Reporting Framework.

Expanding on the introduction of integrated reporting, Dumay et al. (2016) argue that prior the inception and adoption of integrated reporting, there were increasing concerns about traditional corporate reporting that was mainly focused on financial reporting and was not adequately positioned to fulfil the information needs of various users of the information. As a result, many companies attempted to address these concerns by improving the availability of information for decision-making by providing additional non-financial information over and above traditional financial reporting. This is when a hybrid approach disclosure was adopted to incorporate both financial and non-financial information that would not normally form part of the financial statements, and these measures were to address the governance crises that were raised by accounting profession on the traditional business reporting model, and thus the Tripple-bottom line gained its popularity (Adams & Simnett, 2011; Dumay et al., 2016).

Correspondingly, academic research further notes that integrated reporting was meant to promote communication of value creation of the organisation (De Villiers & Hsiao, 2017). Cheng et al. (2014) also elaborates that the objective of the integrated reporting was to improve communication of the company’s short, medium, and long-term value creation propositions through disclosure of the different aspects of the company. The concept of integrated reporting was based on the premise that companies should enhance the financial information presented in the financial statements as required by accounting standards with other non-financial information that impacts different users (Eccles & Serafeim, 2011). It is governed by the Integrated Reporting Framework, which contains guiding principles for preparing the integrated report (De Villiers & Hsiao, 2017).

Moreover, integrated reporting enables a company to create a link between the strategy, financial performance and governance, and social, environmental and economic aspects of the organisation (Pistoni et al., 2018; Surty et al., 2018). Agreeing with the other scholars, (Dečman & Rep, 2018) submit that integrated reports can provide varying benefits for external and internal users, as reporting financial and non-financial information leads to reporting transparency that promotes stakeholder confidence while improving the organisation's reputation. In contrast, (Flower, 2015) concludes that the IIRC did not focus on the original mandate of integrated reporting, such that it did not cover sustainability accounting in the framework as anticipated. Consequently, the process will not have a significant impact on the practice of corporate reporting.

Integrated reporting in South African context

A study by Atkins and Maroun (2015) on the initial reaction to integrated reporting in South Africa revealed that the integrated reporting framework was perceived to bring an elevation to the previous annual reporting style of listed entities. This study was intended to explore the opinions of stakeholders other than the preparers of the integrated reports; it focused on the institutional investors of South African listed companies, amongst others. Furthermore, the study used the qualitative method of interviewing a focus group of users. Even though the study focused on one group of users, it had mixed views, where some investors commended the shift to balance both financial and non-financial information, while others experienced no practical benefits of IR but theoretical perspective. In conclusion, findings revealed that South African investors were more welcoming to the introduction of IR in listed South African entities.

However, (Du Toit et al., 2017) study looked into the long term effect of the quality of integrated reporting using a thematic content analysis method on South African companies' integrated reports. The findings revealed that integrated reporting would take some time before all companies matured to understand the main objectives and positively report using the framework. This study was, however, limited to four JSE listed companies; thus, the findings may differ in a bigger population as is dealt with in this study.

In addition, South Africa's King code on corporate governance promotes the concept of sustainability. It elaborates that "the leadership of a company embraces the notion of integrated sustainability performance and reporting" ((IoDSA), 2009). Eccles and Serafeim (2011) conducted a study on the adoption of integrated reporting, highlighting that it serves as the

most effective approach for companies to convey their performance in executing sustainable strategies. Integrated reporting also acts as a form of discipline, encouraging companies to maintain sustainable strategies. Although its adoption is largely voluntary, South Africa was amongst the first countries to adopt this framework. It was also the first country to impose a compulsory requirement to report on the framework for entities listed on the JSE. Furthermore, Eccles and Serafeim (2011) argue that the integrated reporting process should be a universal practice by all listed companies.

2.3.4 State-owned enterprises

SOEs are defined as public entities that are owned by the government that have the mandate to advance the social outcomes of the state through profits generated from their operations (Surty et al., 2018). An SOE is further defined as a legal entity, wholly or partially owned by government, that has been formed by government to participate in economic activities on behalf of the government (Kathrada et al., 2021). SOEs can be described as those entities that play a vital role in the South African economy. Since the dawn of democracy, these entities have been used as the main drivers of achieving economic growth and poverty eradication in society. They, therefore, serve as important drivers of the economy and for providing key services such as water and electricity to all citizens (Ackers & Adebayo, 2022). State-owned enterprises (SOEs) are vital in solving the economic and social difficulties that the nation is currently confronted with (PRC, 2013) on state-owned enterprises. SOEs lay the framework for economic growth and transformation; therefore, their success and the protection of the interests of the nation and of its citizens both depend on good corporate governance (PRC, 2013).

South African SOEs are major role players in government priorities and provision of key services to the general public while also improving the economy (Madumi, 2018). These SOEs are answerable to several stakeholders, and the annual report is used as the accountability document (Surty et al., 2018). It has been noted by Kathrada et al. (2021) that narrative disclosures are often used to manipulate the perceptions of different stakeholders about a company's performance. It is known that SOEs in South Africa are misgoverned, and this is evidenced by state capture, maladministration, and serious governance malfunctions owing to lack of accountability and increased level of inefficiency (Madumi, 2018). This has caused entities such as Eskom, the South African Broadcasting Commission (SABC), South African Airways, and Denel being hit by financial crises in the recent years. These are some of the

SOEs that are mostly discussed amid contentious issues that affect these parastatals, resulting in increased corruption within the public sector.

State-owned entities in South Africa are categorised into three schedules, namely 1, 2 and 3. The schedules represent constitutional institutions, major state-owned entities, and other public entities. Schedule 3 entities are further split into parts A, B, C, and D entities (Treasury, 1999). Furthermore, these entities have different mandates ranging from national to provincial responsibilities.

