78 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

**Research Article**

**The Effects of Different Parts of the Annual Report**

**on Potential Investors’ Attitudes Towards the**

**Company and on the Corporate Reputation**

—JOYCE KARREMAN, MENNO DE JONG, MEMBER, IEEE, AND STEFAN HOFMANS

***Abstract—*Research problem:** *Both the function and the appearance of annual reports have changed over the last*

*few decades. These multimodal reports now include many types of information that serve different functions. In this*

*study, the effects of several information types on stakeholders’ attitudes toward annual reports and the companies*

*that published them are measured.* **Literature review:** *Not much is known about how stakeholders read annual*

*reports. The literature is not conclusive on the relative importance of several information types in these reports. Most*

*studies investigate the impact of part of the information in annual reports and ignore the combined impact of the*

*information types. Whether the potential investors are more affected by the financial review, the future strategy*

*narrative or by pictures, such as a picture of the CEO, is unknown.* **Methodology:** *An experiment (2 2 2 between*

*subjects design) was conducted to test the effects of a good financial review versus a poor one, a good future strategy*

*versus a poor one and a picture of the CEO smiling versus that with a serious facial expression. The effects on*

*potential stakeholders’ attitudes toward the information, on their attitudes toward investing in the company, and on*

*their perceptions of the corporate reputation are measured.* **Results and conclusion:** *The results show significant*

*effects of all three information types. A good financial review, a good future strategy, and a serious facial expression*

*have beneficial effects on the potential stakeholders’ attitudes and on the corporate reputation. More important,*

*however, the results show that the information types should be aligned with each other. A smiling facial expression,*

*for example, is only beneficial if the content of the other information types is good.*

***Index Terms—****Annual reports, corporate reputation, dual processing, effects of information types, experimental*

*research.*

**INTRODUCTION**

**B**oth the function and the appearance of

corporate annual reports have changed over the

last few decades. Historically, the annual report

consisted entirely of a financial statement to

present the financial results of the company to

stakeholders. Today, annual reports no longer

simply inform stakeholders; the documents also

have a persuasive function [1]–[3]. The annual

report has been transformed into a public-relations

document intended to convince stakeholders of

the well-being of the company and to promote the

image and reputation of the company. This change

of function went hand-in-hand with a change of

appearance. An analysis of British annual reports

[4] showed that between 1964 and 2004, the

annual reports increased in size by almost 200%,

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the amount of narrative information increased by

375%, the number of pictures increased by 100%,

significantly more attention was given to the design

of the reports, and the financial information was

given a less prominent place in the reports. The

researchers concluded that

the corporate annual report has, for many

modern corporations, been transformed from

a rather dull financial document to a colorful

marketing and public relations document. [4,

p. 181]

De Groot et al. [3], [5] compared British and Dutch

annual reports and showed that the reports are

multimodal documents that include many different

types of information. Apart from the financial

statements, which are presented mostly in the form

of tables and/or graphs, narrative information is

included in annual reports to inform stakeholders

about, for example, the company’s future plans or

Corporate Social Responsibility activities. Visual

information is also included in most annual reports.

Particularly, photographs of the CEO, the director

or board members are present in almost all annual

reports [5].

Most studies investigate the impact of part of the

information in annual reports and do not focus on

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KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 79

the combined impact of the various information

types [6]. Neither the relationship between the

narrative and financial sections nor the use of

pictures in annual reports have received much

attention from researchers [4], [7]. However, it

seems important that stakeholders are able to

combine the different textual and visual information

types in annual reports to obtain a complete

understanding of these reports [1]. For example,

what if the financial information shows that the

financial position of the company is poor, but good

and solid plans for the future are presented? How

do stakeholders react to a picture of a CEO with a

broad smile presenting rather negative information

about the company?

Our research goal is to investigate how different

information types in annual reports affect

stakeholder responses. More specifically, the

research question that we try to answer is as

follows:

What are the separate and combined effects of

either relatively positive or relatively negative

content of the following three information types

(1) financial information presented in a table,

(2) narrative information concerning the future,

(3) a picture of the CEO

on stakeholders’

(1) attitude toward the information,

(2) attitude toward investing in the company,

(3) perception of the corporate reputation?

This paper first reviews the literature concerning

the use and effects of several information types in

annual reports: financial information, information

about the future, and a picture of the CEO. Next,

the methodology of the study is described. An

experiment was conducted to test the effects of the

information types on evaluations of the annual

report and the company. Following the description

of the methodology, the results of the study are

presented. This paper ends with the conclusions of

the study, and its limitations and suggestions for

future research.

**LITERATURE REVIEW**

We begin with short descriptions of the theoretical

orientation and the selection of existing literature

from which we derive the expectations of the effects

of several information types on the evaluation

of an annual report and the company. We then

discuss the functions and uses of the financial

information and information about the future,

followed by a description of the expected effects of

these information types. The section ends with a

discussion about the functions and uses of pictures

in annual reports and a description of the expected

effects of pictures.

**Theoretical Orientation** The theoretical

orientation underlying this study is on the effects

of information types in business documents on

the readers’ attitudes and perceptions. More

specifically, this study is about multimodal

documents that aim to fulfill several communicative

functions, such as informing and persuading.

So multimodality and the expected effects of

information types are important theoretical

concepts. In this study, the expected effects are

limited to the attitudes toward the information

and toward investing in the company and to the

perceived reputation of the company.

This study contributes to theoretical development

on dual-processing models. Investigating the effects

of several information types on the stakeholders’

attitudes and on the perceived reputation of

the company will provide new insights into how

people use complex business documents that

present several information types to fulfill different

functions. Important questions are whether people

primarily use the financial review, narrative

information about the future, or a peripheral cue

such as the picture of the CEO, and whether it is

important that the information types are aligned.

