

REGGY HOOGHIEEMSTRA

The Construction of Reality:

Cultural differences in self-serving
behaviour in accounting narratives



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in accounting narratives**

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De presentatie van ondernemingsresultaten:
culturele verschillen in zelfpresentatie in het jaarverslag

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Voorwoord

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Reggy Hooghiemstra

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1 Introduction

*“In a century where society is marked by science and rationalism, by analysis and pragmatism, where symbol analysts hold the highest positions of society—this is precisely where the emotions, the stories and narratives, the values all return to the scene. The term Dream Society suggested itself”*¹

This study starts with a quotation from *The Dream Society* by Rolf Jensen (1999). Jensen is director of “The Copenhagen Institute for Future Studies”, a think tank that provides strategic advice with respect to future scenarios predominantly to multinationals. In this book Jensen deludes the reader with images of the world after the *Information Society*. He foresees a world in which stories will be important.² According to Jensen stories relating to, for example, adventures, togetherness, convictions, and corporate ethical behaviour will determine whether consumers are persuaded to buy products. That is, in *The Dream Society* stories form the competitive edge. He refers to a number of cutting-edge companies that already have recognised the importance of a good story that appeals to consumers’ emotions. According to Jensen it is companies such as Nike, Disney, Rolex, Virgin, and McDonald’s that will be successful in *The Dream Society*. If Jensen is right, then this new society may also be reflected in a company’s financial report: the narrative part will become increasingly important. In this study we focus on this narrative part and on the letter to the shareholders in particular. Indeed, it has been suggested that these letters are similar to folktales or stories: “The stories told in letters to shareholders narrate the successes and failures of individuals (e.g. the CEOs), organisational subunits, and the entire company” (Fiol, 1989: 280). In this introductory chapter we will start with addressing some general characteristics of financial reporting (1.1). Then we move to the letter to the shareholders and previous research focusing on it (1.2). In section 1.3 we pay attention to the main

¹ From Jensen (1999: 4).

² A similar idea is expressed in *The expressive organisation*, a book edited by Schultz, Hatch, and Holten Larsen (2000).

research objectives of this study. The chapter ends with a short outline of the remainder of the study (1.4).

1.1 The financial report

As is prescribed by law or securities regulations each year a company has to issue a financial report. The issue of this financial report can be viewed as part of a communication process, with company management being the sender and institutional investors, financial analysts, shareholders, governmental authorities, and other interested parties the receivers (Gibbins, Richardson and Waterhouse, 1992; Van der Tas, 1992a). The financial report seeks to inform shareholders, creditors and other stakeholders about a company's business history, its present financial status, and its expected direction (Epstein and Pava, 1993; Courtis, 1995, 1998). The issue of such a financial report has two main objectives. The first objective is to support (potential) investors in their decision-making process whether to invest in the company or not. The second objective is to enable stakeholders, and the shareholders in particular, to evaluate management's use of the company's resources, i.e. to evaluate management's stewardship of business (Beaver, 1998). Increasingly, however, financial reports have become part of the company's efforts to create and manage a certain corporate image (e.g. Lee, 1994; Hopwood, 1996; Preston, Wright and Young, 1996). Companies are prepared to invest a considerable amount of money in the design of their financial reports: Hyland (1998) reported that companies from the United States alone spent each year around \$5 billion to produce their financial reports. Currently it is difficult if not impossible to find a single company issuing a financial report that is not printed on expensive paper and does not make extensive use of eye-catching charts and figures. It has even been suggested that the figures have become "a mere technical appendix to a highly sophisticated product of the corporate design environment" (Hopwood, 1996: 55) in which stories, pictures and graphs are more important. Indeed, in a study of financial reports of 25 large companies from the United Kingdom, Lee (1994) found a change in the form of the report between 1965 and 1988. His results showed that the size of the financial report, i.e. number of pages, doubled in this period. The extra pages were largely devoted to voluntary information and to a large extent included narratives and pictures. Users of financial reports too seem to attach less importance to the pure financial data. Several surveys conducted in different countries reveal that they are more interested in the narrative sections of the financial report than in the pure financial data (e.g. Klaassen and Schreuder, 1980, 1981; Epstein and Pava, 1993; Bartlett

and Chandler, 1997; Hyland, 1998; Smith and Taffler, 2000). A possible reason for this preference may be that financial statements are beyond the comprehension of the vast majority of the private investors (e.g. Lee and Tweedie, 1976; Courtis, 1982). Seemingly, individual shareholders prefer the more understandable narrative sections containing management's analysis of the financial figures. Especially the letter to the shareholders, usually occupying a prominent position near the front of a financial report, is read by the majority of the recipients of the financial report. In addition, they perceive it as one of the most important elements of a financial report (Room, 1997 for an overview of the usefulness studies). The focus of this study will be on this letter to the shareholders.

1.2 The letter to the shareholders

Although there are some differences between countries, a typical financial report contains a quantitative part and a narrative part (e.g. Radebaugh and Gray, 1997; Nobes and Parker, 1998). The quantitative part includes the financial statements (balance sheet, income statement, cash flow statement, and comprehensive income statement) and the accompanying notes to it, in which the applied accounting principles are described. Both the format and content of this part of the financial report are to a large extent governed by law or other forms of regulation. In addition, independent auditors have to verify and state whether the financial statements give a true and fair view of the company's results and financial position.

However, the narrative part, and the letter to the shareholders in particular, is to a large extent unregulated.³ Furthermore, it is unaudited although auditors have to verify that the letter to the shareholders and the financial statements do not present conflicting views of the company's results (Steinbart, 1989; Beattie and Jones, 1992; Neu, Warsame and Pedwell, 1998). Despite management's discretion in drawing up a letter to the shareholders, a typical letter contains a summary of the company's accomplishments in the fiscal year under review as well as some remarks concerning future expectations. In addition, management often provides

³ In the United States and the United Kingdom, however, the Management Discussion and Analysis and the Operational and Financial Review, respectively, are regulated to a large extent. In these narrative sections management also discusses the financial results of the fiscal year following certain disclosure requirements. Recently, the European Accounting Study Group, comprised of representatives of the major European accounting bodies, proposed "a set of principles to guide the selection and presentation of management's analysis of the business [...] which are intended as a basis for the formulation of specific and internationally comparable reporting standards" (2000: 6).

explanations for the obtained results in the letter to the shareholders. Given management's freedom in discussing and presenting the company's results, the letter to the shareholders provides management with an excellent opportunity to interpret events to their own benefit (Ginzel, Kramer and Sutton, 1993). Indeed, it is said that letters to the shareholders "are notorious for adopting optimistic attitudes and presenting euphemistic descriptions of company's results and prospects" (Bruce, 1987 as quoted in Limacher, 1997: 2). In addition, they are designed to send the right message, i.e. to enhance the story of corporate performance contained in the financial statements or to signal or, maybe more likely, to detract attention away from poor performance (Preston *et al.*, 1996: 118). That is, management seems likely to accentuate the positive, whereas the negative is obscured or even eliminated (Baker and Kare, 1992). This selective way of presenting information may be seen as part of managers' impression management. As is discussed more in detail in chapter 2, impression management refers to the process by which individuals, including managers, want to manipulate the images other people have or form of them (Tedeschi and Riess, 1981a,b). Managers, for example, may want to evoke an image of a leader that is in control (Salancik and Meindl, 1984), i.e. that they are competent and powerful (Leary, 1996). Not being in control of the circumstances could bring about negative consequences for the organisation. Ginzel *et al.* (1993: 245) have indicated that, as the audience consists of people who depend on the organisation for resources, the perception that top management is not really in control may threaten their security and increase their feelings of uncertainty. This may result in participants withdrawing their sources from the organisation (Pfeffer and Salancik, 1978; Zajac and Westphal, 1995).

Previous research within the organisational and accounting domains reveals that management uses different impression management techniques to present information in the financial report, including:

1. *Readability of financial reports*: The readability⁴ of the financial report and the letter to the shareholders seems to depend on the company's performance. Although the results are still inconclusive and further research is needed (Jones and Shoemaker, 1994) it seems that letters of poor-performing companies are less readable than those of companies that performed well (see Jones and Shoemaker, 1994; Courtis, 1995, 1998; Jones and Clatworthy, 2000a).

⁴ Most readability studies used the so-called Flesch Reading Ease index to measure readability. This index uses a combination of sentence length and syllable count to express the extent of readability. Modern word processing packages include tools to calculate the Flesch Reading Ease index.

2. *Bias in conveyance of news:* Irrespective of performance, management prefers to present “good news” rather than “bad news.” Research shows that the amount of space devoted to reporting favourable information, e.g. increases in sales or profits, is significantly larger than the space devoted to unfavourable information (Kohut and Segars, 1992; Jones and Clatworthy, 2000b). Such selective conveyance is also present in the provision of corporate social information (Deegan and Rankin, 1996).
3. *Manipulation of graphs:* Research by Steinbart (1989) and Beattie and Jones (1992, 1997, 1999, 2000) shows that especially companies with good performance make more extensive use of graphs in their annual reports than companies with poor performance. Furthermore, graphics contain distortions, e.g. in scale, so that an increase in profits is accentuated while a decrease in profits is graphically understated.
4. *Attributional bias in management’s explanations:* There is research indicating that managers often show a bias when they provide explanations for organisational outcomes (Bowman, 1976, 1978; Bettman and Weitz, 1983; Staw, McKechnie and Puffer, 1983; Salancik and Meindl, 1984; D’Aveni and MacMillan, 1990; Clapham and Schwenk, 1991; Aerts, 1991, 1994; Jones and Clatworthy, 2000b; Tsang, 2002). Managers tend to take credit for positive outcomes, e.g. increasing sales, a higher net income, etc.. However, the same managers deny taking responsibility for a deterioration in performance, e.g. reporting a loss, decreasing sales, etc. by blaming it on the environment. This so-called self-serving attributional bias is not characteristic for managers in particular. On the contrary, there is a large body of social-psychological research which indicates that people in general engage in self-serving attributional biases when they provide explanations (e.g. Miller and Ross, 1975; Weary, 1978; Zuckerman, 1979; Arkin, Cooper and Kolditz, 1980; Mullen and Riordan, 1988; Ross and Nisbett, 1991; Ashkanasy and Gallois, 1994; Johnston and Kim, 1994).

1.3 Development of research questions

Notwithstanding the interesting aspects of the other three forms of impression management briefly presented in the previous section, in this study we focus on the self-serving attributional bias in letters to the shareholders. As indicated, there is evidence that this bias often occurs when company management provides explanations for the financial results in the letter to the shareholders. Management is willing to take credit for successful results, whereas unsuccessful results are blamed on the environment. This study aims at replicating those previous studies.

In a recent contribution to a special issue of the *Academy of Management Review* on organisational theory development, Tsang and Kwan (1999) noted that replications in social sciences, and organisational science in particular, have been lacking, partially because it “has not been adequately recognised as a valuable part of theory development” (1999: 759). Also Hubbard, Vetter and Little (1998) remarked that the management domain has been characterised by an absenteeism of replications. They found that very few replication studies were published in management and strategic journals, regardless of their prestige. However, just like Tsang and Kwan (1999) they consider replications to be valuable for theory development. To quote Hubbard *et al.* (1998: 244): “The principle of replicability plays a fundamental role in the research process. After all, replications serve to protect against the uncritical assimilation of erroneous empirical results into the literature. Replications with extensions also help to accomplish this, but more importantly go further by determining the scope and limits of initial findings by seeing if they can be *generalised* to other populations, time periods, organisations, geographical areas, measurement instruments, contexts, and so on. Thus replications with extensions are basic to empirical knowledge or knowledge development.” This study took up their call for more replication research in organisational science. For the sake of completeness, it should be noted that self-serving attributional biases in management’s explanations are *not* merely “single-shot studies” and have been subject of several studies that may be considered as replications (e.g. Clapham and Schwenk, 1991; Aerts, 1994). Given these observations our first research question goes:

Do managers show self-serving biases to explain organisational outcomes in the letter to the shareholders? And if so, what organisational and/or situational factors explain differences in the extent of self-serving biases?

Financial reports are increasingly issued to an international audience. This is evidenced by, for example, the increasing number of listings on national stock markets that is of foreign origin (Roberts, Weetman and Gordon, 1998). Statistics reported by the International Accounting Standards Board (IASB) and the World Federation of Exchanges show that as of 2001 almost 20% of the companies listed on the New York Stock Exchange are of foreign origin. Other major stock exchanges as Frankfurt, London and Paris reported similar figures. In Amsterdam this figure is even higher at almost 40%.⁵ In Japan, however, only a small number

⁵ For Paris and Amsterdam, who together with Brussels form Euronext, the figures are based on 1999 as no figures for Euronext are available yet.

is of foreign origin (2%). Given the international context in which the financial reporting process is taking place it seemed warranted to use a sample of companies from different countries. The countries included in this study are Japan, the Netherlands and the United States. Three considerations instigated the international dimension of this research.

The first involves the harmonisation efforts of, for example, the European Union and the IASB with regard to financial reporting. The basic aim of these harmonisation efforts is to improve the comparability of financial reports of companies from different countries so that capital markets can operate more efficiently and effectively. Although some progress has been made (e.g. Van der Tas, 1988, 1992a,b; Archer, Delvaille and McLeay, 1995) complete harmonized accounting standards and practices have not yet been achieved (e.g. Emenyonu and Gray, 1996; Carlson, 1997). Furthermore, these efforts predominantly have concentrated on the financial statements and the notes to it. The narrative part, including the letter to the shareholders, however, is still unregulated, leaving it largely at management's discretion. This discretion leaves room to make use of the impression management techniques described earlier. This has an important consequence: the true and fair view that financial reports should provide is endangered (Jones and Clatworthy, 2000b). As a significant part of the private investors find the financial statements less interesting and tend to focus on the letter to the shareholders, it might be important that accounting standard setting organisations extend their efforts to this narrative part of the financial report. If this research reveals that there are differences in the self-serving attributional bias in the letter to the shareholders of companies from different countries, a call for international regulation only seems more justified.

The world has become more and more integrated. Globalisation, convergence, and growing internationalisation of business are oft-heard phrases in both the popular business press and more scientific-oriented readings as well. Some, such as IMF-director Stanley Fischer, even speak of a rise of a world that resembles McLuhan's (1968) *Global economic village*. Evidence of this global village is noticeable in everyday life: McDonald's, Nike, Coca Cola, and CNN—to name a few—have invaded every household. According to Schneider and Barsoux (2003: 5) there are even some managerial researchers who believe “in the convergence of management practice”, reflecting the idea that management consists of a set of techniques and principles that can be universally applied. However, the number of opponents against the idea of the global village continues to grow. Naomi Klein and Noreena Hertz are only two outspoken and obvious advocates of the anti-globalisation movement. Furthermore, the results of a large-scale survey conducted by Rosa Moss Kanter (1991: 25) suggest “that the idea of a corporate

global village where a common culture of management unifies the practice of business around the world is more a dream than reality.” In a similar vein, Javidan and House (2002: 1) have recently commented that “the fact that the business world is becoming increasingly global does not mean that cultural differences are disappearing or diminishing,” an idea that is shared by other scholars such as Hofstede (1980), Triandis (1983), Adler (1997), and Earley and Erez (1997). This suggests that management practices that work in one culture may be ineffective in another and, consequently, that “many aspects of organisational theories produced in one culture may be inadequate in other cultures” (Triandis, 1983: 139). “As a result there is a growing awareness of need for a better understanding of the way in which leadership is enacted in various cultures and a need for an empirically grounded theory to explain differential leader behaviour and effectiveness across cultures” (Den Hartog, House, Hanges, Ruiz-Quintanilla, Dorfman *et al.*, 1999: 228). Indeed, as “we are just beginning to understand how the role of culture influences leadership and organisational processes, numerous research questions remain unanswered” (House, Hanges, Ruiz-Quintanilla, Dorfman, Javidan, Dickson, Gupta *et al.*, 1999: 5).⁶ This brings us to the third, related consideration.

Since the beginning of the nineties researchers from the social-psychological field have a great interest in investigating whether there are cultural differences in this self-serving attributional bias. This growing body of research shows that there is a pervasive difference between western cultures (notably the United States) and eastern cultures (mostly Japan) (e.g. Morris and Peng, 1994; Yan and Gaier, 1994; Markus, Kitayama and Heiman, 1996; Meijer, 1996; Kitayama, Markus, Matsumoto and Norasakkunkit, 1997; Lee and Seligman, 1997; Semin and Zwier, 1997; Zwier, 1998; Choi, Nisbett and Norenzayan, 1999; Menon, Morris, Chiu and Hong, 1999). Although people across cultures do generally show a self-serving bias, it is more typical for people from western cultures than from eastern cultures. First, Americans are more than eastern subjects inclined to explain events in terms of dispositional factors, and typically when it involves successful

⁶ A similar idea has been expressed by Lonner and Adamopoulos (1997) in their review of the impact of culture on behaviour in *The handbook of cross-cultural psychology*. Their conclusion is that their overview seems “to relegate culture to the status of a “third” variable. Ultimately, however, they all hold the possibility that culture can account completely for the relationship between individual dispositions and individual behaviour at some deep level of analysis. Of course, given the present state of knowledge, it would be both pretentious and overinclusive to maintain that either an “individualistic” or a “collectivistic” culture, or a culture that emphasises an “independent” as opposed to an “interdependent” construal of the self, can account for all thought and behaviour of its citizens” (Lonner and Adamopoulos, 1997: 76).

outcomes. On the other hand, people from eastern cultures are more inclined to assume personal responsibility for a failure than Americans do: especially Japanese, but Indian and Chinese as well, show a self-deprecating tendency (e.g. Kashima and Triandis, 1986; Yan and Gaier, 1994; Tuss, Zimmer and Ho, 1995; Meijer, 1996; Kitayama *et al.*, 1997; Lee and Seligman, 1997). We wanted to explore whether managers with different cultural backgrounds show the same differences in self-serving attributional biases as were found in social-psychological research. These considerations boil down to our second research question, which extends previous accounting and organisational research on this subject:

Do differences exist in the self-serving attributional bias as may be present in the letter to the shareholders of companies originating from different cultures, and if so, how can we explain these?

1.4 Structure of the study

To provide answers to the two basic research questions posited in the previous section we first pay attention to attribution theory in *chapter 2*. Attribution theory is concerned with the thoughts people have about events and what causes them. It provides the basis for studying explanations. As is covered in that chapter, the internal-external dichotomy plays a crucial role in the contributions to attribution theory. This dichotomy illustrates that people can either attribute an outcome to internal, i.e. personal, factors or to external, i.e. environment-related, factors. In addition, in this chapter we will pay attention to some biases people show when they provide causal explanations for their own or someone else's behaviour. One of those is the so-called "self-serving attributional bias." This bias implies that people are likely to ascribe their own successes to internal factors whereas failures are ascribed to something external to the person. Such a bias is often present in the stories told by the CEOs in their letters to the shareholder. Furthermore, we will briefly discuss three complementary frameworks that may be used to place the self-serving attributional bias in a more well-defined context. In particular, we pay attention to impression management, corporate communication, and agency theory. Despite being of different origins, in all frameworks it is emphasised that CEOs are motivated to use self-serving explanations in their stories in an attempt to influence stakeholders' perceptions of the company (and of the CEO himself). These perceptions are important because they impinge on the (need to justify the) CEO's rewards and also because they may influence stakeholders' decisions to continue their investment in the company or not.

In *chapter 3* we move to culture. Culture, though being a rather vague and broad concept, involves shared values. It stresses that people with the same ethnic background basically have the same ideas about what is “good” or “bad”, “rational” or “irrational”, and so on. Indeed, most cross-cultural researchers focus on what they consider to be “core” cultural values. This strand of research, with contributions of, e.g. Hofstede, Parsons and Shils, and Schwartz, resulted in a number of dimensions that capture the essence of the various cultures throughout the world. The intention of this chapter is to briefly review the dimensions in order to arrive at a set of “core” cultural dimensions shared by the various researchers.

In *chapter 4* we discuss how culture affects the kind of attributions people make. In that respect the chapter integrates the ideas addressed in preceding two chapters. Based upon a review of cross-cultural and social-psychological research, we conclude that Americans, compared to Japanese, make more extensive use of self-serving explanations. We also see that the reasons researchers have used to account for this cultural difference are related to differences with respect to the importance of groups and differences in the way people communicate.

Based upon the review of the literature we then try to translate the two basic research questions, as formulated in section 1.3, into more concrete, testable propositions in *chapter 5*. These propositions represent our expectations with respect to how culture (as represented by dimensions) influences the attributions CEOs from different countries make in their letters to the shareholders. This chapter also contains the outline of the research design we use to test our propositions.

Chapter 6 presents the results of the study. In the chapter we test the propositions that we have formulated in chapter 5. Attention is paid to both whether self-serving attributional biases in letters are culturally determined as well as which other factors may help to explain possible differences found. Apart from the self-serving attributional bias we will also address some other forms of impression management that may be found in letters to the shareholders, including the tone of the letter and whether management inserts comments about future expectations or not.

In *chapter 7* we move to concluding this study and briefly highlighting possible areas for future research.

2 The self-serving attributional bias

*“Success has a thousand fathers,
while failure is an orphan”*¹

Consider the following hypothetical case. You are the CEO of a large, listed company. Several years ago you and the other board members decided to drastically change the company’s strategy. Since then the company has focused on its core business being the production and sale of vitamins and other nutritional supplements. Initially, both financial analysts and the financial press were somewhat sceptical about this change in strategy, also fed by the disappointing results in the first year after the change. This fiscal year, fortunately, you are able to present outstanding performances: both sales as well as net income show double-digit growth percentages. However, you expect the competitors to report nice results as well, partially because of the favourable economic conditions in general, and the increased attention for one’s health in particular. At this moment you, in co-operation with public relations, are in the process of writing the CEO’s letter to the shareholders. One important issue in this process concerns the “story” behind the company’s results. Now, while being behind your desk, you are asking yourself how to explain this year’s outstanding performance. Should you explain it in terms of the general favourable economic conditions? Or should you take credit for this result by ascribing it to the effectiveness of the strategy you implemented some years ago?

When you are answering such questions you are attributing an outcome to a cause. That is: you are providing one or more causal explanations for something you (or someone else) achieved. Within social psychology several scientists developed ideas that can be used to study and/or predict the attributions people make. Subsequent research using these ideas revealed that people, including CEOs, show certain tendencies when they explain the outcomes of their own actions. One of those is that they tend to take credit for good outcomes, while denying responsibility for bad outcomes. This is the so-called “self-serving attributional bias” on which this research focuses. The CEO, however, is not the

¹ Old English saying as quoted in Schlenker (1980).

only person who is making attributions. Based upon the information they have, observers—in our case e.g. financial analysts, the financial press, shareholders, etc.—will arrive at their own explanations for the company’s results. Indeed, it is not inconceivable that they make different attributions than the CEO did. In this chapter the main contributions to attribution theory, which addresses both how people explain their own behaviour as well as other people’s behaviour, are briefly covered (section 2.1). Subsequently we will address some of the biases people may show in their attribution processes, including the self-serving attributional bias (section 2.2). Organisational and accounting research with respect to the self-serving attributional bias in the context of the letter to the shareholders is covered more in detail in section 2.3. Then we move to the theoretical frameworks that can be used to explain why people in general, and managers in particular, are both motivated and able to engage in self-serving behaviours. After this discussion of impression management, corporate communication, and agency theory in section 2.4, it is evident that managers are motivated to explain organisational results in a way that serves the self in an attempt to influence stakeholders’ perceptions of the company (and of himself). Section 2.5 briefly summarises the chapter.

2.1 Main contributions to attribution theory

2.1.1 Heider’s “naive psychology”

The publication of *The psychology of interpersonal relations* (1958) generally is considered to be the starting point of attribution theory. In this book, Heider described the processes (ordinary) people follow to explain the outcomes of people’s actions. In his view people acted similarly to amateur or naive scientists when they process information to search for explanations for outcomes of their behaviour. Heider suggested that in such attributional processes people basically have the choice between personal or internal factors on the one hand and environmental or external factors on the other. Regarding the personal factors it is possible to make a distinction between what Heider referred to as “can” and “try.” The first, “can”, refers to the ability of a person to accomplish something. The second aspect, “try”, concerns motivational factors; it has both a directional component (i.e. What is the person aiming at?, What are his objectives?) and a quantitative component (i.e. How hard is the person trying to accomplish that goal?, How strong are his efforts to achieve that goal?) Both “can” and “try” are important to achieve something as may be clear from the following example: “John may have all the algebra skills in the world, but he will flunk the test if he fails to try at all and does not record any answers. Obversely, maximum effort

cannot guarantee an A-average for a student of limited ability” (Jones, 1990: 42). Thus, Heider’s main premise is that people can choose between internal and external factors to attribute outcomes to causes. This dichotomy played an important role in subsequent refinements by Kelley (1967) and Weiner (1971) which we will address next.²

2.1.2 Kelley’s covariation model

Kelley (1967) relied on Heider’s internal-external dichotomy to develop his covariation model. The covariation model describes how people, given the information they have, decide to attribute an outcome to internal or external factors. It is particularly helpful to describe how observers arrive at their attributions with regard to someone else’s behaviour (Martinko and Thomson, 1998; Vonk, 1999), e.g. the causes shareholders use to explain an increase in a company’s profits. Underlying the covariation model is the assumption that people can and will use information from more than one instance of behaviour, e.g. the profits the company reported in previous years (consistency), the company’s performance on other aspects, e.g. sales (distinctiveness), and the profits reported by the company’s competitors (consensus). The “scores” on these three sources of information determine the type of attribution observers are likely to make. Following Kelley (1967) an internal attribution is likely when the behaviour was low in consensus, low in distinctiveness, and high in consistency. For example, if a company is the only in the sector to report an increase in profits (low in consensus), the company reports, for example, increasing sales as well (low in distinctiveness), and the company reported good results in previous years (high in consistency), then it is likely that the shareholders will attribute the increase in profits to the implementation of management’s strategy (an internal attribution). If, however, the competitors also report large increases in profits (high in consensus), the company reports a slight decrease in sales (high in distinctiveness), and it reported increasing profits in previous years (high in consistency) then, following Kelley’s covariation model, an external attribution, e.g. the favourable economic conditions, can be expected.

The covariation model, however, has one important drawback: it is a highly normative model. It describes ideas regarding how people should arrive at their attributions if they acted fully rational rather than how this actually takes places

² Other basic theories addressing attribution processes are Jones and Davis’ (1965) correspondent inferences theory and Bem’s (1967, 1972) self-perception theory. In this study we do not pay attention to these ideas, because they do not address *causal attribution* (as Kelley’s and Weiner’s ideas do). Rather they are concerned with attributing personal dispositions based upon behaviour or performance (Vonc, 1999: 115).

(Vonk, 1999). In reality and in contrast to Kelley's model people tend to collect information only in a limited amount and base their attributions on incomplete, partial information. Reasons for less extensive inference processes may be that the issue is not considered important enough to justify a full inference process or that the perceiver lacks time. Besides, it is also possible that the perceiver has to rely on information from only one single observation. Furthermore, as Kelley (1971a) points out, the perceiver frequently has a certain framework of ideas based upon his past experiences, the so-called causal schemata. These causal schemata are "beliefs or preconceptions, built up from experience, about how certain kinds of causes interact to produce a specific effect" (Vaughan and Hogg, 1995: 82). That is: causal schemata are mental shortcuts that enable people to swiftly make their causal attributions. One example of such a causal schema is the so-called multiple sufficient causes schema. This causal schema suggests that people sometimes think it is sufficient to use only one cause out of a range of several causes to explain an outcome. According to Kelley this causal schema leads to the so-called discounting principle. The discounting principle implies that people ignore possible causes if other causes are also present, because then, as Jones (1990) notes, it is less certain which of these really caused an action or achievement to occur. In case of a company reporting good results, the discounting principle may imply that shareholders ignore (i.e. discount) management's endeavours and explain the favourable results mostly in terms of external factors (e.g. favourable economic conditions). Another attributional principle Kelley introduced is the augmentation principle. At the basis of this augmentation principle is the difference between an inhibitory and a facilitative cause. While an inhibitory cause interferes with the occurrence of a given event, a facilitative cause increases the likelihood of its occurrence (Fiske and Taylor, 1984; Vonk, 1999). The augmentation principle implies that observers more strongly perceive a (facilitative) cause to bring about an effect if an inhibitory cause is present as well. Obviously, given the augmentation principle and the presence of an inhibitory cause it is more likely that a successful outcome will be attributed to the person. For example, if a company experienced a successful year while economic conditions in general have been harsh (an inhibitory cause), it is likely that the observers will attribute this success to management's efforts (a facilitative cause). In the case that facilitative causes, e.g. favourable economic conditions, were present it is more likely that successful outcomes are attributed to such external causes.

2.1.3 Weiner’s attributional theory of motivation

In contrast to Kelley, Weiner focused on the attributions people make regarding their own achievements (Martinko and Thomson, 1998; Vonk, 1999). His theory can be used to analyse the situation in which a CEO ascribes a company’s results to certain causes in the letter to the shareholders.³ Weiner (together with Frieze, Kukla and others, 1971) suggested that it is possible to explain successes and failures by causes that can be arranged along two basic dimensions. These are:

- 1. *Internal versus external.* Heider and Kelley also used this distinction in their contributions to attribution theory. A cause is internal when something inside the person can be held responsible for the outcome (e.g. personal skills, intelligence, etc.). A cause is external if something in the environment has caused the effect (e.g. luck). This dimension is frequently referred to as “locus of causality.”
- 2. *Stable versus unstable.* This dimension addresses whether causes are enduring and are likely to be present again or not.

Stability	Locus of causality	
	Internal	External
Stable	Ability	Task difficulty
Unstable	Effort	Luck

Table 2.1 Weiner *et al.*’s (1971) two-dimensional taxonomy

Using these two dimensions Weiner *et al.* (1971) constructed a two-dimensional taxonomy (table 2.1). They suggested that people’s choice to attribute an outcome to internal or external causes is influenced by other people’s performances on similar tasks. First of all, external attributions are likely if an outcome is consistent with other people’s performance, e.g. success when others have succeeded as well or failure when others have failed. On the other hand, an internal attribution is more likely if the person is the only person to succeed (or fail). For example, in the case of the vitamins company, it seems logical that the CEO attributes the outstanding performance to external factors (e.g. the favourable economic conditions), because the competitors showed good results as well. It

³ In his model, Weiner also addressed the consequences of attributions on people’s emotions (e.g. feelings of pride), their expectations regarding future achievements, and their future behaviour. As these aspects are beyond the focus of this research we do not address them. The interested reader is referred to Weiner (1985, 1986) and Vonk (1999).

may be apparent that there is a relationship between Kelley's consensus and Weiner's locus of causality dimensions (Martinko and Thomson, 1998). An internal cause is likely if the performance was low in consensus (it is the only company showing good results). On the other hand, high consensus (the other vitamins companies show good results as well) is expected to lead to an external attribution. Apart from other people's performance, people also take into account the outcomes of prior performances in similar situations. In Kelley's model a similar assumption is made and is reflected by the consistency dimension. Weiner's research showed that attributions to unstable causes are likely when the performance to be explained differs from prior performances (low in consistency). A performance that is highly consistent with prior performances is likely to be ascribed to stable causes. For example, based upon Weiner's propositions, it seems logical that the CEO of the vitamins company ascribes the good results to unstable causes because in the past he had to report a loss.

A considerable body of research on attributions of successes and failures relied on this two-dimensional taxonomy (Rosenthal, Guest and Peccei, 1996). This research, however, also revealed that the original taxonomy could not include all possible causes. To overcome this problem additional dimensions were added, including:

3. *Controllable versus uncontrollable*. This dimension was added because some (internal) causes are controllable (e.g. amount of effort) whereas others are not (illness). This distinction is not relevant to external causes as these predominantly are uncontrollable (Vonk, 1999).
4. *Global versus specific*. Abramson, Seligman and Teasdale (1978) proposed this dimension. With this dimension, although not frequently used (Weiner, 1985), they point at the possibility that some causes are specific to a situation, whereas others generalise across settings. A cause is global if it influences a number of different outcomes (e.g. the Asia Crisis). A cause is specific if it influenced only one particular outcome (e.g. a contamination of one of the vitamins company's products). According to Martinko and Thomson (1998) it is possible to relate the globality dimension to Kelley's distinctiveness: high distinctiveness leads to specific attributions.

2.2 Biases in people's attributions

2.2.1 The fundamental attributional error

So far we have discussed three influential contributions of Heider, Kelley, and Weiner to the development of attribution theory. In their work these scientists already have suggested the possibility of distortions in people's attributions. Heider (1958), to begin with, suggested that people tend to ascribe outcomes of events to people's traits (i.e. make an internal attribution) rather than to factors in the environment. That is, people have the tendency to underestimate the impact of situational factors and to overestimate the role of dispositional (personal) factors in controlling behaviour (Ross, 1977). Jones and Harris (1967) were among the first to empirically confirm the presence of such a bias and since then many others followed (Gilbert and Malone, 1995; Lewis, 1995; Robins, Spranca and Mendelsohn, 1996). This "correspondence bias" or "fundamental attributional error" is even considered one of the most robust effects within social psychology (Ross, 1977; Jones, 1990). Also in the management literature and notably in the romanticised conception of leadership (Pfeffer, 1977, 1997; Meindl, Ehrlich and Dukerich, 1985; Meindl and Ehrlich, 1987; Meindl, 1990) such a notion exists. Indeed, this so-called "leadership bias" may be seen as the fundamental attribution error at work (Pfeffer, 1997). Meindl and his colleagues argued that people have a strong belief in the influence of leaders (CEOs) on organisational performance, notwithstanding the fact that the empirical evidence with regard to the impact of leadership on organisational performance is ambiguous (Meindl, 1990). Pfeffer (1977) has even argued that leadership exerts little, if any, influence on organisational performance. The press seems to favour to interpret organisational outcomes in terms of leadership as well (Chen and Meindl, 1991; Hayward and Westphal, 2002), which in turn could reinforce the leadership bias. Maybe, as suggested by Meindl (1990: 161) it is easier to believe in leadership than to prove it. Organisations, and especially their leaders, can make use of this belief in their reconstruction of organisational outcomes in annual reports.

2.2.2 Actor-observer differences in attributions

Closely related to the fundamental attributional error is the actor-observer effect, which indicates that people's attributions may differ depending on the perspective (i.e. that of actor or observer) they have. According to Jones and Nisbett (1971: 2) the actor will emphasise the role of environmental factors when ascribing his own behaviour to causes. Meanwhile, the observer shows a tendency to explain the actor's behaviour in terms of its stable dispositional properties (hence, internal or

personal factors). Several explanations are used to account for this actor-observer effect. Apart from explanations related to the maintenance of self-esteem, informational factors are employed to explain this effect (Robins *et al.*, 1996). First, there is information asymmetry between the actor and the observer concerning the actor's actions. Typically, as Jones and Nisbett (1971: 6) note, the observer always lacks some of the distinctiveness and consistency information the actor possesses by virtue of knowing his own history. Consequently, this may lead to different attributions. Another explanation for this effect is sought in the fact that different aspects of the available information are salient for actors and observers (Jones and Nisbett, 1971). Whereas the observers concentrate on the actor's behaviour, the actor focuses on the environment. Such actor-observer differences may also occur in the context of the letter to the shareholders. This letter in which management provides explanations for the results is a publicly available document and is used by many constituencies in their decision-making process. These constituencies, such as, e.g. institutional investors, shareholders, employees, creditors, banks, etc., are expected to read the letter carefully and to confront it with information from other sources, e.g. their own knowledge, press releases, journal articles, and analysts' forecasts. Given these different information sources it is not inconceivable that the constituencies have different views of an event, and consequently challenge or even reject the accounts offered by management (Ginzel *et al.*, 1993).

2.2.3 The self-serving attributional bias

Generally speaking, people have positive views of themselves and want to maintain these positive views (Vonk, 1999). One possible way of upholding these positive images is by the attributions they make. A large body of social-psychological research reveals the existence of the so-called "self-serving attributional bias."⁴ This self-serving attributional bias implies that people are likely to attribute their successes to internal causes, whereas they tend to ascribe their failures to external causes (e.g. Harvey and Weary, 1981; Fiske and Taylor,

⁴ See, e.g. Miller and Ross (1975), Weary (1978), Zuckerman (1979), and Arkin *et al.* (1980) for reviews. Most of the studies reviewed by these authors concern laboratory experiments and typically include a teacher/student or therapist/client setting. A review by Mullen and Riordan (1988), however, found similar results for (real life) sport achievements, which were confirmed by Taylor and Riess (1989) and Santamaria and Furst (1994). More recently, Johnston and Kim (1994) found such a bias in a marketing-related setting, whereas DeDreu, Nauta, and Van de Vliert (1995) were able to show its presence in negotiation conflicts. The bias also seems present in the classroom (e.g. Ross and Nisbett, 1991; McAllister, 1996).

1984; Ross and Fletcher, 1985; Hewstone, 1989; Manstead and Hewstone, 1995; Vonk, 1999). This self-serving attributional bias consists of two elements, namely:

1. *Self-enhancement* implying that people take credit for successes, i.e. the attribution of successes to internal, personal causes; and
2. *Self-protection* implying that people deny to take responsibility for failures, i.e. the attribution of failures to external, environmental causes.