2.3.5 Integrated reporting in state-owned enterprises

Integrated reporting was initially developed for private sector companies, but it has an impactful relevance to SOEs as it allows the users to evaluate how these organisations create value through the linkage in the financial and non-financial information disclosures included in the integrated reports (Surty et al., 2018). In South Africa, SOEs are answerable to several stakeholders and the annual report is used as the accountability document. Integrated reporting, therefore, plays a significant role in assisting the SOEs to account for their stakeholders (Shaikh, 2022), as it provides users with more insights into the aspects of governance, financial performance and social, environmental, and economic activities.

Considerably, accountability has been noted to be the cornerstone of effective service delivery and good governance (Brinkerhoff & Wetterberg, 2016; Brinkerhoff et al., 2012). Public sector entities are embedded in two types of accountability, namely government and social accountability, which are associated mainly with societal accountability (Brinkerhoff & Wetterberg, 2016). The government has employed state institutions such as the Chapter 9 institutions, the Public Protector, and the Auditor General of South Africa to ensure that the SOEs deliver on their mandate and that the funds that have been allocated to these entities are utilised for their intended purpose, the betterment of the society, and facilitation of economic growth (PRC, 2013).

Consistent and accurate reporting on the activities and performance that are enforced on the entities by the government becomes a major contributor to achieving accountability. These entities should report on how the resources deployed by the state have been utilised to meet their intended purpose, namely the delivery of key services like water to the citizens (IIRC, 2013). The enforcement of accountability is directly related to transparency of reporting, in

that reports ought to be including elements of risks that are faced by the entity to alert the public of such. This will enable the social responsibility to grow between the entity and the stakeholders as there is a high degree of transparency in its reporting (Thomas, 2012)

2.3.6 Significance of chairperson's report in annual reports

The annual report comprises different components, including voluntary narrative disclosures and the chairperson's report. These narrative disclosures afford an opportunity for management to engage in different strategies to portray a positive image of the SOEs (Maleka, 2021). The chairperson's report is amongst the first chapters of the annual report, and it has been earmarked as one of the sections that are of interest to the users of the annual report, which influences the decisions made by those users (Yasseen et al., 2017).

A chairperson's report is a reflection by the structure that is entrusted with the oversight responsibility of the organisation; hence, the users mostly read this statement to get the overall picture of the performance (Dhludhlu et al., 2022). Yasseen et al. (2017) further note that the chairperson's report is useful to the users as it contains elaborative narratives of the financial information which, in turn, influence their perception about the organisation's financial performance and prospects.

Prior literature has been conducted on the listed entities and, as such, the chairperson's report has been associated with influencing the perception of users in relation to the share price (Clatworthy & Jones, 2006). No literature has been conducted on the usefulness of the chairperson's report of the state-owned entities in South Africa. Smith and Taffler (2000) conducted a study on the chairperson's report as a voluntary narrative disclosure and note that even though the narrative disclosure contained in the chairperson's report is voluntary and not subject the assurance services, it remains relevant as it provides information about the past performance and the prospects of the organisation.

2.3.7 Gaps in the literature

The literature review demonstrated that studies have been done addressing the impression management strategies in the chairperson's report of private companies, mainly covering companies listed on the JSE. A few studies have been conducted on major public sector entities, namely state-owned entities. No study was found that focused on examining the textual characteristics of the chairperson's report of SOE's in the South African context. This then

highlights a literature gap to determine whether there is existence of impression management strategies in the chairperson's report of the annual reports of South African SOEs. This study further uses signalling theory as a theoretical framework, which is different from the recent studies conducted on impression management through textual characteristics of the chairperson's report.

2.3.8 Chapter summary

The theoretical literature reveals that all the theories and strategies linked to them are relevant and have an impact on impression management. Notably, agency and legitimacy theories can be concluded to be relevant where organisations seek to mark their existence in the society that they operate in. They can achieve this through selectivity, prioritising management interest as opposed to those of shareholders (Eisenhardt, 1989). However, attribution theory and signalling theory are broad and can apply in any sector of business. This study is based on public sector entities that do not have incentives to mislead any shareholders as they are mainly managed by the state; however, there is an incentive to what and how much an organisation discloses to the users. Attribution theory is summarised as characterised by self-serving traits by the managers of the organisation who tend to self-attribute positive performance to their efforts and distance themselves from negative outcomes (Aerts, 2005; Moola, 2016). Literature on signalling theory reveals that the engagement of signals is characterised by what and how to communicate information to the users (Connelly et al., 2011; Wang et al., 2009). It does not necessarily focus on shareholders but includes all users that may use financial and non-financial disclosures. This study was guided the signalling theory.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology used for data collection and analysis. It includes details on how the study was conducted, including research design, research population, method of sampling, and data collection strategies employed in conducting this study. Research methodology refers to how the writer applies different techniques to reach a conclusion about the problem (Hofstee, 2006). The Honeycomb framework, as adopted from the replicated study by (Phesa, 2021) was used to explain the components of research.

3.2 Honeycomb model of research components

Wilson (2014) developed the honeycomb model to differentiate between the research methodology and research design. The model introduced six research components, namely research philosophy, research approach, research strategy, research design, data collection, and data analysis techniques. These are discussed below.

3.2.1 Research Philosophy

There are two views that are used in research. Positivism believes that the world is real, while interpretivism is a view based on personal human experiences which are informed by beliefs and values (Walliman, 2017). On one hand, positivism refers to the reality of principles that are researched, as it is based on developing a hypothesis to be tested. On the other hand, interpretivism assumes that the meaningfulness of the findings is based on the researcher's interpretation. Furthermore, positivism also assumes that the researcher remains neutral about the study outcomes (Bell et al., 2022).