**Selection of Literature for the Review** We have

selected literature with several themes. We started

by searching for literature about annual reports

to investigate what types of information these

reports include. We also searched for research

concerning the use of different information types

and their effects on stakeholders’ appreciation for

the information, their attitudes and intentions, and

their perception of the reputation of the company.

We also selected literature on how to measure these

effects. We then focused specifically on the function

and effects of pictures in annual reports. We

found the literature primarily using the academic

literature databases Web of Science and Scopus.

**Functions and Uses of Financial Statements**

**and Narrative Information about the Company’s**

**Future** As Stanton and Stanton [6] note,

different information types in annual reports serve

different functions that can conflict with each

other. The function of financial statements is

80 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

purely informative. These statements cannot be

manipulated for persuasive purposes because they

are strictly regulated. In the European Union, all

companies are required by law to present financial

statements according to the European Accounting

Standards [8], [9]. If the financial statements are

not entirely positive, persuading stakeholders of the

company’s well-being must be achieved through

other information types, which are less strongly

regulated. The results of several studies show that

companies use the narrative part of the report to

persuade stakeholders with more positive or less

negative narratives than can be justified by the

financial information [10], [11].

However, not much is known about how

stakeholders read annual reports and how they are

used to inform investment decisions. According

to Bartlett and Chandler [12], many parts of the

annual report are not read by private investors. This

is particularly true for the financial statements.

Private investors are more interested in the

narrative than in the pure financial data. Breton

and Taffler [13] draw a comparable conclusion

for financial analysts; for these professionals, the

financial information does not seem to be the

most important information source. However,

Barker and Imam [14, p. 320] conclude that

although nonfinancial information might receive

more attention than the financial statements or

accounting data, the financial statements are more

important because the nonfinancial information is

used only “to contextualize and add meaning to

accounting data.”

**Expected Effects of Financial Statements and**

**Narrative Information about the Company’s**

**Future** In our study, we investigated the impact

of the content of financial statements and narrative

information on the company’s future to the extent

that the annual report’s informative and persuasive

functions were fulfilled. Potential investors were

asked to read a summary of an annual report

of a fictitious company that included financial

information that was either relatively positive or

relatively negative and information about the future

that was either relatively positive or relatively

negative.

In this study, the informative function was

operationalized as the stakeholders’ attitude

toward the information in the annual report: is the

information adequate to decide whether to invest in

this company? We expected that the informative

function would be rated higher when the financial

information and information about the future were

aligned. It seems easier to make a sound decision

when all of the information in the report about the

company’s results and prospects is either positive

or negative than when some information is positive

and some is negative.

Furthermore, we expected that both positive

information about the future and positive financial

information would increase the persuasive effects,

operationalized as the willingness to invest in

the company and the perception of the corporate

reputation. Based on the results of Bartlett and

Chandler [12], it could be expected that positive

information about the future would have more

of an effect on the willingness to invest than

positive financial information. Furthermore, one

can assume that inconsistent information would

have negative effects on the stakeholders’ attitude

toward investing. If so, the willingness to invest

will be highest when the financial information and

the information about the future is positive, and

the willingness will be lower when only one of

those information types is positive and the other

is negative.

Because one of the goals of an annual report is to

promote the image and reputation of a company,

we measured whether the information types in

annual reports affect people’s perceptions of the

corporate reputation. Walker [15, p. 370] defined

corporate reputation as “A relatively stable, issue

specific aggregate perceptual representation of

a company’s past actions and future prospects

compared against some standard.” This definition

shows that a corporate reputation is something

that is developed over time. Therefore, reading an

annual report is not sufficient to create a complete

and stable perception of the corporate reputation

for stakeholders. However, Van Riel and Fombrun

[16] assume that corporate communications (such

as annual reports) can have an effect on the

corporate reputation. In earlier research, it was

demonstrated that written information about the

company’s past performance can cause differences

in the stakeholders’ perceptions of the corporate

reputation [17], [18].

It can be expected that positive information about

the financial results and positive information

about the future strategy would result in a better

perception of the corporate reputation and that

consistent information about a company results

in a better reputation. It may seem suspicious

when a company’s financial results are good but its

strategy and plans for the future are not.

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 81

**Functions and Uses of a Picture of the CEO**

A third information type we investigated is a

picture of the CEO. De Groot et al. [5, p. 223]

showed that such a picture is present in almost

every annual report. According to them, “realistic

pictures appear to make a crucial contribution to

the persuasive potential of texts included in the

annual report.” Guthey and Jackson [19] assumed

that photographs can contribute to the image

and reputation of the company, but research has

not explored *how* photographs affect the image

and reputation, and what the effects of specific

characteristics of these photographs are.

In contrast to information about the financial

results or about future plans, a picture of the

CEO does not provide the stakeholders with

factual information about the company’s results

or well-being. In terms of the classic Elaboration

Likelihood Model [20], it can be considered a

peripheral cue. According to this model, people

can process messages via two routes: the central

route and the peripheral route. This is also

assumed by other dual process models, such as the

heuristic-systematic model [21].

Processing a message via the central route means

that people read a message carefully and consider

arguments pro and con before determining

their positions. Processing a message using the

peripheral route means that people base their

positions on superficial cues and do not consider

the content of a message carefully. The information

in annual reports about the financial results and

the future plans can be considered to support the

central route, while a picture of the CEO would

support the peripheral route. It is difficult to

predict how stakeholders process the information

in annual reports. They may primarily use the

content, but they may also base their attitudes on

the peripheral cues.

No research has been conducted into the effects

of facial expressions of the CEOs. Davison [22]

mentions that a smile might represent leadership

and that a pensive pose might represent an

innovative and creative mind, but no comparative

studies exist in which the effects of several facial

expressions were measured. In this study, we

compared the effects of a photo of a smiling CEO

with the effects of a photo of a CEO with a serious

facial expression.

**Expected Effects of the Facial Expression of**

**the CEO** Based on the literature, it is difficult to

predict what effects the facial expression would

have on potential investors’ attitudes and on

the perceived corporate reputation. The facial

expression may have no effects. If stakeholders

process the report based exclusively on its

informational content, their attitudes will be based

on the financial performance and future strategy.