Two explanations have been offered to explain why people are inclined to describe outcomes of their own actions in a self-serving manner. On the one hand is the view of Miller and Ross (1975), who explain the bias in terms of cognitive, informational factors. This explanation suggests that the self-serving bias stems mainly from certain tendencies in the way people process information (Baron, 2000: 58). More specifically, Miller and Ross (1975: 223) argued that subjects are simply more likely to perceive a relationship between their behaviour and its outcome when they succeed than when they fail. One important reason for this is that people are more likely to accept responsibility for expected outcomes than for unexpected outcomes, and, in general people intend and expect success instead of failure. On the other hand is the view of Zuckerman (1979) and Weary (1978) who explain the occurrence of the self-serving attributional bias in motivational terms. In particular, these researchers contended that the self-serving attributional bias is mainly a result of people's tendency to enhance or protect their self-esteem and have a desire to look good to others (Baron, 2000: 59). From the discussion between the two groups it seems that both cognitive and motivational factors have a role in bringing about the self-serving bias (e.g. Tetlock and Levi, 1982; Kunda, 1990; Vaughan and Hogg, 1995; Brown, 1997). Based upon a review of the literature Kunda arrives at the following conclusion: "Although cognitive processes cannot fully account for the existence of self-serving biases, it appears that they play a major role in producing these biases in that they provide the mechanisms through which motivation affects reasoning. Indeed, it is possible that motivation merely provides an initial trigger for the operation of cognitive processes that lead to the desired conclusions" (1990: 493). Furthermore, she suggests that people's reasoning—including their search for causes of event—is driven by directional goals (Kunda, 1990: 482), and in her view people are motivated to arrive at a particular conclusion. In doing so they attempt to be rational, i.e. objective, and to justify that conclusion. Such motivated way of processing information seems to apply to organisations and the individuals connected therewith as well. It has been argued that individuals within organisations, and whole organisations as well, are goal-seeking entities which

process information and make decisions in a self-interested manner (Staw, 1980). Hence, “self-serving reasoning patterns in accounting narratives (e.g. the letter to the shareholders) are almost unavoidable” (Aerts and Theunisse, 2000: 3). In the next section we will discuss previous research on the self-serving attributional bias in the letter to the shareholders.

2.3 The self-serving attributional bias in letters to the shareholders

Social-psychological tendencies such as self-serving behaviours which originally concern individuals have been applied to groups and organisations as well. Indeed, according to Johns (1999) ideas with respect to self-serving behaviours are really “multi-level.” That is, those ideas can be applied to individuals, groups, and organisations. In his review of the organisational literature, Johns (1999) provides an overview of different ways in which individuals, groups, and organisations show self-serving behaviours. He provides evidence of people remembering successes better than failures, reconstructing history in a self-flattering manner, and attributing favourable outcomes to themselves and negative outcomes to others.⁵ In a review of the literature on narcissism, Brown (1997) too argues that many ideas that describe individual behaviour apply to whole organisations. Both Johns and Brown draw on Staw (1980, 1991; see also Chatman, Bell and Staw, 1986) who suggest that collectivities, such as organisations, behave in similar ways as individuals do (1980: 46). Furthermore, Staw and colleagues note that individual behaviour is more “macro” than we usually recognise, and organisation behaviour is more “micro” than is generally acknowledged (Chatman *et al.*, 1986: 211). The most important reason is that organisations are populated by individuals, and, Staw (1980: 47) proceeds, if there exist any generalizable tendencies within individuals, these tendencies will be manifested in organisational actions. Later, Staw (1991: 809) argued that part of organisational behaviour is really individual behaviour in disguise. Focussing on the “dominant coalition”, i.e. the key organisational decision-makers such as the CEO and/or the board of directors, are in this sense of particular importance. For example, in his book “Struggling with the Demon” Kets de Vries (2001) not only shows how organisational leaders’ irrational behaviours affect organisational life, but also how we can make sense out of such behaviours. He applies the so-called clinical approach⁶ to leadership

⁵ Also in the social psychology literature there is evidence that groups show self-serving biases (see, e.g. Bond, Hewstone, Wan and Chiu, 1985; Leary and Forsyth, 1987).

⁶ The starting point of the psychoanalytically oriented clinical paradigm is not to take for granted what is directly observable. According to Kets de Vries (2001: 6-ff) the following

and indicates, for example, what kinds of effects two rather conflicting personalities that CEOs may possess—*hypomanics* and *alexithymics*⁷—can have on organisations. For example, *hypomanics* are extremely self-confident, willing to take enormous risks and are extremely persuasive, but, on the other hand, they also do not like to be contradicted. Kets de Vries comments that when confronted with opposition *hypomancis* can become “pretentious, impertinent, and even rough. Trifling incidents can bring about open hostility and violent outbursts” (2001: 64). Hence, while they can make a great contribution to creating a very successful company, they are also able to bring the whole organisation down (for example because they do not wish to see that their choice of strategy is outdated or, alternatively, have taken too large risks). In another chapter on collusive relationships in management, Kets de Vries (2001) applies ideas from couple therapy to review superior-subordinate relationships in organisations. Based on his interviews with leaders, Kets de Vries suggests that many of the collusive relationships in organisations can be characterised as “narcissistic collusion” (2001: 133). This implies that the subordinate shows an almost exaggerating admiration for his superior. The superior on the other hand is all too happy to hear it. Kets de Vries warns for the dangers of such type of relationship: “Extreme narcissists are bound to create havoc around them. Preoccupied with wanting to be unique and superior, they exaggerate their talents, engage in boastful and pretentious behaviour, conduct themselves in a strongly self-centered and self-referential manner, show an overriding need for attention and admiration, are prone to grandiose fantasies, and often possess vindictive characteristics” (2001: 134).

Hence, given the possibilities to apply social-psychological ideas about the individual to organisations, is it not surprising that researchers have studied the

three premises underly this paradigm. First, it assumes that behind every irrational action, decision, etc., there is a rationale or explanation. Second, it assumes that individuals are not always conscious or aware of certain aspects of their character. The last premise of the clinical approach is that each individual is a product of his or her past, and as such, is shaped and influenced by his or her experiences.

⁷ Kets de Vries (2001: 55-56) briefly outlines these personalities as follow. “People who are *hypomaniac* are high-spirited, self-confident, and exhilarating, but they are also unpredictable; like “live volcanos,” they erupt with little warning. Because of their charm and charisma, such individuals can be highly effective at influencing others. The second group of people, *alexithymics*, present the opposite picture. It is their *lack* of feeling and emotion that sometimes leads to difficulties. Their emotions are flattened; whatever feelings of zest, enthusiasm, and passion they once have had are now nonexistent. It is as if they were emotionally color-blind. Thus the impression they make on others is that of “dead fish”.”

self-serving attributional bias in the context of the letter to the shareholders. The research mainly focused on the United States (Bowman, 1976, 1978; Bettman and Weitz, 1983; Staw *et al.*, 1983; Salancik and Meindl, 1984; Clapham and Schwenk, 1991; Schwenk, 1993). More recently, however, similar studies have been conducted in Belgium (Aerts, 1991, 1994, 1996; Aerts and Theunisse, 2000), the Netherlands (Kemp, Hooghiemstra, Van der Tas and Wierenga, 2000), the United Kingdom (Clatworthy and Jones, 2000b), and Singapore (Tsang, 2002). Below we shortly review these studies.

Although Bowman (1976, 1978) did not specifically examine causal attributions, his results provide a preliminary indication of the self-serving bias in the letter to the shareholders. His study of 82 companies in the food-processing industry reveals that the less successful companies (in terms of sales) complain about the weather and governmental price controls. The more successful companies, on the other hand, prefer to address company's actions and strategies in their letters to the shareholders.

Bettman and Weitz (1983) studied patterns of causal reasoning in 181 letters to the shareholders published in 1972 and 1974. In order to study such patterns, and the self-serving attributional bias in particular, they adopted Weiner's taxonomy consisting of locus of causality, stability, and controllability. Their results indicate that "the typical patterns of attributions found in studies of causal reasoning for individual performance also generally characterises attributions to causes of corporate performance" (Bettman and Weitz, 1983: 180). In particular, Bettman and Weitz find that managers attribute favourable outcomes to internal causes that are stable and controllable, indicating self-enhancement among managers. Unfavourable outcomes, on the other hand, are attributed to external, unstable, and uncontrollable causes, indicating self-protecting tendencies.⁸ Recently, Tsang (2002) replicated this study using a sample of Singapore companies. His results corroborate the findings of Bettman and Weitz.

In the Staw *et al.*, (1983) study of 87 companies (fiscal year 1977) a self-serving attributional pattern is found as well. Both high- and low-performing companies (in terms of earnings per share) attribute positive outcomes to company causes (e.g. corporate actions, decision-making, etc.), while negative effects are ascribed to industry and environmental causes. Though being significant in both groups, the pattern is somewhat stronger in the low-performing companies. Staw

⁸ Another finding related to the amount of causal reasoning. In line with previous social-psychological research (Wong and Weiner, 1981; Weiner, 1986) they found that the amount of causal reasoning was more extensive if outcomes are unfavourable and/or unexpected.

et al. (1983) also examined the influence of stock-related and CEO-related factors on attributions in the letter to the shareholders. The change in stock price (prior to the annual report's publication) appears to exert the strongest influence on attributions. Their results indicate that the greater the decline in a firm's stock price, the greater the self-protecting tendency, which was particularly true for the low-performing companies. Likewise, the greater the increase in stock price, the greater the self-enhancing tendencies. Other factors, such as institutional ownership, CEO's tenure⁹, age, and salary do not seem to affect self-serving attributions significantly.¹⁰

Bettman and Weitz (1983) and Staw *et al.* (1983) employed social psychology as their main point of reference in their studies. This framework, however, does not fully take into account that CEOs may use attributions strategically. According to Salancik and Meindl (1984), who adopted the symbolic management perspective,¹¹ attributions in financial reports—and specifically in the shareholders' letter—are political statements that reassure constituents or induce them, when necessary, to participate in the organisation's affairs (1984: 239). A consequence of this strategic use of attributions is that managers will be less likely to lay blame on the environment than the psychological explanations might imply. By accepting blame for negative outcomes, managers communicate that unfavourable circumstances are understood and, by implication, under control. Concerning successful performance, as is the case in the psychological

⁹ However, Schwenk (1993) examined and found an effect of CEO's and board of directors' tenure on the self-serving attributional bias in letters to the shareholders. In particular, his study of 60 companies in the oil, chemical, and computer industries (fiscal year: 1984) revealed that the more experienced the CEO and board members were, the greater the self-protecting tendency. No significant difference was found regarding self-enhancement among board members.

¹⁰ Another interesting result concerned the location of the presentation of good and bad news. Not only did firms, generally speaking, blamed the environment for performance failures, they also tried to lessen the impact of this bad news by presenting any negative information early in their reports and moving quickly to more positive events (Staw *et al.*, 1983: 598; see also Fiol, 1989). It seems that all firms want to end their annual reports with positive news.

¹¹ A central assumption of the symbolic management perspective is that top management provides the meaning of organisational events. Furthermore, explanations provided in the letter to the shareholders constitute top management's construal of an event (Ginzel *et al.*, 1993: 236). This perspective also assumes that in order to secure the support of various interest groups management must give the appearance of efficacy in a world in which control is often elusive (Salancik and Meindl, 1984: 238), because "the perception that top management is not really in control of events may threaten their security" (Ginzel *et al.*, 1993: 245).

explanation, internal attributions are employed. On average, their results, based on an 18-year sample of 18 companies, corroborate the findings of the aforementioned studies: positive effects are internalised, whereas negative outcomes are externalised. Additionally, their results show that the stability of company's results exerts a significant influence on the attributional pattern. It appears that in stable firms, management is biased to take credit for positive outcomes and lay blame for negative outcomes. Unstable firms too tend to credit themselves for positive outcomes; however, they do not show a bias in explaining negative outcomes. The results are consistent with idea that attributions are used strategically, i.e. to create an illusion of control (Salancik and Meindl, 1984: 246-ff.). Accepting blame for negative outcomes seems to pay for unstable firms: those who blamed the environment and not themselves experienced worse outcomes (in terms of profitability) in the future, suggesting that "constituents are not appropriately impressed" (Salancik and Meindl, 1984: 252).

Clapham and Schwenk (1991), in their study of letters to the shareholders of 20 companies in the electric and gas utility industry over a 5 year period (from 1978 to 1982), confirmed the results of Salancik and Meindl regarding the negative relationship between self-protection and future firm performance. However, in contrast to Salancik and Meindl (1984) their results do not indicate a positive relationship between self-enhancement and future performance. According to Clapham and Schwenk (1991), whose results too indicate the presence of the self-serving attributional bias in general, their findings seem to favour an informational, cognitive interpretation rather than a motivational one. In particular they argue that, just like ordinary people, managers' actions are intended to result in positive outcomes. So, if such outcomes are achieved it is natural to ascribe them to internal factors. "However, if outcomes are negative, it is not possible to explain them through management's actions aimed at achieving positive outcomes. Therefore, executives must identify and discuss environmental events which negated the effects of their own actions. This results in an external focus when discussing poor performance" (Clapham and Schwenk, 1991: 226).

Aerts' (1991, 1994, 1996) and Aerts and Theunisse's (2000) research is somewhat different from the studies discussed previously. Apart from causal explanations, which are usually expressed in clear-cut language, Aerts argues that letters to the shareholders frequently contain so-called "accounting explanations." As they are expressed in typical accounting language,¹² such accounting

¹² Aerts (1994: 339) provides the following example of such accounting explanation: "A decrease in profits could be explained by a decline of the operating results and/or by an increase of financial costs."

explanations are often ambiguous: who is responsible for an outcome is not always explicitly stated. According to Aerts (1991, 1994) especially negative performances will be explained in technical-accounting terms—thereby hoping that responsibility for a failure is mystified. On the other hand, positive performances are accounted for in strict cause-effect terminology whereby responsibility becomes clear (Aerts, 1994: 341). To test this, Aerts (1991, 1994) used a sample of letters to the shareholders of 50 Belgian companies (fiscal year 1983). The Belgian companies included in Aerts' sample show strong self-enhancing tendencies: positive effects are predominantly attributed to internal factors. However, in contrast to the American studies, Aerts was not able to detect a self-protecting tendency among his Belgian sample: on average they use external and internal factors to the same extent to explain negative effects.¹³ A similar picture emerge regarding the accounting bias: firms prefer to explain positive outcomes in clear-cut causal language, however, they show no preference for type of language (i.e. causal versus accounting) to explain negative outcomes. Aerts also studied whether attributions depended upon different situational determinants, including the stability of financial performance. In contrast to Salancik and Meindl (1984) the self-protecting tendency was accentuated in the unstable Belgian companies implying that the “illusion of control” does not seem to be present in Belgium. As in the Staw *et al.* (1983) study, Belgian firms as well prefer to highlight positive outcomes, irrespective of performance growth.¹⁴ Later research, using an eight-year sample of 22 companies' letters to the shareholders (Aerts, 1996) reveals that the number of attributions concerning positive outcomes in one year is highly correlated with the number in a previous year. No such correlation is found regarding negative outcomes, suggesting that it is easier for companies to report “good news.” In a later study, Aerts and Theunisse (2000) examined the effects of listing status on attributional patterns in letters to the shareholders. Using a sample of 63 not quoted and 95 quoted Belgian companies (fiscal years 1995 and 1996), they find that listed firms exhibit more attributional behaviour (i.e. their letters contained more attributional statements) than unlisted companies. This effect is significant for explanations of both positive and negative effects. Although the number of attributional statements differs depending on listing status, their results do not indicate a difference in the degree of self-serving tendencies in the explanations offered: self-enhancing tendencies are present in either type of company, whereas a self-protecting tendency is absent.

¹³ In later research using more recent data (Aerts, 1996; Aerts and Theunisse, 2000) this finding is confirmed.

¹⁴ Similar results were found by Staw *et al.* (1983) and Clatworthy and Jones (2000b).

Research by Kemp *et al.* (2000) and Clatworthy and Jones (2000b) show that the self-serving attributional bias is also present in letters to the shareholders of Dutch and British companies. However, in the 50 listed Dutch firms Kemp *et al.* (2000) examined the self-protecting tendency is less pronounced than in the American and British companies.

In sum, it is evident that in letters to the shareholders a self-serving attributional bias is present. In particular, it seems that CEO's tend to highlight "good news" and take credit for those positive outcomes. Regarding negative or bad news, however, a more mixed and sometimes even conflicting picture emerged: in most American and British companies CEOs ascribed negative effects to factors beyond their control. In some unstable companies (in terms of financial performance), however, CEOs want to create an "illusion of control" by ascribing negative outcomes to themselves (although here conflicting results emerged as well). However, in Belgian companies neither a self-protecting tendency nor a stability-effect was found, whereas in the Netherlands, though being present, the self-protecting tendency was less pronounced. These results suggest that there may be differences between countries with regard to the pervasiveness of the self-serving effect.

2.4 Three theoretical frameworks to explain self-serving biases

2.4.1 Introduction

In this section we discuss the self-serving phenomenon from three different theoretical perspectives. The first angle is the social-psychological impression management or self-presentation point of view, which is related to the motivational explanation of the self-serving attributional bias. This impression management perspective points to the importance of other people's perceptions in social interactions. For example, when a company's CEO presents declining profits in a meeting with financial analysts it may be considered inappropriate to do it in a humorous, joyful manner. Because of the importance of others' perceptions, people—including CEOs—are motivated to influence these perceptions by using different impression management techniques. Closely related to this social-psychological perspective is corporate communication from the field of marketing. In the corporate communication framework "corporate identity" and "corporate image" are central. Corporate identity refers to "all the forms of expression that a company uses to offer insight into its nature", whereas corporate image refers to "the picture people have of a company" (Van Riel, 1995: 27). In the corporate communication framework it is stressed as well that companies are

trying to influence the ideas people have of the company. The economically oriented perspective that may explain why managers engage in self-serving attributions is offered by agency theory. The main premise of agency theory is that managers are guided by their self-interest and are able to do so because of uncertainty and information asymmetry.

2.4.2 Impression management

Impression management or self-presentation concerns the process by which individuals attempt to control the impressions others form of them (Leary and Kowalski, 1990).¹⁵ The primary aim of impression management is to be viewed by others as oneself desires, generally speaking, as favourable as possible. Goffman was one of the first to recognise the importance of impression management in everyday life. In his book, *The presentation of self in everyday life* (1959), he pointed to the importance of impression management for “face-maintenance”, i.e. for regulating the perceptions other people have of a person. The importance of face is that it is highly influential in social interactions: they will determine how other people see, and hence treat you. Since Goffman’s work many new insights on impression management have been developed. Overviews can be found in Schlenker (1980, 1985), Tedeschi (1981), Baumeister (1986), Schlenker and Weigold (1992), Rosenfeld, Giacalone and Riordan (1994, 1995), and Leary (1996). Impression management can take many forms, both verbally and non-verbally (e.g. facial expression, clothing, etc.). Sometimes impressions are managed consciously, but often people engage in impression management without being aware of it. Much of our everyday behaviour can even be considered as impression management, e.g. giving compliments to others (whether or not truthfully), greeting colleagues when you meet them, appearing interested when other people talk, etc.. Although people are not always aware of the impressions they convey, a certain strategic behaviour can be assumed. According to Schlenker and Weigold (1992: 134-135) impression management is influenced by people’s agendas, i.e. their overt or covert interpersonal goals and their plans to achieve these goals. In this sense impression management can be viewed as instrumental (Goffman, 1959; Jones, 1990; Schlenker and Weigold, 1992; Manstead and Hewstone, 1995) or as purposive, goal-directed behaviour (Bozeman and Kacmar, 1997). Indeed, in a review of the literature on impression management, Leary and Kowalski (1990) indicate that the motivation to manage impressions is aroused by,

¹⁵ Others, e.g. Schlenker (1980), Weary and Arkin (1981), Tedeschi and Riess (1981a,b), Jones and Pittman (1982), Baumeister (1982a,b), and Rosenfeld *et al.* (1995) employ similar definitions of impression management.

amongst others, the goal relevance of the impressions and the gap between how others perceive a person (current image) and how that person wants others to perceive him (desired image). In an organisational context the first, goal relevance, seems particularly important. It depends on the publicity¹⁶ of one's behaviour on the one hand and the individual's dependency on the target¹⁷ on the other. The higher the publicity and/or the dependency on the target, the more important impressions are and the more the individual is motivated to engage in impression management. Fiol (1995) found direct evidence of this public-private effect in the context of managerial behaviour. She compared managers' attributions in external communication (i.e. the letter to the shareholders) with those in internal communication (i.e. internal planning documents). Using content analysis, she found that managers' private and public statements did not necessarily converge. Internal documents, compared to external ones, referred more to threats. External documents, on the other hand, contained more references to opportunities. According to Fiol (1995), the results provide an indication that statements containing positive or negative evaluations are a reflection of managers' need to engage in impression management, particularly in unstable and competitive environments. According to Leary and Kowalski (1990) the kinds of impressions people subsequently want to convey depend on, for example, role constraints¹⁸, the target audience's preferred impressions, and current or potential social images¹⁹.

¹⁶ Publicity is a function of both the probability that one's behaviour will be observed by others and the number of others who might see or learn about it (Leary and Kowalski, 1990); so learning about it from second-hand sources is also important (Leary, 1996).

¹⁷ Dependency refers to the degree to which a person's outcomes are contingent on the behaviour of another person (Leary, 1996: 56). In this sense future interaction is also relevant: i.e. the motive to manage impressions increases when one expects to interact with that person again in the future.

¹⁸ Role constraints imply for example that people in certain positions are expected to behave in a certain way, which particularly applies to people in positions of authority (e.g. members of the board of directors and/or managers in general) (Leary and Kowalski: 1990). According to these authors, the effectiveness of these people depends on their ability to maintain public images of being competent and effective leaders. Among corporate leaders images of trustworthy, credible, morally worthy, innovative, esteemed, and powerful are especially valued (Gardner and Avolio, 1998: 40; see also Leary, 1996). Not being able to create these images can eventually lead the leader to lose the right to enact that role.

¹⁹ This factor suggests that when people construct their images they have to take into account what other people know or are likely to know about them in the future (Leary, 1996). Basically it involves credibility. For example, people who continuously show a tendency to make self-enhancing attributions must eventually reckon with less sympathy of other people: they will be considered as braggarts and run the risk that their future claims

All three factors seem to be of importance in a financial reporting context. As is advanced by e.g. Pfeffer (1981, 1992) management has a symbolic function. By providing explanations, rationalisations, and legitimisation for the organisational activities (Pfeffer, 1981; Elsbach, 1994), management wants to create an image of being in control (Salancik and Meindl, 1984; Meindl, 1990; Ginzel *et al.*, 1993), i.e. that they are competent and powerful (Leary, 1996; Gardner and Avolio, 1998). Establishing such an image assures investors so that they will continue to invest in the company. Also the audience, and the press in particular, seems to prefer such an image: they favour to interpret organisational outcomes in terms of leadership (Chen and Meindl, 1991). Impression management, e.g. by engaging in self-serving attributional behaviour, can contribute to create such an image. However, when doing so, the CEO has to reckon with investors' subsequent evaluation: telling a story without company's results matching it may be counterproductive. In addition, images have consequences (Schlenker, 1980: 97): not only do they bring prerogatives (i.e. they give the holder a certain set of allowable behaviours) but also responsibilities. So an image of success also has a drawback: in the future success is expected too (Baumeister, Tice, and others, 1989). Credibility seems particularly important in the context of financial reporting (Gibbins *et al.*, 1990; Ginzel *et al.*, 1993; Aerts and Theunisse, 2000). Claiming an image to be what one is not, and then failing to match one's words with deeds, not only will produce negative reactions in others and in oneself, but will also be at the expense of management's credibility (Schlenker, 1980). Indeed, research by Limacher (1997) shows that management's optimism or pessimism regarding the company's business environment and future prospects in the letter to the shareholders influences investors' perceptions of both firm performance and managers' credibility.²⁰ Using a laboratory experiment he found that "when

will be taken with a grain of salt, i.e. their credibility will be endangered (Schlenker and Leary, 1982; Sutton and Callahan, 1987; Ginzel *et al.*, 1993; Rindova, 1997). Regarding the credibility of claimed impression, not only other information about the actor is important but also two other—contextual—factors as mentioned by Aerts (1991: 102; see also Leary, 1996). Firstly, Aerts suggests that the offered explanations should fit the cultural-based expectations concerning possible causes of events. Secondly, he states that the explanations offered should be in line with other information regarding the social-economic context in which the company or person operates. For example, in times of low inflation, a stable or low interest rate, an explanation of decreasing profits as a consequence of an increase in cost of debt capital is not credible.

²⁰ Optimism refers to such a presentation mode in which favourable aspects are emphasised. In the case of a pessimistic attitude unfavourable aspects are discussed (as well). Limacher (1997) notes that in reality management attitude is usually optimistic and ranges from unbridled optimism to mild pessimism.

financial performance had been good, an optimistic attitude resulted in higher assessments than did a pessimistic attitude. However, when financial performance had been bad, an optimistic attitude resulted in lower assessments than did a pessimistic attitude” (1997: 20). His findings, which are largely in line with previous social-psychological results (Schneider, 1981; Schlenker and Leary, 1982; Robinson, Johnson and Shields, 1995), suggest that investors can be affected by the way managers present performance information in the letter to the shareholders. The main premise of Limacher’s study is that unbridled optimism is not always an advisable tactic: if performance does not match the story in the letter to the shareholders, investors will make lower assessments of both firm performance and managers’ credibility.²¹ Subsequently, this can have negative consequences for the impression manager: not only will he be seen as insincere, but the audience will also question the sincerity of the impression manager’s future claims (Ginzel *et al.*, 1993; Rindova, 1997).

In the literature on verbal impression management many possible strategies and typologies thereof are presented (see e.g. Scott and Lyman, 1968; Tedeschi and Riess, 1981a, b; Schlenker, 1980; Jones and Pittman, 1982; Tetlock and Manstead, 1985; Gardner and Martinko, 1988a, b; Jones, 1990; Rosenfeld *et al.*, 1995). For the purpose of this research we use the distinction between acquisitive and protective strategies. According to Aerts (1991: 96) it seems reasonable to assume that various forms of verbal impression management—and especially the acclaiming and accounting strategies—can be found in annual reports. The most interesting acquisitive tactic is that of acclaiming, a tactic that is used to account for successful outcomes. It consists of “enhancements” and “entitlements.” According to Schlenker (1980) people tend to use such techniques when circumstances are likely to deprive the actor of credit for the outcome. Entitlements is a tactic that maximises the actor’s responsibility for the event and is used when that responsibility is either ambiguous or unclear (Schlenker, 1980). The use of self-enhancing attributions—claiming that one is personally responsible for a successful outcome—is an obvious example of this tactic (Schlenker, 1986). In case of enhancements responsibility is beyond doubt, so the actor tries to maximise the desirability of the event itself (Schlenker, 1980). An example in the context of financial reporting might be that CEOs let the results speak for

²¹ In a US study, based upon a survey distributed among security analysts, Higgins and Bannister found that “higher credibility companies were less inclined to take too much credit for good performance or externalise responsibility for poor performance” (1992: 31). They conclude that “self-serving attributions that take too much credit for good performance while blaming poor performance on external uncontrollable variables can erode strategic credibility” (1992: 35).

themselves. That is, CEOs speak of increasing profits, sales, etc. in their letters to the shareholders without providing an explanation for the improvement in company performance. Whereas the acquisitive tactics are used to address successes, accounting tactics are used to explain failures. Their aim is to offer the audience an explanation of or an apology for a predicament²² that separates the actor from the failure (Schlenker, 1980).²³ In case of excuses the actor tries to deny responsibility for an unsuccessful outcome (Scott and Lyman, 1968; Schlenker, 1980; Benoit, 1995). The use of self-protecting attributions—blaming the situation for an unsuccessful outcome—is an example (Schlenker, 1986). The “best” excuses are in general those that attribute failure to external, uncontrollable, or unintentional causes and offer the actor effective protection (Weiner, Figueroa-Muñoz and Kakihara, 1991; Schlenker and Weigold, 1992). As is the case with many other forms of impression management, excuses are only effective if and as far as they provide a credible explanation. As a consequence, excuses people offer often “fit the facts” (Schlenker, 1980; Tetlock, 1985). In case of justifications, the person accepts responsibility but denies that the act was bad or wrong in order to reduce the negativeness of the consequences. Another remedial tactic is the use of apologies in which the actor admits blameworthiness for an undesirable event, but in addition also attempts to obtain a pardon from the audience. Apologies are designed to convince the audience that the undesirable event should not be

²² A predicament is a condition or situation that is dangerous, unpleasant, embarrassing or sometimes comical (Schlenker, 1980: 125). An example, related to the topic of this research, is a decrease in profits or even a loss.

²³ Rosenfeld *et al.* (1995: 84-ff.) mention other protective tactics, e.g. self-handicapping and other-enhancement. Self-handicapping implies a person placing “impediments or barriers in the face of success” (Rosenfeld *et al.*, 1995: 88; see also Tice and Baumeister, 1990). Such a strategy has two consequences for the self-handicapper: If he succeeds the value of the success is heightened, if he fails, the negative impact will be weakened. To a certain extent such behaviour can also be expected in annual reports (Rosenfeld *et al.*, 1995: 91). In these annual reports managers have to provide information on expectations on future profits, sales, etc.. Hence, it may be possible that management is very careful and even pessimistic about the future profits and sales, although general economic conditions do not completely warrant such expectations. Related to self-handicapping is the use of other-enhancements. By using this tactic, individuals try to diminish the extent to which a relative failure is attributed to their own lack of ability by ensuring that the other is performing with an advantage (Shepperd and Arkin, 1991: 79). The use of other-enhancements by companies, however, does not seem likely. After all, companies are operating on the same market and are competing for the same customers and investors. Presenting an impression that the company’s results have been disappointing due to the strength and other qualities of a competitor is not a very smart thing to do. A consequence

considered a fair representation of what the actor is “really like” as a person (Schlenker, 1980: 154). The use of apologies in annual reports are, however, not very likely. According to Giacalone (1988) it is often not the best strategy for the failing manager to use, because an apology explicitly admits failure, leaving the leader at the mercy of observers. The use of excuses seems better: because an excuse usually involves the denial of responsibility, the leader’s audience will be less likely to make a personal or internal attribution (Giacalone, 1988: 196).

The last interesting accounting tactic is meta-accounts. According to Scott and Lyman (1968), people who want to avoid the need of giving explanations of their behaviour use meta-accounts. An example of such a meta-account is mystification, in which the person admits that his performance did not live up to the expectations but without really giving a reason for his or her failure—for example by stating that it is a long story. Another possibility, according to Scott and Lyman, is the use of referral, by which the person refers to a higher authority for his failure. It is clear that such a tactic is not open to the board of directors, except the possibility that company’s performance was affected by governmental legislation. Concerning financial reporting and the use of meta-accounts Aerts’ (1991, 1994) research is particularly interesting. In his research, Aerts introduced a special kind of explanation that is typically found in annual reports: the accounting explanations. According to Aerts (1994) these accounting explanations can be conceived of as explanations where assignment of responsibility are ambiguous and, hence, can be considered as a kind of meta-account which functions as an evasive verbal tactic by which accepting or denying responsibility is avoided. Aerts (1994) expected the use of such accounting explanations to be more prevalent to explain negative performances than to explain positive outcomes. His results, however, failed to indicate the presence of such a bias.

2.4.3 Corporate communication

Corporate communication encompasses all internal and external communications by an organisation, including marketing communication (e.g. advertisements and sales promotions), organisational communication (e.g. investor relations, public relations, public affairs), and management communication (by senior managers). Central to corporate communication is the co-ordination of these communication forms and is underscored in Van Riel’s conceptualisation. Van Riel defines corporate communication as “an instrument of management by means of which all consciously used forms of internal and external communication are harmonised as

of such impression management tactic could be that investors might detract their funds from the company to invest it in the competitor.

effectively and efficiently as possible” (1995: 26). Others, as Argenti (1994), Gray and Balmer (1998) and Dolphin (1999), define corporate communication in similar ways. The goal of this “orchestrated” communication is to create a favourable reputation, so that people are persuaded to buy the company’s products or services, to invest in or work for the company (Baker and Balmer, 1997; Van Riel and Balmer, 1997). Corporate identity and corporate image (or reputation) play an important role in the corporate communication framework.

Corporate identity refers to “all the forms of expression that a company uses to offer insight into its nature” (Van Riel, 1995: 27).²⁴ Hence, it involves the way an organisation presents itself to an audience. According to Birkigt and Stadler (1986, as cited in Van Riel, 1995) this self-presentation of companies may be developed in three ways, namely: behaviour, communication, and symbolism (e.g. corporate name, logos, corporate headquarters, employee uniform, etc.). These three, comprising the so-called corporate identity-mix, represent the “personality” of the organisation and their use is aimed at creating or maintaining a certain corporate image or reputation. A company’s behaviour is the most effective medium to create or harm a corporate identity. After all, target groups will judge the company by its actions. Shell’s handling of the Brent Spar, proposing to sink it in the Atlantic Ocean, clearly illustrates the importance of corporate behaviour. Providing information on the actions is important as well (Deegan, Rankin and Voght, 1999). It is possible to emphasise particular aspects of company behaviour by means of communication and/or symbols. That is, communication can be used tactically (Birkigt and Stadler, 1986; Van Riel, 1995) so that it may “help to manage an organisation’s relationship with relevant publics through the shaping of external perceptions” (Neu *et al.*, 1998, p. 266). It emphasises that management has a symbolic function: they have to make sure that certain images are signalled to the corporate audience (e.g. Meyer and Rowan, 1977; Pfeffer, 1981; Hines, 1988; Elsbach, 1994). Images as being in control of the company and that manager’s interests and those of the stakeholders are converging are important. The corporate annual report, and the letter to the shareholder in particular, plays a major role in this signalling or communication process. Indeed, Clarke and Murray (2000: 145) stress that “the chairman’s statement (i.e. letter to the shareholders) is [...] not only relevant for the content of its communication but is also important for the symbolism which is attached to it in the corporate identity paradigm.” That

²⁴ We forego the discussion about the meaning of “identity”. In the literature the concepts “corporate identity” and “organisational identity” are used interchangeably despite their different meanings (e.g. Gioia, Schultz, and Corley, 2000). For an excellent overview of the differences between the two concepts we refer to Hatch and Schultz (2000).

is, the message contained in it has to contribute to create the desired corporate (and CEO's personal) image. The importance of this symbolic function cannot be underestimated: having a corporate identity that is powerful and convincing creates certain advantages for a company. According to Van Riel (see also Dolphin, 1999) a convincing corporate identity first of all motivates the employees because employees find it more easy to identify with the company they work for. In addition, and more important in the context of financial reporting, a strong corporate identity inspires confidence among the company's external target groups, which will secure their contribution to the organisation (Pfeffer and Salancik, 1978).

Whereas corporate identity refers to an organisation's self-presentation and is (or at least: should be) a reflection of how the organisation sees itself, the corporate image essentially refers to how the corporate stakeholders perceive the organisation. That is, corporate image refers to "the organisation as seen through the eyes of the constituents" (Argenti, 1998: 77). Some authors have linked corporate identity and image to social-psychological concepts (e.g. Ind, 1990; Van Riel, 1995; Markwick and Fill, 1997; Argenti, 1998; Dolphin, 1999; Bromley, 2000; Hatch and Schultz, 2000). While corporate identity is equivalent to a corporate sense of the self—involving the question "who we are"—corporate image involves others' perception of the self—relating to the question "how are we perceived by others." More formally, corporate image or reputation²⁵ may be defined as "the set of meanings by which an object (or organisation) is known and through which people describe, remember and relate to it. That is, it is the net result of the interaction of a person's beliefs, ideas, feelings and impressions about an object (or organisation)" (Dowling, 1986: 110).²⁶ The basic idea of corporate

²⁵ The difference between "image" and "reputation" seems to be marginal (Van Riel, 1995) and is related to time. While image refers to more momentarily perceptions a reputation refers to more enduring, stable characteristics as perceived by other people (e.g. Markwick and Fill, 1997; Rindova, 1997; Gray and Balmer, 1998; Dolphin, 1999). For example, Balmer (1998) comments that "image differs from reputation in that whereas the former concerns the public's latest beliefs about an organisation, reputation represents a value judgement about the organisation's qualities built up over a period and focussing on what it does and how it behaves. Thus reputation has an historical dimension" (as quoted in Bennett and Kottasz's (2000: 225)). This difference has an important consequence: reputations cannot be changed quickly, images can or as Markwick and Fill (1997: 398) remark: "Images may be altered relatively quickly as a result of organisational changes or communication programmes, whereas reputation requires nurturing through time and image consistency".

²⁶ Other definitions include "the perception of a company held by people inside and outside a company" (Fombrun, 1996) and "the totality of a stakeholder's perceptions of the

image is that it enables people to think about an organisation (or any other object) in terms of “good/bad”, “pleasant/unpleasant”, and so on (Van Riel, 1995). The corporate image represents the connotations that comes to mind when a persons sees or hears the corporate name or its logo (Gray and Balmer, 1998; Holten Larsen, 2000). A strong or good corporate reputation is important not only for the company but for the individuals connected therewith as well (e.g. Sutton and Callahan, 1987; Fombrun and Shanley, 1990; Bromley, 1993; Dutton, Dukerich and Harquail, 1994; Fombrun, 1996; Carter and Dukerich, 1998; Smidts, Van Riel and Pruyn, 2001).²⁷ From Fombrun and Shanley (1990), Fombrun (1996), and Dowling (2001) it is apparent that firms with good reputations can, among other things, charge premium prices, enhance their access to capital markets, attract investors more easily, have better credit ratings (usually implying lower interest rates), and have less problems with attracting the right people wanting to work for the company. In addition, a strong corporate reputation seems to be helpful in guiding people in their decision-making process (Van Riel, 1996). Especially when people lack detailed knowledge about an organisation or it’s products connotations as “good”, “pleasant”, “high quality”, etc. are important to persuade people to buy a product. For example, when products are similar in quality and price, people are likely to buy the product of the company that they perceive best (Van Riel, 1996). Furthermore, corporate reputation has a strong influence on organisational identification, that is on the extent to which “oneness” between the organisation and its members is perceived (Smidts *et al.*, 2001). Smidts *et al.* (2001) comment that identification is particularly strong in case of positive valued information, because then organisational members feel proud to be part of a well-respected company, as it strengthens their feelings of self-worth. Employees that strongly identify with the organisation generally have a supportive attitude toward the company and are more likely to behave in accordance with the organisation’s

way an organisation presents itself, either deliberately or accidentally” (Markwick and Fill, 1997). The Pruyn (1990) and Bennett and Kottasz’s (2000) papers include overviews of the various definitions of images/reputations.