3.2.2 Research approach

This study is an explanatory study investigating the use of impression management strategies in the chairperson's report of South African SOE annual reports. It is aligned with the positivism paradigm, a model based on verifying existing theories and literature by creating a hypothesis comprising variables to be tested. Furthermore, positivism is focused on identifying relationships between independent variables where empirical findings and results are either accepted or rejected (Park et al., 2020). Lastly, positivism, popularly referred to as world view, is linked to deductive quantitative content analysis, which gives the relationship between theory and research (Bell et al., 2022).

3.2.3 Research Design

Research design is defined as the manner in which the study is constructed, including techniques employed to reach a conclusion about the study (Hofstee, 2006). Bell et al. (2022) define research design as a framework used to collect and analyse data.

This study uses a quantitative method. Quantitative method is described as an approach that involves collecting data that is in number form, thus revealing a deductive relationship between theory and research, that is, a hypothesis is derived and tested. Qualitative method, on the other hand, is described as a method that deals with words rather than quantification; it adopts an inductive view in deriving a relationship between hypothesis and research. The qualitative method is commonly used in studies that focus on people (Bell et al., 2022; Walliman, 2017). Likewise, mixed methods is a method that combines both quantitative and qualitative research (Bell et al., 2022).

Content analysis is commonly known in the social sciences research as a study of the things that have been created by human beings and not a study of human beings; it examines what a set of data conveys about “whom, why, and what” is communicated (Abbott & McKinney, 2013). Moreover, content analysis is explained as a quantitative method of analysing data that involves examining data that can be counted (Walliman, 2017). It is an approach that is used to analyse documents and text to conclude on predetermined measures in a manner that is systematic and reproduceable (Bell et al., 2022). Elo and Kyngäs (2008) also explain content analysis as a technique that is used to analyse written and oral or visual data and submit that it was first used to analyse data such as “magazines, articles, newspapers, political speeches” among other documents. They further allude that it is a systematic and objective approach to analysing and quantifying a subject matter. Moreover, content analysis may be applied in either qualitative or quantitative methods.

The purpose of the study was concluded through analysing measures of textual characteristics in the chairperson’s report. This method falls under the content analysis approach. Similarly, the replicated study by Phesa (2021) employed the positivism philosophy and used the quantitative content analysis method on the secondary data in the form of annual reports; see other studies (see, for instance; (Yasseen et al., 2017). Primary data refers to data that have been observed or experienced or collected in the close proximity of the occurrence by the

author, while secondary data refers to data that have been recorded and explained in the form of reports (Walliman, 2017).

3.3 Model Specification

Quantitative research model

This study replicated a study conducted by Phesa (2021) that used the quantitative content analysis method. Accordingly, this study follows the quantitative method to study the chairperson's report narrative disclosures in South African SOEs' annual reports. The study analysed four textual characteristics which were likely to describe impression management methods. Therefore, the content analysis method was employed as this study focused on textual information. The study tested a hypothesis and hypotheses adopted from the replicated study by Phesa (2021). The following null hypothesis was adopted:

H1: The textual characteristics contained in the chairperson's report show no noticeable difference between profitable and non-profitable SOEs listed in Schedule 2 of PFMA.

The above hypothesis was evaluated using the following variables that were adapted from a study by Phesa (2021):

H.1.1 The chairperson's report length: The length of the Chairperson's report will be identical for both profitable and non-profitable SOEs.

H.1.2 Positive disclosure tone in the chairperson's report: The percentage of positive disclosure tone in the Chairperson's report will be the same for profitable and non-profitable SOEs.

H.1.3 Extent of personal reference words: The Chairperson's report will contain a similar number of personal references for profitable and non-profitable SOEs.

H.1.4 Percentage of passive language: The percentage of passive language in the Chairperson's report will be similar for both profitable and non-profitable SOEs.

3.4 Research Population

The PFMA categorises public entities according to their mandate, and these are set out in three schedules: schedules 1, 2, and 3. The schedule 3 entities are accountable to either national departments or provincial departments, this means that their results are reported as part of their mother department. On the other hand, schedule 2 entities are accountable directly to the

minister and consequently, their results are tabled to the National Assembly. Furthermore, the independent audit results of schedule 2 SOEs are tabled separately from the rest of the public entities accountable under the PFMA. It is for this reason that his study focused on the schedule 2 public entities. . There are 21 Schedule 2 major SOEs, and all of them were considered for the purpose of this research.

The study was based on a period from 01 April 2021 to 31 March 2022, this period was selected based on the recently available data as the 2023 data was not yet tabled to parliament and published by the SOEs at the time of data collection. This period was also considered relevant considering the current state of affairs of most major SOEs which may be incentive to apply impression management in annual reporting during this period. The annual reports of the SOEs were used to collect data to analyse the chairperson's reports.

3.5. Research Sample

The total population consisted of 21 entities, these were selected as they are accountable directly to the minister and consequently, their results are tabled to the National Assembly as opposed to schedule 3 that is reporting to the controlling departments . Because the number of these Schedule 2 entities is less than 30 (Delice, 2010), all the SOEs were considered for the purpose of this study. Websites of the SOEs were accessed to download the annual reports. The number of entities analysed was distorted by anomalies caused by unavailability of annual reports of three entities for the period under the study. Two SOEs only published annual financial statements on the website, and one SOE's annual audit had not been finalised as at the time of data collection. Therefore, these entities were excluded, and as a result, only 18 entities were eligible for sampling. Their annual reports were used to analyse the chairperson's report.