It may also be that stakeholders consider a CEO’s

positive expression as a good sign. In this case, a

CEO’s smiling facial expression may have positive

effects on attitudes toward investing and the

corporate reputation. However, it may also be

that the stakeholders consider annual reports

to be a serious genre and think that a serious

facial expression is more appropriate for the CEO.

Furthermore, it is possible that the effects of the

facial expression will interact with the effects of the

other information types. For example, a smiling

facial expression might lead to lower attitudes when

the financial results are bad because in that case,

the CEO has no reason to smile.

**METHODOLOGY**

This section describes the methodology of our

study. By conducting a controlled experimental

study, we were able to answer the research

question:

What are the separate and combined effects of

either relatively positive or relatively negative

content in the following three information types:

(1) financial information presented in a table,

(2) narrative information about the future,

(3) a picture of the CEO

on stakeholders

(1) attitude toward the information,

(2) attitude toward investing in the company,

(3) perception of the corporate reputation?

This section begins with an explanation of why

we chose a controlled experimental study. We

then describe the selection of the participants and

the experimental tasks. Our description includes

the design of the study and extensive details of

the materials used. This is followed by the study

procedure. The section ends with a description of

the data analysis and an explanation of how the

reliability and the validity of the data were ensured.

**Choice of Research Methodology** An experiment

was conducted to thoroughly investigate the effects

of several information types on stakeholders’

attitudes. We constructed several versions of a

82 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

summary of an annual report of a fictitious energy

company. By creating the summaries ourselves,

we ensured that the summaries are identical,

apart from our manipulations with respect to the

information types that are investigated in this

study. Therefore, any differences between the

various participants’ attitudes and perceptions of

the company’s reputation must be a result of our

manipulations.

**HOW DATA WERE COLLECTED**

In this section, a detailed description of the

data-collection process is given.

**Participants**: Individuals with the ability to

evaluate information were invited to participate.

We ensured the participants’ anonymity, but for

this type of study, no official ethical approval

was needed at our university. Participants were

required to have some affinity for business in

general or investing in particular. Most participants

were Dutch university students in business-related

studies with some experience in investing.

Participants needed to fluently read business

information in English because the summary of the

annual report was in English. Annual reports in

the Netherlands are often written in English. Since

all university students must study English books

and articles, we could assume that all recruited

participants could comprehend the information. In

total, 160 participants were recruited.

**Experimental task**: The experiment tested the

effects of the independent variables (characteristics

of the annual report) on the dependent variables

(participants’ attitudes and perceived reputation

of the company). The three independent variables

were:

(1) content of financial review: relatively good

versus relatively poor,

(2) content of future strategy: relatively good

versus relatively poor,

(3) CEO’s facial expression: smiling versus

serious.

The manipulations of these three independent

variables resulted in eight variants of (a summary

of) an annual report. A design of 2 2 2 subjects

was employed, and each participant was asked to

read one of the eight variants of the report:

(1) good financial review, good future strategy,

smiling facial expression;

(2) good financial review, good future strategy,

serious facial expression;

(3) good financial review, poor future strategy,

smiling facial expression;

(4) good financial review, poor future strategy,

serious facial expression;

(5) poor financial review, good future strategy,

smiling facial expression;

(6) poor financial review, good future strategy,

serious facial expression;

(7) poor financial review, poor future strategy,

smiling facial expression;

(8) poor financial review, poor future strategy,

serious facial expression.

After having read a version of the report, the

participants were asked to answer questions

regarding the three dependent variables:

• attitude toward the information in the annual

report;

• attitude toward investing in the company;

• corporate reputation of the company.

**Materials; Summary of an Annual Report**: A

one-page English summary of an annual report

of a fictitious international energy company was

constructed that consisted of three parts (see

Fig. 1). On top of the page, a picture of the CEO

was presented, together with his name, title, and

a quote: John B. T. McNemar, chairman and

CEO, “Our business is about delivering energy to

the world: Oil, gas and alternative energy.” The

financial review was presented on the left side of

the page in the form of a table with the company’s

performance over the last three years. On the right

side of the page, a narrative about expectations

for the future was presented. To create realistic

content, the financial reviews and narratives were

based on the contents of three annual reports of

existing energy companies.

*Financial Review*: The financial review consisted

of four components: (a) income statement, (b)

balance sheet, (c) dividend and shareholder return

information, and (d) statement of cash flows.

A statement of retained earnings was included

in the balance sheet. This composition of the

financial review information section is in agreement

with theory [23, p. 36]. The financial review was

composed of tables with financial numbers, as in

the three annual reports that served as reference

material. The review referred exclusively to the

past results of the firm, the company’s financial

development over the last three years. Special care

was taken to maintain proportions among financial

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 83

Fig. 1. One-page summary of the annual report.

numbers (such as revenues, costs, net income,

debt, assets, and liabilities) and ratios to achieve

realistic financial performance. Subsequently, the

typical “average” financial review served as the

basis for two financial review versions: (1) good

financial performance, with better performance

than average and increasing the performance

over the last three years, and (2) poor financial

performance, with worse performance than average

and with decreasing performance over the last three

years. The differences between these two versions

are shown in Fig. 2.

*Future Strategy*: The future strategy section on

the right side of the page refers to the company’s

prospects and management’s future plans. The

section consisted of four key text components:

(a) introduction, (b) information on oil and gas

production, (c) information on renewable energy,

and (d) a discussion of social and environmental

responsibility. As was conducted in the financial

review, the future strategy was constructed on the

basis of descriptions from the three annual reports

of existing energy companies to create an “average”

typical future strategy, which served as the basis

for two future strategy versions: (1) good future

strategy performance, with better performance

than the future strategy with average performance

and (2) poor future strategy performance, with

worse performance than average. “Good” in this

context meant positive outcomes for the company

as a whole with regard to financial, social, and

environmental performance.