²⁷ Bromley notes that organisations are a kind of special as the board of directors is usually identified with the whole organisation, including its successes and failures. In fact, generally speaking, organisational successes and failures tend to be assigned to the person who is ultimately responsible, rather than to the wider membership (1993: 34). This also sheds another light on impression management by whole organisations: it is also in the interest of the board of directors and their personal reputation (as Van der Tas (1996) also suggested). In the same vein, Zajac and Westphal (1995) and before them also Elsbach and Sutton (1992) argue that corporate leaders use organisational communication to create a favourable interpretation of organisational activities to enhance their personal and professional reputations.

identity and strategy (Dutton *et al.*, 1994; Smidts *et al.*, 2001). This in turn may contribute to an organisation's success (Smidts *et al.*, 2001). Hence, a strong corporate image creates a competitive advantage for the company. So what are the key drivers of corporate reputations? Recently Fombrun, Gardberg and Sever (2000) developed the Reputation Quotient. According to this Reputation Quotient, corporate reputations are driven by six composite measures, namely: emotional appeal (indicating whether a person trusts and respects a company), products and services (whether the company delivers products or services that are of high quality and provide value-for-money), vision and leadership, workplace environment, social and environmental responsibility, and financial performance. In the context of this research particularly the last factor, financial performance, is relevant. According to Fombrun *et al.* (2000: 253) financial performance involves issues as whether the company "has a strong record of profitability", "tends to outperform its competitors", and "has strong prospects for future growth."²⁸ In another oft-used reputational measure, the Fortune's "most admired companies" financial issues play a very important role as well. Indeed, Fryxell and Wang (1994) criticise the Fortune index for measuring little else than financial performance. Given the importance of financial performance in establishing a reputation it may be assumed that firms try to influence it by the presentation of the financial results in the annual report. This brings us to the subject how organisations are trying to affect their image or reputation.

Previously we noted that (positive) corporate reputations are a valuable asset: they can form a competitive advantage for a company. Although reputations/images are in the minds of the corporate stakeholders and are to a certain extent beyond a company's control, companies can try to influence stakeholders' perceptions. Indeed, it is here where corporate communication is particularly relevant. According to Ind (1990: 24) corporate communication is "the process that translates corporate identity into corporate image." Others as well have noted the interaction between identity and image (e.g. Argenti, 1994; Birkigt and Stadler, 1986; Dutton and Dukerich, 1991; Fiol and Kooor-Misra, 1997; Van Riel, 1995). The relationship between corporate identity and corporate image is depicted in figure 2.1.

²⁸ Research by Fombrun and Shanley (1990: 252) shows that a firm's reputation is affected by, among others, the quality of management, company's financial soundness and its demonstration of social concerns. Their results indicate that a firm's reputation correlated most strongly with the earnings the company reported in the preceding fiscal year.

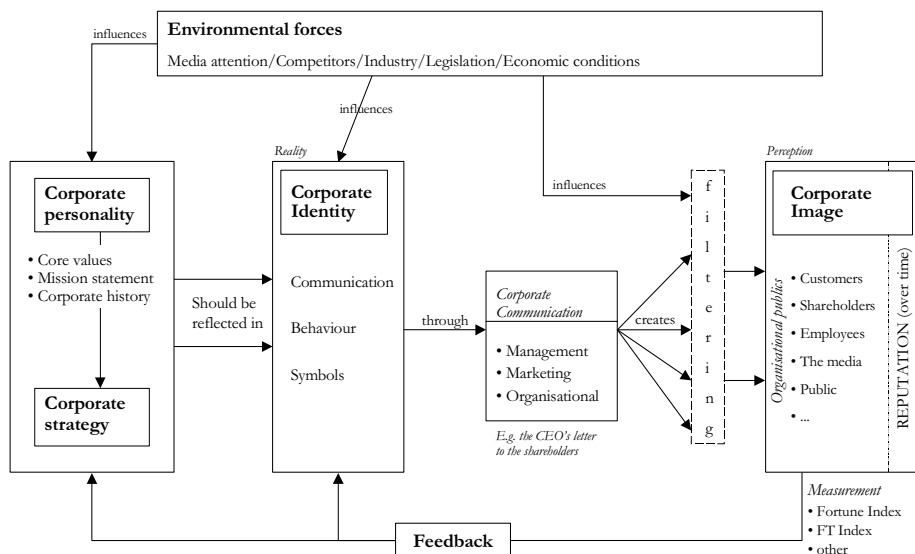


Figure 2.1 The corporate communication framework

The most important message of figure 2.1 is that the relationship between identity and image is not confined to a one-way interaction, but that image also affects identity. The first direction (identity influences image) seems logical: through the planned use of the instrument of the corporate identity-mix a company tries to affect stakeholders' perceptions.²⁹ Generally speaking companies can make use of the impression management techniques discussed previously to attempt to affect people's perceptions of the company (e.g. Elsbach and Sutton, 1992; Van Riel, 1995; Carter and Dukerich, 1998; Dolphin, 1999; Fombrun and Rindova, 2000). In the context of financial reporting, corporate reports, press conferences,

²⁹ Shell's reactions after the Brent Spar controversy in 1995 is an example how a firm has tried—without initially succeeding—to handle a damaged corporate image by the use of the several instruments of the corporate identity-mix. Apart from placing corporate ads, Shell also changed its behaviour and way of communicating in particular (e.g. Van Riel and Van den Bosch, 1997; Hooghiemstra, 2000). Shell's new communication style is not only more open, but also based on interaction with the stakeholders and reflects their willingness to adapt to changing external circumstances.

and shareholder meetings provide organisations and their top managers with opportunities for putting a positive spin on events (Ginzel *et al.*, 1993: 232), which in turn can positively affect the company's reputation (Marcus and Goodman, 1991; Elsbach, 1994). However, not all information or cues from either the organisation or external sources (to be discussed below) will effectively influence people's perceptions of the company as the stakeholders will filter the information and cues. The cues and information are first of all confronted with previous experiences with the organisation. In addition, the receiver will confront the information from different sources with each other: are the stories consistent or conflicting? Both will influence the credibility of the transmitted information and will determine to what extent the new information leads to an adjustment of the receiver's perception of the company (Van Raaij, 1990; Rindova, 1997). Furthermore—as each stakeholder has a variety of backgrounds, objectives, and levels of dependency—it is not inconceivable that each of them will have different images of the organisation (Markwick and Fill, 1997: 398; see also e.g. Ind, 1990; Dowling, 1993; Van Riel, 1995; Leary, 1996; Gardner and Avolio, 1998).

Corporate image influences corporate identity as well. Several authors stress that the way the audience perceives the organisation also influences the organisation's self-presentation (e.g. Dutton and Dukerich, 1991; Elsbach and Kramer, 1996; Fiol and Kooor-Misra, 1997; Rindova, 1997; Gray and Balmer, 1998; Morsing, 1999). Rindova (1997), for example, suggests that corporate identity incorporates the feedback about how an organisation is perceived (for example in the form of a publicised reputational ranking as the Fortune index), and to what degree an organisation is meeting the various stakeholders' expectations. This feedback is considered essential in order to make adjustments to the corporate identity strategy: “without it company executives are flying blind” (Gray and Balmer, 1998: 700).

The figure also illustrates that environmental forces affect both identity and image. These environmental forces indicate that reputations are to a certain extent beyond the organisation's control as they are based on affiliations (Vendelø, 1998): a company's reputation depends, among others, on the industry in which it operates and the narratives in the mass media about that company. The media in particular seems to be “a powerful player in the creation and destruction of organisations [and] can have an immediate impact on an organisation's reputation” (Morsing, 1999: 118; see also Wartick, 1992; Hoeken and Renkema, 1998). The media coverage of the Brent Spar in 1995 clearly illustrates how the media has brought down a company (Shell). These environmental forces, however, also influence corporate identity. Several studies have shown how descriptions of the company in the media influenced the way the organisation presented itself (Dutton

and Dukerich, 1991; Dutton *et al.*, 1994; Elsbach and Kramer, 1996; Morsing, 1999). For example, Duimering and Safayeni (1998) found that organisations handle negative media attention by impression management techniques, i.e. the use of instruments of the corporate identity-mix, that overemphasise the positive aspects of their activities. Another possibility may be that a firm increases its charity donations in response to a reputational downturn (Carter and Dukerich, 1998). The use of impression management is most salient in case of a reputational downturn (Carter and Dukerich, 1998) as consequence of, for example, product defects (e.g. Brinta, Olvarit, etc.) or a disaster to which the company is linked (e.g. the Exxon Valdez, the chemical leak in Bophal). The objective is, of course, to repair the reputational damage. When such negative events (or negative media coverage) are absent, managers seem less motivated to manage the corporate impressions. However, even then they still have to communicate positive events and outcomes in order to sustain (or even enhance) the corporate reputation.

2.4.4 Agency theory

Thus far we discussed self-serving attributional behaviour from two closely related perspectives: impression management and corporate communication. The basic premise of these two perspectives is that verbal behaviour in annual reports is a symbolic activity in which management tries to affect the perceptions people have of the company. Using self-serving attributions in the letter to the shareholders, that is claiming good outcomes and denying responsibility for bad outcomes, is one way by which managers try to influence people's perceptions of the company. Managers engage in such and other forms of reputation management not only because good reputations may provide the company a competitive edge but also because they personally may benefit from it. In that sense "reputation management is nothing less than enlightened self-interest" (Fombrun and Rindova, 2000: 79). In agency theory manager's self-interests play a crucial role as well. Indeed, in a critical assessment of agency theory, Kathleen Eisenhardt suggested that using agency theory with complementary theories are particularly appropriate in case of organisational behaviour topics that relate to information asymmetry. She refers to examples as impression management, lying and other forms of secrecy, and blame. According to Eisenhardt (1989: 71) "agency theory might contribute an overall framework in which to place these various forms of self-interest. Leading to a better understanding of when such behaviours will be likely and when they will be effective."

Agency theory addresses the problems that arise because of the separation between ownership and control that is characteristic to the modern corporation (Berle and Means, 1932). In agency theory a firm is seen as a nexus of contracts

(Jensen and Meckling, 1976). By means of a contract the principals (shareholders) engage an agent (management) to perform some service on their behalf which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Eisenhardt, 1989; Walsh and Seward, 1990; Bromwich, 1992). Examples of such contracts are the compensation plan and debt covenants, which are usually defined and monitored in terms of accounting numbers (Watts and Zimmerman, 1986; Maijoor, 1991; Bromwich, 1992; Beaver, 1998).

Given the presence of uncertainty and as both parties are rational utility-maximisers, it is not illusory that management will pursue its own self-interest (e.g. power, prestige, rewards, etc.) at the expense of the interests of the shareholders (e.g. Jensen and Meckling, 1976; Fama and Jensen, 1983; Dassen, 1989; Maijoor, 1991; Bromwich, 1992). In order to decrease the possibility of such opportunistic behaviour some costs have to be incurred. Two sorts of costs are mentioned (Jensen and Meckling, 1976): bonding costs (i.e. those costs incurred by the agent in order to show that interests have been converging) and monitoring costs (i.e. costs incurred by the principals in order to monitor the agent's behaviour afterwards). Following Leftwich, Watts and Zimmerman (1981) (at least) three monitoring devices are important, namely the appointment of outside or supervisory directors, listing requirements of stock exchanges, and, more importantly, the publication of accounting reports (that are audited by independent auditors). According to these authors, such financial statements enable shareholders to determine whether management has complied with the contract (1981: 764). Despite these monitoring devices shareholders are, however, not perfectly able to monitor managers effectively due to uncertainty and asymmetric information (i.e. managers have superior knowledge about the performance and prospects of the company). According to agency theorists problems of "moral hazard" are likely to arise (Eisenhardt, 1989). Moral hazard implies that the manager is shirking, that is he lacks effort to realise the agreed-upon objectives. The existence of uncertainty and information asymmetry, combined with the assumption of the pursuit of self-interest, has important consequences for financial reporting (Dassen, 1989; Bromwich, 1992; Abrahamson and Park, 1994; Hoogendoorn, 1996; Beaver, 1998). Firstly, as shareholders possess less information than the managers, managers have the possibility to bias the information contained in annual reports in order to disguise that their effort was sub-optimal. That is, information asymmetry enables managers to bias the information they provide in order to affect the perception of other people, notably the shareholders (see also Beaver, 1998; Revsine, 1991). Indeed, both Dassen (1989) and Hoogendoorn (1996) argue that moral hazard will

lead managers to claim responsibility for good outcomes, whereas bad, i.e. unsuccessful performances will be attributed to external influences beyond the control of the manager. In addition, because managers are guided by their self-interests (e.g. justifying their rewards) it may be expected that positive outcomes are highlighted, whereas manager will spend as little attention as possible to negative, unsuccessful outcomes and will show an adverse selection for positive outcomes (Bromwich, 1992). In addition, Abrahamson and Park (1994) use agency theory to explain why managers may be motivated to conceal negative outcomes entirely. Firstly, managers do not want others to become aware of such negative outcomes not only because this may affect their bonuses, but also because it may impinge on their reputations. Secondly, as disclosure of this kind of information usually has a negative effect on the company's share price, it may make it more vulnerable to a hostile take-over.

2.5 Summary

In this chapter we first discussed three influential contributions of Heider, Kelley, and Weiner to the development of attribution theory. Heider (1958) established the fundamentals of the work on attribution. He was the first to differentiate between causes within the person, *viz.* “can” and “try”, and causes that lay outside the person. Other researchers have subsequently elaborated upon his ideas. Whereas Kelley focused especially on the processes people use to arrive at their attributions regarding other people's behaviour, Weiner focused primarily on individuals' causal explanations for the outcomes of their own behaviour (Martinko and Thomson, 1998; Vonk, 1999). Notwithstanding the differences in focus, it seems possible to draw parallels between Kelley's informational dimensions and Weiner's causal dimensions (see table 2.2). Subsequent research employing Weiner's dimensions revealed that biases occur in the way people explain outcomes of behaviour. One of these is the self-serving attributional bias, implying that people tend to internalise successes and externalise failures. Researchers have found this bias in different kinds of settings, e.g. in sports, in the classroom, etc.. The bias is also present in letters to the shareholders: organisational and accounting research revealed that CEOs (from different Western countries) show strong self-enhancing tendencies. However, no general tendencies emerged regarding CEOs' self-protection: both cultural factors and performance stability seem to affect it. After the discussion of previous research of letters to the shareholders, we paid attention to three frameworks which can be used to explain why managers show such kind of behaviour, *viz.* impression management (from social psychology), corporate communication (from marketing and organisation

studies) and agency theory (economics). Despite their different origins, all three stress that the letter to the shareholders has a symbolic function: the story contained in it is aimed at influencing people’s perceptions. The main reason why CEOs try to influence those perceptions is related to self-interest. Managers not only try to secure people’s contributions to the company (e.g. their investment), but there seems to be a more ulterior motive as well: it may impinge on their personal reputations and, more importantly, on (the justification of) the managers’ rewards.

Information type (Kelley)	Attributional dimension (Weiner)
High consensus	External
Low consensus	Internal
High consistency	Stable
Low consistency	Unstable
High distinctiveness	Specific
Low distinctiveness	Global

Table 2.2 Relationship between Kelley’s and Weiner’s dimensions

3 Cultural influences

*“Every man is in certain respects
a) like all other men, b) like some other
man, c) like no other man”¹*

Culture affects many things in life. It influences how we behave, how we communicate with others, how we express our feelings, show our emotions, use non-verbal cues, etc.. As the influence of culture on behaviour is pervasive (Sudarwan, 1995) it is important to understand how differences in culture may lead to differences in behaviour. Not succeeding doing so, may and often will lead to misunderstanding between people from different cultures. Culture, however, is not easy to define. It can be argued that there are as many definitions as there are authors writing about it. Indeed, in a recent review on the influence of culture on behaviour, Lonner and Adamopoulos (1997) even suggested that there at least 200 definitions of “culture.” For example, following Sudarwan (1995: 29) culture has been defined as “a system of shared cognition” and as “a system of shared symbols and meanings.” In a similar vein, Perera and Mathews (1990: 221) refer to the following two descriptions of the term culture: “the total way of life of a people” and “the social legacy the individual acquires from his or her group.” Yet, another definition of culture may be “an organised system of meanings which members of that culture attribute to the persons and objects which make up the culture” (Rohner, 1984).² What these definitions have in common is that they all stress that culture involves shared values: people belonging to the same culture have in common the same broad tendencies to prefer certain states of affairs over others (Hofstede, 1997a: 8; see also Smith and Schwartz, 1997; Roe and Ester, 1999). According to the well-known Nancy Adler “culture” involves something “that is shared by all or almost all members of some social group, something that

¹ Kluckhohn and Murray (1948).

² See Erez and Earley (1993) and Earley (1997) for other definitions of culture. Earley himself defines “culture” as “a specific set of beliefs and values that are shared by individuals having a common geographic and resource base as represented by individual-level phenomena. [...] Culture can be viewed as a hierarchical structure of beliefs and values, shared among individuals having a common background, that shape action” (1997: 21).

the older members of the group try to pass on to the younger members, and something (as in the case of morals, laws and customs) that shapes behaviour, or structures one's perception of the world" (1997: 15). The central place of values—"something that is shared"—is also underscored in Hofstede's (1997a: 5) definition of culture. He sees culture as the collective programming of the mind which distinguishes the members of one group or category of people from another. Following Hofstede (1980, 1997a) a culture manifests itself in several ways, for example symbols, rituals, heroes, and values; and are different with respect to the possibilities to be changed. Values in this respect are very stable and entrenched, because they are learned at a young age. Although being enduring, values are malleable (Erez and Earley, 1993). Values determine whether a person perceives something as "good" or "bad", as "rational" or "irrational", and so on and, hence, represent the essence of a culture. Such values affect people's ideas about what constitutes appropriate behaviour in any given situation. Indeed, various scholars have argued that culture also influences behaviour of organisations and of people within organisations, including affects CEOs (Triandis, 1983; Adler, 1997; House, Wright, and Aditya, 1997; Lonner and Adamopoulos, 1997). Newman and Nollen (1996), for example, comment that "there is ample evidence that national cultures vary and that a variety of management practices, including strategic decision making (Schneider and De Meyer, 1991), leadership style (Dorfman and Howell, 1988; Puffer, 1993) differ by national culture." In a similar vein, Adler (1997), House *et al.* (1997) and Schneider and Barsoux (2003) refer to studies which show that culture affects corporate strategy and other forms of organisational behaviour, such as communication, leadership, and conflict management styles. In support of the view that organisational behaviour varies across cultures, Jackofsky and Slocum (1988) present a cultural model of CEO roles, something previously investigated by Haire, Ghiselli, and Porter (1963). They explore and indeed find evidence that "societal value systems are reflected in the processes by which the CEO enacts his/her role" (Jackofsky and Slocum, 1988: 67). Furthermore, Earley (1989, 1993) finds culture to influence the extent in which organisational members engage in "social loafing" (referring to the tendency that individuals reduce effort if they act as part of a group rather than alone). Similarly, Chen, Chen and Meindl (1998) propose a model regarding the influence of culture on cooperation within organisations. These studies, and many others, underline the idea that organisational behaviour is—at least partially—driven by a nation's cultural background. In order to measure cultural variability researchers have focused on values resulting in a number of cultural dimensions that describe the essence of a

culture (Smith and Schwartz, 1997).³ In the next section (4.1) we pay attention to cultural dimensions as have been identified by Hofstede (1980), Schwartz (1994, 1999) and other cross-cultural researchers. Some of the cultural dimensions discussed in that section are derived from large-scale surveys, whereas others “only” have a theoretical basis. It is noted here that this chapter does *not* aim at providing a full-scale or complete overview of all the dimensions that have been identified by the various researchers. This would justify a book of it’s own as “theorists have set forth many value dimensions—far too many for the researcher to fully reconcile or employ” (Hambrick and Brandon, 1988: 12). Rather, we discuss those contributions we think exerted the most influence on the work on culture in general, and management and accounting in particular (based upon readings of the relevant literature). The objective of this discussion is to arrive at a set of core cultural dimensions shared by the various researchers. Indeed, authors as, for example, Ronen and Shenkar (1985), Hambrick and Brandon (1988), Lytle, Brett, Barsness, Tinsley, and Janssens (1995), Smith and Schwartz (1997), Smith and Bond (1998), and Schneider and Barsoux (2003) point to the existence of a limited number of dimensions that describe the variability between cultures. Section 4.2 is dedicated to the identification of these “core” cultural values. The chapter ends with a summarising section (4.3).

3.1 Cultural variability

3.1.1 Introduction

As mentioned cultures manifest themselves in different ways. Most of the studies on cultural variability, however, concentrated on the analysis of value differences

³ As is noted by, e.g. Smith and Bond (1996) and Smith and Schwartz (1997) values can be measured on two levels, namely the individual and the cultural/ecological level. At the individual level, values represent the motivational goals that serve as guiding principles in people’s lives. Well-known cross-cultural research on individual values includes Rokeach (1973) and Schwartz and Bilsky (1987, 1990). On the other hand, values at the ecological level represent the socially shared, abstract ideas about what is good, right, and desirable. Well-known ecological cross-cultural research includes Hofstede (1980, 1997a) and Schwartz (1994, 1999). This research project focuses on the aggregate-cultural level. This line of research resulted in a number of cultural dimensions, which represent average differences between cultures and *not* every individual of culture per se. In the Hofstedian approach the following view prevails. If a researcher is interested in how the cultural value context relates to differences across cultures in themes such as popular media, political structures, or prevalence of attribution styles, he or she one should use the culture-level types (Schwartz, 1994).

(Smith and Schwartz, 1997). The reliance on values to measure cultural variability may be ascribed to their central place in cultures: they not only represent the central goals that relate to all aspects of behaviour, values are also influenced by everyday experiences in changing ecological and socio-political contexts (Smith and Schwartz, 1997). Furthermore, values are learned at a very young age (Hofstede, 1997a). There are, however, numerous values on which societies may be compared. Some of these are specific to a society, whereas others are more universal. In order to limit the number of values on which societies may differ, researchers focused on those values that “reflect the basic issues or problems that societies must confront in order to regulate human activity (Smith and Schwartz, 1997: 95). The focus on basic values resulted in a relatively limited number of cultural dimensions. These dimensions involve “stereotyping” in the sense that they describe behavioural norms for members of a particular group (Adler, 1997; Schneider and Barsoux, 2003). The value of such dimensions is that they are “useful for comparing *between* cultures” (Ferraro, 2002:121), implying that they describe tendencies or preferences for a group in general and not for an individual member of a group per se. That is: such “stereotypes” indicate that members of the same culture are expected to have more in common with each other than with members of another culture (Schneider and Barsoux, 2003: 15). Indeed, Hofstede (1984: 24-25) warns researchers for the so-called “ecological fallacy”: that a culture, or some social group, on average shows a preference for certain values does not imply that every individual member has the same preference. If we recognise this important limitation, the dimensions form “helpful stereotypes” (Adler, 1997: 75-76). Below we will discuss these dimensions more in detail and in chronological order. Some of the efforts are based on large-scale empirical research (e.g. Hofstede, Schwartz, and Trompenaars *et al.*), whereas others are “only” theoretical ideas on cultural dimensions (e.g. Parsons and Shils and Fiske).

3.1.2 Parsons and Shils

One of the first who suggested that culture can be captured by a limited number of dimensions were Parsons and Shils (1951). In their *General theory of action* they described how a person’s actions are influenced by three interdependent systems: personality, social and cultural systems. Personality refers to a person’s motives, needs, cognition, and learning and influences how a person acts in certain situations. A social system is comprised of the relationships a person has with other persons. In such relationships each person has a certain role. The importance of these roles is that they highlight that individuals are part of a group and that his or her actions will be, at least partially, the result of other people’s actions. They further assume that both personality and the social system are part of a larger

cultural system. Parsons and Shils (1951: 55) describe a cultural system as “the organisation of the values, norms and symbols which guide the choices made by actors and which limit the types of interaction which may occur among actors.” What is important about the cultural system is that the person’s cultural background, i.e. his “value-orientation”, commits the person to certain norms and will guide him in making his choices. In this sense culture is comprised of a set of standards (Parsons and Shils, 1951). According to Parsons and Shils (1951) it is possible to define and categorise cultures on the basis of five dichotomies, the so-called “pattern variables.” The pattern variables are (Parsons and Shils, 1951: 76-f.f.):

1. *Affectivity versus Affective-neutrality*. This pattern variable addresses “the dilemma of gratification of impulse versus discipline.” In the case of affectivity, gratification impulses are released immediately without regard to evaluative considerations. In the case of affective-neutrality, gratification is restrained in order to facilitate evaluative considerations. For example, this pattern variable determines whether a student spontaneously “jumps into the air” after having passed a difficult exam or awaits his reaction in order to reckon with the other students’ results.
2. *Self-orientation versus Collectivity-orientation*. This variable pattern involves “the dilemma of private versus collective interests.” In case of self-orientation primacy is given to personal interests, goals, etc. without really considering their effect on collective interests. In case of collectivity-orientation primacy is given to the interests, values, etc. that are shared with the other members of the group.
3. *Universalism versus Particularism*. This variable addresses “the dilemma of transcendence versus immanence.” In the case of universalism a situation is judged or evaluated in accordance with a general norm and, additionally, it is expected that the broad set of rules and policies guide all individuals’ actions (Erez and Earley, 1993). Particularism, on the other hand, involves a culture in which the unique aspects of the situation and its relevant aspects of the actor guide judgements about individuals. In this case it is possible to deviate from the rules because the situation or the person being judged may justify it (Trompenaars and Hampden-Turner, 1997).
4. *Ascription versus Achievement*. This dimension covers “the dilemma of object modalities”; that is whether primacy is given to the qualities or attributes as a person or to a person’s performances or achievements when a person is judged. In societies in which achievement is important, status may be obtained by “doing.” In contrast in societies that value ascription, status is largely the

results of the individual's background ("being"), that is because he belongs to some specific group (Trompenaars and Hampden-Turner, 1997).

5. *Specificity versus Diffuseness*. This last variable involves "the dilemma of the scope of significance of the object." It addresses whether people should "engage others only in specific areas of life and single levels of personality, or diffusely in multiple areas of their lives and at several levels of personality at the same time" (Trompenaars and Hampden-Turner, 1997: 81). For example, in extreme specific cultures it is rare to have colleagues that are close-friends as well: that is work and social life are largely separated from each other. However, in more diffuse cultures it is not rare at all to spend time, e.g. to have a drink, with your colleagues after working hours.

3.1.3 Kluckhohn and Strodtbeck

In their work Kluckhohn and Strodtbeck (1961) approached the issue of cultural variability by what they referred to as "value orientations." According to them, value orientations are "the complex but definitely patterned (rank-ordered) principles which give order and direction to the ever-flowing stream of human acts and thoughts as these relate to the solution of common human problems" (1961: 4). According to Adler (1997: 18-19) Kluckhohn and Strodtbeck's value orientations relate to questions such as: "Who am I?", "How do I see the world?", "How do I relate to other people?", "What do I do?", and "How do I use space and time?" These value orientations represent universal principles; differences in culture are only a reflection of differences in rank attached to each of the principles. They distinguished the following value orientations (Kluckhohn and Strodtbeck, 1961: 11-f.f.):

1. *Human nature orientation*. This dimension relates to innate goodness or badness of people. According to them it is possible to describe human nature along the scale of "Evil, Good-and-Evil, and Good." What is important is that the orientation determines whether a culture emphasises "trust" or "distrust." In cultures where the view of human nature as generally good dominates, trust is high; if badness dominates, distrust will be high (Lytle *et al.*, 1995). According to Adler (1997: 19) people in high-trust societies leave doors unlocked and do not fear being robbed or assaulted.
2. *Man-nature orientation*. This dimension covers the relationship between man and nature and is comprised of a distinction between: "subjugation-to-Nature", "Harmony-with-Nature", and "Mastery-over-Nature." In case of "subjugation-to-nature" people believe that they cannot exert any influence over their surroundings; i.e. that they cannot control it, reflecting a certain fatalistic

attitude. This belief seems to be dominant in the Latin countries. In case of “harmony-with-nature” the idea is that nature and human are extensions of each other and is the dominant belief in Japan (Erez and Earley, 1993). “Mastery-over-nature” involves an attitude to overcome and try to control the environment and put it to the use of people. It reflects a belief that man is able to control the environment for example through technological means. Particularly of the Anglo-Americans it is said that they think they can master the environment (Erez and Earley, 1993), which is noticeable through, for example, economists’ structuring of markets, and sales representatives’ attempts to influence buyers’ decisions (Adler, 1997).

3. *Time orientation.* This dimension deals with the temporal focus of human life and is represented by the division: “Past-Present-Future.” In some cultures, e.g. many modern European countries, the “Past” is emphasised: people like to preserve traditions. Point of reference for these cultures are the ancestors. In contrast, people from Latin countries prefer to think in terms of the “Present” and spontaneity is valued highly in these cultures (Lytle *et al.*, 1995). In this case people do not refer to the past, nor are making real plans for the future. Finally, the Americans seem to be oriented toward the “Future”—“a future which is anticipated to be bigger and better” (Kluckhohn and Strodtbeck, 1961: 15). Indeed, according to Adler (1997: 30) Northamerican businesspeople focus on the present and near future: “they may talk about achieving five- or ten-year plans, but they work toward achieving this quarter’s results.” The Japanese on the other have a very long-term, future-oriented time horizon.
4. *Activity orientation.* This value orientation is related to what Parsons and Shils (1951) refer to as “Ascription versus Achievement” and is made up of: “Being”, “Being-in-Becoming”, and “Doing.” A “doing”-orientation, which seems to be present in the United States, implies that a person is judged based upon his accomplishments. In such cultures, obtaining results, working hard, etc. are particularly important. In case of a “Being”-orientation the emphasis is on the person as a social human being. In such a society the personal characteristics and enjoyment in life are more important than the achievements and working hard to obtain results. The “Being-in-Becoming”-orientation more or less lies in between the other two and development of the individual is stressed here.
5. *Relational orientation.* This last value orientation describes a person’s relation to other persons and is divided in “lineality”, “collaterality”, and “individualism.” If “individualism” dominates, such as in the United States, personal goals and interests have primacy over the goals of the groups to

which a person belongs. In the other two cases, group goals are dominant with this difference that in case of “lineality” it is some older person who decides for the group what is best. In case of “collaterality” the group goals are decided upon by achieving consensus between its members.

In contrast to Parsons and Shils this model was empirically tested (using value questionnaires). However, the chosen groups were all located within the United States and were to a large extent protected from outside influences. Hence, it is difficult to say whether Kluckhohn and Strodtbeck’s dimensions are applicable to cultures outside the United States.

3.1.4 McClelland

McClelland’s work was initiated by his interest to explain why European and North-American countries experienced greater economic growth than most of the Asian and African countries. As differences in climate and natural resources were not enough to fully explain the difference in economic growth, McClelland (1961) suspected that “differences in the people who live in those countries [...], their motives and values, social and political institutions” (McClelland, 1961: 3) were, at least partially, responsible. Especially differences in *need for achievement* (shorthand: *n Achievement*) are suggested to play a major role: “... we might legitimately expect that people with strong achievement motives would seek out situations in which they could get achievement satisfaction. They ought to be the kind of people who set achievement standards for themselves, rather than relying on extrinsic incentives provided by the situation, and they should try harder and more successfully to reach the standards they set for themselves. It does not take a great stretch of imagination to assume further that if a number of people with high *n Achievement* happened to be present in a given culture at a given time, things would start to hum. [...] Viewed in this light it would not be at all surprising to imagine that an increase in *n Achievement* should promote economic or cultural growth” (McClelland, 1961: 45-46). Entrepreneurship is according to McClelland (1961) the reason why countries characterised by a high need for achievement (as the United States) are likely to experience greater economic growth. Indeed, in such cultures people tend to take (calculated) risks, are likely to engage in novel and entrepreneurial activities, value concrete feedback about results and achievements (preferably in the form of monetary units) and think ahead; factors that are likely to result in a productive nation. In order to measure differences in the need for achievement he relied on children’s stories appearing in schoolbooks. These stories were subsequently content analysed to express the extent of achievement contained in the stories. Using the scores he was able to confirm the

relationship between the need for achievement and economic growth (as measured by growth in electric power production). Although his ideas on achievement have had considerable influence, some authors criticised his methods. Indeed, it has been suggested that his confirmation of the relationship between the need for achievement and economic growth was a result of the measures McClelland used and was influenced by the period in which his measures were collected. Hofstede (1984), who summarised much of the critique, concludes that it is doubtful whether McClelland's achievement motive is able to offer a universal model for economic success, also because it seems biased towards values that are typical to the American culture.

Apart from the need for achievement, McClelland (1961, 1975) also considered what he referred to as the *need for affiliation* and the *need for power*. The need for affiliation refers to the importance of social interaction and relationships in a culture. McClelland (1961: 160) formally describes it as "establishing, maintaining, or restoring a positive affective relationship with another person. This relationship is most adequately described by the word friendship." However, family ties are not part of the need for affiliation. Hofstede (1984) found that in individualistic countries the need for affiliation is larger than in collectivistic countries. According to Hofstede, there is less need for (additional) friendship in cultures where the groups to which one belongs predetermine friends. However, in more individualistic countries "making friendship becomes more an issue for the individual" (Hofstede, 1984: 163). The need for power, which he addressed in later work (1975), refers to the extent that the people of a culture value to be able to exert control over individuals and objects.

3.1.5 Hofstede

Hofstede's work is said to have "defined the agenda for cross-cultural researchers in the past 15 years" (Smith and Schwartz, 1997: 96). In a similar vein, Magala (2002: 14) concludes: "The fact that even researchers representing different methodological traditions, working with different dimensions of culture, assuming different mechanisms of motivational influence of values and studying different levels of social aggregation acknowledge the role of Hofstedian dimensions should not come as a surprise. ... The field of cross-cultural studies has changed both because of what Hofstede has written and because of what has been written for and against him." Hofstede's research draws on value questionnaires from 117,000 IBM employees from 50 nations and 3 regions. So far it is the most comprehensive comparative study in terms of both the range of countries and the number of respondents involved (Kagitçibasi, 1997; Smith and Bond, 1998). The employees

questioned were all working in the marketing or servicing department of IBM. As Hofstede was interested in cultural differences on nation-level he computed average scores per nation for each questionnaire item. These items addressed four basic problems that Hofstede believed to underlie any nation's culture. They include social inequality (e.g. the relationship with authority), the relationship between the individual and the group, the social implication of being a man or a woman, and ways of dealing with uncertainty (Hofstede, 1997a: 13-14). These basic problems were used to design a questionnaire that was related to work values. Factor analysing nation-averages on these questionnaire items resulted in four cultural dimensions that are presented below.

1. *Power distance (High versus Low)*. Hofstede (1980, 1997a) defines power distance as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally (1997a: 28). Power distance determines the behaviour of both the less and more powerful members of a society. In fact, power only exists because some people are prepared to assume a subordinate position. In countries characterised by a high level of power distance, e.g. the Latin American, Asian, African and South European countries, people are willing to accept certain hierarchical relationships. For example, within families it is normal to show respect to parents and other elderly people (Hofstede, 1997a). In low power distance countries such as the United States and most of Western Europe, however, power has to be used legitimately and is subject to criteria of good and evil. People are much less prepared to accept the use of power, only because someone is older, has a higher position, etc.. In these societies power is derived from, among others, a person's knowledge.
2. *Individualism versus Collectivism*. Following Zwier (1998: 2) this concept has been introduced into social sciences as a dimension that can be used to describe different patterns of social relationships and values that one finds in diverse cultures. Since its introduction it has become perhaps the most important dimension of cultural differences in social behaviour. Some, e.g. Hui and Yee (1994) and Kagitçibasi (1997), estimated that approximately a third of the recently published studies employ this construct to explain, at least partially, the cultural differences found. Though there have been many authors writing about this dimension and used different definitions as well (for excellent overviews, see Triandis, 1995; Earley and Gibson, 1998; Oyserman, Coon and Kimmelmeier, 2002), it is evident that a major component of the dimension concerns "the nature of group membership" (Earley and Gibson, 1998: 267). For example, Hofstede (1997a: 51), describes this dimension as

follows. In individualistic societies, such as the United States and the Western European countries, the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. On the other hand, in collectivistic societies, such as Japan and the Latin American countries, people are from birth onwards integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty.⁴ This dimension is related to people's self-concept: "I" or "we" (Hofstede, 1984). According to Adler (1997) differences in group orientation influence the way decisions are reached within organisations and the way people are praised for having performed well. First of all, in individualistic cultures such as the United States and the Netherlands, it is an individual who decides, whereas in Japan many people are involved in the decision-making process. Furthermore, in a country such as America "corporate performance is praised by singling out and rewarding the chief executive officer (CEO). General Electric's outstanding financial performance is often attributed to CEO Jack Welch, as in the subtitle of the book *How Jack Welch is making General Electric the World's most competitive company*" (Adler, 1997: 25). As we will see later, this dimension has also been used to explain cross-cultural differences in people's construct of the self, their communication styles, and subsequently the attributions they make.