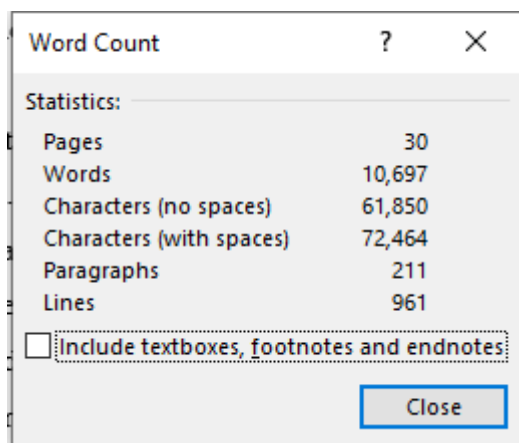
3.6 Data Collection Methods

The data, comprising annual reports, were obtained and downloaded from the SOEs' websites on 09 August 2023. The signed annual reports were extracted in PDF format. The annual reports are published after being tabled to the National Assembly as required by PFMA, that is, within one month after receiving the audit report (Treasury, 1999), and afterwards, they are published on the SOE websites. The PDF reports were converted to Microsoft Word using Microsoft Word 365 and Excel to enable the analysis of textual characteristics. The data were saved on the researcher's laptop and on OneDrive for a reasonable duration as prescribed by

the university guidelines. The SOEs were analysed for profitability using the profit before tax, including the comparative figures, in the income statement, and these were used to assess if the state-owned entity is profitable or non-profitable.

The variables of the sub-null hypotheses were collected and tested in the following manner:

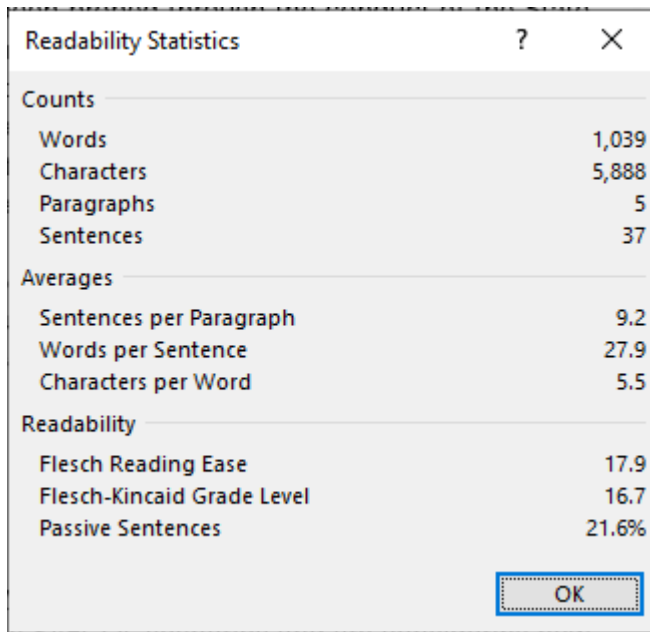
H.1.1 The chairperson's report length: The length of the Chairperson's report will be identical for both profitable and non-profitable SOEs. To test this measure, the chairperson's report was analysed using two variables, namely the number of pages and the number of words, to determine the length of the chairperson's report. Chairperson's reports were imported to Microsoft Word to determine the number of pages, and the word count functionality was used to count the number of words in each chairperson's report as follows:



H.1.2 Positive disclosure tone in the chairperson's report: The percentage of positive disclosure tone in the Chairperson's report will be the same for profitable and non-profitable SOEs. This variable was analysed by determining the positive and negative sentiments on the chairperson's report.

H.1.3 Extent of personal reference words: The Chairperson's report will contain a similar number of personal references for profitable and non-profitable SOEs. The chairperson's reports were analysed to determine the extent of the words; "we", "us", "our", "I", "me", and "my".

H.1.4 Percentage of passive language: The percentage of passive language in the Chairperson's report will be similar for both profitable and non-profitable SOEs. The chairperson's report was analysed to determine the percentage of passive voice used. The proofing tool in Microsoft Word was used to determine the percentage of passive voice in the chairperson's report as follows:



Counts	
Words	1,039
Characters	5,888
Paragraphs	5
Sentences	37
Averages	
Sentences per Paragraph	9.2
Words per Sentence	27.9
Characters per Word	5.5
Readability	
Flesch Reading Ease	17.9
Flesch-Kincaid Grade Level	16.7
Passive Sentences	21.6%

3.7.Data Validity and Reliability

The data comprised annual reports. These included audited financial statements. Auditors confirm the consistency of information included in the annual report with information that was audited, thus confirming the validity of the data. This data are considered secondary data and can be concluded to be measurable and thus valid and reliable, as studies have been conducted on this kind of data. The research objectives and hypotheses were adapted from the previous studies that were analysed consistently, and this ensured the validity and reliability of the data used for this study.

3.8.Data Presentation and Analysis Plan

Data presentation and analysis were done for all four variables as adopted from the replicated study by Phesa (2021). The presentation is as follows:

H.1.1 The chairperson's report length: The number of words was determined using Microsoft Word, and descriptive statistical analysis was used to determine standard deviation, mean, minimum and maximum. Data are presented in a tabular format, differentiating between the chairperson's report for performing and non-performing SOEs. The significance of the difference of the length of profitable and non-profitable SOEs' chairperson's report was determined using the Mann-Whitney U test on SPSS.

H.1.2 Positive disclosure tone in the chairperson's report: This measure uses positive and negative sentiments to compare profitable and non-profitable SOEs. The Sentiment Analysis for Microsoft Excel was employed to determine the percentage of positive and negative sentiments.

H.1.3 Extent of personal reference words: The number of personal references used in each chairperson's report was gathered and statistical analysis was used to determine the mean, standard deviation, minimum and maximum of personal references. The Mann-Whitney test was employed to determine the significance of the difference between profitable and non-profitable SOEs. The data are presented in tabular format.

H.1.4 Percentage of passive language: The descriptive statistical analysis was used to determine the extent of usage of passive language in the chairperson's report. The Mann-Whitney U test was employed to determine the significance of the difference between the usage of passive language between profitable and non-profitable SOEs. Data are presented in a tabular format.