The differences between these two versions are

shown in Fig. 3. The differences were of two types.

The first type included numerical differences, such

as “Oil production is estimated to increase by

9% in 2009” (good future strategy performance)

versus “Oil production is estimated to decrease by

6% in 2009” (poor future strategy performance).

Other differences can be characterized by the use

of positive versus negative descriptions of planned

actions or positive or negative descriptions of the

reasons for or causes of future plans such as “We

aim to access new large fields to offer competitive

prices” (good future strategy performance) versus

“We aim to access new unconventional large fields

to maintain our decreasing reserves” (poor future

strategy performance).

*Facial Expression CEO*: A picture of a fictitious

CEO was constructed with a morphing computer

program. The program had the ability to smoothly

combine two faces (and their characteristics)

into one face containing characteristics of both

faces while maintaining a realistic and natural

appearance. The CEO was pictured wearing

formal attire showing only his face and part of his

shoulders (passport-style). According to Davison

[22], this is the most common way of picturing a

CEO in an annual report. The CEO looked into the

camera lens, which is a typical pose for a CEO

in a Dutch annual report [24]. Two versions of

the picture were created (see Fig. 4), one in which

84 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

Fig. 2. Financial review; good (left), poor (right).

the CEO clearly smiled and one in which he had

a serious facial expression. The text “John B.T.

McNemar, chairman and CEO” appeared next to

the picture to convey expertise and authority.

To verify that the participants’ perceptions of the

facial expression were as intended, two statements

were formulated for them to judge on a 7-point

scale, from “strongly disagree” (1) to “strongly

agree” (7). One statement measured whether the

CEO smiled. The second statement measured the

CEO’s perceived seriousness. The participants were

also asked to rate statements about the man’s

attractiveness and credibility on a 7-point scale.

**Materials; Questions to Measure the Dependent**

**Variables**

*Attitudes Toward the Information in the Annual*

*Report Summary*: Three statements were

formulated to measure the participants’ attitudes

toward the information (translated from Dutch):

• I have sufficient information to make a sound

investment decision.

• The quality of the information enables me to

make a sound investment decision.

• I feel satisfactorily informed about the company’s

activities and performance and can make a

sound investment decision.

The participants were asked to indicate to what

extent they agreed with the statements on a 7-point

rating scale, ranging from “strongly disagree” (1) to

“strongly agree” (7).

*Attitudes Toward Investing*: Five statements were

formulated to measure the participants’ attitudes

toward investing (translated from Dutch):

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 85

Fig. 3. Future strategy; good (left), poor (right).

• I feel inclined to invest in this company.

• I am likely to buy shares of this company.

• The intrinsic value of this company will grow.

• Investing in this company is not risky.

• The stock of this company will deliver financial

advantage.

The participants were asked to indicate to what

extent they agreed with the statements on a 7-point

rating scale, ranging from “strongly disagree” (1) to

“strongly agree” (7).

*Corporate Reputation*: A validated corporate

reputation questionnaire, the Reputation Quotient,

was used for measuring corporate reputation [25].

The Reputation Quotient consists of 20 statements

divided into six constructs: emotional appeal,

products and services, vision and leadership,

workplace environment, social and environmental

responsibility, and financial performance. The

statements within the groups “products and

services” and “workplace environment” were

excluded because they were not related to the

information in the annual report. This resulted in

13 statements that were translated into Dutch.

They were measured on 7-point rating scales,

ranging from “strongly disagree” (1) to “strongly

agree” (7). The English versions of the statements

are as follows.

86 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

Fig. 4. Photograph of the CEO; smiling (left), serious (right).

• I have a good feeling about the company.

• I admire and respect the company.

• I trust this company.

• The management of this company has excellent

leadership qualities.

• The management of this company has a clear

vision for its future.

• The management of this company recognizes and

takes clear advantage of market opportunities.

• This company supports good causes.

• This is an environmentally responsible company.

• This company maintains high standards in the

way it treats people.

• This company has a strong record of profitability.

• This company looks like a low risk investment.

• This company tends to outperform its

competitors.

• This company looks like a company with strong

prospects for future growth.

**Procedure**: Potential participants were invited by

email to take part in the online experiment. This

invitation was in Dutch. After they had clicked

on the link in the invitation, they were first asked

to answer a few demographic questions (gender,

age), also in Dutch, and questions concerning their

experience in investing and reading annual reports.

One of the variants of the annual report summary

was then presented to them. The report was written

in English. The company was presented as a large

international Dutch company; for this type of

company, annual reports in English are common

[3], [5].

After having read the report, the participants were

asked to answer questions in Dutch about their

attitudes toward investing in the company, to

answer questions about their attitudes toward the

usefulness of the information in the report, and,

finally, to give their opinions about the corporate

reputation of the company. The questions were in

the same order for all participants.

The study ended with a manipulation check. The

participants were asked for their opinions about

the CEO, whose picture they had seen in the

report, to check whether they considered the CEO

equally attractive and credible in both versions

of the picture. In addition, the following items

were checked: whether the CEO with a smiling

facial expression was considered to be smiling and

was considered less serious than the CEO with a

serious facial expression. After the participants had

answered these questions, they were thanked for

their participation.

**How Data Were Analyzed** We did a manipulation

check on the facial expression of the CEO using

independent sample -tests. A -test compares

the mean scores of two independent groups of

participants. In this case, the mean score of the

80 participants who saw a picture of a CEO with

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 87

a smile was compared to the mean score of the

80 participants who saw a picture of a CEO with

a serious facial expression. A -test analyzes the

variance and calculates whether the difference

between the means of the two groups is statistically

significant. The results of a -test consist of a

-value and a -value. The last value is an indicator

of the probability that the difference between the

mean values of two groups is caused by random

variations. If the -value is lower than 0.05, the

chance that the difference is caused by random

variations is less than 5% and the difference is

considered to be statistically significant. A -test

assumes that within the scores of each group, the

variance is the same. Furthermore, it is assumed

that the scores of the participants are normally

distributed. If these two assumptions are not met,

corrections are made.