3. *Masculinity versus Femininity*. Hofstede (1997a: 82; see also Hofstede, 1980, 1998) defines this dimension as follows. Masculinity pertains to societies in which social gender roles are clearly distinct: men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life. Femininity, on the other hand, pertains to societies in which gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life. Furthermore, in countries that score high on masculinity, e.g. the English-speaking nations and Japan, the masculine values such as competition, success and achievement are considered important in work and study (by both men and women). Such cultures can be typified as a "performance society" in which the quality of life depends on the rewards from work (Hofstede, 1997a). Feminine countries on the other hand, such as

⁴ In a classical work on Japanese culture Lebra (1976: 22) concurs with the strong collectivistic tendency as she notes that the Japanese are extremely sensitive to and concerned about social interaction and relationships. In her book, Lebra discusses this

the Netherlands and the Scandinavian countries, are much more socially oriented: caring for others, preservation, tolerance, solidarity, and the welfare state are considered important. Besides, these societies highly value the protection of the environment: there is a true balance between the environment and economic growth (Hofstede, 1997a). These differences are also reflected in organisational life and can be summarised in the juxtaposition of the two slogans, namely the masculine “live in order to work” and the feminine “work in order to live” (Hoppe, 1998: 42). Elaborating on these slogans, Hoppe (1998) argues that masculine expressions of organisational life include job-centeredness (e.g. emphasis on visible achievements and desires for tangible expressions of success), performance-centeredness (e.g. challenge, excellence and competition are important) and result orientation. Their respective feminine counterparts include employee-centeredness (e.g. emphasis on social interaction and belonging), relationship-centeredness (e.g. quality of work environment, being a sound contributor, and collaboration), and people orientation (e.g. solidarity and consensus). These differences expect us to believe that also the attributions people make will be different depending on their more masculine or feminine cultural background (see de Mooij, 1998).

4. *Uncertainty avoidance (High versus Low)*. This dimension is concerned with the extent to which the members of a culture feel threatened by uncertain or unknown situations (Hofstede, 1997a: 113). Countries characterised by high uncertainty avoidance, e.g. the Latin American countries and the countries in the South of Europe, show a need for a large amount of precise rules that will try to enforce uniformity in behaviour, opinions, ideas, etc.. In fact by such detailed rules, both written and unwritten, a society tries to control an otherwise uncertain future by creating clarity in it.

Later research and especially by the Chinese Culture Connection (1987) and notably Bond did not only confirm these dimensions (except uncertainty avoidance), but also found an additional dimension (Smith and Bond, 1996): “Confucian dynamism”, also labelled “long-term” versus “short-term orientation”. These researchers used a questionnaire that was more suited for the Far East than Hofstede’s questionnaire which was biased towards a Western orientation (Hofstede, 1997a). Cultures in the Far East showed a tendency towards long-term orientation, meaning that they stress the fostering of virtues oriented towards future rewards, in particular perseverance and thrift (Hofstede, 1997a: 261).

collectivistic nature in terms of “belongingness”, “empathy”, “dependency”, “occupying the proper place”, and “reciprocity”.

Although Hofstede's work is one of the most frequently cited and many have relied on it in their research to approximate cultural variability, it has also received criticism. The most important objections against his work include the following. Firstly, some have expressed doubts concerning his sample choice as he obtained his data from a multinational (IBM) of which many argue that it has a strong corporate culture. As a consequence some wonder whether his data actually measured cultural variability of whole nations and not typically that of IBM (e.g. House *et al.*, 1997; Baskerville, 2002; McSweeney, 2002). Hofstede, however, considers his sample choice as strength, because it only differed with respect to nationality. As a consequence, he argues, comparing IBM subsidiaries show national culture differences with unusual clarity (Hofstede, 1997a: 252; see also Adler, 1997; Van de Vijver and Leung, 1997a,b; Hoppe, 1998; Smith and Bond, 1998; Van Oudenhoven, Mechelse and DeDreu, 1998). In support of this view are Laurent's (1983) results. In his independent—i.e. not relying on Hofstede's dimensions—cross-cultural study involving subjects from 10 western nations he found cultural differences to be more pronounced among employees working in the same multinational than among employees working for different organisations in the various countries. Hence it seems that “organisational culture maintains and enhances national differences” (Adler, 1997: 63). A second objection concerns the fact that Hofstede's data have been collected more than 20 years ago. Hence, there are doubts whether the changes that occurred throughout the world would result in different dimensions and/or locations on Hofstede's dimensions (Schwartz, 1994). A last important caveat in Hofstede's study is that no nations from Eastern Europe were included. These objections, together with its many praises and widespread usage, leave the researcher with a dilemma (Punnett and Withane, 1990)—Should he or she embrace or abandon Hofstede's value indices? As most of the replication studies, e.g. by Merritt (2000)⁵, Hoppe (1998)⁶, the Chinese Culture Connection

⁵ Merritt (2000) conducted one of the most interesting replications. She surveyed 9,000 people working in the aviation industry in 18 countries, representing the largest replication study (Hofstede, 1998). The primary goal of this study was to test whether Hofstede's work also applied in other industries in the 1990's (Merritt, 2000). In order to test this, she designed a questionnaire, consisting of 16 items derived directly from Hofstede's own questionnaire and an additional 23 items that reflect Hofstede's dimensions but with particular reference to the aviation sector. Her study did easily replicate Hofstede's Individualism/Collectivism and Power distance dimensions. However, Masculinity/Femininity could not be satisfactory replicated. A possible reason might be that the dimension has little conceptual relevance within the male-dominated, pilot profession (Merritt, 2000). In conformity with other studies, e.g. Schwartz and Sagiv (1995), and Smith, Dugan and Trompenaars (1996), Merritt failed to replicate the Uncertainty avoidance dimension. A possible explanation could be the strong corporate culture of IBM

(1987)⁷, and others⁸ resulted in (partially) confirmatory results it seems that Hofstede's dimensions still are apt to represent current cultural variability.

in which strong norms of tenure and conformity dominated (Merritt, 2000). However, Merritt's study has some caveats which could have influenced the results. First, she focused on *male* pilots, which could have influenced the fact that the Masculinity/Femininity-dimension could not be replicated (although Hofstede's sample was also biased towards males). Second, as acknowledged by Merritt (1999), Anglo-Saxon countries that made up one third of the actual sample dominated the sample.

⁶ Hoppe (1998) undertook a second, large-scale replication of Hofstede's work. In order to test the construct validity of Hofstede's dimensions he surveyed over 1,500 respondents (between 1983 and 1984) from 17 Western and Southern European countries, Turkey and the United States. His sample consisted of managerial, professional, academic, and political elites attending courses in Austria (Hoppe, 1998). He used the actual Value Survey Module questionnaire as designed by Hofstede's team. Although his results significantly support the validity of Hofstede's four dimensions (Hoppe, 1998: 32), he reported important changes in the country scores. Recently Fernandez, Carlson, Stepina, and Nicholson (1997) also reported significant shifts in country scores compared to Hofstede's original scores. However, as the rank order of the Hoppe and Hofstede studies significantly correlated with respect to all four dimensions (Hoppe, 1998), the dimensions still seem apt to express cultural variability between nations. In this context it is important to note the meaning of country scores on Hofstede's dimensions using Hofstede's (1980, 1997a) own words. In an appendix on how to read mental programs, Hofstede (1997a: 255) stresses that the national culture scores only describe *differences* between countries; their absolute value has no meaning. So, interpreting these words, it seems better to look at ranks than scores. The reported correlations with respect to country ranks in the Hoppe and Hofstede study are all above 0.70 and statistically significant at the 0.0001-level.

⁷ The primary aim of this project was to establish whether Hofstede's dimensions were not universal but, instead, biased towards a Western conception not apt to measure eastern values. Therefore, this project started by asking scientists from eastern cultures to list at least 10 basic values of the Chinese tradition (Chinese Culture Connection, 1987: 145). These values (forty in total) were then used to construct a survey (in Chinese/Mandarin and English) that was administered to students in 22 countries. Using a similar procedure as Hofstede, the group found four ecological factors: integration, human-heartedness, moral discipline, and Confucian work dynamism. The first three factors correlated highly with Hofstede's collectivism, masculinity, and power distance, respectively. However, Confucian work dynamism appeared to be a dimension that was more specific to eastern cultures. According to the Chinese Culture Connection this result is not surprising as its underlying dimensions—e.g. thrift, persistence, having a sense of shame, protecting your “face”, and respect for tradition—may be cumbersome and peculiar (1987: 158) to people from western cultures. According to Smith and Bond (1998) the results of this project indicate that Hofstede's dimensions of collectivism, masculinity, and power distance represent values are assumed to hold in most studied cases.

⁸ There also have been other replication studies, that used much smaller samples in terms of respondents surveyed and/or countries represented (e.g. Hofstede and Bond, 1984; Dorfman and Howell, 1988; Punnett and Withane, 1990; Shackleton and Ali, 1990;

Therefore, returning to the question whether to embrace or abandon Hofstede, we are inclined to carefully embrace it, also because Hofstede's dimensions seem to "form the most widely adopted starting point in research studying management in different nations" (Peterson, Smith *et al.*, 1995: 429).

3.1.6 Schwartz

Schwartz's research on value differences addresses both the individual and the ecological level. His research indicates that the dimensions at the two levels are closely related (Schwartz, 1992, 1994). As other researchers before him did, Schwartz too began with basic social issues to derive his ecological value dimensions. These issues addressed (1) the nature of the relation between the individual and the group, (2) the assurance of responsible social behaviour (i.e. that people will consider others' welfare too), and (3) the relation of humankind and the natural and social world (see Schwartz, 1994, 1999; Smith and Schwartz, 1997). The three dimensions are summarised below.

1. *Conservatism versus Autonomy*. Schwartz (1999: 27; 1994) defines conservatism as a cultural emphasis on maintenance of the status quo, property, and restraint of actions or inclinations that might disrupt the solidary group or the traditional order (social order, respect for tradition, family security, wisdom, and preserving public image, self-discipline are important values in such a culture). Conservatism is very similar to Hofstede's collectivism, as it is also concerned with describing whether the person is viewed as an entity who is embedded in the collectivity and finds meaning in life largely through social relationships (Schwartz, 1994, 1999). In cultures characterised by Autonomy⁹, the other end of this dimension and resembling Hofstede's individualism, those values that view the person as an individual entity that is entitled to pursue his own interests are stressed (Schwartz, 1994:

Fernandez *et al.*, 1997). Søndergaard (1994) reviewed 61 of these replications, including unpublished ones. His main conclusion from this review is that by and large, Hofstede's findings were confirmed in the reviewed replication studies once some modifications with respect to perception of environment at the time of the research and the known sample characteristics had been made (1994: 452). Especially the Individualism/Collectivism-construct appeared to be most easily replicable.

⁹ To be precise, Schwartz (1994, 1999) divides Autonomy into (1) Intellectual autonomy, stressing that individuals will independently pursue their own ideas and intellectual directions, and (2) Affective autonomy, that stresses that individuals will independently pursue affective positive experiences, e.g. pleasure, a varied and exciting life, etc..

- 102). Furthermore, in such a culture a person is encouraged to express his own internal attributes, e.g. preferences, traits, feelings, and motives.
2. *Hierarchy versus Egalitarianism*. The Hierarchy-pole of this dimension relates to the issue of power differences, and the importance of hierarchical relations in a culture. Schwartz (1999: 27) defines Hierarchy as a cultural emphasis on the legitimacy of an unequal distribution of power, roles and resources (authority, social power, humility, and wealth are the values that are stressed). In cultures where Egalitarianism is stressed the members will consider each other as moral equals who share basic interests and in which the welfare of others is important. Values such as equality, social justice, freedom, responsibility, and honesty are important in this culture (Schwartz, 1994, 1999).
 3. *Mastery versus Harmony*. The Mastery-pole of this dimension states that there is an emphasis on achievement through active self-assertion, stressing values as success, ambition, and competence (Schwartz, 1999: 28). On the other hand, the Harmony-pole puts an emphasis on fitting harmoniously into the environment, where unity with nature and protecting the environment are important values.

In Schwartz's theory these ecological dimensions form a certain structure, in which some poles are contradictory (e.g. conservatism and autonomy), whereas the poles of different dimensions are complementary (e.g. cultures stressing hierarchy usually stress conservatism and mastery as well). The structure of value-types Schwartz proposes is depicted in figure 3.1. In this figure the contradictory poles are placed opposite to each other, while the complementary poles are placed adjacently. In order to validate both the dimensions and structure, Schwartz used the questionnaire results that he used to derive the individual-level value types. In this survey both teachers and students from about 50 nations, between 1988 and 1993, were asked to indicate, on a Likert-scale, whether they considered a single value as guiding principles in their own, individual life. The individual-level analysis indicated that 45 of 56 values had equivalent meaning across the nations examined. Hence, only these 45 values were included in the analysis for validating and deriving scores regarding the cultural dimensions (Schwartz, 1999: 30). The analysis showed several cultural regions emanating (with some minor differences) in both the teacher and student samples (Schwartz, 1999: 37-ff.). First, the English-speaking nations showed a tendency to emphasise Mastery and (affective) Autonomy over Harmony and Conservatism. Second, there was also a Western European region in which values related to (intellectual) Autonomy and Egalitarianism are stressed. Third, a separate Eastern European region emerged in

which values related to Conservatism and Harmony are stressed. Furthermore, a Latin American region appeared, with nations scoring moderate on all dimensions. Finally, a Far-Eastern region emerged, characterised by an emphasis on Hierarchy, Mastery and Conservatism.

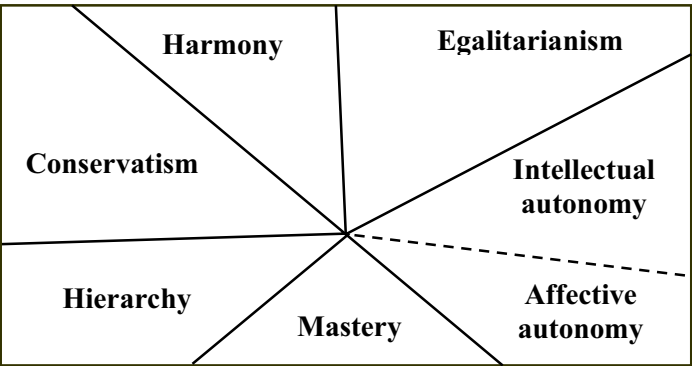


Figure 3.1 Schwartz’s structure of ecological value types (Schwartz, 1999)

3.1.7 Fiske

Another contribution to the identification of the different cultural dimensions is Fiske (1992). In his work Fiske addressed the different ways in which social relations may be organised. The basic assumption underlying his ideas is “that people are fundamentally sociable—that they generally organise their social life in terms of their relations with other people. The theory postulates that people in all cultures use just four relational models to generate most kinds of social interaction, evaluation, and affect” (Fiske, 1992: 689). Although Fiske refers to empirical papers that support his four elementary models and their cultural variability, his theory has not yet been empirically tested. The four elementary models Fiske proposes are:

1. *Communal sharing*. Involves those relationships in which people belonging to a group treat each other as the same and in which commonalties between the members are more important than differences relating to the individual. “People in a CS relationship often think of themselves as sharing some common substance (e.g. blood)” (Fiske, 1992: 690-691). Especially in the Japanese culture communal sharing seems to be the dominant model. In this country “people seek the sense of the group, contributing ideas not as

individual positions but as part of the search for a joint judgment that transcends the separate attitude of the participants. [...] People conform because they identify with the group and want to belong, so the influence of the group is stronger the more similar its members are to the target person and the more unanimous they are” (Fiske, 1992: 697).

2. *Authority ranking*. Involves relationships in which it is possible to identify an asymmetry among people or a social hierarchy between them. The higher ranked people have authority, prestige, prerogatives, and privileges that the lower ranked people lack. However, it is also expected that the people lower on the social ladder are protected and cared for. With respect to decision-making, authority ranking implies that “people channel information upward and hand decisions down through the chain of command, as in a military organisation. The highest ranked person decides for all subordinates, or else delegates specific decision authority. Social influence works in a similar way: People emulate, defer to, or obey their superiors” (Fiske, 1992: 700).
3. *Equality matching*. In this kind of relationship balance is the central issue. “The idea is that each person is entitled to the same amount as each other person in the relationship, and that the direction and magnitude of an imbalance are meaningful” (Fiske, 1992: 691). For example, among acquaintances and friends it is expected to give one another presents of approximately equal value, to pay for dinner in turns, and so on. With respect to decision-making, equality matching implies a one vote per person principle and rotating chairmanship; it creates a sense that each person or country has the same amount of influence or power.
4. *Market pricing*. In this last model relationships are expressed in a single value or utility metric. “The most prominent examples of interaction governed by market pricing are those that are oriented towards prices, wages, commissions, rents, interest rates, taxes, and all other relationships organised in terms of cost-benefit ratios and *rational* calculations of efficiency or expected utility” (Fiske, 1992: 692). The “invisible hand” is one evident example of how decision making operates in a market pricing society. In societies as the United States, remuneration, occupation, and achievements are considered particularly important. For example, in such countries it is not uncommon to ask a relative stranger the question “How much do you earn?” or to hear him stating his or her occupation when he introduces him- or herself.

Fiske assumes that people combine all four models to construct their social relations. However, one model may be emphasised depending on the type of relationship (e.g. close kinship, close friendship, being acquaintance with

someone, etc.). For example, family relations are, ordinarily speaking, best described by communal sharing, whereas equality matching may be typical to friends and acquaintances. Work relations and boss-employee relations in particular on the other hand usually involve some form of authority ranking. Apart from the type of social relationship, culture also influences in which way the different models are combined. With respect to the influence of culture Fiske (1992: 712) remarks: “[...] people in different societies commonly use different models and combinations of models in any given domain or context. This taken-for-granted consensus within societies, along with the striking discrepancies between societies, implies that culture is the primary determinant of the selection of models. There appear to be two major aspects of this cultural implementation of the models—rules that stipulate when each model applies, and rules that stipulate how to execute each model.” Exemplary for the cultural relativity of the models is stressed by Earley (1997). He notes that “market pricing may be very important in the United States but [is] less so in Sweden. Further, it may manifest itself in the United States as individual achievement over others in a business context (e.g. the corporate “rat race”) but in Sweden as a social achievement (e.g. individual achievement in an environmental cause). However, it is present in both countries” (Earley, 1997: 133).

3.1.8 Trompenaars and colleagues

Trompenaars and colleagues’ contributions to the cross-cultural field are among the most recent ones. They took Parsons and Shils’ (1951) five dimensions and two, somewhat revised versions of Kluckhohn and Strodtbeck’s (1961) dimensions¹⁰ as their starting point. The database they used consisted of 30,000 respondents (mainly managers) from 55 countries. Although they published country scores for some individual survey items in their initial work (1993, 1997), no further statistical analysis to validate the proposed dimensions was conducted.¹¹ Indeed, one of Hofstede’s points of criticism is directed toward this lacking

¹⁰ More specifically they adopted the ideas about “Time orientation” and “Man-nature orientation” from Kluckhohn and Strodtbeck. The last, however, was translated into Rotter’s (1966) locus of control. Its objective is to measure people’s believe in being able to control the environment (internal) or not being able to do so (external). The following statements represent this distinction clearly: “What happens to me is my own doing” (internal locus of control) versus “ Sometimes I feel that I do not have enough control over the directions my life is taking” (external locus of control) (Trompenaars and Hampden-Turner, 1997: 142).

¹¹ It should be noted, however, that part of this statistical analysis was included as an appendix to Trompenaars and Hampden-Turner (1997).

analysis. A consequence is that “it is not clear where exactly a country is supposed to be positioned on a dimension [...]” (Hofstede, 1997a: 190). In later work, however, Smith, Dugan and Trompenaars (1995, 1996, 1997) re-analysed the data from the earlier work. Apart from examining a subset of the original sample (43 nations, using approximately 9,000 surveys), Smith *et al.* (1996) considered only questionnaire items that specifically relate to the dimensions “Universalism versus Particularism”, “Achievement versus Ascription”, and “Individualism versus Collectivism.” Using multidimensional scaling they found two dimensions:¹²

1. *Conservatism versus Egalitarian Commitment.* This dimension contrasts societies where particularistic relationships are valued and where status is obtained because a person belongs to a certain group of people with those societies that value universalistic relationships and in which status is based on someone’s achievements. Their data revealed that the Anglo-Saxon and Nordic countries (Scandinavia, Germany and the Netherlands) are more egalitarian-committed cultures, whereas Japan and many of the former Soviet countries tend towards conservatism.
2. *Utilitarian versus Loyal Involvement.* This dimension asserts whether people’s involvement with a group (e.g. family, organisation, etc.) is based on loyalty and in which case the relationship is not easily terminated or is based on utilitarian considerations. In the latter case an individual remains member of a group because it is beneficial for him to participate. This relationship, however, will be terminated if the benefits are not considered substantial anymore. Two dilemmas (i.e. questionnaire items) reflected this dimension most clearly, namely whether one is loyal to the family and is prepared to continue with the family business after the father-founder has died (or, instead, to sell the company to a third party) and whether one is prepared to share responsibility for a failure of another team member. The results indicate that in Asian countries, including Japan, there is a tendency toward loyalty. The western nations on the other hand showed a slight preference for utilitarian involvement. However, this was stronger in the Nordic countries than in the Anglo-Saxon countries.

In another study, focussing on cultural differences in locus of control, Smith *et al.* (1995) found three dimensions as well. Two of them, labelled “Personal-

¹² Smith *et al.* (1996) found a third dimension that remained unlabelled. However, as noted by Smith and Schwartz (1997) this third dimension was not clearly interpretable. Therefore, we will not discuss this third dimension.

Political” and “social-Individual”, correlated strongly with the “Loyalty-Utilitarian Involvement” and “Conservatism-Egalitarian Commitment” dimensions, respectively. The third dimension this study yielded measured whether people believe that luck and change in life play a role in what people achieved. Smith *et al.* (1996) found that particularly in the Asian cultures, including Japan, such believe is present.

3.2 Towards an integration of cultural dimensions

Thus far we discussed some of the most important contributions to the cross-cultural literature. Whereas contributions of Parsons and Shils and Fiske present theoretical ideas about cultural dimensions, others, as Hofstede, Schwartz, and Trompenaars empirically derived their cultural dimensions. Apart from methodology, these contributions also differed with respect to the objectives of the research. The Hofstede, Schwartz, and Trompenaars studies were specifically aimed at identifying nation-level cultural dimensions. Fiske (1992), on the other hand, was interested in the models that are able to describe different social relations in a country, notwithstanding acknowledging the existence of cultural differences therein. McClelland’s work on need for achievement originated from his interest to explain why western countries experienced more economic growth than many of the African and Asian countries.

Notwithstanding such differences, it is interesting to investigate whether the researchers’ ideas about the dimensions concur with each other. The goal of comparing the dimensions is to arrive at a set of “core” cultural dimensions. That is, the objective is to see whether it is possible to generate a limited set of dimensions shared by the various researchers whose work has been discussed in section 4.1. Consistencies across the different studies may point to the most central and reliable dimensions that may be used to describe the basic differences between cultures (Smith and Schwartz, 1997). Indeed, previous papers suggested that some of the dimensions discussed so far are either empirically (based on statistical analysis of country scores) or conceptually similar (e.g. Ronen and Shenkar, 1985; Hambrick and Brandon, 1988; Lytle *et al.*, 1995; Smith and Schwartz, 1997; Earley and Gibson, 1998; Smith and Bond, 1998). It seems that the various “value schemes have striking overlaps” (Hambrick and Brandon, 1988: 12). For example, based upon a review of three studies that statistically examined the consistency of the various cultural dimensions, Smith and Schwartz (1997: 103) conclude that two basic cultural dimensions emerged in all the empirical studies:

1. “The preferred cultural view of individual-group relations (autonomous versus embedded).”

2. “The preferred cultural mode of motivating responsible social behaviour and allocating resources (negotiation among equals versus acceptance of unequal hierarchical roles).”

The first dimension Smith and Schwartz (1997) distilled seems evident: it refers to Hofstede’s Individualism-Collectivism dimension. Apart from being statistically comparable with Schwartz’s Conservatism and Affective Autonomy it is conceptually similar to dimensions proposed by other researchers as well (see Table 4.1 at the end of this chapter for more details). The central issue behind this dimension is whether individual or group interests are stressed in a culture, and whether an individual, independent attitude is valued in a culture. For example, in cultures as is dominant in most western nations (see, e.g. Hofstede, 1984) persons are stimulated not only to pursue their own interests, but also to express their own feelings, motives, etc.. In a more group-oriented culture as Japan, on the other hand, the group is more important than the individual. Indeed, here individuals are expected to give priority to the interests, goals, etc. shared with the members of the group (e.g. family, friends, co-workers). As is discussed in the next chapter, differences in whether the individual or the group is emphasised influences the attributions people are likely to make.

The second dimension emerging from the statistical analysis and conceptually shared with the theory-driven studies as well, includes those dimensions (e.g. Power Distance, Authority Ranking, Hierarchy versus Egalitarianism) that basically address the issue of power or equality. These dimensions cover the question whether social hierarchies are important in a culture and, hence, whether it is possible to identify a person that has more status, power or authority than another person. For example, in many Latin-oriented countries (e.g. Italy) the father is the head of the family and it is him who decides for the whole family, while it is expected that the other family members respect his point of view. On the other hand in, for example, the Netherlands, in which equality is more important, the other family members have, to a certain extent, a voice in decisions. The importance of equality in the Netherlands is also reflected by the fact that the Prime Minister is a *primus inter pares* among the rest of the Cabinet’s members.

Other dimensions of the various researchers conceptually show similarities as well though statistically no relationships have been discovered. First of all, almost all studies, except for Trompenaars, addressed the importance of achievement in different cultures. In some cultures, as for example the American, free competition and achieving success are particularly important (e.g. Hofstede, 1984). Scarborough (1998: 16), for example, writes on the American culture: “Our achievement orientation makes us very goal-driven; we need to see some results

and compare them to a standard. Performance-based compensation thus appeals to us. We find breakthroughs exciting, but we have difficulty applying ourselves to undramatic and long-term endeavours like continuous improvement. We are materialistic not just in the value we place on possessions in and of themselves but as evidence of our adherence to and success in pursuing all these values. In this pursuit, we tend to neglect Hofstede's feminine values of quality of life and human relationships." In contrast, in Scandinavian countries and in the Netherlands as well, feminine values are emphasised: not achievement per se but good working conditions and relations are important. Furthermore, a more modest attitude is expected from people in these cultures (Hofstede, 1998).

A dimension that is conceptually shared by several cross-cultural researchers as well involves the question how people cope with uncertainty. One option is that (detailed) rules have been formulated that should enable people to handle unknown, new situations. Another possibility is that hardly any rules, or only general guidelines have been formulated and people cope with uncertainty as they think is the most appropriate. This difference is for example reflected in the code versus common law system. In the first, which is typically found in Latin-oriented countries the legal system consists of all kinds of detailed rules. In case of common law, which is dominant in the Anglo-Saxon countries, written legal rules only provides general rules which judges apply to and interpret in the context of specific cases.

Ideas about cultural differences with respect to time have been addressed in two studies. The ideas, however, are not completely comparable. Kluckhohn and Strodtbeck's dimension "Time orientation" addresses whether people are oriented towards the past, present, or the future. The "Confucian work dynamism" of Hofstede (and Bond) asserts whether people are oriented towards the future in the long-term or have a more short-term perspective when they looked at the future. This difference is also reflected in Trompenaars and Hampden-Turner's (1997) work on time in a cultural perspective. In both Hofstede's and Trompenaars' work it was found that the Americans are considerably shorter-term oriented than the Japanese. Indeed, a "consistent competitive advantage attributed to the Japanese is that of strategizing long-term. Their corporations persist, aiming for more growth than for profit, and fight for market share till others give up and withdraw" (Trompenaars and Hampden-Turner, 1993: 135). International managers in a European management forum survey confirmed the difference in time-orientation of these nations. Whereas Japan was acknowledged to be the number-one country in which firms take a long-term view, the United States only ranked 19th (out of 31) in the same survey. The Netherlands occupied a position between these two countries and ranked 10th (see Trompenaars and Hampden-Turner, 1993).

3.3 Summary

The intention of this chapter was, first, to discuss some important contributions to the cross-cultural psychological literature and, second, to investigate whether it is possible to capture a rather vague and broad concept as “culture” by a limited number of dimensions. We paid attention to the contributions of various researchers as Hofstede, Schwartz, and Parsons and Shils, who either empirically or theoretically deduced their cultural dimensions. The importance of their contributions is that they enable the operationalization of a country’s culture in terms of a number of dimensions. Largely, these dimensions have in common that they address basic human dilemmas or choices each human being is confronted with. Hence, these dimensions represent the essence of a culture. Although the various researchers labelled their dimensions somewhat differently, the comparison of the dimensions in section 3.2 “provide substantial encouragement for the view that there is considerable replicability in the results emerging from value surveys sampling relatively large numbers of nations” (Smith *et al.*, 1996: 259). In addition, the various dimensions are to a large extent conceptually comparable. Based upon the discussion in sections 3.1 and 3.2, it seems that it is possible to distinguish a limited number of “core” cultural dimensions, namely:

1. *Self-interest* versus *Group-interest*. Basically this dimension addresses the dilemma “I” versus “we” (Hofstede, 1980). For example, in cultures where the self-interest is guiding, the person is seen as “an autonomous entity independent of groups” (Chen *et al.*, 1998: 289). On the other hand, in collectivistic cultures where the group interest prevails, the person is defined in terms of “its connectedness to others in various in-groups” (Chen *et al.*, 1998: 289). This key cultural dimension also covers the importance of personal versus group goals and whether relationships are emphasised or not (Triandis, 1995; Chen *et al.*, 1998). For example, Earley (1994: 89) comments that “in an individualistic [i.e. self-interested] culture, people look to their own actions to understand who they are, and these actions are relatively independent of others. In a collective [i.e. group-interested] culture, people base their self-understanding on the reactions of important others around them.” As a consequence, “individualists” [i.e. those with an emphasis on self-interest] are more oriented toward task achievement, sometimes at the expense of relationships, whereas “collectivists” [i.e. those with an emphasis on group-interest] put more emphasis on harmonious relationships, sometimes at the expense of task accomplishment” (Chen *et al.*, 1998: 289).

2. *Power versus Equality*. This dimension asserts the importance of social hierarchies in a culture. Power-oriented societies tend to value differences in authority, status, and so on. In such cultures, the more powerful people have certain rights and prerogatives that the less powerful lack. Decision-making in such cultures is mainly top-down oriented. In equality-oriented cultures, on the other hand, social hierarchies are less important. In these societies it is not natural that a person has more power than others, just because he/she is older, belongs to a certain group, etc.. Furthermore, in such cultures, people strive at participation in decision-making.
3. *Importance of achievement (high versus low)*. This dimension considers the importance of masculine values as competition, success, and material rewards. In case societies do not consider achievement very important, the more feminine values as good relationships with colleagues, good working conditions, and friendship are more important.
4. *Importance of rules to cope with uncertainty (high versus low)*. There are nations who prefer to deal with uncertain situations by the formulation of all kinds of detailed rules. On the other hand, there are also societies that do not fear to deal with uncertainty and, as a consequence, only have some general rules that provide some guidance.
5. *Long-term versus Short-term orientation*. This last core cultural dimension deals on the one hand with societies that show a preference for looking at the long-term and for which short-term effects are of lesser importance and those that focus more on obtaining short-term effects and partially loosing the long-term out of sight.

Before translating our two basic research questions into more concrete, testable propositions and discussing our research design in chapter 5, we first will address how culture affects the attributions people make in the next chapter.

	Parsons and Shils	Kluckhohn and Strodtbeck	McClelland	Hofstede	Fiske	Schwartz	Trompenaars
<i>General</i>							
Empirical vs theory	Theory driven	Empirically tested	Empirically tested	Empirically tested	Theory driven	Empirically tested	Empirically tested
Number of countries	N.a.	5 regions within United States		50+ countries	N.a.	± 50	43
Publication	1951	1961	1961, 1975	1980	1992	1994	1993
<i>Shared dimensions</i>							
Central issue	Parsons and Shils	Kluckhohn and Strodtbeck	McClelland	Hofstede	Fiske	Schwartz	Trompenaars
Self-interest vs Group-interest	Self-orientation vs collectivity orientation	Relational orientation	-	Individualism vs collectivism	Communal sharing	Affective autonomy vs conservatism	Conservatism vs Egalitarian commitment
Power vs equality	-	-	Need for power	Power distance	Authority ranking	Hierarchy vs egalitarianism	Loyal vs Utilitarian Involvement
Importance of achievement (low vs high)	Ascription vs achievement	Activity orientation	Need for achievement	Masculinity vs femininity	Market pricing	Mastery vs harmony	
Importance of rules to cope with uncertainty	Universalism vs particularism	-	-	Uncertainty avoidance	-	Intellectual autonomy	Loyal vs Utilitarian Involvement
Long-term vs short-term orientation	-	Time orientation	-	Confucian work dynamism	-	-	
<i>Unique dimensions</i>							
N.a.	Specificity vs diffuseness	Human nature and Man-nature orientation	Need for affiliation	-	Equality matching	Harmony	Luck

Table 3.1 Comparison of cultural dimensions

4 Culture and people's attributions

*“The richer rice ripens, the lower its head hangs”*¹

So far we have paid attention to two topics. First of all, in chapter 2 we addressed the so-called “self-serving attributional bias.” This bias implies that people are inclined to explain outcomes of their own actions in a rather biased way. While they ascribe successes to their own efforts, failures are blamed on the environment. Extant research indicates that such bias is also present in CEOs’ explanations in the letter to the shareholders. For example, increasing profits are attributed to a strategy the board implemented a few years ago. Losses, on the other hand, are frequently blamed on something outside their control, e.g. general economic conditions. In the second part of that chapter we also explained such managerial behaviour from three different, yet complementary, perspectives. Notwithstanding the differences, in all three frameworks it is stressed that the letter to the shareholders has a symbolic function: the story contained in it is aimed at influencing people’s perceptions. The main reason why CEOs try to influence those perceptions is related to self-interest. Managers not only try to secure people’s contributions to the company (e.g. their investment), but there seems to be a more ulterior motive as well: it may impinge on their personal reputations and, more importantly, on (the justification of) the rewards they receive. The second topic we discussed concerned “culture.” In the previous chapter we saw how a complex phenomenon as culture may be captured by a limited number of cultural dimensions, thereby somewhat reducing its complexity. To that purpose, we covered various researchers’ cultural dimensions. Although not being perfectly identical with each other, the dimensions reflect similar ideas about basic beliefs and values. In that respect the dimensions represent the essence of cultures, and guide researchers when they want to compare different cultures. Based upon this comparison, we identified five “core” cultural dimensions which we labelled “self-

¹ Old Japanese saying as quoted in Kameda (2001). This saying expresses Japanese humility: “Japanese people don’t speak about their own abilities by themselves. Those who do, are avoided by others and may criticise such a person as “a man full of conceit”. Those who have achieved success usually talk of their success with much humility” (Kameda, 2001: 144).

interest versus Group-interest”, “Power versus Equality”, “Importance of achievement”, “Importance of rules to cope with uncertainty”, and “Long-term versus Short-term orientation.” In this chapter we will integrate the knowledge on these two subjects and look at the influence of culture on self-serving attributional biases. In section 4.1 previous social-psychological research with respect to this subject is discussed. In section 4.2 we pay attention to the explanations provided for the differences found. As will be evident after reading this section, most of the explanations provided reflect underlying differences in importance of self-interest (or the individual) or group-interests. Section 4.3 summarises the chapter.

4.1 Culture and attributional biases

Although people across cultures do generally show a self-serving bias, research also indicates that there is a pervasive difference between western cultures (notably the United States) and eastern cultures (mostly Japan) (e.g. Fry and Ghosh, 1980; Chandler, Shama, Wolf and Planchard, 1981; Miller, 1984; Kashima and Triandis, 1986; Al-Zahrani and Kaplowitz, 1993; Morris and Peng, 1994; Yan and Gaier, 1994; Markus *et al.*, 1996; Meijer, 1996; Kitayama *et al.*, 1997; Lee and Seligman, 1997; Semin and Zwier, 1997; Zwier, 1998; Choi *et al.*, 1999; Menon *et al.*, 1999). All these studies, using different methods and subjects, arrived at the same, general conclusion: the self-serving bias was found more in western cultures than in eastern cultures. First, Americans are more than eastern subjects inclined to explain events in terms of dispositional factors, and typically when it involves successful outcomes. That is, Americans employ internal causes to a larger extent than people from the East to account for successful outcomes, also implying that people from eastern cultures are more modest in their attributions. On the other hand, people in eastern cultures are more inclined to assume personal responsibility for failures than Americans do: especially Japanese people, but Indian and Chinese as well, show self-deprecating tendencies (e.g. Kashima and Triandis, 1986; Yan and Gaier, 1994; Tuss *et al.*, 1995; Meijer, 1996; Kitayama *et al.*, 1997; Lee and Seligman, 1997; Akimoto and Sanbonmatsu, 1999). Below a short review of these studies is provided.