3.9. Ethical considerations

The researcher obtained ethical clearance on 11 September 2023 to ensure the integrity of the study and that data is collected ethically without harm to anyone. Data was only collected after ethical clearance was granted.

3.10. Summary

The chapter covered the research methodology, elaborating on the research design, model specification, justification of variables, research population and sampling, data collection methods and validity and reliability of the study data. It further discussed how data are

presented and analysed. The next chapter contains the analysis of data according to the hypotheses and objectives of the study.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter details and outlines the results of the study and further discusses the findings revealed by this study. The analysis was targeted at the chairperson's report in the annual reports of the South African SOEs. All 21 SOEs were considered, and 18 were assessed for profitability and non-profitability. The number reduced to 18 because 3 SOE's annual reports were not available owing to pending audits for the 2021/22 financial year. Thus, they were excluded for purposes of the analysis.

The SOEs were categorised into two categories, namely profitable and non-profitable SOEs. The profitability of the SOEs was determined by assessing the movement from 2021 to 2022 in the profit before tax line in the income statement. SOEs with a positive movement in profit before tax were considered profitable, while SOEs with a decrease in profit before tax and those that reported losses before tax were considered non-profitable. In the end, nine SOEs were classified as profitable, and nine were non-profitable. The main hypothesis of this study was: The textual characteristics contained in the chairperson's report show no noticeable difference between profitable and non-profitable state-owned enterprises listed in Schedule 2 of PFMA. To test this hypothesis, data analysed were based on the following research sub-objectives:

- To examine whether profitable and non-profitable SOEs engage in impression management through the length of the chairperson's report in annual reports;
- To evaluate whether positive tone, in the form of sentiments, is used as impression management tactics in the chairperson's report of annual reports of profitable and non-profitable SOEs.
- To establish whether personal reference words are used as impression management tactics within the chairperson's report in the annual reports of profitable and non-profitable SOEs, and
- To assess whether profitable and non-profitable SOEs use passive language as a form of impression management in their chairperson's report;

4.2 Results Presentation and Analysis

The chairperson's report length

The length of the chairperson's statement was analysed to test the hypothesis stated below:

H.1.1: The length of the Chairperson's report will be identical for both profitable and non-profitable SOEs.

Two variables were used to measure the length of the chairperson's report, namely number of words and number of pages of the chairperson's report. The results in Table 1 below depict that profitable SOEs had an average of 3 pages and 1821.67 words, while non-profitable had an average of 2.17 pages and 1212.89 words. This indicates that profitable SOEs had 29.08% more pages on average than non-profitable SOEs. Furthermore, profitable SOEs had, on average, 33.42% more words than non-profitable SOEs.

Table 4.1: Analysis of the number of pages and number of words

Measure	Type	N	Mean	Standard deviation	CV	Minimum	Maximum
Length of chairperson's report in pages	Profitable	9	3.06	1.21	0.396159	1.5	5
	Non-profitable	9	2.17	0.90	0.416025	1	4
	Total	18					
Length of chairperson's report in words	Profitable	9	1821.67	763.28	0.419001	879	3055
	Non-profitable	9	1212.89	578.67	0.477096	617	2435
	Total	18					

Source: researcher's compilation

Results of the Mann-Whitney U test analysis

The Mann-Whitney U non-parametric test was used to determine if the chairperson's reports of profitable and non-profitable SOEs had a length that is identical. Table 4.2 below shows that the chairperson's report of profitable SOEs had a mean rank of 11.56, while non-performing SOEs had a 7.44 mean rank in pages. This means a difference of 35.64% in mean ranks between profitable and non-profitable SOEs. Furthermore, the sum rank of profitable SOEs was 104 while non-profitable had 67 for length in pages. The Mann-Whitney test revealed a P-value of 0.097 for the length in number of pages. The P-value is more than 0.05 ($p > 0.05$), which indicates that there is no noticeable difference between the length of the chairperson's report in pages.

Furthermore, the results for the length measured in the number of words revealed that profitable SOEs had an 11.78 mean rank, while non-profitable SOEs had 7.22. This shows a 39.6% difference. The sum rank of profitable SOEs was 106, while non-profitable SOEs had 65. This shows a difference of 35.5% higher than non-profitable SOEs. The Mann-Whitney test revealed a P-value of 0.070 for length in words, and the P-value of 0.070 is higher than 0.05. These Mann-Whitney test results confirm that there is no noticeable difference in the length of the chairperson's report measured in words and pages. The hypothesis is accepted.

Table 4.2: Mann-Whitney U test results on length of the chairperson's report

Measure	Type	N	Mean Rank	Sum of Ranks
Length of chairperson's report in pages	Profitable	9	11.56	104
	Non-profitable	9	7.44	67
	Total	18		
	Mann-Whitney U = 22	P = 0.097	Z = -1.659	
Length of chairperson's report in words	Profitable	9	11.78	106
	Non-profitable	9	7.22	65
	Total	18		
	Mann-Whitney U = 20	P = 0.070	Z = -1.810	

Source: researcher's compilation

Positive disclosure tone in the chairperson's report

The disclosure tone was measured by analysing sentiments using the Microsoft Excel sentiment analysis tool. The analysis was undertaken to test the hypothesis below:

H.1.2: The percentage of positive disclosure tone in the Chairperson's report will be the same for profitable and non-profitable SOEs.

The analysis in Table 4.3 depicts that the chairperson's report of all 18 SOEs analysed, both profitable and non-profitable, contained an average of 70.3% positive sentiments. Consequently, the chairperson's report of profitable SOEs used 0.7% fewer positive sentiments than non-profitable SOEs. In addition, both profitable and non-profitable SOEs showed at least

70% or more positive sentiments. Thus, their chairperson's report contained more positive sentiments than negative sentiments. The results showed that the variance in the percentage of a positive disclosure tone between profitable and non-profitable SOEs is marginal.