The participants’ answers about their attitudes

toward the information and toward investing in this

company and concerning the perceived reputation

of the company were statistically analyzed to

determine whether the participants’ answers

differed depending on the version of the annual

report they read. We used analysis of variance

(ANOVA) to measure the differences between

participants’ mean scores on the three dependent

variables. An ANOVA is the same type of test as

a -test; it also compares the mean scores of the

groups of participants. However, this test can be

used for more than two groups of participants and

for more than one dependent variable.

**Ensuring Reliability and Validity** Cronbach’s

alpha, a measure of internal consistency, was used

to ensure the reliability of the scales that measured

the attitudes toward the information and toward

investing. Three statements were used to measure

the participants’ attitudes toward the information.

The reliability of this scale was good: Cronbach’s

alpha 0.85. Another five statements were used

to measure the participants’ attitudes toward

investing. The reliability of this scale was good:

Cronbach’s alpha 0.87. We concluded that both

scales were internally consistent. This means that

the separate statements that measured attitude

toward the information form a reliable construct.

The same holds true for the statements that

measured attitude toward investing. Therefore, we

may calculate the mean of the separate statements

within one construct and use this mean score as

the value for attitude toward the information and

attitude toward investing.

The perceived reputation of the company was

measured using a selection of statements

from a validated questionnaire, the Reputation

Quotient [25]. According to this questionnaire,

the 13 statements that we used formed four

different subconstructs. We conducted a principal

component factor analysis to check whether the

same constructs as those divided in the Reputation

Quotient could be used. This analysis showed

that three instead of four constructs could be

distinguished. Because the dependent variable

in the study was the corporate reputation of the

company in general and distinguishing between

several subcomponents of reputation was not

necessary, the statements were considered to

belong to one construct: Cronbach’s alpha 0.92.

Therefore, the reliability of this scale was concluded

to be good.

The eight different versions of the summary of the

annual report were formulated carefully to ensure

internal validity. The eight versions were exactly

the same, apart from the differences caused by the

manipulations that are described in the previous

section on how the summary was constructed. The

only difference between the two pictures of the CEO

was the presence or absence of a smile on the CEO’s

face. The only difference between the two versions

of the financial review were the exact numbers that

reflected either good or poor financial performance.

The differences between the two narratives about

the future were of two types: numerical differences

and verbal descriptions that were either positive or

negative. Since these two differences both indicate

how good the future plans are, this is not a serious

threat to the internal validity of the study. However,

it is not possible to distinguish whether effects of

the narratives about the future are caused by the

numerical differences or by the verbal descriptions

that were either positive or negative.

**RESULTS**

Our results section begins with a description of

the participants, followed by the results of the

manipulation check. We then address the effects

of the manipulations of the independent variables

on the dependent variables. We first describe

the effects on attitudes toward information in

the annual report summary, then the effects on

attitudes toward investing, and, finally, the effects

on corporate reputation.

**Who Participated in the Study** A total of

160 people volunteered to participate in this

study. Each variant of the report was read by 20

88 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

TABLE I

MEAN ATTITUDE TOWARD INFORMATION (STANDARD DEVIATION); THE MEAN SCORES OF

THE EIGHT CONDITIONS ARE PRINTED IN BOLD

participants. Of the participants, 34 (21%) were

female and 126 (79%) were male. The participants’

ages varied from 19 to 52 years old, with a mean

age of 25.8 years and a standard deviation of 6.2

years; 75% of all participants were younger than

27. The participants did not receive an incentive for

their participation.

**Manipulation Check** One statement concerned

whether the CEO smiled. The mean score of the

80 participants seeing a CEO with a serious facial

expression 3.73) was significantly lower

( 3.31, 140.22 (equal variances not

assumed), two-tailed ) than the mean score

of the 80 participants seeing a smiling CEO

4.56). The second statement was about the CEO’s

perceived seriousness. As intended, the mean

score of perceived CEO seriousness for the CEO

with a serious facial expression 4.61) was

significantly higher ( 5.78, 144.74 (equal

variances not assumed), two-tailed 0.001) than

that of the smiling CEO 3.40).

Average CEO attractiveness was rated slightly

positive 4.30). No statistically significant

difference was found in CEO attractiveness between

the smiling and nonsmiling CEO ( 0.62,

148.39 (equal variances not assumed), two-tailed

0.53). With regard to CEO credibility, the

participants perceived the CEO as moderately

credible. The mean score for the nonsmiling CEO

was 3.68 and for the smiling CEO, it was 4.05. This

difference was not significant, although there was a

tendency to perceive the nonsmiling CEO as more

credible than the smiling CEO ( 1.82,

145.85 (equal variances not assumed), two-tailed

0.07).

From these manipulation checks, it can be

concluded that the difference between the two

manipulated facial expressions was clear; one

was considered as significantly more smiling and

less serious. However, no statistically significant

differences in attractiveness or credibility were

observed.

**Effects on Attitude Toward Information in**

**the Annual Report Summary** The results of a

MANOVA test served as the basis to further justify

examination of the potential factor effects on each

dependent variable individually. This test was used

to achieve a general orientation for potential factor

effects (performance of the financial review section,

performance of the future strategy section, and

CEO facial expression) on the combined dependent

groups (attitude toward information, attitude

toward investing, and corporate reputation). Using

the Wilk’s Lambda criterion (Q) statistic, all of

the combined dependent variables resulted in

significant main effects and interaction effects.

The mean values of the attitude toward information

are shown in Table I. These values are visually

depicted in Fig. 5(a) and (b). Fig. 5(a) shows the

mean scores of the four groups of respondents

who read a summary with good future strategy

performance, and Fig. 5(b) shows the mean scores

of the four groups of respondents who read a

summary with poor future strategy performance.