Fry and Ghosh (1980) used white Canadian and Asian Indian Canadian children (between 8 and 11) in a laboratory experiment to test whether they differed with respect to the attributions they make. They found that the Asian-Indian children were more modest in their attributions. Miller (1984, 1987), however, did not find differences in attributional patterns between young-aged subjects from the United States and India when she asked them to explain behaviour of an acquaintance they witnessed in everyday life (Morris and Peng,

1994). However, older subjects in her study showed the same pattern that Fry and Ghosh (1980) and others found. Morris and Peng (1994) put question marks with Miller's methodology. They argue that her study has the drawback of confounding two possible sources of the effect: a difference between American and Indian subjects' attribution processes and an objective difference in the actual causes of their acquaintances' behaviour (1994: 952). In order to study whether the main finding that Americans are more dispositional in their attributions than Chinese are, they executed three studies (only the first two seem relevant for our research). In their first study among secondary school children, the subjects had to watch cartoon displays of social (e.g. the movement of a fish compared to a group) and psychical events (e.g. the movement of a ball) and report their causal perceptions (Morris and Peng, 1994: 953). Their second study consisted of comparing attributions for mass murders in newspapers serving American and Chinese communities in New York. One murder was committed by an American and another by a Chinese. Both studies confirmed that Americans, relatively speaking, overuse dispositional attributions, whereas the Chinese are inclined to explain events in terms of situational or contextual factors. Menon and her colleagues (1999) used a similar procedure that was more related to business scandals. One of the scandals involved the rogue trading by Nick Leeson that finally led to the collapse of Britain's oldest bank, Barings. Comparison of the attributions for this scandal made in an American newspaper (*The New York Times*) and in a comparable Japanese one (*Asahi Shimbun*), showed the same pattern as Morris and Peng found. They found that the American newspaper referred more frequently to the individual than the organisation as the cause of the financial scandal. The Japanese newspaper, on the other hand, referred more to the organisation.

In their studies Kashima and Triandis (1986), Meijer (1996), and Zwier (1998) asked respondents to explain their successes and failures. In the case of Kashima and Triandis (1986), American and Japanese students (all studying in the United States) were asked to explain their successes and failures in a difficult experiment in which they were asked to remember unfamiliar scenes from different countries. Afterwards the subjects were assigned to a success or failure group and were asked to explain their achievements using free responses. It appeared that Heider's categories of ability, effort, task difficulty and luck could be used to classify the causes given. Furthermore, compared to the Japanese, the American subjects were more internal in their explanations of successes. Japanese subjects, on the other hand, showed "self-deprecating" biases: they ascribed failures more to themselves. Meijer (1996) and Meijer and Semin (1998) found similar results using Japanese and Dutch subjects. Zwier (1998) concentrated on differences in language use between the Netherlands and Turkey (also in a more natural context, namely sports

commentators during a soccer match between the Dutch and Turkish national teams). In both the experimental and natural context, she found that the Dutch subjects drew a more dispositional picture of the person while the Turkish subjects drew a more contextual picture of the person (Zwier, 1998: 120). However, contrary to the previous studies, she did not find self-serving or modesty biases when people were asked to attribute social events (e.g. completing the sentence “A trusts B, because ...”). Zwier (1998: 121) suggests that maybe the self-serving and modesty bias are limited to the explanation of achievement-related events, rather than generalising to social events in general (also because in her second study, that of explanations provided by sports commentators, such a bias was found).²

Other biases we discussed in section 2.2 are culturally determined as well. Despite its robustness in Western settings (e.g. Gilbert and Malone, 1995; Choi *et al.*, 1999), the actor-observer effect seems to be less present in the Japanese culture. Instead, the pattern seems to be reversed (Yamauchi, 1988; Markus and Kitayama, 1991; Meijer and Semin, 1998), making the comment that perhaps some extra-terrestrials may be free from actor-observer differences (Choi *et al.*, 1999: 47) sound even more ironic. The same may be true for the fundamental attribution error. The results of the studies by, e.g. Miller (1984), Cousins (1989), Shweder and Bourne (1991), and Morris and Peng (1994) indicate that the fundamental attribution error is particularly present in Western cultures where people have an independent view of the self (see below) (Markus and Kitayama, 1991). Hence, it is not surprising that Pfeffer (1997: 130) comments that the degree to which people have a romanticised conception of leadership—which in section 2.2.1 we saw was related to the fundamental attribution error—varies across cultures and that it may be more relevant in individualistic, western societies.

The main conclusion from the review of the literature is that western and eastern cultures show different attributional patterns: whereas Americans in general use self-enhancing and self-protecting attributions, Japanese people are

² To be more precise: she found among the Dutch and Belgian commentators the so-called *group-serving bias*, that states that people tend to favour the members of their in-group over the members of out-groups (Zwier, 1998: 46). Otherwise stated this bias implies that people have a tendency of making internal attributions for the in-group’s success and the out-group’s failure, while on the other hand they prefer to explain the in-group’s failure and the out-group’s success in terms of external factors (Semin and Zwier, 1997). In her study, Zwier (1998) found that the Dutch and Belgian commentators when describing the negative behaviours of the Turks used more abstract, i.e. dispositional, terms than when they described their positive behaviours. The Turkish commentators, however, showed a reversed pattern in describing the behaviour of Turkish football players.

more modest and even self-deprecating in their attributions of achievement-related outcomes. This indicates that people in western nations tend to use a more optimistic attributional style, whereas people in eastern nations use a more pessimistic style (Lee and Seligman, 1997), a finding that is quite robust (Heine and Lehman, 1997; Choi *et al.*, 1999; Menon *et al.*, 1999). Although cross-cultural research in social psychology has concentrated on the differences between western and eastern cultures, there is also some evidence that *among* eastern and western cultures differences in attributional patterns exist (e.g. Forgas, Furham and Frey, 1988; Nurmi, 1992; Bornstein *et al.*, 1998; for western evidence, and Chandler *et al.*, 1981; Crittenden and Bae, 1994; for eastern evidence). Especially Nurmi's (1992) study is worthwhile mentioning. His results showed a consistent cross-cultural difference in causal attributions: American students tended to use self-serving attribution bias to a greater extent than Finnish students did. However, the Finnish subjects *still* showed a tendency to use self-serving attributions (Nurmi, 1992). In addition, Nurmi refers to a study by Cohen, Van den Bout, Kramer, and Van Vliet (1986) in which Dutch and American subjects were compared in a similar experiment. Comparing these two studies Nurmi found that the mean scores of the Finnish sample for internality, stability, and globality after good outcomes were almost identical to those for the Dutch sample. However, the scores concerning bad outcomes were even higher for the Finnish than those for the Dutch. This finding indicates that of the three cultural groups, the Finnish sample tended to show the lowest level of self-serving bias (Nurmi, 1992: 74).

4.2 Explaining cultural differences in self-serving biases

The main lesson to be learned from the preceding is that compared to western societies, people in eastern societies, and notably Japan, are more modest and self-deprecating when they offer attributions for their behaviour. In this section we will address the explanations that are offered to account for these cultural differences in attributional behaviour. A review of the relevant literature tells us that three issues seem to be of importance (see also Tsang, 2002). First, cultural differences in the construal of the self, and second, differences in communication styles (e.g. Gudykunst and Nishida, 1986; Triandis, 1989, 1995; Markus and Kitayama, 1991, 1994; Gudykunst, Matsumoto, and Ting-Toomey, 1996; Gudykunst and Kim (1997); Kagitçibasi, 1997; Semin and Zwier, 1997; Zwier, 1998) are often used to explain it. In addition, also considerations about (loss of) "face" may be an important factor that can bring about differences between nations.

*Construal of the self*³

The construal of the self defines how we perceive ourselves *vis-à-vis* others and, hence, will determine the nature of individual experiences, including cognition, emotion, and motivation (Markus and Kitayama, 1991, 1994). Therefore, it has been suggested that differences in construal of the self also affect people's attributional styles.

In an influential paper, Markus and Kitayama (1991, 1994) proposed that there are cultural differences in the construal of the self. They argued that on the one hand there is an *independent* construal of the self and on the other hand an *interdependent* construal of the self. These different construals are reflections of the Individualism-Collectivism distinction (Triandis, 1989, 1995; Markus and Kitayama, 1991, 1994; Kagitçibasi, 1997; Zwier, 1998): the independent view is typical for individualistic countries, such as the United States and the northern European countries. The interdependent view on the other hand is dominant in collectivistic nations, such as Japan, Latin America and southern European countries.⁴ The *independent* construal dictates that a person is independent from others and the emphasis is on the expression of one's unique attributes. According to Markus and Kitayama (1991: 226) an essential aspect of this construal is that the self is seen as an autonomous, independent person. Elaborating on the independent view of the self, Fiske *et al.* (1998: 920) note that the following features of a person are emphasised: the person is a bounded, coherent, stable, autonomous, "free" entity. In addition, in this model of the self, independent "success" and "achievement" play a central role in goal-formulation, decision-making, and interpersonal communication (Fiske *et al.*, 1998). In contrast, in the *interdependent* construal of the self, the person is regarded as not separate from the social context but as more connected to and less differentiated from others (Markus and Kitayama, 1991: 227). Hence, the interdependent view of the self implies that the self is viewed as variable and in principle dependent on the influence from social contexts and relationships (Zwier, 1998: 8). This also

³ The "construal of the self" mainly seems suitable to explain differences in attributional patterns between eastern, southern European, and Latin American countries on the one hand and Anglo-Saxon and Nordic countries on the other. However, as Nurmi's (1992) study revealed, there are also differences within these regions, e.g. the Netherlands/Finland versus the United States. Maybe here the distinction Masculinity-Femininity (Hofstede) or Mastery-Harmony (Schwartz) is more apt to study these within-region differences. Supporting this expectation is Smith *et al.*'s (1995) finding that people's locus of control correlates with Schwartz's Harmony-Mastery dimension.

⁴ E.g., Heine (1996) and Fiske, Kitayama, Markus, and Nisbett (1998) stress that although both the independent as well as the interdependent construal of the self may be found in all cultures, some cultures emphasise one construal more than the other.

implies that social relationships, roles, norms, and group solidarity are more fundamental and more valued than self-expression (Fiske *et al.*, 1998: 922). In this interdependent model of the self, harmony with the collectivity seem particularly important. Therefore, it is not surprising that a person evaluates life with reference to collective needs and one's contributions to them.⁵

Differences in the view of the self have implications for people's verbal behaviours (Markus and Kitayama, 1991; Si, Rethorst and Willimczik, 1995; Zwier, 1998) and their definition of self-esteem (Markus and Kitayama, 1991, 1994; Nurmi, 1992; Yan and Gaier, 1994; Meijer, 1996; Heine and Lehman, 1997; Kagitçibasi, 1997; Kitayama *et al.*, 1997; Heine, Lehman, Markus and Kitayama, 1999; Heine, Takata and Lehman, 2000; Heine, Kitayama and Lehman, 2001). As the focus in the independent view of the self is on one's own person it is logical that outcomes are explained in dispositional terms (e.g. Miller, 1984; Cousins, 1989; Markus and Kitayama, 1991; Al-Zahrani and Kaplowitz, 1993; Morris and Peng, 1994; Lee, Hallahan and Herzog, 1996; Heine and Lehman, 1997; Zwier, 1998). In addition, self-esteem in individualistic countries requires that one's uniqueness is emphasized and that inner attributes are expressed (Markus and Kitayama, 1991: 242; 1994). This will lead to self-serving behaviour. In collectivistic countries, on the other hand, the focus is on the social context in which one is operating. Therefore, situational or contextual attributions are expected. Besides, stimulating self-esteem is achieved in a different way than in individualistic countries. Markus and Kitayama (1991: 242, 1994) note that positive feelings about the self should derive from fulfilling the tasks associated with being interdependent with relevant others: belonging, fitting in, occupying one's proper place, engaging in appropriate action, promoting others' goals, and maintaining harmony. Hence in these nations there is a "collective self-esteem" (Kagitçibasi, 1997; Crocker and Luhtanen, 1990). Regarding previous comments it should not be surprising that self-enhancement or self-promotion are perceived negatively in the Japanese culture as a study by Yoshida, Kojo and Kaku (1982;

⁵ Triandis (1989) and Kagitçibasi (1997) presented related conceptions of the self. Triandis (1989) made the distinction between the private and the collective view of the self. In the private view traits, states, or behaviour regarding the self are stressed. On the other hand, in the collective view the self is embedded in a collective in-group, such as family or friends (see also Zwier, 1998). Although in all cultures both the private and collective view are found, Triandis (1989) argues that in individualistic nations the private view will dominate, whereas the collective view will prevail in collectivistic cultures. Markus and Kitayama (1991), that received empirical support by Singelis and Brown (1995), have a similar opinion regarding their independent and interdependent construals of the self. Kagitçibasi's (1997) distinction between the "Relational Self" and "Separated Self" is very similar to the proposals by Markus and Kitayama and Triandis.

quoted in Markus and Kitayama, 1991) has indicated. In these cultures modesty is the norm. Indeed, Kitayama *et al.* (1997) argued that the fact that people in eastern societies are more sensitive to negative self-relevant information than people from western cultures, does not imply that they are low(er) in self-esteem (see also Akimoto and Sanbonmatsu, 1999 and Heine *et al.*, 1999, 2000, 2001). However, being prone to such information and using it, has positive consequences in eastern cultures: it serves to affirm one's belongingness to a group and can be seen as part of a strategy of self-improvement (Meijer and Semin, 1998: 17; Heine *et al.*, 1999, 2000, 2001). Such self-critical orientation seems typical for Japanese people. According to Heine (1996: 13) "Japanese feel that they need to be particularly vigilant of, and sensitive to, information indicating their shortcomings or their incompleteness—areas upon which they must work harder to improve. From a young age, Japanese are taught to reflect upon their weaknesses (*hansei suru*) and to focus upon how they can improve themselves." Therefore, it may be argued that modesty and self-deprecating tendencies typically found in the Japanese culture is the result of a consideration of others. That is, following Meijer and Semin (1998: 15), the Japanese seem to make sure not to deny others' contribution to a success, and save their face (see below) by not blaming them in any way for a failure, also because blaming others would disrupt harmony in a relationship (Meijer and Semin, 1998).

Communication styles

The way people communicate, i.e. their communication style, is influenced by their cultural background. In fact, it is argued that communication and culture reciprocally influence each other (Gudykunst, 1997: 327). Whereas in the past the influence of culture on communication was largely ignored, nowadays there is an increased attention for this subject (e.g. Gudykunst and Ting-Toomey, 1988) although there is still much to be learned (Zwier, 1998).

One of the most important efforts to study the influence of culture on communication was Hall (1977). Hall suggested that in order to understand the messages people convey, the context is an important aspect that has to be taken into consideration, because without the context the code (i.e. a verbal message) is incomplete (Hall, 1977: 86). Hall reasoned that the importance of the context in communication varies across cultures. He distinguished high-context and low-context communication cultures, although admitting that each culture has elements of both. Following Hall (1977: 91) a high-context communication or message is one in which most of the information is either in the psychological context or internalised in the person, while very little is in the coded, explicit part of the message. Zwier (1998) characterises this high-context style as indirect, implicit,

and affective (see also Gudykunst *et al.*, 1996; Morris *et al.*, 1998).⁶ A low-context communication is according to Hall (1977: 91) just the opposite; i.e. the major part of the information is vested in the explicit code. Therefore, it can be characterised as a direct, explicit and instrumental communication style (Zwier, 1998; see also Gudykunst *et al.*, 1996; Morris *et al.*, 1998). Following Gudykunst and Ting-Toomey (1988), Erez and Earley (1993), and Singelis and Brown (1995) it appears that in individualistic countries, e.g. the United States and most of north-western Europe, the use of low-context communication styles predominates. In collectivistic countries, e.g. Japan, southern European and Latin American countries, however, the high-context communication style is more apparent.

Ehrenhaus (1983) relates Hall's variations in context to attributional styles. He argues that members of high-context cultures are attributionally sensitive and predisposed toward situational features and situationally based explanations. Members of low-context cultures, on the other hand, are attributionally sensitive to and predisposed towards dispositional characteristics and dispositionally based explanations (1983: 263). In addition, it also seems that in high-context culture, e.g. Japan, people in high positions are more prepared to accept responsibility for a failure than similar people from low-context cultures, such as the United States and the Netherlands (Hall, 1977). In the latter case, a lower-ranked scapegoat is frequently offered us: Oliver North in the Contras-Irangate scandal is only one well-known example underscoring this.⁷

Face

A third factor, though related to those previously discussed, that may explain cross-cultural differences in attributions is "face." Face, a concept originating from

⁶ Gudykunst and Ting-Toomey (1988) and Triandis (1994) say about these characteristics: *Direct-Indirect style*. The extent senders of messages reveal their intentions through explicit verbal communication.

Affective-Instrumental style. Affective verbal style is receiver-oriented language usage, whereas the instrumental verbal style is sender-oriented.

⁷ Finally, Triandis (1994: 184-185) also points to several important differences in communication styles between individualistic (or low-context) and collectivistic (or high-context) cultures. First, in individualistic cultures the focus is on the communicator, also evidenced by the fact that the word "I" is used frequently. In these cultures, attributes as credibility, intelligence, and expert knowledge are important. On the other hand, in collectivistic cultures, the focus to a larger extent is on the receiver. In addition, the word "we", stressing interdependency, is also emphasised, whereas ambiguity, subjectivity, generality, and vagueness in communication is also more common. This could indicate that the use of accounting-technical language (Aerts, 1991, 1994) would be even more prevalent in these cultures than it is in an individualistic culture such as Belgium.

Chinese (Hu, 1944; Ho, 1976; Cocroft and Ting-Toomey, 1994; Earley, 1997)⁸, basically refers to the positive public image a person claims for himself (Lim, 1994: 210). Face is associated with issues as respect, honour, reputation, credibility, competence, loyalty, trust, relational indebtedness, and trust (Ting-Toomey, 1988: 190).⁹ The different conceptualisations of face notwithstanding, all researchers seem to stress three characteristics of face (Lim, 1994; Earley, 1997). First, face is public not private. Second, it is a projected image that not necessarily has to be in line with public's expectations. Third, face is related to positive social values. Furthermore, it seems that although face is important in all cultures, the content of face and people's ways of managing face, e.g. by the use of the self-presentational techniques discussed in chapter 2, is influenced by cultural differences.^{10,11} This view is clearly expressed by Hallahan, Lee and Herzog

⁸ As indicated by, e.g. Cocroft and Ting-Toomey (1994) and Earley (1997), and Hu (1944) and Ho (1976) before them, "face" has two different conceptualisations in Chinese. These two are *lien* or *lian* on the one hand and *mien-tzu* or *mianzi* on the other. From their discussions it seems that *lien* is that part of face that is related to a person's behaviour regarding society's norms and values; a loss of which cannot easily be recovered (Earley, 1997). *Mien-tzu*, however, is that part of face that is derived from a person's position; according to Earley (1997) a CEO of a large multinational has a lot of *mien-tzu* compared to an administrative clerk of that same company. What is important is that they can exist separately: Michael Milken, the "junk bond king" of the 1980's, may have recovered some of his *mien-tzu* (reputation), but not his *lien*, as people still question his underlying values and motives (Earley, 1997: 65). Furthermore, it seems that research so far has concentrated on *mien-tzu*. For a more elaborate discussion of the Chinese conceptualisation of face, we refer to Ho (1944) and Hu (1976), and Earley (1997).

⁹ It seems that there are cross-cultural differences in the concept of face. Whereas in the Japanese stress issues as honour, pride, claimed self-image, respect extended by others, and dignity, Americans tend to stress credibility, self-respect, individual reputation, recognised personal worth, and status (Morisaki and Gudykunst, 1994; Markus *et al.*, 1996). The influence of the Individualism-Collectivism construct is apparent.

¹⁰ However, it might be that face is more important in Eastern cultures (Erez and Earley, 1993; Tsang, 2002). This is also evidenced by findings of the Chinese Culture Connection (1987) showing that countries as China and Japan scored high on their "Confucian work dynamism". This dimensions comprised issues such as "having sense of shame", "personal steadiness", and "protecting face". See Imahori and Cupach (1994) for empirical evidence regarding cross-cultural differences in the management of face.

¹¹ Regarding the relationship between "face" and impression management or self-presentation, Earley (1997: 53) remarks: "A large literature on the topic of impression management has emerged in the West that is related to face. Although the emphasis of this literature is generally on *mianzi* and not *lian* (particularly given that impression management refers to an active manipulation in order to shape others' view of oneself), it is useful to note that many of the strategies and tactics used in managing impressions have application to face and facework. For instance, Tedeschi and Riess (1981a, b) discuss

(1997: 769) who state that face may be a universal human need, because all people from whichever culture are concerned with how they are perceived by others, as well as they are concerned with protecting others from losing face.

In this context Ting-Toomey proposed an interesting model. She uses Brown and Levinson's (1978) ideas on politeness as her primary point of departure. Following these authors, she makes a distinction between "positive" and "negative" face. Negative face refers to a person's desire for autonomy (i.e. the right to do as one wishes) and claim to territories. Positive face is the desire for approval and the desire to be appreciated and accepted by others. In other words, negative facework emphasises the need for dissociation. Positive facework, on the other hand, emphasises the need for association (Ting-Toomey, 1988: 216). Apart from face-need, Ting-Toomey also addresses the issue of face-concern to develop a cultural theory on face. Face-concern involves the distinction between self and other face; i.e. it is related to the extent to which one is sensitive to other people's face in managing a person's own face. Using these two aspects of face, the distinction individualism and collectivism, and Hall's communication dimension, Ting-Toomey arrives at a number of propositions regarding the cultural variability of the management of face. From these propositions it seems that in individualistic, low-context communication cultures, such as the United States, people are especially concerned with their own face and, in addition, show a negative face-need. On the other hand, in Japan, a collectivistic, low-context communication culture, people are more concerned with other face and tend to seek approval (i.e. have a positive face-need).¹² Morisaki and Gudykunst's (1994) ideas on independent, which predominates in individualistic cultures, and interdependent face are very similar to Ting-Toomey's ideas. Furthermore, these authors (1994: 78) assert that there may be differences in time frame: whereas people from individualistic cultures are concerned with short-term or immediate

several reasons why people engage in impression management, such as social role-playing in symbolic interaction, avoiding blame and gaining credit, maintaining self-esteem, controlling power and social influence, and creating a connotative impression (e.g. evaluation and potency) for instrumental value. Throughout this literature, impression management and self-presentation are discussed as ways for a person to maintain and manipulate a positive self-image power similar to the outcome of acquiring *mianzi*".

¹² Recently, Ting-Toomey and Kurogi (1998), hypothesised on the influence of power distance on facework. They note that in cultures with small power distance, one's personal rights will be reflected in the management of face. On the other hand, in large power distance cultures, it is important to carry out one's ascribed duties responsibly, which may imply that other face is particularly important (Ting-Toomey and Kurogi, 1998). These authors also discuss the influence of this dimension on facework by members with differences in status.

face-management, people from collectivistic cultures are concerned with long-term face-management. What is stressed in both Ting-Toomey's (1988) and Morisaki and Gudykunst's (1994) ideas is that Japanese people perceive face (and the self) to be interrelated with others (Cocroft and Ting-Toomey, 1994: 499).

These cultural differences in face (and self, as previously discussed) also have consequences for the attributions people make. In a "classic" work, Lebra stresses the importance of a balance between humility and dignity in the Japanese culture, also implying that face-enhancing strategies, e.g. self-enhancing attributions, are generally speaking not culturally approved (1976: 129; see also Heine *et al.*, 1999, 2000, 2001). She comments that self-praise or boasting (*jiman*) is irreconcilable with modesty and humility and is strongly disapproved by a large part of the Japanese (1976: 127). Indeed, self-praise or standing out from the group may be perceived as an asocial strategy and would threaten harmony (Cocroft and Ting-Toomey, 1994; Heine and Lehman, 1995). Therefore, presenting oneself as comparable to others, i.e. seeing oneself as average, would be a strategy that is culturally acceptable in Japan to a larger extent than self-enhancement (Heine and Lehman, 1995).¹³ The use of self-protecting attributions, e.g. blaming others for an unsuccessful result also runs counter to the importance of concern for other people's face and may disrupt harmony (Ting-Toomey and Kurogi, 1998).¹⁴

4.3 Summary

The main objective of this chapter was to review social-psychological and cross-cultural literature on cultural differences in attributional biases. From this review it is apparent that we can contrast western and eastern nations when studying attributional biases. Extant research shows that the American and Japanese differ with respect to the explanations they provide for achievement-related outcomes.

¹³ In their seminal work on culture and the self, Markus and Kitayama indicate that the "exact nature of these modesty, self-effacing, or other-enhancing biases has yet to be specified. Perhaps those from interdependent cultures have simply learned that humility is the desired response, or the culturally appropriate response, and that it is wise not to gloat over their performance or to express confidence in their ability. This interpretation implies that the modesty biases observed in the studies [...] are primarily the result of impression management and that the subjects involved actually could have held different, perhaps opposite, beliefs about themselves and their ability. However, it is also possible that these other-enhancement biases reflect, or are accompanied by, psychologically authentic self-perceptions" (1991: 244).

¹⁴ Ting-Toomey and Kurogi (1998: 192) remark that individualists, when their face is threatened, tend to use situational accounts to save face. Collectivists, on the other hand, tend to use negative internal dispositional accounts when their face is threatened.

Most important is the finding that the self-serving attributional bias—frequently found in the United States—is not commonly employed by Japanese people. Indeed, when Japanese explain successful outcomes they, compared to Americans, exhibit fewer and weaker self-enhancing biases. That is, they refer more to external causes than Americans do to explain those successes. In case of failures the Japanese are more self-deprecating in their explanations than the Americans. That is, they are to a larger extent inclined to assume personal responsibility for those failures. Other attributional biases seem to be less universal as well: neither actor-observer differences nor the fundamental attribution error could be replicated perfectly when Japanese subjects were used. Apart from differences between eastern and western cultures, there is also some, though less extensive, evidence of differences *within* those regions. For example, a study with Finnish and American subjects showed that the Finnish subject showed less self-serving tendencies than their American counterparts did (although the bias was still present).

The explanations used to account for this pervasive difference between eastern and western cultures all seem to be a reflection of one of the “core” cultural dimensions. More specifically, differences in construal of the self, in communication styles and in importance of face, all reflect differences with respect to “Self-interest vs Group-interest.” Whereas in the United States, “the cultural mandate is for individuals to be adequate, competent, and self-sufficient, [...] the cultural mandate in Japan is for individuals to achieve a sense of interpersonal harmony and connection with others” (Heine, 1996: 5-6). An important consequence of this difference in orientation is that the value of self-enhancement and self-protection is, at least, questionable in the Japanese culture. In contrast, both “would only weaken the solidarity of the group” (Heine, 1996: 32). Whereas differences related to self-interest versus group-interest are able to explain differences in self-serving biases between the East and the West, the dimension “Importance of achievement” seems more apt to explain differences within regions (and the western countries in particular). In the next chapter we will, among others, formulate our expectations regarding cultural differences in self-serving attributional biases in the letter to the shareholders.

5 Research design

*“Accounting cannot be isolated and analysed as an independent component of culture. It is, like mankind and other social institutions, a product of culture and contributes to the evolution of the culture which employs it. Since accounting is culturally determined, other cultural customs, beliefs, and institutions influence it”*¹

In the first chapter of this study, we formulated the two basic research questions of this study. As you may recall these questions were as follow:

1. *Do managers show self-serving biases to explain organisational outcomes in the letter to the shareholders? And if so, what organisational and/or situational factors explain differences in the extent of self-serving biases?*
2. *Do differences exist in the self-serving attributional bias as may be present in the letter to the shareholders of companies originating from different cultures, and if so, how can we explain these?*

In this chapter we use the literature discussed so far to translate our two basic questions into more concrete, testable propositions. The propositions derived in this chapter represent our expectations with respect to self-serving attributional tendencies in letters to the shareholders and the influence of culture thereon. Section 5.1 is devoted entirely to this exercise. The research method used and composition of the sample are addressed in section 5.2.

5.1 Formulation of research propositions

Self-serving attributional biases in general

As was covered in chapter 2, extant evidence indicates that, people in general, use self-serving explanations to account for achievement-related outcomes. That is, they are inclined to attribute favourable outcomes to themselves, whereas negative outcomes are blamed on the environment (that is to factors beyond their control).

¹ Violet (1983).

Different studies have consistently found evidence of this bias in letters to the shareholders as well. Researchers as Bettman and Weitz (1983), Staw *et al.* (1983), Salancik and Meindl (1984), and Clapham and Schwenk (1990) report that favourable corporate outcomes are more likely to be attributed to company strategy and effort, while unfavourable outcomes are often attributed to environmental causes as inflation, the weather, or governmental policy. Also in Aerts' (1994) study of Belgian letters a self-enhancing bias is found, though he does not find Belgian managers merely blaming circumstances outside their control for disappointing organisational outcomes. Although we cannot completely ignore cognitive factors, it seems that motivational factors "provide the initial trigger" (Aerts and Theunisse, 2000: 3) for such behaviour (see also Kunda, 1990; Brown, 1997; Johns, 1999). In section 2.4 we saw that "images" and "impressions" are important motivating factors for managers to engage in self-serving explanatory behaviour. In support of this view Aerts (2001: 3-4) argued that "[a]rgumentation patterns in annual report narratives can be conceptualised as being part of a set of symbolic activities engaged in by management in order to affect the company's public image and reputation." More specifically, this symbolic management perspective advances that "the meaning of organisational events is provided in large part by top management" (Ginzel *et al.*, 1993: 236). The explanations provided in the letter to the shareholders are one important way to accomplish that task and in that sense represent "top management's construal of an event" (Ginzel *et al.*, 1993: 236). Management may use this opportunity to explain organisational outcomes in self-serving ways: in case of positive outcomes they may try to bolster the corporate (and personal) image, whereas in case of negative outcomes they may try to minimise blame and subsequent repercussions. Indeed, as is advanced in agency theory, managers not only are motivated to act in self-serving manners, because of uncertainty and asymmetric information they are actually able to do so (Jensen and Meckling, 1976; Eisenhardt, 1989; Abrahamson and Park, 1994). According to Ginzel *et al.* (1993: 233) there may often be "considerable uncertainty [...] whether a particular event constitutes a success or a failure. Changes in financial performance, for example, can have ambiguous implications for an organisational image. In the early 1980s, CEO Lee Iacocca claimed that Chrysler's quarterly losses were a success because they were far lower than had occurred in prior quarters, suggesting a turnaround was in the making." Furthermore, and adding to the problem, it is often difficult, not only for managers themselves but for the stakeholders as well, to disentangle managerial and environmental origins of performance (Eisenhardt, 1989; Walsh and Seward, 1990; Stiles and Taylor, 2001). The preceding discussion suggests that managers are motivated and, at least to a certain extent, able to construct their views of the

organisation's reality in self-serving manners, leading to the following propositions:

Proposition 1–Self-enhancement: *Generally speaking, managers claim responsibility for positive organisational outcomes (successes) in letters to the shareholders. That is, the number of internal-positive causal statements (IP) is larger than the number of external-positive statements (EP) in a letter to the shareholders.*

Proposition 2–Self-protection: *Generally speaking, managers deny responsibility for negative organisational outcomes (failures) in letters to the shareholders. That is, the number of external-negative causal statements (EN) is larger than the number of internal-negative causal statements (IN) in a letter to the shareholders.*

Cultural differences in self-serving attributional biases

So far we have formulated our expectations with respect to the use of self-serving attributions in letters to the shareholders in general. Another important element of this study concerns possible cultural differences therein. Whereas previous management and accounting research has addressed the first issue, the cultural aspect remained unaddressed so far. In fact, the idea of culture influencing financial reporting is, relatively speaking, of a recent date. Indeed, most of the work on this subject started to appear after the publication of Hofstede's *Culture's consequences*. Particularly Gray (1988) "was a pioneering paper in the development of the idea that culture might influence accounting practices" (Chanchani and MacGregor, 1999: 5). Very briefly stated, Gray proposed that apart from institutional factors as legal system, capital market influences, corporate governance structures, etc., cultural or societal values also affect a country's accounting system (see Chanchani and MacGregor, 1999 for a review). He argued that societal values, as represented by Hofstede's dimensions, are reflected in the values of the accounting profession, which constitutes a subset of a country. Gray distinguished four accounting values, namely: professionalism-statutory control, uniformity-flexibility, conservatism-optimism, and secrecy-transparency. The first three accounting values are irrelevant for this research as they deal with the technical side of accounting. That is, they deal with the figures of financial reporting, i.e. valuation methods and determination of profits. However, his ideas with regard to secrecy-transparency are more relevant for this research project as it deals with the amount of information disclosed in financial reports. The dimension reflects a preference for either confidentiality and the restriction of information to those who are closely involved with company's

management and financing, or for a more transparent, open and publicly accountable approach. In his theory, Gray proposed a number of relationships between his accounting and Hofstede's cultural values—of which he expected individualism and uncertainty avoidance to exert the strongest influence. According to Gray, secrecy (implying less disclosure of financial information in a company's report) is negatively related to individualism and masculinity, while being positively influenced by uncertainty avoidance and power distance.² As Gray's ideas were largely exploratory, other researchers have subsequently attempted to empirically validate them. Most of the validation efforts concentrated on Gray's propositions with respect to secrecy-transparency (Doupnik and Salter, 1995; Gray and Vint, 1995; Riahi-Belkaoui, 1995; Zarzeski, 1996; Jaggi and Low, 2000). The results of these studies confirm that secrecy is, at least partially, influenced by culture: the amount of disclosure is negatively affected by uncertainty avoidance and positively by individualism. However, no straightforward relationship could be demonstrated with respect to the influence of the two other value dimensions. Nevertheless, there seems to be a relationship between the nature of the information disclosed and the degree of masculinity. It appears that companies in Anglo-Saxon, masculine countries will disclose more financially oriented information. On the other hand, companies in the Nordic, feminine countries are more likely to disclose socially oriented information. Apart

² The arguments behind these relationships are as follow. The argument that individualism negatively influences secrecy is that "individualistic societies are less likely to have developed large closely-held companies and are likely to be less dependent on banking relationships for capital. Because there are relatively less secretive business relationships in an individualistic society, its companies are more likely to exhibit higher levels of public investor-oriented information" (Zarzeski, 1996: 27). Uncertainty avoidance, on the other hand, negatively affects the amount of disclosure, because in societies with strong uncertainty avoidance there is "a need to restrict information disclosures so as to avoid conflict and competition and to preserve security" (Gray, 1988: 11). Power distance, as well, seems to negatively affect disclosure. In high power distance societies inequality and authority are important. In order to preserve the unequal distribution of power it is likely that the provision of information is limited. With regard to the influence of masculinity on secrecy contradictory ideas have been presented, which may be the result of inconsistencies between Gray's hypothesis regarding the relationship secrecy-masculinity and the argument leading to that hypothesis (Chanchani and MacGregor, 1999). However, a positive relationship seems to be most likely, that is "societies which are more assertive and success oriented could exhibit a tendency towards more publicity" (Gray and Vint, 1995: 36). Zarzeski (1996: 27) remarks with respect to this relationship: "masculine countries are likely to be growth-oriented, economically and otherwise. Such countries are more likely to advocate business relationships and institutions that foster growth activities.

from culture, there are other factors, such as type of financing system (usually opposing the Anglosaxon equity-system with the German and Japanese credit-based systems) that drive disclosure as well (Doupnik and Salter, 1995; Salter and Niswander, 1995; Zarzeski, 1996; Nobes, 1998; Jaggi and Low, 2000).

The previous discussion provided some indication of cultural variability in accounting. However, as our study deals with self-serving attributions in letters to the shareholders, social and cross-cultural psychology specifically provide important information. As was covered in chapter 4, since the beginning of the Nineties there has been an increased attention for the influence of culture on the way people explain outcomes. The increased attention is noticeable by the increasing number of social-psychological articles addressing possible differences between people from the West—and the United States in particular—and from the East—i.e. Japan. By and large, scholars found a difference between Japanese and Americans subjects. Although it seems that people from both cultures are not completely free from self-serving biases, various studies indicate that the self-serving bias is more prevalent in western cultures than in eastern cultures (e.g. Miller, 1984; Morris and Peng, 1994; Markus *et al.*, 1996; Meijer, 1996; Kitayama *et al.*, 1997; Semin and Zwier, 1997; Zwier, 1998; Choi *et al.*, 1999; Menon *et al.*, 1999). To be more precise, it seems that Americans, compared to Japanese, are both more self-enhancing and self-protecting. A number of different studies (as reviewed in chapter 4) reveal that Japanese take into account external factors when explaining successes they achieved and accept personal blame if an outcome was disappointing. Researchers from the social-psychological field have used the concept of individualism-collectivism as a key determinant of how culture might affect self-serving attributions. Basically the dimension, which we referred to as “self-interest versus group-interest” in this study, reflects the importance of the individual in comparison to the importance of the group. Hence, it covers whether people are inclined to individually pursue their desires and, additionally, think in terms of “I” (Hofstede, 1980), or instead, prefer to be seen as a member of a larger collective for whom it is important to realise group objectives and, hence, think in terms of “we” (Hofstede, 1980). In section 4.2 we saw that such differences in group-orientation may have consequences for how people define themselves *vis-à-vis* other people. From the work of particularly Markus and Kitayama (1991, 1994), it seems that in western, individualistic cultures, as the United States, a so-called “independent construal of the self” dominates. In eastern, collectivistic cultures, like Japan, on the other hand, the “interdependent construal of the self”

To compete cost effectively in the business world, businesses in masculine societies are more likely to disclose higher levels of information”.

prevails. Subsequently, we observed that differences in construal of the self will be reflected in, among others, self-esteem and self-serving behaviour. Whereas acknowledging others' contributions to a success and accepting personal blame for a failure would be diserving to the self for people from western cultures, this is clearly different for people from eastern cultures. On the contrary, such self-critical attitude (Heine *et al.*, 2000, 2001) enables them to pursue tasks that are valued within their cultural context as it contributes to the preservation of a sense of harmony within the group (Meijer and Semin, 1998). Fiske *et al.* (1998: 920), for example, support this group-oriented emphasis of the Japanese individual. They state that whereas in the East "the person is principally oriented toward the harmonious functioning of social entities (which are centred on collective needs and purposes)", the person in the European-American culture "is oriented primarily toward individual success and achievement" (1998: 920). In order not to disturb the harmonious functioning of the group, Japanese people are careful not to step on someone else's toes. Similarly, Earley (1994: 89) commented that "in an individualistic culture, people look to their own actions to understand who they are, and these actions are relatively independent of others. In a collective culture, people base their self-understanding on the reactions of important others around them." In this study we will look whether managers are like ordinary people when they account for organisational outcomes in their letters to the shareholders, and hence, whether the same cultural effect is present in letters to the shareholders. Indeed, Triandis (1989) suggested that as managers are members of a particular national culture, their cultural background affects the attitudes and behaviour, including the use of self-serving attributions. Additionally, it seems that "culture operates largely at the unconscious level in shaping the executive's perceptions of situations" (Hambrick and Brandon: 1988: 24) and, in that respect, an "executive's role behaviour is not random" (Jackofsky and Slocum, 1988: 70). Indeed, Jackofsky and Slocum (1988) have provided evidence that cultural values affect CEO behaviour. Using anecdotal evidence from popular business presses, they show that CEO behaviour is in line with Hofstede's country clusters (based on his four cultural dimensions discussed previously). Furthermore, we implicitly assume that psychological ideas and findings with respect to the individual apply to whole organisations as well. Staw (1980) in particular advocated the idea that organisations behave in similar ways as individuals do. The most important reason is that individuals populate organisations, and as Staw (1980: 47) argued, if there exist any generalizable tendencies within individuals, these tendencies will be

manifest in organisational actions as well (see section 2.3).³ In view of previous discussion, we propose the following:

Proposition 3a—Self-enhancing attributions and self-versus group interest:

Managers from collectivistic cultures use external-positive causal statements to a larger extent than do managers from individualistic cultures.

