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Discretionary Disclosure Strategies in Corporate Narratives: Incremental Information or Impression Management?

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Doris M. Merkl-Davies (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=913147)
Bangor University

Niamh M. Brennan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=10678)
University College Dublin

Abstract

Prior research assumes that discretionary disclosures either (a) contribute to useful decision making by overcoming information asymmetries between managers and firm outsiders (informational perspective); or (b) constitute opportunistic behavior whereby managers exploit information asymmetries between them and firm outsiders through engaging in biased reporting, i.e. impression management (opportunistic perspective). We consider possible theoretical underpinnings of the two competing positions. We discuss different theories explaining managers' motives to engage in impression management or to provide incremental information. We identify various theories, in particular from behavioral finance and from psychology that explain why investors might be susceptible to managerial impression management. We examine the discretionary disclosure strategies applied by managers in corporate narratives, classifying them into seven categories. This enables a better understanding of the wide range of techniques applied by managers to manage impressions/enhance disclosure quality. We bring together both capital markets and behavioral research on whether discretionary narrative disclosure strategies influence decision making and whether, therefore, they are effective. Finally, we suggest future research opportunities. We propose alternative theories from the accounting, management, and social psychology literature to suggest additional impression management motivations and strategies not previously considered in a financial reporting context. We take different theories and prior research in behavioral finance and psychology to put forward new avenues for studying the effect of discretionary narrative disclosures on users, and to explain why users might be influenced by managerial impression management.

Keywords: discretionary disclosures, impression management, incremental information, opportunistic perspective, informational perspective

JEL Classification: M41, M43, M45, G14

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