The hypothesis is therefore accepted. These results are consistent with the findings revealed in the prior study by Bozzolan et al. (2015) which revealed that positive sentiments are used to manage impressions of users however, they are inconsistent with those of the replicated study by Phesa (2021), which showed a lower percentage of positive sentiments in the companies analysed, while the comparison showed that performing companies used more positive tone than poor-performing companies.

Table 4.3: Use of positive disclosure tone in sentiments

Measure	Type	N	Positive sentiments in %	Negative sentiments in %
Use of positive sentiments in the chairperson's report.	Profitable SOEs	9	70%	30%
	Non-profitable SOEs	9	70.5%	29.5%
	Total	18	140.5%	59.5%

Source: researcher's compilation

Extent of personal reference words

This measure was analysed to test hypothesis H.1.3: *“The Chairperson's report will contain a similar number of personal references for profitable and non-profitable SOEs”*.

Table 4.4: Personal reference words

Personal reference words	Profitable	Non-profitable
I	45	24
my	16	5
me	0	2
we	155	93
our	229	123
us	21	13

Total	466	260
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Source: researcher's compilation

Table 4.4 above revealed that profitable SOEs used more self-proclaiming words than non-profitable ones. Furthermore, it showed that the self-proclaiming words that are mostly used amongst profitable and non-profitable SOEs are the words “our” and “we”.

Table 4.5: Analysis of the use of personal references

Measure	Type	N	Mean	Standard deviation	CV	Minimum	Maximum
Use of personal references	Profitable	9	51.56	41.68	0.808403	5	103
	Non-profitable	9	29	27.80	0.958564	0	85
	Total	18					

Source: researcher's compilation

The statistical analysis shown above analysed the personal reference indicated with words such as; ‘I’, ‘we’, ‘our’, ‘my’, ‘us’, and ‘me’ from the chairperson’s report. Table 4.5 outlines the statistical analysis of the chairperson’s report which found that profitable SOEs used, on average, 52 words more of personal references than non-profitable SOEs that used on average 29 words of personal references. This means profitable SOEs used 41.14% more self-proclaiming words than non-profitable SOEs. This is inconsistent with the results of Phesa (2021), who suggested that poor-performing companies used more self-proclaiming words than performing companies. However, these results are consistent with those of Yasseen et al. (2017), who revealed that performing companies use more self-proclaiming words than poor-performing companies.

Results of the Mann-Whitney U test analysis

The Mann-Whitney U non-parametric test was utilised to determine whether the extent of personal reference words used was similar between profitable and non-profitable SOEs. Table 4.6 below shows that the chairperson’s report of profitable SOEs had a mean rank of 10.44, while non-performing SOEs had an 8.56 mean rank. This gives a difference of 18% in mean ranks between profitable and non-profitable SOEs. In addition, the sum rank of profitable SOEs

was 94, while non-profitable SOEs had 77. The Mann-Whitney test revealed a P-value of 0.453, which is higher than 0.05. This confirms that there is no noticeable difference in the number of personal reference words used by profitable and non-profitable SOEs. The hypothesis is accepted.

Table 4.6: Mann-Whitney U test results on the use of personal references

Measure	Type	N	Mean Rank	Sum Rank
Use of personal references in the chairperson's report	Profitable	9	10.44	94
	Non-Profitable	9	8.56	77
	Total	18		
	Mann-Whitney U = 32	P = 0.453	Z = -0.751	

Source: researcher's compilation

These results are concur with the results of Phesa (2021) who also confirmed that there was no noticeable variance in the use of personal reference words between performing companies and those that are poor performing.

Use of passive language

H.1.4: The percentage of passive language in the Chairperson's report will be similar for profitable and non-profitable SOEs.

The statistical analysis in Table 4.7 below indicate the presence of passive language in the chairperson's report of SOEs, with a minimum of 5% and a maximum of 35%. The analysis showed that profitable SOEs used an average of 18.1% passive sentences, while non-profitable SOEs used 21.2% passive sentences. This means that non-profitable SOEs used more passive sentences in their chairpersons' reports than profitable ones.

Table 4.7: Use of passive language

Measure		No	Mean	Standard deviation	CV	Minimum	Maximum
Use of passive language	Profitable	9	18.1%	7%	0.410432	7%	31%
	Non-profitable	9	21.2%	10%	0.447195	5%	35%
	Total	18					

Source: researcher's compilation

Results of the Mann-Whitney U test analysis

The Mann-Whitney U non-parametric test was used to determine if the chairperson's reports of profitable and non-profitable SOEs contained a similar percentage of passive language. Table 4.8 below depicts that the chairperson's report of non-profitable SOEs had a mean rank of 10.56, which is 2.12 (10.56-8.44) higher than performing SOEs, with an 8.44 mean rank. This gives a difference of 20% in mean ranks between profitable and non-profitable SOEs. In addition, the sum rank of non-profitable SOEs was 95, while non-profitable SOEs had 76. The Mann-Whitney test statistics revealed a $U = 31$, $Z = -0.839$ and a P-value of 0.402. The P-value of 0.402 is greater than 0.05 ($p > 0.05$), indicating no significant difference in the percentage of passive language used by profitable and non-profitable SOEs. The hypothesis is accepted. The results are consistent with the results of (Phesa, 2021).