Proposition 3b—Self-protecting attributions and self-versus group interest:

Managers from collectivistic cultures use internal-negative causal statements to a larger extent than do managers from individualistic cultures.

Propositions 3a and 3b form the basis for our cultural comparison, mainly because previous social-psychological research has focused on this dimension. This focus seems logical: people from the United States and Japan differ considerably with respect to group-orientation. However, this dimension cannot be used to explain possible differences in explanatory behaviour *among* western or eastern nations. There is evidence, though less extensive than the East-West comparison, which suggests that people within western (and eastern) cultures also differ with respect to their reasoning patterns. For example, Nurmi (1992) found his American students to use self-serving attributions to a larger extent than his Finnish students did, though the latter were not completely free from such bias. A similar result has been found between American and Dutch students in a study by Cohen *et al.* (1986). As all the countries involved may be characterized as “individualistic” or self-interested countries (see Hofstede, 2001), other differences in cultural background may have evoked the differences in explanatory behaviour among these western countries. While the nations, and the United States and the Netherlands in particular, score fairly close on four of the five dimensions of culture (see section 6.4.2 below for the scores on Hofstede’s dimensions), there is a wide gap on what Hofstede called “masculinity versus femininity”, and which we labelled “importance of achievement” in chapter 4. At first sight, the dimension capturing the importance placed on achievement within a society, seems the most suitable to address the difference among western nations. The dimension, which is widely shared among cross-cultural researchers, addresses whether masculine values as competition, success, and material rewards are important, or, instead, the more feminine values as good relationship with colleagues, good working conditions, and friendship are more valued in a society.

³ Hambrick and Brandon (1988) remark that Carnegie theorists (Cyert, March, and Simon) also thought that decision-making processes by “upper-echelons” are, amongst others, influenced by culture.

Whereas the United States may be characterised as a high-achievement society, the Netherlands and (to a lesser extent) Finland, are examples of societies in which achievement is less important. According to Hofstede (1998), one of the pioneering scholars with respect to this dimension, a key difference between nations scoring at each end of this dimension is that in feminine cultures (i.e. those who place relatively little emphasis on achievement) “everybody is supposed to be modest”, whereas, on the other hand, in masculine cultures (i.e. those who do emphasise achievement) “men are supposed to be assertive, ambitious and tough” (Hofstede, 1998: 16). And Hofstede continues (1998: 85): “Assertiveness means ego-boosting.” In contrast, in society placing less emphasis on achievement, “ego-effacing” seems to be the norm (Hofstede, 1998). Furthermore, in the more achievement-oriented societies, greater emphasis is placed on wealth, success, ambition, and material things (Hofstede, 1998). Hence, given the importance of “ego-boosting” in high-achievement societies, it is more likely that self-serving attributions are being used when people provide explanations for their achievements. Before formulating our formal propositions, it is important to note that those propositions (4a and 4b) reflect our expectations with respect to differences *among* western (or eastern) nations. In order to make the east-west comparison, the dimension reflecting an orientation towards self- or group interest (Hofstede’s individualism-collectivism) is the most relevant. In that sense, the influence of this dimension is “secondary.”

Proposition 4a–Self-enhancing attributions and cultural emphasis on achievement: *Managers from high-achievement cultures will use internal-positive causal statements to a larger extent than do managers from low-achievement cultures.*

Proposition 4b–Self-protecting attributions and cultural emphasis on achievement: *Managers from high-achievement cultures will use external-negative causal statements to a larger extent than do managers from low-achievement cultures.*

Other factors influencing self-serving behaviour

Apart from culture we think that organisational and CEO-related circumstances determine such tendencies as well. In order to discuss these factors we use a somewhat amended version of Lang and Lundholm’s (1993) categorisation of potential factors that may explain differences in firms’ financial disclosure levels. These authors make a distinction between so-called performance-related, structure-related, and market-related variables, of which the first two are

particularly relevant for this study.⁴ Performance-related variables represent the “features by which firms” performance over time can be identified” (Olusegun Wallace, Naser and Mora, 1994: 45) and include variables as profits or earnings per share. Basically, these variables are an expression of a firm’s profitability. Previous research with respect to the relationship between profitability and disclosure levels, however, showed mixed results. Based upon a meta-analysis of 29 studies, Ahmed and Courtis (1999: 55) concluded that “profitability was found to be not significantly associated with aggregated disclosure levels”, although there may be some “weak support for the hypothesis that superior and profitable firms are more likely to disclose more information to investors.” It is important to note that the studies reviewed by Ahmed and Courtis considered disclosure levels in annual reports in general. Hence, it included information other than the letter to the shareholder as well. Apart from the relationship with disclosure level, researchers have investigated the relationship between profitability and readability. Despite that the results are inconclusive here as well and further research is needed (Jones and Shoemaker, 1994), it seems that letters of poor-performing companies are less readable than those of companies that performed well (Courtis, 1995, 1998; Jones and Clatworthy, 2000a). Given these mixed findings, it seems that “at present disclosure management theory does not offer direct and unambiguous arguments to infer the impact of (changes in) performance results on the construction of verbal accounts” (Aerts, 2001: 8). Nevertheless, we do expect that profitability has a direct impact on attributional behaviour in letters to the shareholders. It is logical to expect that the nature of the organisational performance, i.e. an improvement or deterioration of results, largely determines the nature of the explanations management has to give (Bettman and Weitz, 1983; Abrahamson and Park, 1994; Barlow, 1996; Aerts and Theunisse, 2000; Aerts, 2001). When a company experiences a deterioration in performance, i.e. losses or decreasing profits, such information will be most salient (Bettman and Weitz, 1983) and, consequently, needs to be addressed in the letter to the shareholders (Abrahamson and Park, 1994). Whether it represents an image-threatening event or not, is beforehand not always clear. The case of Lee Iaccoca being positive about the losses his company experienced, we referred to at the beginning of this

⁴ Market-related variables refer to “aspects of a firm’s behaviour brought about by its association with other firms in its operational environment” (Olusegun Wallace *et al.*, 1994: 47) and include factors as listing status. As our research sample only consisted of listed companies (see section 5.2.2), we were not able to look at the effect of listing status on self-serving behaviour. Aerts and Theunisse (2000), however, examined and found that listing status influence the amount of self-serving attributional biases present in letters to the shareholders.

section, illustrates this point. Our expectations regarding the influence of firm performance on self-serving attributions are summarised in proposition 5.

Proposition 5–Firm performance: *Self-enhancement is more prevalent in years in which the company achieved a performance improvement, self-protection is more prevalent in years a company experienced a deterioration of performance.*

So far we have addressed the influence of current profitability, i.e. reported profits for the year, on attributional behaviour in the letter to the shareholders. However, previous research indicates that stability of performance may influence the nature of attributions (e.g. Salancik and Meindl, 1984; Meindl, 1990; Aerts, 1994). In chapter 2 we saw that part of management's function is "symbolic" (Pfeffer, 1981). By providing explanations management wants to create an image of being in control of the circumstances (Pfeffer, 1981; Salancik and Meindl, 1984; Ginzel *et al.*, 1993). Not only top managers themselves prefer to communicate images of being powerful, competent, and in control (e.g. Leary, 1996; Gardner and Avolio, 1998), stakeholders too expect them to have influence on the circumstances (Meindl and colleagues, 1985, 1987, 1990). If stakeholders feel that management is not really in control, it is likely that they will withdraw their resources from the organisation to invest it in another (Pfeffer and Salancik, 1978; Zajac and Westphal, 1995). Therefore, Salancik and Meindl (1984) suspect that managers strategically use causal attributions to create an image of being in control of the circumstances. Hence, they argue that managers may be *less* likely to lay blame than the social-psychological framework might imply. "By accepting blame for negative outcomes, they [the managers, RH] communicate that hitherto unfavourable circumstances are understood, and, by implication, are under control" (Salancik and Meindl, 1984: 239). As management's control is not measurable, Salancik and Meindl (1984) use stability of firm performance as an indication of management's control. They reason that "managements of firms with unstable outcomes, by implication, lack control. [...] If outcomes were controllable, one would expect them to stabilise, since constituents prefer stability (Thompson, 1967; Pfeffer and Salancik, 1978) [...] This being so, then, a management that could control the environmental impacts on the firm would do so to assure the continued support of its constituents and in so doing would produce stable outcomes" (Salancik and Meindl, 1984: 242)." Indeed, two recent social-psychological studies by Fiona Lee and colleagues (Lee and Robinson, 2000; Lee and Tiedens, 2001) also question whether self-protecting attributions are really self-serving for individuals in high-status roles, like CEOs, or, instead, might

actually be “disserving.” After all, the use of self-protecting attributions—blaming the environment for a negative outcome—suggests “that the attributor does not have control over critical outcomes, does not have the ability to affect and change the course of events, and appears dependent on others” (Lee and Tiedens, 2001: 257). Hence, it may evoke a perception of “powerlessness.” Furthermore, the admission of lack of power and control, which external attributions seem to imply, are also “contradicting others’ knowledge and expectations associated with the high-status role. As such, high-status individuals who make external attributions may come across as dishonest, lying, evasive or as having something to hide” (Lee and Tiedens, 2001: 258). This may lead to negative impressions and affect towards the attributor. In various experimental settings, Lee and colleagues found strong evidence that external attributions are indeed highly disserving for people in high-status positions: audiences’ perceptions of managerial power and credibility were affected negatively. Hence, this also supports the idea that “passing the buck and pointing the finger elsewhere” (Meindl, 1990: 171) may not always be the best tactic for managers to use. Therefore, in line with Salancik and Meindl’s argument, we too expect stability of financial performance to moderate self-protecting tendencies:

Proposition 6—Stability of financial performance: *Managers of companies with unstable financial performance will, relatively speaking, make greater use of internal-negative causal statements in their letters to the shareholders than do managers of companies with stable financial performance.*

The second group of variables Lang and Lundholm (1993) used to explain variations in financial disclosures are the so-called structure-related variables. These variables “describe a firm on the basis of its underlying structure—its size and gearing” (Olusegun Wallace *et al.*, 1994: 44). Initially, researchers, and in particular those adopting positive accounting theory, used these variables to explain differences in accounting methods employed by firms to determine profits. Later, studies revealed that firm size, though not uniformly measured, seems to positively affect both financial and social disclosures (e.g. Neu *et al.*, 1998; Ahmed and Courtis, 1999). The reasons why larger firms disclose more information, and of higher quality as well, however, are divers. One frequently mentioned rationale is that larger firms, especially if they have shares listed on a stock exchange⁵, are more visible. The effect of this greater visibility on reasoning

⁵ In this study we will not look at the effect of listing status on attribution behaviour in letters to the shareholders, notwithstanding the fact that previous researchers found such an

patterns in letters to the shareholders, however, is not unequivocal (Johns, 1999). Firstly, in section 2.4.2 we saw that the more public behaviour is, that is the greater the probability that one's behaviour is observed by others and the greater the number of others who might see or learn about it, the more important impression management becomes (Leary and Kowalski, 1990; Aerts, 1994). This would imply that larger firms, compared to firms of smaller size, are more motivated to engage in self-serving reasoning patterns. However, the larger, more visible companies are also subject to greater, more intense public scrutiny.⁶ This greater scrutiny is evidenced by the larger amount of media attention they receive and the greater number of financial analysts keeping track of the company (Aerts, 1991; Lewellen, Park, and Ro, 1996). This increased scrutiny, obviously, implies that the communication of the company is watched closely and confronted with other sources of information. Hence, the chance of explanations being contradicted by other information is also greater (Bettman and Weitz, 1983; Ginzler *et al.*, 1993). For the large, quoted companies, which usually are subject to intense scrutiny, credibility is particularly important (Gibbens *et al.*, 1990; Aerts, 2001). In order to remain credible, a factor which we address more in detail next, managers have to address not only good news, but bad news as well, while, additionally, the plausibility of their explanations for changes in financial performance are intensely scrutinised. In this sense, visibility imposes a limit on the possibilities to overly engage in self-serving behaviour. Indeed, in a study focussing on the choice of stock market index used to compare the companies' own share performance with, Lewellen *et al.* (1996) showed that larger firms showed smaller biases in the benchmark index they chose to compare their stock performance with. Because of the importance of credibility for listed companies (which comprise our research sample), we expect the moderating effect of visibility to be greater than the exacerbating effect. That is, we expect:

Proposition 7–Visibility: *The larger the firm, the less self-enhancing and self-protecting attributional biases will be present in the letter to the shareholders.*

impact (Gibbens *et al.*, 1990; Aerts, 1994; Aerts and Theunisse, 2000). The main reason for not looking at it is related to data availability: that is, in this study we only looked at letters to the shareholders of public, i.e. quoted, firms (see section 5.2.2).

⁶ Johns (1999: 19) defines scrutiny as “the monitoring of behaviour or performance, frequently with the goal of increasing accountability”. Sutton and Galunic (1996) have a similar view on scrutiny, while also asserting that CEOs, in particular, are often subject of intense scrutiny. Or as Kanter (1979: 35) claimed: “Life at the top is life in a goldfish bowl”.

In the preceding discussion we emphasised the importance of credibility. Indeed, Gibbens *et al.* (1990, 1992) asserted that reporting credibility is crucial to disclosure effectiveness. Only if the receiver feels that the company publicises credible information, he will use this information in his decision-making process. Furthermore, credibility of current messages also affects future disclosure effectiveness. If the receiver does not believe and accept the information managers distributed, the manager not only will be seen as insincere, but the receiver will also question the sincerity of the manager's future claims (Rindova, 1997). This has an important consequence for the explanations offered in the letter to the shareholders and possible distortions therein: "self-serving tendencies can be effective as long as the message they represent is plausible and the messenger remains credible (Aerts and Theunisse, 2000: 6; see also Zajac and Westphal, 1995). In line with this argument is the suggestion that explanations people provide "fit the facts" (Schlenker, 1980; Tetlock, 1985). Transposed to the letters to the shareholders this argument implies that the explanations offered have to reflect information on amongst others the general economic conditions, the performance of the industry as a whole, etc.. Indeed, Bettman and Weitz (1983) used Kelley's (1971a) discounting and augmentation principles (discussed in section 2.1.2) to assess the effects of information about the general economic circumstances on the attributions managers are likely to make. They suggested that if an unfavourable outcome is experienced in an economically bad year, there are many potential and plausible external reasons that may serve to explain such performance. However, if such unfavourable outcome is experienced in times of economic prosperity, the use of external factors to explain the outcome is less plausible. "Hence, the augmentation principle implies the role of internal causes to be greater" (Bettman and Weitz, 1983: 169). Similar arguments hold for favourable performances: if they are experienced during a period of economic downturn, the role of internal causes—management's strategy, etc.—should be highlighted, as they "were obtained in spite of the presence of plausible inhibitory external factors" (Bettman and Weitz, 1983: 169). However, if the company experienced outstanding results in times of favourable economic conditions, it is likely that management also attributes some of the success to those external, facilitative conditions in order to remain credible. Basically this discussion boils down to the following proposition in which the effect of economic conditions on the nature of attributions is clarified:

Proposition 8a—Economic conditions and favourable results: *The use of external-positive causal attributions is larger in years in which economic*

conditions have been favourable, compared to years in which they have been unfavourable.

Proposition 8b—Economic conditions and unfavourable results: *The use of internal-negative causal attributions is larger in years in which economic conditions have been favourable, compared to years in which economic conditions have been unfavourable.*

Another factor we consider is CEO tenure or the extent of experience the person has as organisational leader. The effect of tenure on self-serving explanations, however, is, difficult to predict, as there seem to be two rather conflicting interpretations. Firstly, Staw *et al.* (1983) hypothesized that the need to engage in self-serving attributions decreases the older the CEO gets and the longer he serves as company's CEO. The main reasons that more tenured CEOs are less inclined to engage in self-serving explanations, are, firstly, that they feel less pressure from the public and, secondly, because career enhancement is less important for them. That is, newly appointed CEOs may feel the need to prove themselves, which may result in an exacerbation of self-serving tendencies. Indeed, in his book on power, Pfeffer (1992) comments that a leader's reputation is formed soon after he enters the organisation, and that first impressions have a great impact on reputations. Therefore, "it matters to develop a good track record early" (Pfeffer, 1992: 145). Staw *et al.*'s (1983) fail to support the idea that the need to engage in self-serving attributions decreases with tenure. In contrast to Staw *et al.* (1983) and Pfeffer (1992) is Schwenk's (1993) expectation that longer tenured CEOs exhibit stronger self-serving tendencies. The rationale Schwenk adopts is related to the idea of escalating commitment. Simply stated, escalating commitment refers to a tendency to stick to a certain strategic direction managers decided upon in the past, even though it only cost the company money (e.g. Brockner, 1992; Johns, 1999). This escalation of commitment seems to be increasing with the tenure of CEOs. Supporting this idea is the finding that shorter-tenured CEOs are more likely to adopt novel strategies (Schwenk, 1993), whereas longer-tenured CEOs tend to have a narrow focus (Barlow, 1996; Rajagopalan and Datta, 1996). Given longer-tenured CEOs' commitment to strategic decisions, it is likely that they will "interpret negative performance in biased and self-serving ways which do not challenge the current strategy" (Schwenk, 1993: 451). Hence, they will often deny responsibility for failures (Brockner, 1992; Johns, 1999). This suggests that, contrary to Staw *et al.*'s (1983) predictions, longer-tenured CEOs show stronger self-protecting tendencies than shorter-tenured CEOs. In a study of 60 letters to the shareholders of firms from the oil, chemical, and computer industries, Schwenk found strong evidence that

longer-tenured CEO showed greater self-protecting tendencies than shorter-tenured CEOs did. Concerning self-enhancing attributions, however, Schwenk was not able to find a significant effect of tenure. The two interpretations of effect of tenure on attributional behaviour are difficult to reconcile. But maybe the truth is in the middle. We expect that the interpretation of Staw might be particularly important if a CEO is in his first year and has to present himself as being a successful leader. However, the longer he is serving as CEO, the more likely that he will be committed to the strategy he was responsible for (Salancik, 1977; Brockner, 1992), which subsequently make them refuse to see that their strategy may have been ineffective. That is, we expect:

Proposition 9a–Effect of new CEO: *Compared to sitting CEOs, CEOs who are in their first term will make greater use of self-enhancing explanations to account for favourable organisational results in their letters to the shareholders.*

Proposition 9b–Escalation of commitment: *Longer-tenured CEOs, compared to shorter-tenured CEO, show greater self-protecting tendencies to account for negative organisational outcomes (failures) in the letter to the shareholders.*

Apart from CEO-tenure, the literature frequently mentions another management-related factor: “owner-control” (Abrahamson and Park, 1994). Owner-control indicates whether shareholders are an important group with which management has to reckon. It builds upon the classical work of Berle and Means (1932). In their work about the “modern corporation”, Berle and Means described that although the owners, i.e. the shareholders, legally controlled the corporation (by means of the voting rights attached to their shares), it was, in fact, company management who controlled the firm. They convincingly argued that the shareholdings were too dispersed for owners being able to effectively influence corporate actions. Given this lack of “external constraints, managers have broad discretion to pursue their own objectives, even when these come into conflict with those of stockholders” (Tosi and Gomez-Mejia, 1989: 169) (an idea that is explored more in detail in agency theory, see section 2.4.4). These ideas, however, originated from the thirties and since the publication of Berle and Means’ work a lot has changed. Recently, La Porta, Lopez-de Silanes and Shleifer (1999: 472) reported that “in many countries large corporations have large shareholders and, further, that those shareholders are active in corporate governance”, which is “in contrast to the Berle and Means idea that managers are unaccountable.” Indeed, they depict a corporate world in which “only 24 percent of the large companies in

rich countries are widely held, compared to 35 percent that are family-controlled, 20 percent are State-controlled, and 21 percent are in the residual categories” (La Porta *et al.*, 1999: 496). Hence, Berle and Means’ image of a widely held corporation controlled by management “has begun to show some wear” (La Porta *et al.*, 1999: 472). This is an important observation, because previous research, as briefly reviewed by Gomez-Mejia, Tosi and Hinkin (1987) showed that so-called owner-controlled firms (i.e. firms that have a large shareholder not being part of company management), compared to management-controlled firms (i.e. firms that do not have an independent large shareholder, hence, the corporation Berle and Means had in mind), are different with respect to accounting practices, risk aversion, and profitability. Basically, it seems that these large shareholders are not only more motivated, but also in the position to monitor the board of directors more closely and effectively than private investors will and can (e.g., Shleifer and Vishny, 1986; Walsh and Seward, 1990, La Porta *et al.*, 1999), implying that management cannot remain unaccountable as Berle and Means suggested. Indeed, Tosi and Gomez-Mejia (1989) empirically found that the level of monitoring was positively influenced by the presence of such outside owners. The most obvious reason why large shareholders are motivated to monitor companies is an economic one. For them it is more difficult to immediately exit if they are dissatisfied with the company’s performance (Shleifer and Vishny, 1986; Abrahamson and Park, 1994). Indeed, of small investors it is often said that they have little (economic) interest in (and abilities to) monitoring companies’ management (Walsh and Seward, 1990). Furthermore, small investors lack the technical expertise that large, institutional investors possess and, hence, have less “skills to employ in monitoring the information officers disclose” (Abrahamson and Park, 1994: 1311). This may imply a more intense scrutiny and, consequently, may pose a limit to conceal negative outcomes (Abrahamson and Park, 1994) and to overly engage in self-serving attributional behaviour as well. Therefore, we expect the presence of large shareholders to influence attributional behaviour in the letter to the shareholders in the following way:

Proposition 10—Large shareholders and self-serving biases: *The presence of one or more large shareholders negatively influences the extent that managers engage in self-serving attributional behaviour in their letters to the shareholders.*

Other ways to impression manage with accounting narratives

The 10 propositions we previously have formulated relate to self-serving attributional biases in accounting narratives and enable us to indicate which factors either exacerbate or attenuate CEOs' tendencies to show such biases in their explanations for organisational outcomes. These explanations, self-serving or not, are part of a wider range of impression management techniques available to managers when they present news with respect to organisational outcomes in the annual report. Therefore, and because they are closely related to our study of self-serving attributional biases and, hence, could be easily incorporated in the content analysis, we decided to explore three other forms of impression management in accounting narratives as well.

Firstly, we examine the use of "accounting explanations" (Aerts, 1994) to account for bad outcomes. As was briefly addressed in section 2.4.2, accounting explanations "use the internal logic of the financial accounting model, relating (intermediary) accounting effects and categories, in order to explain financial actions and results" (1994: 339) and are similar to so-called meta-accounts (Scott and Lyman, 1968). A basic characteristic of meta-accounts, including accounting explanations, is that the assignment of responsibility remains ambiguous (Aerts, 1994). Given accounting explanations' ambiguity and managers' self-interest, Aerts expected the accounting and causal, self-serving explanations to be complementary. While positive outcomes are stated in ordinary, causal explanations, where responsibility may be easily assigned, he suggested that negative outcomes are more likely to be explained in ambiguous, accounting language. Indeed, he even suggested the possibility of a so-called "accounting bias", which "manifests itself as a tendency to explain negative performance more in technical accounting terms, while positive performance are more accounted for in strict cause-effect terminology whereby responsibility becomes clear" (1994: 341). Though his results indicate that positive outcomes are predominantly explained in clear-cut language, he does not find his Belgian managers to address bad results in accounting-technical language. In this study we look at the accounting bias as well. In this study we explore there are cultural differences in the presence of the accounting bias in letters to the shareholders.

Apart from the accounting bias, we also explore the location of the news being conveyed. Apart from looking at the variation in language used to explain organisational outcomes, in this study we also look at the location of the news being conveyed. In one of the earlier studies looking at attributions in letters to the shareholders, Staw *et al.* considered "the art of presenting good and bad news" (1983: 596). First of all, they found both high- and low-performing firms emphasising positive events, something Jones and Clathworthy (2000b) found as

well in a more recent study of British companies. Apart from looking at the emphasis on type of news, Staw and colleagues also looked at the location of positive and negative information. The results they found are rather interesting. The high-performing companies in their sample tried to maintain a positive tone throughout the whole letter to the shareholders. Low-performing companies, however, also have to account for negative news. The results of Staw *et al.*'s study indicate that the low-performing firms prefer to address negative news "at the outset and to end their letters on an upbeat tone that is nearly as positive as the information presented by successful companies" (1983: 597).⁷ This finding is interesting in view of the so-called primacy and recency effects. Basically, the first suggests that the impressions people form of other persons are primarily based on the information they receive first. The recency effect, on the other hand, assumes that the information that is conveyed last, is the most important when people form their impressions of another person (Vonk, 1999; Pruyn and Wilke, 2001). According to Pruyn and Wilke (2001) there is no agreement among social psychological researchers about which effect is strongest, although researchers do agree that the information that is provided in the middle is remembered least. The findings of Staw *et al.* (1983) may indicate that managers, assuming that they are aware of the existence of such effects, think that readers of the letters to the shareholders base their judgement of management on the information that is provided at the end in the letter to the shareholders. Therefore, in this study we decided to look at the tone of the message contained in the first and last few lines of the letter to the shareholders.

The presentation of future expectations forms another way by which the board of directors may try to manage people's impressions. Forecasts of earnings play an important role in the pricing process on equity markets, as stock prices are said to reflect perceptions about future earnings (Ross, Westerfield and Jaffe, 1998). In most, if not all, developed countries, however, management is free to include such earnings forecasts in the annual report. For example, in a study of Canadian companies, Clarkson, Kao and Richardson (1994) found a mere 36 percent disclosing forecast information in their annual report (a comparable US sample of 100 firms led to a similar percentage of 33 percent). Their findings, however, do emphasise the importance of forecast information in the impression management process. Firstly, Clarkson *et al.* (1994) found their good news firms being more

⁷ It is also possible that the credibility issue is at stake here. Usually speaking disappointing performance is not what investors expect and therefore is likely to attract extra attention. In order to remain a credible messenger this information has to be

prepared to include a future outlook in the annual report. Secondly, it was found that “only 17.5 percent of the sample forecasts represent revisions downward relative to the previous year’s result” (1994: 425), while “the decision to forecast is not related to the firm’s forecast decision in the previous year” (1994: 433). If such future outlook was provided, in 50 percent of the Canadian (and 68 percent of the US) firms, the letter to the shareholders was the designated place. Given the possibilities to use information on future expectations to manage people’s impression, we explore which factors determine both the decision to include this information in the letter to the shareholders, and additionally, if such information is included, which factors influence the tone of those expectations.

5.2 Research design

5.2.1 Introduction

Content analysis is a research technique that enables the researcher to make quantifiable inferences based upon narrative documents. More formally, content analysis has been defined as “a research method that uses a set of procedures to make valid inferences from text” (Weber, 1990: 1), or as “a research technique for making replicative and valid inferences from data to their context” (Krippendorff, 1988: 21). In essence content analysis involves assigning certain parts of texts to a limited number of predefined categories using a set of decision rules. As such, content analysis has been frequently used in accounting and management research. For example, within the accounting domain, content analysis has been a commonly used technique to assess organisations’ social and environmental disclosures (Milne and Adler, 1999). Furthermore, previous studies looking into management’s causal reasoning patterns (e.g. Bettman and Weitz, 1983; Staw *et al.*, 1983; Aerts, 1994), all made use of the technique to derive their conclusions whether management showed self-serving attributional biases in their letters to the shareholders or not. Also within social-psychological research, though less frequent as experiments, content analysis has been used, amongst others, to assert possible cultural differences in self-serving behaviour. For example, Menon *et al.* (1999) content analysed American and Japanese newspaper articles to investigate possible cultural differences in the provision of reasons for the collapse of Barings after Nick Leeson’s rogue trading practices. Likewise, Morris and Peng (1994) focused on newspaper articles addressing two mass murder incidents, again in an

presented first, before management can pay attention to more positive aspects of the past fiscal year.

American and Japanese newspaper, to investigate the blame questions from a cultural perspective. In this study we make use of content analysis as well. More specifically, letters to the shareholders were subjected to content analysis in order to establish in what way directors explain organisational performances in the letter to the shareholder and to see if they culturally differ in that respect. Below we address the design more in detail.

5.2.2 Sample description

The sampling method we use is similar to those used in prior studies looking into cultural influences on accounting (Hussein, 1996; MacArthur, 1996; Zarzeski, 1996) and management practices (Newman and Nollen, 1996; Borkowski, 1999). Our sample consists of 139 firms from the Netherlands, Japan, and the United States: from Japan and the United States we had 52 companies, while 35 companies were of Dutch origin.⁸ Three reasons justify the choice of companies from these three countries. Firstly, these countries represent cultures with significant differences on the individualism-collectivism dimension (Hofstede, 1980), which seems to be the most important dimension when studying cultural differences in self-serving behaviour. Secondly, previous social-psychological studies have focused on the United States and Japan. Including a country such as the Netherlands adds perspective to prior findings and may reveal differences in

⁸ We acknowledge the oft-heard critique that nation states (i.e. countries) cannot be equated with cultures per se (e.g. Harrison and McKinnon, 1999; House *et al.*, 1999; Sivakumar and Nakata, 2001; Baskerville, 2002; McSweeney, 2002) and hence “that country is a proxy, albeit imperfect, for culture” (Sivakumar and Nakata, 2001: 559), although it seems that it may be the “only kinds of units available” (Hofstede, 2002: 1356; see also House *et al.*, 1999) for making cross-cultural comparisons. Notwithstanding the possibility that within the borders of a country several cultural groups may be found, it seems that “within any nation state there is a modal set of values, which constitutes a country’s national culture” (Sivakumar and Nakata, 2001: 559). Indeed, as research “demonstrates greater differences between countries than within countries, national differences are often used as a proxy for cultural differences” (Schneider and De Meyer, 1991: 311). Although cultural values do not fully dictate a person’s behaviour, “we would expect that people coming from the same country will exhibit some of the same general tendencies and think about things in a similar way” (Earley and Erez, 1997: 23). This seems to be true for managers as well: management studies have revealed that CEO behaviour is affected by national culture (Haire *et al.*, 1963; Jackosfsky and Slocum, 1988; Schneider and De Meyer, 1991). Hence, we would expect the Japanese CEOs to show more similar behaviours when compared to each other than when compared to their American and/or Dutch colleagues. Previous research looking into cultural differences in management practices also tend to focus on nations (e.g. Janssens, Brett and Smith, 1995; Newman and Nollen, 1996).

self-serving explanations among western cultures as well. Lastly, the countries are not only economically important, in addition they represent major countries with respect to the development of the accounting profession (Nobes & Parker, 1998).

As starting point for the selection procedure we used the Global 500 list that is published annually in *Fortune*. An additional valuable resource was the Worldscope database, which is a database containing corporate information (based on annual reports) on all the major companies from most of the developed world. Beforehand we decided to exclude banks, insurance companies, and other financial institutions due to the specific nature of their activities and terminology used in their financial reports. In order to assure comparability of the companies selected we tried to match the firms as much as possible (Pascale, 1978; Lytle *et al.*, 1995). In the matching procedure we made sure that the firms were comparable with respect to their main activities by looking at both the primary SIC-code and the business description mentioned in the Worldscope database. Furthermore, the procedure encompassed matching on the basis of firm size (in terms of dollar sales as of fiscal 1997, which is exactly in the middle of our sample period). This implied that, for example, the largest beer company in Japan (Kirin Breweries) was coupled with the largest beer company in the Netherlands (Heineken) and the United States (Anheuser-Busch). The results of this procedure are displayed in Appendix I. In practice, however, the sample selection procedure was driven by the availability of annual reports of Japanese companies (either in hard copy or in pdf-format) and resulted in reports of companies that are all quoted on the stock exchange. Although various people, e.g. the CEO, the CFO, a company lawyer, investor and/or public relations, are involved in drawing up a letter to the shareholder it is the CEO who signs the letter to the shareholders (Bettman and Weitz, 1983), thereby acknowledging that he is ultimately responsible for its content. Therefore, we also made sure that the nationality of the CEO was in conformity with the culture he should represent. This implied, for example, that companies as ASML (in the Netherlands) and 7-Eleven (in the United States) were not included in the sample as they have an American and a Japanese CEO, respectively. Implicitly we assume that the values of a culture a CEO should represent guide his behaviour, including the use of self-serving attributions. That is, implicitly we assume that, for example, Japanese values are relevant when studying Japanese CEO's behaviour in a cross-cultural context. Indeed, research by, e.g., Jackofsky and Slocum (1988) confirms the idea that national cultural values affect CEO behaviour. Furthermore, we expect Japanese CEOs to show more similar behaviours when compared to each other than when compared to their American and/or Dutch colleagues. However, the possibility that an individual Japanese manager behaves in a more western fashion cannot be

fully eliminated (see also Hofstede, 1984; Earley and Erez, 1997; Schneider and Barsoux, 2003).

Table 5.1 below provides some general characteristics of the firms included in the sample based on fiscal 1997 figures (in U.S. dollars). As is clear from the table below, the Dutch companies are, on average, considerably smaller than both the American and Japanese companies.⁹

<i>Average</i>	US	JP	NL
Sales ^a	16,826,704	14,511,818	4,604,913
Net income ^a	889,794	263,545	285,129
Market capitalisation ^a	16,903,854	11,378,326	4,010,749
Total assets ^a	18,896,119	15,210,090	3,547,777

^a Figures are in thds US dollars

Table 5.1 Statistics regarding profitability and size of companies in sample

For each of these 139 companies we tried to obtain two annual reports: one of a year in which performance improved and another in which performance deteriorated. The reports were selected from the fiscal years 1994 to 2000. In case of the Japanese companies this often implied a year-end of 31st of March (e.g. fiscal 1998 implies a period that runs from 1st of April 1998 to 31st of March 1999). For the American and Dutch companies the fiscal year was often equal to the calendar year (implying a year-end of 31st of December). Due to “missing” years, for example as consequence of mergers, or simply because a company was set up during the period under consideration, the actual period may have been smaller in a number of cases. In order to select a report of a “good” and a “bad” year, information on sales, net income, return on assets and earnings per share, in the original reporting currency, as reported in the *Worldscope* database was used. A year was considered favourable if the trend (i.e. by comparing this year’s performance with previous year’s figures) of two out of net sales margin (=net income/sales), return on assets, and earnings per share showed an increasing line. Similarly, it was unfavourable if two out of the three showed a declining trend. This resulted in 141 reports from a favourable year and another 137 concerned unfavourable years. These reports were used to obtain the letter to the shareholders

⁹ Further ANOVA-analysis and pairwise comparisons of the means reveal that whereas the U.S. and Japanese companies are comparable with respect to size, the Dutch are on average significantly smaller—in terms of sales, total assets, and market capitalization—than their Japanese and U.S. counterparts.

or a comparable document.¹⁰ In case of the U.S. and Dutch companies the letters were read in their original language. In case of the Japanese companies, however, the majority were in the English language. Due to a lack of availability we succeeded only to obtain 15 reports that were written in Japanese. One pair of coders (see the next sub-section for an outline of the coding procedure) read these 15 letters. One coder read the Japanese version, while the other used the English version. As the two versions yielded largely the same sentences being identified as causal attributions, we felt safe that the English version does not deviate materially from the Japanese equivalent. Table 5.2 below, presents some characteristics with respect to the number of pages the letters used in the content analysis consisted of. As is obvious, the Dutch produced somewhat longer reports. This can be ascribed to the fact we had to use management reports in a number of cases instead of formal letters to the shareholders, as some companies did not produce these.

