

# Management discussion and analysis: a tone analysis on US financial listed companies

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## Purpose

The purpose of this paper is to investigate whether financial companies of the USA are inclined to manipulate the management discussion and analysis (MD&A) tone and thus to follow impression management behaviours. Also, the paper proposes a tone analysis of MD&As conducted by comparing the tone of MD&As of one year with financial conditions of the same year and the next.

## Design/methodology/approach

The tone analysis is conducted on two sub-samples of US-listed financial companies, unhealthy firms and healthy firms, which experienced different financial conditions between 2002 and 2011.

## Findings

With regard to healthy firms, MD&A tone is useful to explain the current year's performance and helps to predict next year performance, whereas, with reference to unhealthy companies, managers use the tone to pursue impression management strategies, by using more positive words and more future-oriented words than healthy companies.

## Research limitations/implications

This study analyses the correlation between MD&A tone at time  $t$  and financial performance at time  $t$  and  $t+1$ , it does not investigate other time spans. The empirical results of this study cannot be generalized to other countries.

## Practical implications

Main implications are addressed to regulators and policy makers, which may contrast impression management through a more effective regulation. Another implication regards investors, who cannot fully rely on MD&As of unhealthy companies.

This study analyses financial companies, rather neglected by the literature on MD&A tone. Results suggest that financial firms are also inclined to engage in impression management. This research would be useful for investors who base their decisions on qualitative analysis, interested in understanding to what extent the MD&A narratives are reliable.

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**Keywords:** [Financial performance](#), [Financial companies](#), [Impression management theory](#), [Management discussion and analysis](#), [Tone analysis](#)

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