Table 4.8: Mann-Whitney U test results on the use of passive language

Measure	Type	N	Mean Rank	Sum Rank
Use of passive language	Profitable	9	8.44	76
	Non-Profitable	9	10.56	95
	Total	18		
	Mann-Whitney U = 31	P = 0.402	Z = -0.839	

Source: researcher's compilation

4.3 Summary

In summary, the results show that state-owned entities, whether profitable or non-profitable, use impression management by engaging strategies such as the chairperson's report length, using positive disclosure tone in the chairperson's report, using personal reference words, and

using passive language in their chairperson's report. The results show that the chairperson's report of profitable and non-profitable SOEs used more or less the same percentage of positive sentiments, resulting in a 70% positive disclosure tone in both groups. This is contrary to the findings of Phesa (2021), who found that both profitable and non-profitable companies used more negative sentiments than positive sentiments in their chairpersons' reports. The results of Bozzolan et al. (2015) found that the FIAT group used a positive disclosure tone to manage the impression of their stakeholders. Furthermore, the findings reached by Boudt and Thewissen (2019) revealed a relationship between sentiments expressed in the CEO letters as a signal to manage impressions of users. The findings in this study also reveal that SOEs send positive signals in the form of positive sentiments, evidenced by a 70% use of positive sentiments, to the stakeholders to manage their perceptions about their performance. Contrastingly, Tran et al. (2023) concluded that the tone in narrative disclosures is used as a signal for firm's future and not an impression management tactic.

Equally, this study revealed that profitable SOEs engaged in lengthy and wordy chairperson's reports. However, the Mann-Whitney U non-parametric test results revealed no noticeable difference between these SOEs. These results confirmed the hypothesis that the chairperson's report of profitable and non-profitable SOEs have a similar length. Applying the signalling theory reveals that even though the variance is not significant, profitable SOEs use the length of the chairperson's report to signal their good performance, and it can be concluded that profitable companies do not withhold, evidenced by the lengthy reports. The results are consistent with the results of Clatworthy and Jones (2006), Yasseen et al. (2017) and Dhludhlu et al. (2022). Furthermore, Jugnandan and Willows (2022) revealed that there is a relationship between the length of the report and the performance of an organisation. These results are inconsistent with the findings of Cen and Ca (2015) which revealed that the chairperson's reports of profitable organisations are lengthier than those of non-profitable organisations.

The results on the use of personal reference words showed a difference in the use of personal reference words between profitable and non-profitable SOEs, with non-profitable SOEs having a minimum of no personal reference words in the chairpersons' report. However, profitable SOEs used more personal reference words, though the Mann-Whitney U test found that the difference was marginal on the level in which profitable and non-profitable SOEs use personal reference words. The Mann-Whitney U test confirmed the hypothesis that the use of personal reference words will be the same between the two groups. This is consistent with the findings reached by Cen and Cai (2013), (Moola, 2016) and (Yasseen et al., 2017) that there is no

noticeable difference in the use of personal reference words between profitable and non-profitable organisations. In contrast, the results are inconsistent with the findings revealed by Clatworthy and Jones (2006) which concluded that a significant difference was present in the use of personal references between profitable and non-profitable companies, with profitable companies using more personal reference words than non-profitable companies. Moreover, these results reveal that there may be bias in the disclosure of narratives as the non-profitable SOEs tend not to use as many personal references as profitable ones. Non-profitable SOEs may be sending signals which are not claiming the negative results, while performing SOEs send signals that are self-proclaiming of the good results.

Lastly, the analysis of the percentage of passive sentences in the chairperson's report showed a marginal difference between the two groups of SOEs. Similarly, the Mann-Whitney U test also confirmed only a marginal difference between these SOEs. These results are consistent with those of Dhludhlu et al. (2022), Phesa (2021) and Cen and Cai (2013), who also revealed that there is no difference noticeable in the use of passive language between companies that are profitable and those that are not. In contrast, Moola (2016) and Yasseen et al. (2017) revealed a significant difference in the use of passive voice between the sampled groups, with non-profitable companies using a higher percentage of passive voice than profitable companies.

These results reveal that all the hypotheses are accepted. This study was conducted from the signalling theory perspective. The findings revealed that SOEs use strategies such as positive disclosure tone to send good signals to the stakeholders to cloud their judgement about the true performance of the SOE. Moreover, other impression management strategies, including the length, use of personal references, use of passive language, have been revealed to be used more by profitable SOEs in trying to signal their good performance to the stakeholders. This also is a confirmation of information asymmetries as management are in possession of internal information about the true performance of the SOEs.

CHAPTER 5: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the conclusion and summarises the findings of this research, which sought to determine the presence of impression management by South African SOEs through textual characteristics, thus measuring the length of the chairperson's report, the extent of positive sentiments in the chairperson's report, use of personal reference words in the chairperson's report, and the percentage of passive language in the chairperson's report. Furthermore, this chapter provides an overall conclusion on the research objectives by linking them to the results and findings, highlighting limitations present in the study, and, lastly, recommendations.

5.2 Summary of the Study

The main aim of this study was to investigate whether the chairperson's report in the South African SOEs' annual reports contain impression management strategies through textual characteristics. The study investigated annual reports of 18 SOEs that were readily available from the websites of these entities. To achieve the overall objective of this study, four objectives were developed to ease the collection of data and interpretation of the results. The findings of these objectives are summarised as follows:

Research objective 1: To examine whether profitable and non-profitable SOEs engage in impression management using the length of the chairperson's report in annual reports

The results of this study showed that the length of the chairperson's report is one of the strategies of impression management that SOEs engage in. Even though the chairperson's report of profitable SOEs proved to have more pages and average number of words than non-profitable SOEs, it was revealed that there is no notable difference in the length of the chairperson's report of profitable and non-profitable SOEs. Consequently, the hypothesis that the length of the chairperson's report of profitable and non-profitable SOEs will be the same was accepted.

Research objective 2: To evaluate whether positive tone, in the form of sentiments, is used as impression management tactic in the chairperson's report of annual reports of profitable and non-profitable SOEs

This study's findings revealed that a positive disclosure tone is one of the impression management strategies that SOEs engage in to manage how the intended users receive the information. The study confirmed that profitable and non-profitable SOEs used the same percentage of positive disclosure tone through sentiments in their chairperson's report. The Mann-Whitney test also confirmed no notable difference in the use of positive disclosure tone between the two groups. This, therefore, leads to the conclusion that the hypothesis is accepted.