As expected, no statistically significant effects of

the three independent variables on attitude toward

the information were found.

The ANOVA yielded a *financial review future*

*strategy performance* interaction ( 1, 152

18.21, 0.001, 0.11). A -test showed that

for good future strategy performance, the mean

attitude toward the information was significantly

higher for good financial performance 3.43)

than for poor financial performance

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 89

Fig. 5. (a) Mean scores on attitude toward information of the four groups who read a summary with good future

strategy performance. (b) Mean scores on attitude toward information of the four groups who read a summary with

poor future strategy performance.

2.67) ( 2.32, 78, two-tailed 0.05).

However, another -test showed that for poor future

strategy performance, the mean attitude toward

the information was significantly lower for good

financial performance 2.20) than for poor

financial performance 3.14) ( 3.88,

53.28 (equal variances not assumed), two-tailed

0.001), as is clearly shown in Fig. 5(b).

The ANOVA also indicated a *financial review*

*facial expression* interaction 1, 152 6.14,

0.01, 0.04). When the financial review

was good, the attitude toward the information of

participants who read a report with a picture of a

smiling CEO seemed to be somewhat higher than

the attitude of participants who read an annual

report with a nonsmiling CEO. When the financial

report was poor, the attitude of participants who

read an annual report with a nonsmiling CEO

seemed to be higher. However, -tests did not show

significant differences.

The interaction effect of *future strategy performance*

*facial expression* was not statistically significant.

90 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

TABLE II

MEAN ATTITUDE TOWARD INVESTING (STANDARD DEVIATION); THE MEAN SCORES OF

THE EIGHT CONDITIONS ARE PRINTED IN BOLD

A statistically significant three-way interaction

effect was found, although it is difficult to

interpret: *financial review future strategy*

*performance facial expression interaction*

1, 152 4.42 0.05 0.03).

**Effects on Attitude Toward Investing** Mean

values on the attitude toward investing are shown

in Table II. These values are visually depicted in

Fig. 6(a) and (b). Fig. 6(a) shows the mean scores

of the four groups of respondents who read a

summary with good future strategy performance,

and Fig. 6(b) shows the mean scores of the four

groups of respondents who read a summary with

poor future strategy performance.

As expected, *financial review* and *future*

*strategy* had statistically significant effects

on the participants’ attitude toward investing

1,152 9.99 0.01 0.06;

1,152 49.18 0.001 0.24,

respectively). The participants’ attitudes toward

investing were higher when the financial review was

good than when it was poor, and the participants’

attitudes toward investing were higher when the

future strategy was good than when it was poor.

The CEO’s *facial expression* also had a significant

effect on the attitudes toward investing 1,152

10.41, 0.01, 0.06). The participants’

attitudes toward investing were higher when the

CEO’s facial expression was serious than when he

smiled.

The ANOVA yielded a *financial review*

*future strategy performance* interaction

1, 152 19.18 0.001 0.11 .

This effect was comparable to the interaction

effect that was found with the attitudes toward

information. A -test showed that for good future

strategy performance, the mean attitude toward

investing was significantly higher for good financial

performance 4.25) than for poor financial

performance 3.10 4.84, 78,

0.001), as shown in Fig. 6(a). However, another

-test showed no statistically significant difference

between the mean attitudes toward investing for

good and poor financial reviews with poor future

strategy performance.

The interaction of *financial review facial*

*expression* is not statistically significant.

The ANOVA yielded a *future strategy performance*

*facial expression* interaction 1, 152 9.78

0.01 0.06 . In case of a good future

strategy, whether the CEO had a serious or a

smiling facial expression showed no effect; a

-test showed no difference with regard to the

attitudes toward investing ( 3.68 for a serious

expression, 3.67 for a smiling expression).

However, with a poor future strategy, another

-test showed that a serious facial expression

resulted in a significantly higher mean score for

the attitudes toward investing 3.09) than a

smiling expression 2.13 4.81, 78,

0.001). This is shown in Fig. 6(b), where the

line that connects both mean scores for a CEO with

a serious facial expression is considerably higher

than the line that connects both mean scores for a

CEO with a smiling facial expression.

Finally, a statistically significant three-way

interaction effect was found 1, 152 7.11

0.01, 0.05). The effect indicates that when

the financial review and the future strategy are

good, the mean scores are significantly higher than

when one or both of these are poor. Furthermore,

the interaction effect indicated that when the

financial review and future strategy were good, it

did not matter whether the CEO smiled or not. The

scores of the two groups of participants who read a

summary with good financial review and with good

future strategy did not differ significantly from each

other (tested with an ANOVA, followed by a Tukey

test).

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 91

Fig. 6. (a) Mean scores on attitude toward investing of the four groups who read a summary with good future

strategy performance. (b) Mean scores on attitude toward investing of the four groups who read a summary with

poor future strategy performance.

**Effects on Corporate Reputation** The mean

values of the attitudes toward corporate reputation

are shown in Table III. These values are visually

depicted in Fig. 7(a) and (b). Fig. 7(a) shows the

mean scores of the four groups of respondents

who read a summary with good future strategy

performance, and Fig. 7(b) shows the mean scores

of the four groups of respondents who read a

summary with poor future strategy performance.

Unexpectedly, *financial review* did not have a

significant effect on corporate reputation. As

expected, *future strategy* had a statistically

significant effect on corporate reputation

1,152 35.23, 0.001, 0.19). The

perceived corporation reputation is higher when the

future strategy was good than when it was poor.

The third variable, the CEO’s *facial expression*, did

have a significant effect on the perceived corporate

reputation 1,152 12.33, 0.001 0.08 .

The perceived corporation reputation was higher

when the CEO had a serious facial expression than

when he smiled.