	US	JP	NL
<i>Good year</i>			
Average	3.19	2.86	6.70
St.deviation	1.45	1.45	4.90
Range	1-9	1-10	1-20
<i>Bad year</i>			
Average	3.00	3.11	7.02
St.deviation	1.59	1.50	5.47
Range	1-10	1-8	1-22

Table 5.2 Size (in number of pages) of letters to the shareholders in this study

5.2.3 Dependent variable–Content analysis

As was explained at the outset of this section, in this study we made use of content analysis, which is a “method for codifying the text of a piece of writing into various groups (or categories) depending on selected criteria” (Hackston and Milne, 1996: 84). In order to perform the content analysis, and to assure that the process is reliable, systematic and objective (Krippendorff, 1980), a coding

¹⁰ As not all Dutch companies included a formal letter to the shareholders (or a comparable CEO’s preface) in their financial reports, we used management reports in 36 cases instead. In order to have the number of pages and the message that are content analysed as comparable as possible for companies that have a formal letter and those that don’t, we decided to analyse only the general and financial discussion sections of the management report. That is, sections containing specific information about divisions, geographical segments, etc. were omitted from the analysis. For all the Japanese and American companies in the sample, we analysed letters to the shareholders.

protocol was developed containing the procedure to be followed and a description of the key concepts of the content analysis. Previous studies of Bettman and Weitz (1983), Staw *et al.* (1983), Salancik and Meindl (1984), Aerts (1991, 1994), as well as social-psychological studies (e.g. Weiner *et al.*, 1971; Silvester, 1998; Munton, Silvester, Stratton and Hanks, 1999) were consulted to derive our coding dimensions and to draw up the coding protocol. Appendix II contains a copy of the coding protocol.

All the codings were duplicated. Five pairs of coders independently read and coded the letters to the shareholders. Apart from the author, six undergraduate students in economics and two Ph.D. candidates in economics performed the codings. Before starting the actual coding, all coders were instructed about the key concepts and the procedures. However, they were not informed of the goals of the study. After the instruction, the coders went through a practice round on three letters to the shareholders in order to familiarise themselves with both the procedure as well as the key concepts. These three letters to the shareholders were not part of the final sample.

The coding process encompassed several phases. Excluding the instruction and training phase, the first phase concerned the identification of attributional (causal) statements. This phase involved coders independently reading and marking the units that subsequently had to be coded. Using previous studies of, e.g. Bettman and Weitz (1983), Staw *et al.* (1983), and Aerts (1994), as point of departure, we arrived at the following definition of causal statements: A causal statement or attribution refers to one or more coherent sentences or phrases (i.e. part of sentence) in which an organisational outcome (i.e., profits, sales, revenues, etc.) is connected with a cause or reason for that outcome. The coders were instructed to only look for statements that specifically referred to financial outcomes, hence, only sales, profits, costs, and similar accounting concepts. Also included were statements referring to earnings per share, shareholder value, and market share, although we acknowledge that the latter is not a real accounting concept. Causal statements may be related to past/present or future organisational outcomes, with the fiscal year under consideration being the point of reference for deciding on past/present outcomes. Frequently, a causal statement can be recognised explicitly because connective words or phrases are used, for example: “influenced by”, “is caused by”, “contributed to”, “can be ascribed to”, “because”, “despite”, “notwithstanding”, and so on. However, a sentence or phrase is considered a causal statement as well if no such connective words or phrases are present, but a causal relationship between an organisational outcome and explanatory variable can implicitly be derived from the text. To be considered a causal statement, a cause-effect relationship has to be clearly present. Furthermore, organisational

outcome (“effect”) and explanatory variable (“cause”) have to appear in proximity, e.g. within one or two sentences, or within the same paragraph. Whenever several causes or reasons are provided to explain one organisational outcome, whether or not in the same sentence, each of those combinations is treated as a separate causal statement. Below we reproduced some examples of causal statements that appeared in letters to the shareholders.

“In 2000, this pricing strategy was very successful, with net revenue per barrel increasing 2.5%” (annual report Anheuser-Busch 2000).

“Sales in 1998 were \$29.4 billion, down 1% from \$29.8 billion in 1997. The decline is attributable to lost sales from various non-strategic and poorly performing businesses that we decided to exit” (annual report Motorola 1998).

“Applied Materials’ performance in fiscal 1999 was fuelled by the semiconductor industry recovery, but of equal importance was our ability to respond quickly to the steep rebound” (annual report Applied Materials 1999).

“Despite a challenging operating environment, Alpine Electronics and Alps Transportation Systems Corporation continue to post strong performance, through market differentiation based on proprietary technologies and unique services” (annual report Alps Electric 1999)

“During the year under review, due to the impact of the yen’s appreciation, Sony’s consolidated net sales decreased 1.7% to ¥6,686.7 billion and operating income fell 30.9% to ¥240.6 billion” (annual report Sony Corporation 2000).

“I believe Konami’s achievement of yet another year of record growth in both net sales and operating income, despite the difficult operating environment, confirms the correctness of our outgoing and bold management strategy” (annual report Konami 2000).

“Considerable management attention is invested in leveraging the existing store base and our brand strength, resulting in growth of sales and operating results” (annual report Royal Ahold 2000).

"I am delighted to say that Philips made a good start to the new millennium. The fruits of the efforts of the past four years are becoming clearer" (annual report Philips 2000).

Apart from such causal statements, in which organisational (financial) outcomes are linked to one or more causes, the coders also searched for unexplained organisational (financial) outcomes (regarding profits, sales, costs, etc.). These are similar to causal statements, except that no cause or explanation is provided for the outcome. Examples of such unexplained organisational outcomes are: "This year the company was able to report record sales" and "Profits for 2000 reached an all-time-high." Previous organisational and accounting researchers did not discern this form of impression management when they looked at attributional behaviour in letters to the shareholders. However, we decided to include it, because we expected that apart from "genuine" causal statements, such a form of impression management might be important in the context of financial reporting.

After the two coders independently read the letters to the shareholders and identified the causal statements and unexplained organisational outcomes, they met in order to discuss their outcomes. The intention was to arrive at an agreed-upon set of statements that subsequently was subjected to the actual coding. Additionally, this procedure ensures that the same causal statements are coded.

In the second phase the two coders performed the actual coding (that is the assignment of causal statements to the various categories) using this "agreed-upon set." In the coding phase several decisions regarding organisational outcomes (effect) and reasons or causes for that outcome (explanatory variable) had to be made and recorded. Firstly, we discuss the coding dimensions concerning the organisational outcomes. Subsequently, we pay attention to the dimensions concerning causes or reasons (explanatory variables).

Coding dimensions organisational outcome (effect)

Below are addressed the five dimensions on which the organisational outcomes, or effects, had to be coded. Apart from the categories mentioned below, coders could also opt for a category "uncodeable on this dimension." The coders were instructed to use this category only if they thought that not one of the provided options (for a single dimension) was able to reflect the meaning of the effect that had to be coded. The coding decisions for (real) causal statements were recorded onto coding sheets by the two coders, independently of each other. An example of such a coding sheet appears in Appendix IV. An example of a cover sheet is included in Appendix III. The dimensions regarding organisational outcomes were:

1. *Type of effect*. The type addresses the kind of financial outcome that is addressed. We discerned five categories, viz. net profits/profits/earnings, revenues/sales, costs, market share, shareholder value/earnings per share. In addition, coders could also use the categories general/other and “more than one of those mentioned above.”
2. *Valence (positive versus negative)*. The valence of the outcome indicates whether the organisational outcome is to be evaluated positive (e.g. increase in sales, best-ever year profits, etc.) or negative (e.g. decrease in profits, increase in losses, etc.) from the directors’ point of view.
3. *Nature (qualitative versus quantitative)*. The nature concerns whether the organisational outcome is expressed in quantitative terms (e.g. 5% increase, decrease from 1.5 billion to 1.25 billion, etc.) or in qualitative terms in which only adjectives are used (e.g. the record revenue level may be explained from ..., a considerable deterioration of profits ..., etc.). It was also possible to use a category “both qualitative and quantitative” (“The record profits of \$1,3 billion we achieved this year...” is an example of a case in which this category should be used).
4. *Time orientation (past/present versus future)*. The time orientation of the outcome addresses whether the outcome occurred in the past/present (i.e. current fiscal year) or will occur in the future. The fiscal year under consideration served as point of reference for deciding on past/present/future outcomes.
5. *Level (division/product versus group/corporation as whole)*. This coding dimension addresses whether the causal statement concerns an effect at the organisational level or at a more specific, i.e. divisional or product, level.

Coding dimensions for explanatory variable (cause)

After having coded the statements as far as the effect is concerned, causal statements had to be coded for causes or explanations. Hence, the next eight dimensions are only relevant for “genuine” causal statements. Here as well, the coders could opt for a category “uncodeable on this dimension.” The dimensions included:

1. *Expression of cause-effect relationship (explicit versus implicit)*. The expression of the cause-effect relationship indicates whether a causal statement can be identified, because connective words or phrases as “because”, “despite”, “due to”, “ascribed to”, etc. have been used. If such connective words or phrases are present, it is coded as “explicit”, otherwise as “implicit.”

2. *Direction of cause-effect relationship (common versus opposite)*. In case of a common direction, cause and effect have the same sign. An example of such relationship is: "The increase in profits was due to a well established corporate strategy." In case of an opposite direction, cause and effect have different signs, e.g. when positive outcomes have been realised despite negative influences. Such relationships can usually be identified by words as "despite", "notwithstanding", "although", and so on.
3. *Time orientation (past/present versus future)*. The time orientation of the cause addresses whether the cause occurred in the past/present (i.e. current fiscal year) or will occur in the future. The fiscal year under consideration served as point of reference for deciding on past/present/future causes.
4. *Nature (quantitative versus qualitative)*. The nature of the cause concerns whether the cause is quantified or is merely expressed in qualitative terms.
5. *Language of causal statement (causal versus accounting technical)*. Causal language refers to "everyday life" or "laymen" statements in which a cause-effect relationship may be easily identified. An example of a causal statement that is expressed in causal language is: "The decrease in sales can be attributed to a deterioration of the economic conditions in Latin America." On the other hand, an accounting-technical relationship between cause and effect is present if the relationship is explained in accounting terms, where responsibility is not easily identified. Aerts, who introduced these accounting-technical attributions, defines them as "explanations of accounting effects termed in financial accounting language and [involve] explanations in terms of the structure of the balance sheet or the profit-and-loss account to explanations in terms of cost-volume-profit relationships" (2001: 13). "The decrease in profits can be attributed to the higher interest", is an example of an accounting-technical explanation.
6. *Locus of causality (internal versus external)*. The locus of causality dimension refers to the degree that an outcome was caused by directors' or the organisation's actions (e.g. good quality of personnel, strategy, etc.), in which case it is internal, or by influences outside the organisation (e.g. economic situation, industry trends, inflation, interest rate, the weather, etc.), in which it is coded "external." Within the internal-external dichotomy we created some further refinements. With respect to internal causes, coders had the option to indicate that the cause referred to either actions or decisions of management/board of directors, to segments or divisions within the company, or to corporate personnel. They were instructed to use these categories only if they were able to explicitly extract one of the groups mentioned. Otherwise, the category "other internal causes had to be used." Similarly, regarding

external causes it was possible to indicate that the (external) cause was on general economic- or industry/sector level.

7. *Stability (stable versus unstable)*. The stability dimension refers to whether or not the cause of the outcome changes over time. A cause is stable if it would persist in the future and, more or less, would lead to the same outcome. Otherwise stated, stable causes are to a certain extent permanent and unchanging. Corporate strategy, the economic trend are examples of stable causes. Temporal causes, on the other hand, are less permanent. On the contrary, they are temporal and may change within the period of a year. It is very likely that such variable cause would lead to a different outcome. One time disinvestment of a division, start-up costs, etc. are examples of variable causes.
8. *Controllability (controllable versus uncontrollable)*. A cause is controllable if the directors or the organisation has it within its power to change that cause, e.g. strategy, marketing effort, acquisition decision, and so on. A cause is uncontrollable if directors or the organisation does not have the power to influence it, e.g., market prices, competition, general economic situation, etc.. Hence, the central issue is whether management or the corporation is able to influence, i.e. to control, the cause.

Coding dimensions unexplained effects

Unexplained effects were coded along three dimensions, namely type of effect, valence, and qualitative/quantitative. Apart from the categories mentioned below, coders could also opt for a category “uncodeable on this dimension.” The coders were instructed to use this category only if they thought that not one of the provided options (for a single dimension) was able to reflect the meaning of the effect that had to be coded. The coding decisions for (real) causal statements were recorded the cover sheets by the two coders, independently of each other. An example of such a cover sheet appears in Appendix III. The cover sheet also contained some general information about the company and the letter to the shareholders (see below). The dimensions regarding unexplained effects were:

1. *Type of effect*. The type addresses the kind of financial outcome that is addressed. We discerned five categories, viz. net profits/profits/earnings, revenues/sales, costs, market share, shareholder value/earnings per share. In addition, coders could also use the categories general/other and “more than one of those mentioned above.”
2. *Valence (positive versus negative)*. The valence of the outcome indicates whether the organisational outcome is to be evaluated positive (e.g. increase in

sales, best-ever year profits, etc.) or negative (e.g. decrease in profits, increase in losses, etc.) from the directors' point of view.

3. *Nature (qualitative versus quantitative)*. The nature concerns whether the organisational outcome is expressed in quantitative terms (e.g. 5% increase, decrease from 1.5 billion to 1.25 billion, etc.) or in qualitative terms in which only adjectives are used (e.g. the record revenue level may be explained from ..., a considerable deterioration of profits ..., etc.). It was also possible to use a category "both qualitative and quantitative" ("The record profits of \$1,3 billion we achieved this year..." is an example of a case in which this category should be used).

General issues regarding letters to the shareholders

After having coded all of the causal statements and unexplained effects, the coding sheets were put together and a cover sheet was included. The letter to the shareholders used for coding, as well as the version used to identify the statements, also had to be included in this set. On the cover sheet (see Appendix III for an example) data with respect to the coder (name, initials, date, and time spent), data with respect to the annual report (name of company and fiscal year), and data with respect to the letter to the shareholders (number of pages, number of columns, number of causal statements, and number of "unexplained effects") had to be recorded. In addition, coders had to determine the following issues regarding the letters to the shareholders they read:

1. *Information with respect to the opening sentence and opening section*. More specifically, it concerned coders' perception whether the message contained in the opening section is positive, neutral or negative. Furthermore, they had to indicate whether the opening (that is: first) sentence contained a reference to the result that has been obtained in the fiscal year under review.
2. *Information with respect to the closing section*. With respect to the closing section the coders had to indicate whether management addressed future expectations and/or directed words of gratitude towards its employees, shareholders, and so on. In addition, they were asked to state their perception of the tone of the final section: positive, negative, or neutral.
3. *Future outlook*. Here, coders had to indicate whether management addresses its future expectations in the letter to the shareholders (hence, including locations other than the final section). If so, they had to record whether the expectations are positive, negative, or neutral.
4. *Words of gratitude*. Here, the coders had to lay down whether the management board directed words of gratitude towards a specific interest group, as

shareholders, employees, customers, society, or other. It was possible to cross mark more than one category.

5.2.4 Intercoder reliability

Content analysis is “a research technique for making replicable and valid inferences from data according to their context” (Krippendorff, 1980: 21). Particularly important in research using content analysis is reliability, because “without acceptable levels of reliability, content analysis measures are meaningless” (Neuendorf, 2002: 12). Reliability is the extent to which a measuring procedure yields the same results on repeated trials (Neuendorf, 2002: 141). According to Krippendorff (1980) it is possible to distinguish three levels of reliability, namely stability, reproducibility, and accuracy. Stability, the weakest form of reliability, implies that coding results remain the same over time. It involves a single person redoing his codings after a certain period using the same coding instructions. The next level of reliability, reproducibility or intercoder reliability, implies agreement among multiple coders who independently of each other perform the codings using the same instructions. According to Krippendorff (1980) data should be at least reproducible. The highest level of reliability, accuracy, refers to the extent to which the classification corresponds to a standard or norm. However, accuracy is seldom used and researchers tend to settle for reproducibility (Weber, 1990).

Measuring reproducibility or intercoder reliability involves assessing the proportion of coding errors between the various coders (Milne and Adler, 1999). Researchers have used various forms of calculations to measure intercoder reliability, including correlation coefficients, coefficients of agreement, Scott’s pi, Cohen’s kappa, and Krippendorff’s alpha. Whereas neither correlation coefficients nor coefficients of agreement take chance into consideration and, consequently, tend to overestimate reliability, the other reliability measures do make adjustments for chance.¹¹ In this study we use Cohen’s kappa (κ) to report intercoder reliability, notwithstanding that it is criticised as being overly conservative giving credit only to agreement beyond chance. Cohen’s kappa is not only the most widely used reliability measure (Kolbe and Burnett, 1991; Neuendorf, 2002), additionally, it assumes coders to be independent, coder effects to be random (Hughes and Garrett, 1990), and data to be on the nominal level (Neuendorf, 2002:

¹¹ The reliability measures that adjust for chance agreement are of the following basic form: $(\text{observed agreement} - \text{expected agreement}) / (1 - \text{expected agreement})$. The calculation of estimated chance agreement, however, differs for Cohen’s kappa, Scott’s pi, and Krippendorff’s alpha.

150). Cohen’s kappa has a range from 0.00, implying agreement at chance level, to 1.00, indicating perfect agreement. Additionally, scores below 0.00 indicate agreement less than chance. What constitutes an acceptable level of intercoder reliability, however, is unclear because it may vary among authors and depends on the reliability measure used (Krippendorff, 1980; Riffe, Lacy, and Fico, 1998; Neuendorf, 2002). Fortunately, there are certain rules of thumb available to make judgements about reliability using Cohen’s kappa (e.g. Landis and Koch, 1977; Banerjee *et al.*, 1999). According to both Landis and Koch (1977) and Banerjee *et al.* (1999) a Cohen’s kappa between 0.40 and 0.80 indicate fair to good agreement beyond chance, while kappas higher than 0.80 indicate excellent agreement beyond chance.¹²

Table 5.3 reports Cohen’s kappas for the various dimensions of the unexplained effects (Zs), organisational outcomes (As), and causes or explanations (Bs).¹³ As can be seen in table 5.3 the reported kappas are all significantly different from 0.00, implying intercoder agreement greater than chance. Furthermore, except for the explicitness of the relationship, reported kappas indicate at least moderate agreement. With respect to valence of the attributed effect ($\kappa = 0.96$), direction of the cause-effect relationship ($\kappa = 0.86$), and locus of causality ($\kappa = 0.81$)—which form the most important dimensions of this study—reported kappas are above the 0.80-level indicating excellent intercoder agreement beyond chance. Given Cohen’s kappas we conclude that the content analysis yielded sufficiently reliable data. The single exception concerns the explicitness of the relationship with κ of 0.28. Therefore we omit this dimension from further analysis.

¹² Landis and Koch (1977) reported the most detailed division:

<i>Kappa statistic</i>	<i>Strength of agreement</i>
0.00	Poor
0.00-0.20	Slight
0.21-0.40	Fair
0.41-0.60	Moderate
0.61-0.80	Substantial
0.81-1.00	Almost perfect

¹³ We also determined Scott’s *pis* for the various dimensions. This, however, did not result in significantly different reliability scores.

<i>Panel A – Unexplained effect (Zs)</i>		
Dimension	Cohen's κ	Significance
Type of effect	0.80	0.000
Valence	0.90	0.000
Nature (qualitative/quantitative)	0.80	0.000
<i>Panel B – Organisational outcomes (As)</i>		
Dimension	Cohen's κ	Significance
Type of effect	0.77	0.000
Valence	0.96	0.000
Nature (qualitative/quantitative)	0.78	0.000
Time orientation	0.52	0.000
Level	0.81	0.000
<i>Panel C – Explanations (Bs)</i>		
Dimension	Cohen's κ	Significance
Expression of cause-effect	0.28	0.000
Direction of cause-effect	0.86	0.000
Time orientation	0.52	0.000
Nature (qualitative/quantitative)	0.64	0.000
Causal/accounting language	0.66	0.000
Locus of causality	0.66 ¹⁴	0.000
Stability	0.50	0.000
Controllability	0.79	0.000

Table 5.3 Reliability of content analysis

¹⁴ Reducing the locus of causality dimension from eight to three categories, viz. internal (originally four internal categories were distinguished), external (originally three external categories were distinguished), and an uncodeable category, yields a substantially higher kappa of 0.81. In further analysis we use this limited categorisation scheme.

6 Results

*“In America, “the squeaky wheel gets the grease.” In Japan, “the nail that stands out gets pounded down””*¹

In this chapter the results of the study are presented. After this chapter we should be able to provide answers to our two main research questions and have a picture regarding managers’ tendencies to use self-serving attributional biases when they provide explanations for organisational outcomes. We also should be able to indicate whether managers from different cultures differ in the same way as “ordinary” people like students when it comes to providing explanations for their outcomes. Section 6.1 provides some descriptive data regarding the coding entities the content analysis has yielded. Subsequently, we combine some of the dimensions of the outcomes (As) and the causes (Bs), in order to make a start with analysing self-serving attributional biases and to provide answers to the 10 propositions we have formulated in the previous chapter. More specifically, we have split our ten propositions into two groups. The first group comprises propositions 1 to 4. These propositions not only aim at determining whether CEOs explain company results in self-serving ways in their letters to the shareholders, in addition they hypothesised on cultural variability therein. In section 6.2 we use non-parametric tests to examine such cultural variability. The second group, which includes propositions 5 to 10, deals with possible other factors that may either exacerbate or attenuate such self-serving tendencies. In section 6.3 we use two special forms of regression, *viz.* count and ordered logit regression which take the specific nature of our dependent variable into account, in order to examine which determinants (e.g. firm size, CEO-tenure, etc.)—apart from culture—influence self-serving behaviour in letters to the shareholders. After having tested our 10 propositions we subsequently analyse other interesting features of explanatory behaviour and letters in general in section 6.5. As argued in section 5.1, self-

¹ Anecdotes that underscore the dissimilarities between the American and Japanese cultures, as mentioned in Markus and Kitayama’s (1991: 224) paper on construal of the self.

serving attributions are part of a wider range of impression management techniques available to managers when they present news with respect to organisational outcomes in the annual report. Therefore, and because they are closely related to our study of self-serving attributional biases and, hence, could be easily incorporated in the content analysis, we explored three other forms of impression management in accounting narratives as well. Firstly, we examine in which way culture and other organisational circumstances influence the use of accounting-technical language in letters to the shareholders. For example, we investigate whether the type of performance (i.e. improvement versus deterioration) influences the type of language used to account for such performance. Furthermore, we look at the tone at the beginning and end of letters to the shareholders and the inclusion of statements regarding future expectations.

6.1 Descriptive data coding results

6.1.1 General descriptive data

As was described in section 5.2, where we have outlined our research design, we content analysed 278 letters to the shareholders. This resulted in 914 unexplained effects (Zs) and 911 organisational outcomes (As) that were explained by 1,420 causes (Bs). Table 6.1 provides a breakdown per country suggesting that, maybe except for the number of causes, the number of coding entities is more or less equally divided among Japan, the Netherlands, and the United States.

However, looking at the average number of unexplained effects and cause-effect relationships per letter provides a different picture. As is evident from table 6.1, the Dutch reports contain on average more coding entities (As, Bs, and Zs) than either the American or Japanese letters. This result seems logical as the Dutch produced somewhat longer management reports. Furthermore, the number of letters not containing any causal statement is larger in the United States (19) and Japan (15) than in the Netherlands (5). The average number of causal attributions per letter found in previous studies are: 2.33 in the Bettman and Weitz (1983) study, 8.5 in the Salancik and Meindl (1984) study, 7 in the Clapham and Schwenk (1991) study, and 13.4 in the Aerts (1994) study. In the most recent study on self-serving attributional biases in Singapore letters to the shareholders, Tsang (2002) reports an average of 4.30 causal attributions per letter.

<i>Panel A – Unexplained effects (Zs)</i>				
	US	JP	NL	Total
Total	336	293	285	914
Average per report	3.23	2.82	4.07	3.29
St. deviation	3.00	3.56	3.17	3.29
Min	0	0	0	0
Max	13	20	19	20
<i>Panel B – Organisational outcomes (As)</i>				
	US	JP	NL	Total
Total	282	316	313	911
Average per report	2.71	3.04	4.47	3.28
St. deviation	2.28	2.44	3.30	2.71
Min	0	0	0	0
Max	11	10	12	12
<i>Panel C – Explanations (Bs)</i>				
	US	JP	NL	Total
Total	394	500	526	1420
Average per report	3.79	4.81	7.51	5.11
St. deviation	3.29	4.11	6.72	4.87
Min	0	0	0	0
Max	14	20	32	32

Table 6.1 Descriptive data coding entities

6.1.2 Descriptive data regarding explained effects (As)

Of the 911 organisational outcomes that are explained by the CEOs in their letters to the shareholders, 605 or 66.5% relate to the main accounting issues, namely profits, sales, and costs. Issues as market share and shareholder value, however, are not frequently addressed in managers' causal attributions: 7.2% of the attributed effects are devoted to one of these subjects. In 241 cases (26.5%) the attributed effects are coded as either "other" or involve more than one issue. Table 6.2 summarises the findings.

We see significant differences between the three countries with respect to the issues being addressed ($\chi^2 = 80.21$; $p\text{-value} = 0.000$). Japanese managers mostly pay attention to profits, sales, and costs in their causal attributions: 230 of the 316 (72.7%) attributed effects relate to these issues. Dutch managers show a similar tendency: 71.0% of their organisational outcomes are devoted either to profits, sales, or costs. In American letters, however, only about half (54.2%) of the explained effects relate to the "real" accounting issues. Americans say a great deal more about shareholder value than either Japanese or Dutch managers. Regarding

market share we do not see significant differences between the countries: in about 5% of the organisational outcomes market share is being addressed. In all countries, but particularly the United States, the categories “other” and “more effects” are frequently used to code the explained effects. In the United States they make up more than a third (35.4%) of the organisational outcomes. In Japan and the Netherlands the percentages are somewhat lower with 22.1% and 26.5%, respectively.

Nature effect	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Profits	80	28.4	87	27.5	106	33.9	273	30.0
Sales	63	22.3	136	43.0	85	27.2	284	31.2
Costs	10	3.5	7	2.2	31	9.9	48	5.3
Market share	16	5.7	14	4.4	18	5.8	48	5.3
Shareholder value	13	4.6	2	0.6	2	0.6	17	1.9
Other	59	20.9	33	10.4	48	15.3	140	15.4
More effects	41	14.5	37	11.7	23	7.3	101	11.1
<i>Total</i>	<i>282</i>	<i>100.0</i>	<i>316</i>	<i>100.0</i>	<i>313</i>	<i>100.0</i>	<i>911</i>	<i>100.0</i>

Table 6.2 Cross tabulation nature explained effect * country

Valence effect	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Positive	190	67.4	170	53.8	215	68.7	575	63.1
Negative	89	31.6	143	45.3	96	30.7	328	36.0
Uncodeable	3	1.1	3	0.9	2	0.6	8	0.9
<i>Total</i>	<i>282</i>	<i>100.0</i>	<i>316</i>	<i>100.0</i>	<i>313</i>	<i>100.0</i>	<i>911</i>	<i>100.0</i>

Table 6.3 Cross tabulation valence explained effect * country

The figures in table 6.3 suggest that a large part (63.1%) of the results is favourable and concern, for example, increasing sales, a higher net income, etc.. In only 328 cases (36.0%) the effect is considered negative. However, the unbalanced attention for positive outcomes occurs particularly in the Western nations of this study ($\chi^2 = 18.56$; p-value = 0.000). In both the United States as well as the Netherlands slightly more than two thirds of the effects being explained (67.4% and 68.7% for American and Dutch companies, respectively) have a positive valence. These percentages are comparable with Aerts' (1991) study of Belgian management reports. Also in the Staw *et al.* (1983) study it is found that

Americans tend to stress the positive: even the ill-performing companies (i.e. those who have to report a performance deterioration) are not inclined to pay a lot of attention to their failures: only 41.1% of their attributed effects are negative. In case of the high-performing companies this percentage even decreases to a mere 16.8%. If we, however, consider our Japanese companies, we see a more balanced coverage: 53.8% of the attributed effects are coded “positive”, while 45.3% are coded unfavourable and relate to, for example, declining sales or profits (the remaining 0.9% could not be coded on this dimension). These percentages are very similar to Tsang’s (2002) study of Singapore letters to the shareholders. He finds 52.8% and 47.2% of his attributions coded as favourable and unfavourable, respectively.

6.1.3 Descriptive data regarding explanations (Bs)

In only a small percentage (12.6%) of the 1,420 explanations the relationship between effect and explanation are of opposite nature.² This implies that generally speaking managers do not make frequent use of causal statements such as “In spite of the highest fuel prices since the Gulf War, we generated \$562 million in pre-tax income in 2000 and have delivered 23 straight quarters of profit” (annual report Continental Airlines 2000). They show a clear preference for avoiding such “in spite of”-relationships. 86.7% Of the causal statements are of the form “These [declining] results reflect in no small degree the prolonged recession in Japan and the monetary crisis in other Asian countries” (annual report Sumitomo Chemical 1999), involving statements in which cause and effect are expressed in similar directions. There is, however, a significant difference among the three countries we examine ($\chi^2 = 12.70$; $p\text{-value} = 0.020$). The Japanese make, relatively speaking, greater use of these “in spite of”-relationships than both the American and Dutch managers do (15.8% of the causal attributions in the Japanese letters are expressed in “in spite of” terms, compared to 12.7% and 9.5% for the American and Dutch managers, respectively). Table 6.4 provides detailed information with respect to this dimension.

² Aerts (1991) found a similar percentage of 12.9% in his study of 50 Belgian management reports.

Direction cause-effect	US		JP		NL		Total	
	<i>Count</i>	%	<i>Count</i>	%	<i>Count</i>	%	<i>Count</i>	%
Similar	340	86.3	416	83.2	475	90.3	1231	86.7
Opposite	50	12.7	79	15.8	50	9.5	179	12.6
Unicodeable	4	1.0	5	1.0	1	0.2	10	0.7
<i>Total</i>	<i>394</i>	<i>100.0</i>	<i>500</i>	<i>100.0</i>	<i>526</i>	<i>100.0</i>	<i>1420</i>	<i>100.0</i>

Table 6.4 Cross tabulation direction cause-effect relationship * country

As the figures in table 6.5 suggest, explanations are predominantly expressed in clear-cut, causal language. In only 336 cases (23.7%) managers make use of accounting-technical statements such as “Pre-tax charges in the fourth quarter of 1998 had a negative impact on the results of *f*1.6 billion” (annual report Philips 1998). There is, however, a significant difference between the countries. In Dutch reports, the use of accounting-technical language is, relatively speaking, the most prominent. Whereas in Japanese and American letters less than 20% of the statements use accounting-technical language, more than a third of the explanations Dutch managers give contain language in which responsibility is not easily assigned ($\chi^2 = 53.62$; $p\text{-value} = 0.000$).

Language explanations	US		JP		NL		Total	
	<i>Count</i>	%	<i>Count</i>	%	<i>Count</i>	%	<i>Count</i>	%
Causal	334	84.8	401	80.2	346	65.8	1081	76.1
Accounting-technical	60	15.2	97	19.4	179	34.0	336	23.7
Unicodeable	0	0.0	2	0.4	1	0.2	3	0.2
<i>Total</i>	<i>394</i>	<i>100.0</i>	<i>500</i>	<i>100.0</i>	<i>526</i>	<i>100.0</i>	<i>1420</i>	<i>100.0</i>

Table 6.5 Cross tabulation language explanation * country

Generally speaking managers’ explanations are internally oriented (see table 6.6). 45.1% Of the 1,420 explanations refer to causes as management strategy, the success of products the company developed and introduced, the contributions of the employees, and so forth. In only 472 cases (or 33.2%) they refer to the external environment as the reason why the company’s performance improved or deteriorated. A large number (21.6%) of the explanations are unicodeable on this dimension. This percentage is related to the large amount of explanations expressed in accounting-technical language. As was discussed in section 2.3 an important characteristic of accounting-technical language is that the issue of whom

is responsible for an outcome frequently remains unclear (Aerts, 1994). If we only look at the causal statements, i.e. those statements where locus could be assigned, the overall bias towards internal causes is even stronger: in that case 57.6% of the explanations is internal. Here we see arise one of the largest cultural differences ($\chi^2 = 92.56$; $p\text{-value} = 0.000$). If we omit the explanations that are uncodeable on this dimension, 61.3% of the American causes and 63.1% of the Dutch causes are internal. Japanese managers, on the other hand, use internal and external causes almost equally to account for company results.

Locus of causality	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Internal	209	53.0	213	42.6	219	41.6	641	45.1
External	132	33.5	212	42.4	128	24.3	472	33.2
Uncodeable	53	13.5	75	15.0	179	34.0	307	21.6
Total	394	100.0	500	100.0	526	100.0	1420	100.0

Table 6.6 Cross tabulation locus of causality of explanation * country

With respect to the stability of the cause (see table 6.7), we find that 42.9% is of temporary nature and is unlikely to be present the next year. 35.4% of the causes is considered enduring, while 21.7% could not be coded on this dimension (which again relates to the use of accounting-technical language). No difference between companies from the United States and Japan is noticeable, both make greater use of temporal causes than of stable causes. The Dutch, on the other hand, show no real preference for either type of cause ($\chi^2 = 77.02$; $p\text{-value} = 0.000$).

Stability	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Stable	149	37.8	186	37.2	168	31.9	503	35.4
Temporal	191	48.5	239	47.8	179	34.0	609	42.9
Uncodeable	54	13.7	75	15.0	179	34.0	308	21.7
Total	394	100.0	500	100.0	526	100.0	1420	100.0

Table 6.7 Cross tabulation stability of explanation * country

The last dimension, controllability of the cause, is summarised in table 6.8. As expected, the reported percentages are similar to the division of causes based on locus of causality: 44.1% are controllable, 34.3% are uncontrollable, and 21.6% are uncodeable on this dimension (which is related to the use of accounting-technical explanations). Regarding possible cultural differences, we see that the

Japanese managers, in contrast to their western colleagues, show no real preference for using controllable or uncontrollable causes to account for company results ($\chi^2 = 92.27$; $p\text{-value} = 0.000$).

Controllability	US		JP		NL		Total	
	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>
Controllable	200	50.8	208	41.6	218	41.4	626	44.1
Uncontrollable	141	35.8	217	43.4	129	24.5	487	34.3
Uncodeable	53	13.5	75	15.0	179	34.0	307	21.6
<i>Total</i>	<i>394</i>	<i>100.0</i>	<i>500</i>	<i>100.0</i>	<i>526</i>	<i>100.0</i>	<i>1420</i>	<i>100.0</i>

Table 6.8 Cross tabulation controllability of explanation * country

6.1.4 Descriptive data regarding unexplained effects (Zs)

Table 6.9 provides descriptive statistics for the 914 unexplained effects with respect to the nature of the effect, that is with respect to the issue being addressed. The large majority concern either sales (33.6%) or profits (31.8%). Only 16 of the 914 (1.8%) unexplained effects relate to costs, whereas market share is subject in only 4.4% of the cases. Management pays more attention to shareholder value and earnings per share: this is covered in 11.3% of the unexplained effects. The remaining 17.2% of the effects covers either more than one issue at the same time (frequently both sales and profits) or involves other issues that could not be assigned to one of the categories. For the sample as a whole it is obvious that management predominantly addresses the traditional accounting concepts such as sales, profits, and costs: these are subject in almost two thirds of the unexplained effects.

Nature effect	US		JP		NL		Total	
	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>
Profits	78	23.2	103	35.2	110	38.6	291	31.8
Sales	100	29.8	141	48.1	66	23.2	307	33.6
Costs	6	1.8	3	1.0	7	2.5	16	1.8
Market share	14	4.2	9	3.1	17	6.0	40	4.4
Shareh. value	57	17.0	14	4.8	32	11.2	103	11.3
Other	33	9.8	8	2.7	34	11.9	75	8.2
More effects	48	14.3	15	5.1	19	6.7	82	9.0
<i>Total</i>	<i>336</i>	<i>100.0</i>	<i>293</i>	<i>100.0</i>	<i>285</i>	<i>100.0</i>	<i>914</i>	<i>100.0</i>

Table 6.9 Cross tabulation nature unexplained effect * country

There are, however, significant differences between the three countries with respect to the issues addressed in unexplained effects ($\chi^2 = 100.91$; $p\text{-value} = 0.000$). Although in the letters from all three countries profits and earnings receive, relatively speaking, the largest attention (see table 6.10), it seems that Japanese managements in particular confine themselves to reporting on these issues. More than 80% of the Japanese unexplained effects relate to profits and sales. In American and Dutch companies this percentage is considerably lower with 53.0% and 61.8%, respectively. In these countries management is keener to address shareholder value related issues (e.g. earnings per share): whereas in Japanese reports only 4.8% concern shareholder value, this is 11.2% and a considerable 17.0% for the Dutch and American companies, respectively. Regarding the attention for costs and market share no real difference is noticeable.

With respect to the valence of the issues addressed we find that the large majority (75.3%) of the unexplained effects have a positive valence in which management, for example, claims that “sales increased 16.6 percent to more than \$1.2 billion for the year” (annual report Steinmart 2000) or that “Our net income rose 6.7% in the past fiscal year, to ¥481.9 billion (\$4.5 billion)” (annual report Toyota 2000). However, here we see a significant difference between the companies from the different cultures as well ($\chi^2 = 43.96$; $p\text{-value} = 0.000$). As is evident from table 6.10 below, in case of the Western companies approximately 80% of the unexplained effects relate to positive results. The Japanese companies, on the other hand, use a more balanced strategy: 61.8% involve positive outcomes, while in 33.8% of the unexplained effects a negative outcome is addressed.