Research objective 3: To establish whether personal reference words are used as impression management tactics within the chairperson's report in the annual reports of profitable and non-profitable SOEs

The results confirmed that both profitable and non-profitable SOEs used personal reference words as a strategy of impression management in their chairperson's report. Profitable SOEs proved to use more personal reference words than non-profitable SOEs. However, no significant variation was found between the two groups. Consequently, the hypothesis is therefore accepted.

Research objective 4: To assess whether profitable and non-profitable SOEs use passive language as a form of impression management in their chairperson's report

The results revealed that both profitable and non-profitable SOEs engage in impression management through passive language. The results further showed that non-profitable SOEs used more passive language than profitable SOEs. However, the variance is not considered significant, as confirmed by the Mann-Whitney test. The sub-hypothesis that the chairperson's report contains a similar percentage of passive language for profitable and non-profitable SOEs is accepted.

5.3 Conclusions

The study aimed to examine the use of impression management in the narrative disclosures of South African SOEs' annual reports. To investigate this, impression management strategies including the length of the chairperson's report, the use of positive disclosure tone in the form of sentiments, use of personal reference words, and lastly, the use of passive language were explored. The study revealed that profitable and non-profitable SOEs engage in impression

management through length, with profitable SOEs showing more pages and number of words in the chairperson's report than non-profitable SOEs. Profitable SOEs were also shown to use more personal reference words than non-profitable SOEs. On the other hand, the findings revealed that the percentage use of positive disclosure tone is the same between profitable and non-profitable SOEs. Non-profitable SOEs, though, were shown to have used more passive language compared to profitable SOEs.

The results were assessed for significance using the Mann-Whitney test that revealed that there was no noticeable difference in the length of the chairperson's report, the extent of positive disclosure tone, however this is in contrast to Tran et al. (2023) who concluded that the tone in narrative disclosures as a signal for the firm's future is not used as an impression management tactic. On the other hand they are consistent with Boudt and Thewissen (2019) revealed a relationship between sentiments expressed in the CEO letters as a signal to manage impressions of users. There is also no noticeable difference in the use of personal reference words and the extent of passive language used in the chairperson's report of both categories of SOEs, these are consistent with findings of Cen and Cai (2013) and Phesa (2021) but inconsistent with Yasseen et al. (2017) who revealed a significant difference in use of passive language and Clatworthy and Jones (2006) who concluded a significant difference in use of personal reference words between the sampled groups. In conclusion, the main hypothesis that the textual characteristics contained in the chairperson's report show no noticeable difference between profitable and non-profitable state-owned enterprises listed in Schedule 2 of PFMA is accepted. The study further confirms that the current state of affairs of some SOEs may not be the only motivating factor to engage in impression management as the results show no significant variation in the extent of impression management tactics.

5.4 Recommendations

It is recommended that the National Assembly considers introducing policies that are aimed at encouraging other role players such as Chapter nine institutions of the constitution to provide reasonable assurance on the reliability and credibility of the voluntary narrative disclosures. This may reduce the use of impression management in the chairperson's report of the South African SOEs.

5.5 Suggestions for Further Study

The study sought to uncover and determine the presence of impression management in the chairperson's report of South African SOEs. Furthermore, it sought to distinguish any similarity in the extent of use of impression management tactics such as length, personal references, positive disclosure tone, and passive language. The study did not engage deeply in mitigating measures and tools to limit the level of engagement in impression management tactics in voluntary narrative disclosures in public sector entities, namely SOEs. Further research could explore the measures that could be employed to limit the extent to which the South African SOEs engage in impression management. Future studies may investigate if there is a link between the media coverage of SOEs and their engagement in impression management.

The study contributes to existing literature by bringing a different angle to studies that mainly focused on JSE listed companies. It revealed that both private and public sector entities in South Africa engage in impression management tactics. Even though the study did not investigate the reasons behind the SOE's engagement in impression management, it revealed that profitability or lack thereof does not determine the extent of impression management as there is no significant variance between profitable and non-profitable SOEs.

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APPENDICES

7.1 Ethical Clearance



11 Sept 2023

Miss Andiswa Ngcizela (223138083)
School Of Acc Economics&Fin
Westville

Dear Miss Andiswa Ngcizela,

Original application number: 00022575

Project title: Impression management observation through textual characteristics in annual reports of South African state-owned entities

Exemption from Ethics Review

In response to your application received on 31 August 2023, your school has indicated that the protocol has been granted **EXEMPTION FROM ETHICS REVIEW**.

Any alteration/s to the exempted research protocol, e.g., Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through an amendment/modification prior to its implementation. The original exemption number must be cited.

For any changes that could result in potential risk, an ethics application including the proposed amendments must be submitted to the relevant UKZN Research Ethics Committee. The original exemption number must be cited.

In case you have further queries, please quote the above reference number.

PLEASE NOTE:

Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours sincerely,



Prof Josue Mbonigaba
Academic Leader Research
School Of Acc Economics&Fin

7.2 Certificate of Editing

Independent Editor Dr Nhlanhla Landa	
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<p>This document certifies that a copy of the dissertation whose title appears below was edited for proper English language usage, grammar, punctuation, spelling, and overall style by Dr Nhlanhla Landa whose academic qualifications and professional affiliation appear in the footer of this document. The research content and the author's intentions were not altered during the editing process.</p>	
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AUTHOR: ANDISWA NGCIZELA (STUDENT NUMBER 223138083)	
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Signature	
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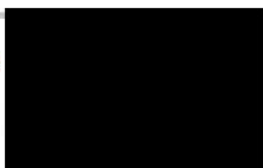
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