92 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

TABLE III

MEAN CORPORATE REPUTATION (STANDARD DEVIATION); THE MEAN SCORES OF THE EIGHT CONDITIONS ARE PRINTED IN BOLD

The ANOVA yielded a *financial review future*

*strategy performance* interaction 1, 152

56.77 0.001 0.27 . This effect is

comparable to the interaction effects that were

found with regard to the attitudes toward

information and toward investing. For good future

strategy performance, a -test showed that the

mean corporate reputation was significantly higher

for good financial performance 4.13) than for

poor financial performance 3.16 4.96

78, 0.001 . However, for poor future

strategy performance, a -test showed that the

mean corporate reputation was significantly lower

for good financial performance 2.56) than for

poor financial performance 3.35 4.52

78 0.001).

The interaction between *financial review* and *facial*

*expression* was not statistically significant.

The ANOVA yielded a *future strategy performance*

*facial expression* interaction 1, 152

5.64, 0.05, 0.04). With a good future

strategy, it did not matter whether the CEO had

a serious or a smiling facial expression; a -test

showed no difference with regard to the corporate

reputation ( 3.71 for a serious expression,

3.58 for a smiling expression). However, with

a poor future strategy, a serious facial expression

resulted in a significantly higher mean score for

the corporate reputation 3.30) than a smiling

expression 2.61), as shown by a -test

3.82 78 0.001 . This is shown

in Fig. 7(b), where the line connecting both mean

scores for a CEO with a serious facial expression is

higher than the line connecting both mean scores

for a CEO with a smiling facial expression.

Finally, a statistically significant three-way

interaction effect was found 1, 152 26.63

0.001 0.15) that shows the same

pattern as the interaction effect on attitude toward

investing. When the financial review and the future

strategy were good, the mean scores on perceived

corporate reputation were significantly higher

than when one of these or both, were poor. When

the financial review and the future strategy were

good, it did not matter whether the CEO smiled or

not. The scores of the two groups of participants

who read a summary with a good financial review

and with a good future strategy did not differ

significantly from each other (tested with an

ANOVA, followed by a Tukey test).

**CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS**

**FOR FUTURE RESEARCH**

In this section, we discuss the results and draw

conclusions regarding the effects of the content

of annual reports on readers’ attitudes and their

perceived reputation of the company. The section

starts with the presentation of the conclusions.

In this subsection, the results are discussed,

followed by the implications for practice, and the

implications for theory and research. The section

continues with a subsection on some limitations

of the study and ends with suggestions for future

research.

**Conclusions** In this study, we investigated the

effects of the content of several parts of a summary

of a company’s annual report on the participants’

attitudes toward the content of the information

and toward investing in the company and on

the corporate reputation. The results showed

significant effects of the financial review that was

presented as a table with the company’s financial

results over the last three years, the narrative that

contained information about the company’s future

strategy and the facial expression of the CEO,

whose picture was presented at the top of the page.

*Effects of the Financial Review and Future Strategy*

*on the Attitude Toward the Information in the Report*:

As expected, the participants judged the quality of

the information for making an investment decision

to be higher when the information about the

financial performance and about the future strategy

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 93

Fig. 7. (a) Mean scores on corporate reputation of the four groups who read a summary with good future strategy

performance. (b) Mean scores on corporate reputation of the four groups who read a summary with poor future

strategy performance.

was aligned. An interaction effect was found: if

the future strategy performance was good, the

participants’ attitudes toward the information were

higher when the financial review was also good than

when the financial review was poor. If the future

strategy was poor, the results show the opposite

pattern: the participants’ attitudes were higher

when the financial review was also poor. Therefore,

it seemed easier to make a decision (positive or

negative) based on consistent information than on

partly positive, partly negative information.

*Effects of the Financial Review and Future*

*Strategy on the Attitude Toward Investing*: It

is not surprising that the results demonstrate

significant effects of financial performance and

future strategy on the attitude toward investing.

Good financial performance resulted in higher

scores on the questions about the attitude toward

investing, as did good future strategy. Furthermore,

an interaction effect was found. With respect to

attitude toward the information and the attitude

toward investing, it helped when the information

in the different parts of the report was consistent.

94 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

The interaction can be explained by assuming that

potential investors primarily rely on the future

strategy. If the future plans seem promising, they

are more willing to invest than when these plans

are less positive. This effect was even stronger when

the financial review of the last three years was good

because this showed that this company was able to

realize its plans. However, when the future strategy

was poor, people were less inclined to invest,

regardless of whether the financial review was

good or poor. This contradicts Barker and Imam

[14], who concluded that for professional analysts,

the information communicated by the financial

statements was more important. Professionals are

most likely to rely more on financial information

because they have more experience and better

skills to evaluate these data than the participants

in this study.

*Effects of the Financial Review and Future Strategy*

*on Corporate Reputation*: With respect to the

corporate reputation of a company, the financial

review is apparently less important than the future

strategy. No significant effect of the financial review

on corporate reputation was found. However,

the results show that a good future strategy

resulted in a significantly higher score for corporate

reputation than a poor future strategy. Again,

an interaction effect was found. Regarding the

corporate reputation, it also helped when the

financial review and the future strategy are aligned.

This interaction can be explained by assuming that

consistency is important when evaluating corporate

reputation. For example, people might not be

able to understand why a company that seems

healthy in terms of financial results does not have

well-formulated and positive plans for the future

or why a company with a poor financial results

does have well-formulated and positive plans for

the future. Such an inconsistent description of the

company leads to a lower corporate reputation.

These results suggest that it might not be beneficial

for companies to use the narrative parts of the

annual report to try to persuade stakeholders

of the well-being of the company by using more

positive or less negative formulations than can be

justified by the financial information. Rutherford

[9] and Schleicher and Walker [10] have noted that

companies do this.

To summarize, as expected, a good financial review

and good future strategy in the summary of an

annual report affect the attitude toward investing

and the corporate reputation positively. However,

consistency also results in higher scores.

*Effects of the CEO’s Facial Expression*: Because

photographs in annual reports and their effects on

readers have received surprisingly little attention

in research, the effects of the facial expression

of the CEO were unclear. It might be that the

facial expression would not have any effect

because potential investors do not pay attention

to this peripheral cue or that it does not make

any difference whether the CEO smiles or not.

If potential investors were affected by the facial

expression, it is difficult to predict whether a

serious expression or a smile would be more

beneficial.

The results indicated that the facial expression

had a considerable impact on the participants’

perceptions of the company. Facial expression

affected the participants’ attitudes and the

corporate reputation in several ways. Overall,

a serious facial expression resulted in a higher

attitude toward investing and a better corporate

reputation than a smiling expression. These effects

might be partly due to differences in credibility

between the CEO’s pictures. The manipulation

check indicated a tendency toward higher

credibility scores for the picture of the CEO with a

serious facial expression. Since other studies have

shown that endorser credibility affects consumers’

attitudes toward brands and purchase intent [26],

this higher credibility might have affected the

effect of facial expression on the attitudes of the

participants and on the corporate reputation score.

However, the interaction effects between facial

expression and the other two variables—financial

review and future performance—cannot be assigned

to differences in credibility. The interactions

indicated that the facial expression of the CEO

should be aligned with the other information in

the report. The results showed that in case of a

poor future strategy, a CEO with a serious facial

expression leads to higher scores on the attitude

toward investing and on the perceived corporate

reputation than a smiling CEO. Therefore, it seems

that a CEO should not smile when he has no

reason to.

*Implications for Practice*: The results of this study

indicate that alignment of the different parts of an

annual report is important for potential investors.

Our participants paid attention to the content of

the information but also to a peripheral cue, the

facial expression of the CEO in the photograph.

Their attitudes toward the information and toward

investing and the corporate reputation were higher

when the different parts were aligned with each

KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 95

other. Therefore, in general, we would advise that

the different parts of an annual report be consistent.

However, it might not always be advisable to align

the content of the tables in the financial review with

the narrative information about the future strategy.

We do not consider it advisable to present a poor

future strategy when the financial review turns out

to be less positive than expected. However, we do

consider it advisable to present a photograph of the

CEO with a serious facial expression. A CEO can

smile only when positive information is presented

in all other parts of the annual report.

**Limitations** This study has several limitations.

First, we should mention that the characteristics

of the participants and the artificial setting of the

study might have affected the results. Although

all of our participants had some experience

reading annual reports, not all of them had much

experience with investing. In addition, although

the participants’ ages varied from 19 to 52 years

old, most were rather young (75% were younger

than 27). A considerable fraction of the participants

were university students enrolled in a business

administration program. More experienced

investors might have other strategies when deciding

to invest than the participants in this study.

Second, the participants read a one-page summary

of an annual report of a fictitious company instead

of a complete report of a real company, which is

normally longer. Beattie, Dhanani, and Jones [4]

reported that in 2004, the annual reports in the

UK averaged 75 pages. Reading a complete annual

report of a real company with the goal of making an

investment decision is a different situation than

that in this study. Therefore, it might be that the

effects of the content of the financial review and the

future strategy and of the facial expression of the

CEO will be less clear in a real-life situation, where

a number of other factors play a role in making the

decision to invest and where the perception of the

corporate reputation is influenced by other factors.

Further research must be conducted to determine

whether these effects persist in other participant

groups and when people are asked to read complete

reports.

Third, the manipulation of the future strategy was

not optimal. The two descriptions of the future

strategy differed in more than one way from each

other. Both the numerical values and the verbal

descriptions were different. Furthermore, we did

not control for the number of negative words in

the poor performance version and the number of

positive words in the good performance version.

In retrospect, it seems that a larger number of

words that prime a negative feeling were in the poor

performance version (sabotage, removed, critical)

than the number of words that prime a positive

feeling in the good performance version. Therefore,

the differences between the participants who read

the good future strategy and those who read the

poor future strategy in their attitudes toward the

report and toward investing and on the perceived

reputation may have been caused by several

differences in the description.

**Suggestions for Future Research** As already

mentioned, future research should study whether

the effects of the different information types persist

in less artificial settings. A future study in which

participants are asked to read more than just a

one-page summary would be valuable. On what

do people base their attitudes when they can read

more detailed information about the company? A

study with participants who have more experience

reading annual reports could be performed to find

out if their attitudes are influenced to a greater

extent by the financial statement than the attitudes

of the participants in this study. It would also be

interesting to measure whether participants with

more experience with annual reports and investing

are less influenced by a peripheral cue than the

participants in this study. Furthermore, we did not

measure other participant characteristics that may

influence their intention to invest, such as their

attitudes toward risky investments and their risk

perceptions. Including these variables may provide

more insight into the effects of the annual report

on investment decisions.

Although Guthey and Jackson [19] studied the

function of CEO portraits, the effects of pictures

of the CEO as endorsers in annual reports had

not been investigated. Because this study shows

clear results concerning the facial expression of the

depicted CEO, it might be valuable to investigate

the effects of facial expressions of CEOs more

thoroughly or to investigate the effects of other

peripheral cues in annual reports to obtain more

knowledge about the importance of information

types in business documents that do not provide

stakeholders with factual information about the

company, but that can be considered as peripheral

cues.

De Groot et al. [3], [5] showed that annual reports

differ from country to country. Therefore, repeating

this study in another country might lead to

different results and to more knowledge on the

effects of cultural differences on using business

96 IEEE TRANSACTIONS ON PROFESSIONAL COMMUNICATION, VOL. 57, NO. 2, JUNE 2014

documents. Cross-cultural research about the

effects of different parts of the annual report,

including photos, is feasible since a new scale for

measuring corporate reputation was published

and is validated for cross-cultural research: the

RepTrak Pulse scale [27].

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KARREMAN et al.: EFFECTS OF DIFFERENT PARTS OF THE ANNUAL REPORT 97

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