Valence effect	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Positive	280	83.3	181	61.8	227	79.6	688	75.3
Negative	47	14.0	99	33.8	51	17.9	197	21.6
Uncodeable	9	2.7	13	4.4	7	2.5	29	3.2
Total	336	100.0	293	100.0	285	100.0	914	100.0

Table 6.10 Cross tabulation valence unexplained effect * country

6.1.5 Discussion

The analysis at the level of single dimensions yields a number of interesting observations from a cross-cultural perspective. Firstly, the results with respect to valence of the effect indicate that managers from the two Western cultures tend to stress the positive in their letters to the shareholders (see tables 6.3 and 6.10). We find, in line with previous research of e.g. Staw *et al.* (1983), Salancik and Meindl

(1984), and Clapham and Schwenk (1991), that the large majority of the outcomes is favourable and concerns increasing sales, profits, etc.. About 80% of the unexplained effects (Zs) (table 6.10) and approximately two thirds of the explained effects (As) (table 6.3) in the American and Dutch reports are favourable. The Japanese on the other hand, show a more balanced coverage strategy in which bad news is addressed as well. We find that about 35% of their unexplained effects (table 6.10) and 45% of the explained effects (table 6.3) present negative information regarding, for example, decreasing profits, lower sales, etc.. Tsang (2002) in his recent study of letters of CEOs from Singapore finds similar results: approximately 47% of his attributed effects were coded “unfavourable.” This greater presence of favourable results in western letters to the shareholders and the more balanced coverage strategy among the Japanese is in line with recent social-psychological findings and can be explained in two ways.

The first draws on recent findings in the social-psychological field, which indicate that the need for a positive self-regard is particularly strong in Western, individualistic (i.e. North American) cultures, where there is an independent construal of the self—cultures in which independence, ability, success, and individual control and responsibility are important (e.g. Markus and Kitayama, 1991, Kitayama *et al.*, 1997; Heine *et al.*, 1999, 2000, 2001). The need to view oneself positively encourages people “to seek out, enhance and elaborate their positive characteristics” (Heine *et al.*, 1999: 775). In a study with undergraduates, Heine and colleagues (2001) find that in individualistic societies negative information is considered threatening to the self and lead people to engage in compensatory strategies. On the other hand in cultures with an interdependent construal of the self, such as Japan, negative information is not considered threatening at all. On the contrary, it suits their strive for continuous self-improvement. Indeed, the social-psychological literature documents evidence of self-criticism among the Japanese, implying that they tend to focus on their weak points that they should try to improve. According to Heine *et al.* the “self-critical orientation is often described as a defining characteristic of Japanese [...] which is encouraged early in life through the mechanism of *hansei* (self-reflection)” (1999: 770). Furthermore, this mechanism is expected to stimulate people to focus on potentially negative features of the self (i.e. to self-criticise). Hence, being prone to negative information is—at least in Eastern cultures—not an indication of low self-esteem. Rather, it should stimulate self-esteem “as it better enables them to pursue tasks relevant within their cultural context” (Heine *et al.*, 2001: 435). Indeed, “information about where one has fallen short [...] is used to improve or perfect one’s actions and thus serves to affirm one’s belongingness to a certain social group” (Kitayama *et al.*, 1997: 1246). In two studies Kitayama and

colleagues (1997) found that American individuals are quite biased toward positive information. “They chose a greater number of success than failure situations as relevant to their self-esteem [...]. By contrast, the Japanese individuals showed a tendency for self-criticism. They chose a greater number of failure than success situations as relevant to their self-esteem” (Kitayama *et al.*, 1997: 1261). Heine *et al.* using undergraduates as well find direct evidence that confirms the cultural difference between the United States and Japan and conclude that “negative information is less threatening to the Japanese self [than to the American], and therefore there is not the same need to ward it off” (2001: 441).

A second interpretation why the Japanese address, relatively speaking, more negative information in their letters to the shareholders than either the Americans or the Dutch is the Asia Crisis which started in July 1997. It started with the sudden devaluation of the Thai bath and soon created a sharp region-wide plunge (e.g. Lazonick, 1999; Legewie and Meyer-Ohle, 2000; Woo, Sachs and Schwab, 2000). Countries, including Japan, that formerly were part of *The East Asian Miracle* (World Bank, 1993), suddenly had to deal with a drop in consumer demand, economic instability and experienced negative rates of economic growth in 1997 and 1998. Apart from the sharp drop in demand for their products—as for many Japanese companies the Southeast Asian region constituted the most important market (Legewie and Meyer-Ohle, 2000)—companies were suddenly also confronted with a situation that required changes in the way business had been done and the *keiretsu* system showed its first cracks (see e.g. Lazonick, 1999). The Asia Crisis even “prompted calls for Japanese corporations to embrace the corporate governance principle of maximizing shareholder value” (Lazonick, 1999: 2). Obviously, the Asia Crisis comprised large part of the years from which the letters were selected. A consequence might be that, as a result, the Japanese companies simply just *had* to address more bad news as they were affected more severely than companies from the West (Harrigan, 2000).

Another interesting finding concerns the difference found with respect to the topics managers choose to address in the letters to the shareholders. Though in all countries the vast majority of the outcomes (both explained and unexplained) concern either sales or profits (see tables 6.2 and 6.9), which corroborates Aerts’ (1991) findings, we do see arise an East-West difference. We find that managers from the Western nations pay, relatively speaking, more attention to shareholder value-related issues than their Eastern counterparts. This particularly holds for the American CEOs: 17% of the unexplained effects and 5% of the explained effects relate to shareholder value. The Japanese on the other hand hardly pay attention to it: in only 5% of the unexplained effects and in less than 1% of the explained effects shareholder value is discussed. This difference in attention for shareholder

value fits the corporate governance characteristics of those countries. Since the beginning of the Nineties a vast amount of literature has been publicised on corporate governance. In essence, corporate governance refers to “the system by which companies are directed and controlled” (Cadbury Report, 1992) and involves the power arrangement between the various corporate stakeholders, including the CEO, non-executive directors, shareholders, employees, creditors, etc.. A lot of literature has addressed the issue of international differences in corporate governance structures. Amongst others, researchers have looked into issues such as whether there is an one-tier, in which executive and non-executive directors are organized into a single board, or two-tier structure, in which executive and non-executive directors formally operate independently of each other in two separate corporate organs (e.g. Tricker, 1994; Charkham, 1995), and the effectiveness of non-executives in those two systems (e.g. Demb and Neubauer, 1992; Stiles and Taylor, 2001). Furthermore, the dispersion of ownership has been investigated (e.g. La Porta *et al.*, 1999), as well as whether there is an insider, bank-dominated system such as Japan and Germany or an outsider, capital-market system such as the United States and the United Kingdom (e.g. Moerland, 1995; Morck and Nakamura, 1999; LaPorta, Lopez-de-Silanes, Shleifer and Vishny, 2000). In many writings on corporate governance it is emphasized that in the Anglo-Saxon countries, and the United States in particular—with its reliance on equity finance—managers tend to focus on achieving value for their shareholders that may lead to a short-term time horizon. Hall and Weinstein (1996: 1), for instance, comment that “the US system, with its allegedly impatient shareholders, is thought to push managers to focus on the current bottom line.” Some even warn for the danger of short-terminism. The well-known strategist Michael Porter (1992: 67) commented that “the US system first and foremost advances the goals of shareholders interested in near-term appreciation of their shares—even at the expense of the long-term performance of American companies.” Moerland (1995: 29), in a similar vein, argues that managers may bother so much about presenting favourable financial results in the short run that they overlook the importance of basic investments to sustain the firm’s performance in the long run. The recent collapses of Enron, Worldcom, and others only underscore the validity of Porters’ and Moerland’s observations. In contrast, directors from the Netherlands and Japan—notwithstanding the growing importance of achieving shareholder value due to increasing globalisation—are more concerned with “stakeholders who share in the returns from long-term investments in the firm” (Demirag, 1998: 19). Indeed, in an international survey among American, German, and Japanese managers, Porterba and Summers (1995) find direct evidence that Asian and European CEOs have a longer-term orientation

than their American colleagues. Furthermore, in a study among 43 leading Dutch non-executives, Van Manen (1999) as well finds that directors consider safeguarding the long-term continuity of the firm more important than achieving short-term return for their shareholders.³ Part of this difference to show good performance in the short-term seems to be culturally driven. Kuada and Gullestrup (1998: 43) comment that “firms operating in societies with relatively longer-term orientations are more likely to cater not only for the interest of their shareholders, but those of their organisational members and customers as well.”⁴ The difference in importance of short-term performance may be reflected in annual reports. According to Demirag (1998) firms that are located in insider, banker-based systems are more concerned with long-term corporate growth than short-term profitability. In these countries, such as Japan, managers focus on long-term growth, e.g. sales, market share and firm growth (Doi, 1998: 340-341). On the other hand, in countries “where the equity finance plays a dominant role in the provision of finance to companies, managers are expected to be rewarded using short-term performance measures such as earnings per share and other profit related measures” (Demirag, 1998: 67). The results of this study are in line with this difference. We saw that the American CEOs paid, relatively speaking, the most attention to shareholder value-related issues (including earnings-per-share-measures). Additionally, the figures in tables 6.2 and 6.9 show that the Japanese, relatively speaking, pay a lot of attention to reporting on sales-related issues: almost half of their explained and unexplained effects relate to it. Regarding the relative attention for market share, however, we do not see a difference between the three countries.

6.2 Preliminary analyses: Propositions 1 to 4

6.2.1 Unit of analysis and composite variables

In the previous section we presented descriptive data with respect to the coding entities (As, Bs, and Zs). Those statistics are based on individual causal statements (and unexplained effects) and do not take the company-related context in which they arise into consideration. Bettman and Weitz (1983) use this approach in their

³ In a recently published article, Hofstede, Van Deusen, Mueller, Charles, and the Business Goals Network (2002) also find evidence that “continuity of the business” is perceived particularly important among Dutch business leaders. However, the same survey indicates that “this year’s profits” ranks high among US business leaders.

study of self-serving causal attributions in letters to the shareholders. They believe it is justified to take individual causal attributions as the unit of analysis because “there is no unambiguous method for summarising [...] the attributions in a single statement that describes the relationship of causal reasoning to overall corporate performance” (Bettman and Weitz, 1983: 172). In a later study, however, Staw *et al.* argue that “causal events are not independent cases, although one could argue that they do have meaning as identifiable acts or separate aspects of behaviour” (1983: 592). Their argument basically involves the idea that the type of outcome expected to be mostly addressed in the letter to the shareholders (i.e. the valence assigned to effects) depends on the performance the company is able to report. Therefore, it also seems more “logical” to take the entire letter to the shareholders as the unit of analysis rather than individual causal statements. Indeed, most studies after Bettman and Weitz (1983) take the entire letter to the shareholders as the unit of analysis rather than individual causal statements (Salancik and Meindl, 1984; Clapham and Schwenk, 1991; Aerts, 1994).

In this study we use the methods Aerts (1994) proposed to aggregate the coding results at company-year level, enabling us to take the letter in a specific year as the unit of analysis. In our case this procedure implies that the initial sample consisting of 914 unexplained effects and 1,420 causal attributions are reduced to 278 company-year observations. Two methods are used to determine these company data. First of all, we use plain frequency measures. This involves counting the number, *per company per year*, of the attributions coded in a certain way on a specific dimension. An example is that in year X company Y has 7 positive effects and 3 negative effects. Additionally, we transform these frequencies into proportional data, which “reflect the relative frequencies of specific verbal characteristics and control for variation in the number of coded explanations per company” (Aerts, 2002: 11). In that respect, they add perspective to the frequency measure by complementing it with intensity measures (Gardner and Martinko, 1988; D’Aveni and MacMillan, 1990; Aerts, 1994). However, as Aerts (2002: 11) notes they have “the inconvenience that their validity becomes obscured when the denominator becomes equal to zero. [Consequently], their results should be considered with more caution than those of the frequency measures due to missing value-differences.”

Apart from addressing individual causal statements, the descriptive data provided in section 6.1 concern single dimensions and indicate that some percentage of the causal attributions have a positive valence (as far as the effect is

⁴ Following Bond and Hofstede, Japan and the Netherlands are countries that have a long-term orientation, while the United States is a country with a short-term orientation.

concerned), have an internal locus of causality (with respect to the explanation provided), etc.. However, in order to verify whether managers' attributions in the letters to the shareholders are self-serving or not, we have to combine coding dimensions of the effects (A) with those of the causes (B). At first sight, the valence of the effect (positive, negative, or uncodeable) and locus of causality of the cause (internal, external or uncodeable) are most relevant. However, the direction of the cause-effect relationship is vital as well. The implied meaning of a causal statement such as "Due to the favourable economic conditions our sales increased" is very different from the meaning of a statement such as "Notwithstanding the Asia crisis our sales increased." Both statements are coded as a positive effect that is explained externally. Yet while the first credits the environment for the success, the second statement should be considered an enhancing type of attribution as managers implicitly claim they were responsible for the success. In effect, such a statement leads to an upgrading of the favourability of the outcome (Tedeschi and Melburg, 1984; Aerts, 2002). Similarly, in case of a statement such as "In spite of our actions, profits for the year declined"—which would be coded as a negative effect that is explained by an internal cause—denial of responsibility is implied. In such a statement management comments on a negative outcome "as something that happened in spite of internal events or actions that normally should have led to the contrary" (Aerts, 2002: 5), thereby also trying to shift blame on the environment. Treating such "leverage-effects" (Aerts, 2002) without taking the implied meaning into consideration yields an unreliable picture. Therefore, two analyses are performed. Firstly, we perform an analysis in which such "in spite of"-attributions are completely ignored. Subsequently, we re-analyse the data by taking the implied meaning into consideration. Hence, in the second analysis a statement such as "Notwithstanding the Asia crisis, our sales increased" is considered a positive effect that is explained internally; that is an enhancing type of attribution.⁵

6.2.2 Descriptive data composite variables

In order to verify whether the explanations for organisational results in letters to the shareholders are self-serving, we combine the codings with respect to the valence of the effect with the locus of causality of the explanation. Tables 6.11 and

⁵ This method differs from the one Aerts (1991, 2002) uses. Aerts first analyses the codings without taking the implied meaning of "in spite of"-effects into account, hence treating statements such as "Due to the favourable economic conditions our sales increased" and "Notwithstanding the Asia crisis our sales increased" similarly (i.e. positive effect, external locus of causality). Subsequently, he re-analyses the results by completely excluding the "in spite of"-statements.

6.12 present the results with respect to these composite variables and tell us in what terms managers tend to explain positive and negative effects. The tables contain the average number and standard deviation (in parentheses) for frequency measures (Panel A) and proportional measures (Panels B and C).⁶ In order to determine the percentages we eliminate those attributions that are uncodeable along locus of causality. The difference between Panel B and C is that Panel B completely ignores leveraged attributions. In Panel C such statements are included. Table 6.11 shows that on average letters to the shareholders have 3.2 positive effects that are explained by the CEO. Furthermore, we observe that there are on average 1.6 positive attributions in which the CEO refers to management's strategy, the success of the company's products, or other causes that are seen as having an internal locus of causality. External sources are less frequently used to account for positive outcomes: on average each letter only has 0.5 external, positive attributions. Furthermore, the figures in Panel A of table 6.11 indicate that leveraged statements—those statements in which cause and effect are stated in different directions—are used in an enhancing mode. On average per letter we encounter 0.4 statements such as “We confronted dramatically higher prices for oil and natural gas, a weak euro and keen Asian competition. We reported earnings growth in the face of these challenges” (annual report DuPont 2000).

⁶ The averages and standard deviations as far as the frequency measures are concerned are based on the full sample (n=278). Consequently, they are also based on the letters that do not contain any positive or negative effects. The result is that the calculated means are affected negatively. In the proportional data those letters are filtered out as they are treated as “missing values” as the denominator equals zero. For sake of completeness we included data on the number of letters not addressing any positive (table 6.11) or negative effects (table 6.12).

Positive effects				
<i>Panel A – Frequency data</i>				
	US (n=104)	JP (n=104)	NL (n=70)	Total (n=278)
Number of letters with no positive effects	32	31	11	74
Number of positive effects	2.48 (2.80)	2.69 (3.06)	5.03 (5.69)	3.20 (3.95)
Internal*	1.51 (1.86)	1.39 (1.67)	2.21 (2.36)	1.64 (1.96)
External*	0.27 (0.75)	0.42 (0.86)	0.81 (1.68)	0.46 (1.11)
Opposite, internal	0.04 (0.24)	0.03 (0.17)	0.09 (0.33)	0.05 (0.24)
Opposite, external	0.31 (0.90)	0.37 (0.67)	0.24 (0.55)	0.31 (0.68)
Uncodeable	0.35 (1.00)	0.48 (0.99)	1.68 (2.57)	0.74 (1.64)
<i>Panel B – Proportional data (excl. uncodeable and leveraged effects)</i>				
	US (n=66)	JP (n=70)	NL (n=55)	Total (n=193)
% Internal	87.32 (25.47)	79.27 (32.00)	75.07 (33.38)	80.78 (30.70)
% External	12.68 (25.47)	20.73 (25.47)	24.93 (33.38)	19.22 (30.70)
<i>Panel C – Proportional data (excl. uncodeable effects)</i>				
	US (n=72)	JP (n=71)	NL (n=58)	Total (n=201)
% Internal	72.06 (35.68)	67.66 (33.46)	67.86 (33.46)	69.30 (34.10)
% External	10.53 (22.43)	17.03 (26.84)	21.23 (28.84)	15.92 (26.14)
% Opposite, internal	1.42 (7.61)	0.77 (4.30)	2.71 (9.39)	1.56 (7.26)
% Opposite, external	15.99 (30.50)	14.54 (21.58)	8.20 (19.13)	13.22 (24.66)
* Excluding opposite statements				

Table 6.11 Descriptives regarding to positive outcomes

The preference for presenting good results in an enhancing way, either directly or indirectly, is also confirmed by the proportional data (Panels B and C). If we ignore statements in which cause and effect are expressed in opposite directions, we see that somewhat over 80% of the positive effects that are codeable along locus of causality are attributed to management's own actions, decisions, etc.. In only 20% a positive effect is ascribed to favourable general economic conditions, sector influences, or some other external factor. The inclusion "in spite of"-statements (Panel C) does not really alter this general tendency and merely results in a shift between the categories. Additionally, the proportional data confirm the enhancing use of "in spite of"-statements: managers indirectly claim responsibility in 13% of the positive outcomes through the use of a statement such as the one found in Canon's annual report 1997: "Despite these generally difficult economic circumstances, Canon realised increases in both sales and profits for the fourth consecutive term." The proportional measures, as they take into account possible differences in the number of causal attributions per letter, are also relevant for comparing the three countries with each other. Using a non-parametric Kruskal-Wallis test,⁷ with nation as grouping variable, reveals a significant country-effect with respect to the relative use of internal and external factors to account for positive outcomes ($\chi^2 = 6.44$; p-value = 0.040). Further pair wise comparison using Mann-Whitney tests indicates that the Americans, if we exclude the leveraged effects, ascribe positive effects more to internal causes and less to external causes compared to both the Dutch and Japanese managers. Panel B of table 6.11 indicates that Americans show a clear preference to attribute successes to themselves: 87% of the positive outcomes are ascribed to internal causes. Although this tendency is somewhat, yet significantly, lower for both the Japanese and the Dutch, it is still considerable with 79% and 75, respectively. The inclusion of statements such as the one found in the letter of Konami's CEO "I believe Konami's achievement of yet another year of record growth in both net sales and operating income, despite the difficult operating environment, confirms the correctness of our outgoing and bold management strategy" (annual report Konami 2000), has a considerable influence (see Panel C). In that case we are only able to observe a significant difference between the three countries with respect to the relative use of external, positive attributions: such statements are relatively speaking more frequently used in Japan and the Netherlands than in the United States ($\chi^2 = 7.59$; p-value = 0.022). In a next sub-section we will investigate

⁷ Kolmogorow-Smirnov tests for goodness of fit reveal that not one of the composite variables follows a normal distribution (all p-values < 0.001). Consequently, we will use non-parametric statistics.

whether these differences also imply that there is a cultural effect in the extent to which managers show self-enhancing tendencies.

Table 6.12 presents descriptive data with respect to negative outcomes. The letters on average contain 1.9 negative effects, which is lower than the number of positive effects (3.2). In the previous section we observed that the tendency to stress the positive was predominantly present in letters from the Western nations. This is also reflected in the number of positive effects letters on average present compared to the number of negative effects. For the American letters it is 2.5 positive compared to 1.3 negative effects, for the Dutch it is 5.0 positive to 2.4 negative effects. The Japanese (as seen in section 6.2) are more balanced in terms of coverage: on average the number of positive effects (2.7) is slightly higher than the number of negative effects (2.1). Furthermore, the results indicate protecting tendencies among the managers: letters have 0.9 external, negative effects, which is approximately twice as much as the average number of internal, negative effects (0.5). “In spite of”-statements that deflect responsibility away indirectly are not frequently employed. On average, letters only have 0.1 of such statements. The results indicate that, for the sample as whole, managers prefer to shift away blame directly rather than indirectly through the use of “in spite of”-relations. If we look at the proportional data (Panels B and C of table 6.12) we notice that, if we eliminate statements in which cause and effect are expressed in different directions, managers are inclined to blame the environment for performance deteriorations. In 62% of the negative outcomes they refer to the economic situation, the sector, or some other external factor as the cause of the bad result. If we include “in spite of”-statements, the percentage remains relatively unchanged: in 56.5% of the negative outcomes management blames some external factor directly. Additionally, in 6.5% of the cases managers try to avoid responsibility indirectly for the bad result by presenting it in a statement such as “In spite of our efforts, net income decreased, reflecting primarily such one-time factors as stock evaluation losses owing to a plunge in the Japanese stock market halfway through the year and currency losses from the devaluation of the Brazilian Real” (annual report Fuji Film 1999). Still in more than 35% managers are willing to accept blame for performance declines directly by ascribing it to a cause with an internal locus of causality.

Negative effects				
<i>Panel A – Frequency data</i>				
	US (n=104)	JP (n=104)	NL (n=70)	Total (n=278)
Number of letters with no negative effects	56	44	28	128
Number of negative effects	1.28 (1.95)	2.08 (2.64)	2.41 (3.41)	1.86 (2.67)
Internal*	0.34 (0.76)	0.41 (0.88)	0.74 (1.24)	0.47 (0.95)
External*	0.68 (1.29)	1.21 (1.65)	0.74 (1.72)	0.90 (1.56)
Opposite, internal	0.07 (0.35)	0.16 (0.44)	0.06 (0.29)	0.10 (0.38)
Opposite, external	0.00 (0.00)	0.04 (0.19)	0.03 (0.17)	0.02 (0.15)
Uncodeable	0.19 (0.48)	0.26 (0.68)	0.84 (1.44)	0.37 (0.92)
<i>Panel B – Proportional data (excl. uncodeable and leveraged effects)</i>				
	US (n=42)	JP (n=55)	NL (n=38)	Total (n=135)
% Internal	34.77 (37.92)	25.42 (32.21)	59.37 (43.21)	37.88 (39.64)
% External	65.23 (37.92)	74.58 (32.21)	40.63 (43.21)	62.12 (39.64)
<i>Panel C – Proportional data (excl. uncodeable effects)</i>				
	US (n=45)	JP (n=56)	NL (n=39)	Total (n=140)
% Internal	32.45 (37.64)	23.13 (30.17)	56.31 (43.46)	35.38 (38.88)
% External	58.66 (39.26)	67.03 (32.65)	39.06 (43.32)	56.55 (39.42)
% Opposite, internal	8.89 (26.73)	6.58 (13.83)	3.72 (16.67)	6.53 (19.54)
% Opposite, external	0.00 (0.00)	3.26 (15.05)	0.86 (3.72)	1.54 (9.77)
* Excluding opposite statements				

Table 6.12 Descriptives regarding negative outcomes

There are, however, significant differences between the three countries. Firstly, at first sight it seems that the Japanese managers show the strongest protecting tendencies. Compared with the two Western nations, they blame the external environment more often for performance deteriorations. In 75% the Japanese referred to, for example, the Asia Crisis, or some other external cause, compared to 65% and 41% for the American and Dutch managers, respectively (Kruskal-Wallis test; $\chi^2 = 9.30$; $p\text{-value} = 0.010$). Furthermore, the results indicate that the Dutch, comparable to the Belgians in Aerts' earlier studies (1994, 2002), are willing to accept blame for a failure: in 59% of the attributions addressing bad outcomes they refer to an internal cause. Further pair wise comparison (using Mann-Whitney tests with nation as grouping variable), reveals no significant difference between the United States and Japan with respect to the relative use of internal or external attributions to account for negative outcomes. The Dutch, however, stand out with their readiness to accept blame. When looking at the proportional data, we see that, compared to both the Americans and the Japanese, the Dutch make significantly greater use ($p\text{-values} < 0.050$) of negative internal attributions (irrespective of the inclusion of leveraged statements). Whereas managers from both the United States and Japan refer, relatively speaking, more to external causes (65% and 75%, respectively, of the negative outcomes are blamed on the environment; see Panel B), Dutch managers refer more to internal causes to explain the bad results. In sum, the results seem to imply that managers, irrespective of the type of effect and whether addressing accounting issues or not—except for the Dutch when explaining bad outcomes—make use of self-serving attributions.

So far we have looked at all effects. In an earlier study Aerts (1991) found that the elimination of non-traditional accounting concepts has a considerable effect on the extent to which outcomes are internally or externally attributed. Therefore, we re-do the analysis using only those causal attributions that relate to profits, sales, or costs. Tables 6.13 and 6.14 contain the descriptives with respect to this restricted set. In table 6.13 we first see that the number of positive accounting effects addressed on average in the letter to the shareholders is 2.09. As the number of positive effects ascribed to internal causes decreases from 1.6 to 0.8, and while the average number of external positive attributions hardly changes (see Panel A), it seems that if managers decide to include a positive statement with respect to non-accounting issues (e.g. market share and shareholder value), such effect is attributed predominantly to their own efforts. This may explain why we

Positive accounting effects (sales, profits, and costs)				
<i>Panel A – Frequency data</i>				
	US (n=104)	JP (n=104)	NL (n=70)	Total (n=278)
Number of positive effects	1.35 (2.07)	1.83 (2.58)	3.59 (4.34)	2.09 (3.09)
Internal*	0.79 (1.36)	0.88 (1.45)	1.29 (1.61)	0.95 (1.47)
External*	0.15 (0.48)	0.36 (0.81)	0.61 (1.34)	0.35 (0.90)
Opposite, internal	0.03 (0.22)	0.01 (0.10)	0.07 (0.31)	0.03 (0.21)
Opposite, external	0.16 (0.59)	0.17 (0.40)	0.23 (0.54)	0.18 (0.52)
Uncodeable	0.22 (0.72)	0.41 (0.90)	1.39 (2.19)	0.58 (1.38)
<i>Panel B – Proportional data (excl. uncodeable and leveraged effects)</i>				
	US (n=45)	JP (n=54)	NL (n=47)	Total (n=146)
% Internal	81.94 (34.99)	72.35 (38.00)	70.06 (37.89)	74.57 (37.15)
% External	18.06 (34.99)	27.65 (38.00)	29.94 (37.89)	25.43 (37.15)
<i>Panel C – Proportional data (excl. uncodeable effects)</i>				
	US (n=49)	JP (n=56)	NL (n=49)	Total (n=154)
% Internal	70.13 (40.81)	64.80 (39.70)	59.17 (37.48)	64.71 (39.36)
% External	15.31 (31.78)	22.14 (31.72)	25.76 (34.63)	21.12 (32.75)
% Opposite, internal	2.30 (14.36)	1.78 (13.36)	3.06 (11.50)	2.35 (13.06)
% Opposite, external	12.26 (28.50)	11.28 (21.16)	12.01 (24.92)	11.82 (24.72)
* Excluding opposite statements				

Table 6.13 Descriptives regarding positive outcomes

observe a slight decrease in the proportion of positive effects that is attributed to management or company-related, hence internal, factors from 81% to 75% (if we include the “in spite of”-statements the decrease is comparable from 69% to 65%). Comparison of the figures in tables 6.11 and 6.13 suggest that the change in locus (about 6% from internal to external), due to the elimination of non-accounting effects, is more or less comparable for all three countries. However, the tendency

of both the Japanese and the Dutch, compared to the Americans, to ascribe positive outcomes slightly more to external causes remains present.

Negative accounting effects (sales, profits, and costs)				
<i>Panel A – Frequency data</i>				
	US (n=48)	JP (n=60)	NL (n=42)	Total (n=150)
Number of negative effects	0.74 (1.38)	1.62 (2.31)	1.84 (2.92)	1.35 (2.25)
Internal*	0.17 (0.65)	0.36 (0.84)	0.54 (0.96)	0.33 (0.81)
External*	0.41 (0.89)	0.86 (1.30)	0.59 (1.55)	0.62 (1.25)
Opposite, internal	0.06 (0.34)	0.13 (0.39)	0.03 (0.24)	0.08 (0.34)
Opposite, external	0.00 (0.00)	0.04 (0.19)	0.03 (0.17)	0.02 (0.15)
Uncodeable	0.10 (0.36)	0.23 (0.65)	0.65 (1.13)	0.30 (0.75)
<i>Panel B – Proportional data (excl. uncodeable and leveraged effects)</i>				
	US (n=31)	JP (n=51)	NL (n=30)	Total (n=112)
% Internal	26.88 (40.52)	31.75 (40.36)	60.02 (42.69)	37.97 (42.86)
% External	73.12 (40.52)	68.25 (40.36)	39.98 (42.69)	62.03 (42.86)
<i>Panel C – Proportional data (excl. uncodeable effects)</i>				
	US (n=33)	JP (n=52)	NL (n=30)	Total (n=115)
% Internal	25.25 (39.77)	29.65 (39.09)	58.24 (43.16)	35.85 (42.23)
% External	64.90 (42.99)	60.20 (39.09)	38.65 (42.75)	55.92 (42.16)
% Opposite, internal	9.85 (27.91)	6.64 (15.15)	1.33 (7.30)	6.11 (18.58)
% Opposite, external	0.00 (0.00)	3.51 (15.60)	1.78 (6.99)	2.05 (11.12)
* Excluding opposite statements				

Table 6.14 Descriptives regarding negative outcomes

The exclusion of non-accounting items reduces the number of negative explained effects from 1.9 to 1.4 (see tables 6.12 and 6.14). Large part of the negative accounting effects is still blamed on the environment: for the sample as a whole the percentage of bad results that is ascribed to external factors remains

relatively unchanged at 62%. There are, however, important shifts within the United States and Japan. Whereas in the United States the percentage of negative outcomes that is blamed on factors beyond management's control increases from 65% to 73%, it decreases in Japan from 75% to 68%, thereby further reducing the difference between the two nations. The results suggest that management is inclined to include causal statements with respect to market share and shareholder value—typical non-accounting items—only if they have positive news to present. However, if negative information is presented on these subjects, at least in Japan, this is largely blamed on the bad economic conditions. In sum, it seems that the exclusion of non-accounting items from the analysis does not affect the differences between the three countries materially.

6.2.3 Self-serving attributional biases in accounting narratives

In section 2.2.3 we saw that the self-serving attributional bias consists of two components, namely the self-enhancing bias and the self-protecting bias. The first bias, self-enhancement, implies—in an organisational context—that managers want to take as much credit as possible for good results, e.g. increasing profits, higher sales, etc., by attributing those outcomes more to internal than to external causes. Self-protection, on the other hand, is particularly relevant in case of negative outcomes and involves a preference for blaming the environment for a performance deterioration (i.e. attributing the failure to an external cause) rather than taking responsibility for it by ascribing it to an internal cause. By doing so managers want to avoid that they are blamed for the disappointing results.

So far we have discussed the separate components of the self-enhancing and self-protecting biases. In the previous sub-section we saw that, when we ignore the leveraged statements, 80% of the positive outcomes are ascribed to management's decisions, actions and other internal factors. Negative outcomes, on the other hand, are explained in terms of the bad economic situation, disappointing results throughout the sector, etc.. We observed that in more than 60% of the negative outcomes management blamed some external cause. In order to examine whether this also implies that self-enhancing and self-protecting biases are present, we have to examine whether internal positive attributions occur more frequently than external positive attributions, that is $IP > EP$, and whether external negative attributions are more frequently used than internal negative attributions, that is $EN > IN$. Similarly, we can test whether $IP - EP > 0$ (implying self-enhancement) and $EN - IN > 0$ (implying self-protection). This enables us to provide answers to our first two propositions in which we hypothesised that—irrespective of cultural background—on the one hand managers claim responsibility for favourable

outcomes (i.e. $IP > EP$) and deny responsibility for unfavourable ones (i.e. $EN > IN$) on the other. More formally they have been formulated as follow:

Proposition 1–Self-enhancement: *Generally speaking, managers claim responsibility for positive organisational outcomes (successes) in letters to the shareholders. That is, the number of internal-positive causal statements (IP) is larger than the number of external-positive statements (EP) in a letter to the shareholders.*

Proposition 2–Self-protection: *Generally speaking, managers deny responsibility for negative organisational outcomes (failures) in letters to the shareholders. That is, the number of external-negative causal statements (EN) is larger than the number of internal-negative causal statements (IN) in a letter to the shareholders.*

Table 6.15 below contains the average difference in locus of causality for positive effects ($IP-EP$) and for negative effects ($EN-IN$). In parentheses the standard deviations are presented. Panel A contains the frequency data and proportional data excluding the “in spite of”-statements. Previously we observed that managers are to a certain extent inclined to indirectly assume responsibility for good results and try to shift blame away for bad results by the use of “in spite of”-statements. Therefore, if we want to have a complete picture of the self-serving attributional bias, we have to consider the implied meaning of such statements as well. Panel B of table 6.15 presents the data in which those statements are included. In this case self-enhancement is calculated as the difference between the number of statements in which responsibility for a success is assumed directly (IP) or indirectly through an “in spite of”-statement (OPP_EP) and where the environment is credited for the success directly (EP) or indirectly (OPP_IP). Hence, self-enhancement is determined as $(IP+OPP_EP)-(EP+OPP_IP)$. Similarly, self-protection is calculated as $(EN+OPP_IN)-(IN+OPP_EN)$. The presence of self-serving tendencies would imply positive differences for $IP-EP$ (indicating self-enhancement) and for $EN-IN$ (indicating self-protection) that are significantly greater than zero.

All effects

Panel A – Data excluding leveraged effects

		US	JP	NL	Total
Positive effects (IP–EP)	<i>Frequency</i>	1.24 *** (1.82)	0.97 *** (1.76)	1.40 *** (2.00)	1.18 *** (1.85)
		74.63 ** (51.48)	58.56 *** (64.00)	50.14 *** (66.76)	61.57 *** (61.40)
	<i>Proportional</i>	0.35 *** (1.30)	0.80 *** (1.65)	0.00 (1.78)	0.43 *** (1.59)
		30.47 *** (75.83)	49.17 *** (64.42)	-18.73 (86.42)	24.24 *** (79.28)

Panel B – Data including leveraged effects

		US	JP	NL	Total
Positive effects	<i>Frequency</i>	1.51 *** (1.96)	1.31 *** (1.95)	1.56 *** (2.15)	1.45 *** (2.00)
		76.10 *** (46.64)	64.41 *** (53.85)	52.11 *** (63.40)	65.05 *** (55.01)
	<i>Proportional</i>	0.41 *** (1.40)	0.92 *** (1.85)	0.51 (1.70)	0.51 *** (1.70)
		35.10 *** (75.27)	47.23 *** (63.08)	-14.43 (86.98)	26.16 *** (78.12)

*** Significant at 0.01 using a Wilcoxon signed rank test

** Significant at 0.05 using a Wilcoxon signed rank test

* Significant at 0.10 using a Wilcoxon signed rank test

Table 6.15 Difference in locus of causality for positive and negative outcomes

Regarding positive effects we see overwhelming evidence of a self-enhancing bias. The IP–EP differences, which indicate the tendency to take credit for good results, are all highly significant and support proposition 1. Non-parametric signed ranks tests reveal that managers are self-serving with respect to positive outcomes as they attribute them more to themselves than to factors beyond their control. With respect to both frequency and proportional measures we see significant effects. The inclusion of indirect statements (i.e. “in spite of”-statements) only results in a larger or stronger bias (indicated by the larger *z*-values not provided here). These results confirm our first proposition that, managers claim responsibility for positive organisational outcomes (successes) by ascribing them to a larger extent to internal causes than to external causes. With respect to negative outcomes we see strong self-protecting biases as well, though smaller than the self-enhancing bias. The EN–IN differences, which indicate the tendency

to lay blame on the environment, are significant for both the American and Japanese managers. The Dutch managers, however, show no self-protecting bias. Similar to their Belgian counterparts (Aerts, 1991) they do not refer significantly more to external factors such as economic recessions than internal factors when they explain why the company experienced a performance decline. On the contrary, as is evidenced by the negative difference in the proportional data, they make relatively speaking more internal attributions than external attributions when addressing a disappointing result. Again the inclusion of leveraged statements does not affect the general picture, it only widens the gap.⁸ In sum, the results tend to partially support proposition 2 (the Dutch are free of self-protection). We re-tested the data for self-serving biases in explaining the accounting effects (hence, restricted the effects being explained to sales, profits, or costs). Although the differences IP–EP and EN–IN, indicating self-enhancement and self-protection, respectively, become somewhat smaller, the biases remain significantly present. Again the Dutch managers do not show a self-protecting bias when they explain bad news regarding accounting effects. These results partially support our second proposition that managers deny responsibility for negative organisational outcomes (failures) in letters to the shareholder by ascribing them more to external causes than to internal ones. Only the Dutch managers did not show such a tendency.

So far we have determined that irrespective of country managers show strong self-enhancing biases: they have a tendency to credit good news to themselves. In case of bad news, however, we observe that only the American and Japanese managers want to protect themselves by blaming it on the environment. The Dutch, on the other hand, do not exhibit self-protecting tendencies. We even see a small (though insignificant) self-deprecating tendency among the Dutch: they referred relatively speaking more to internal causes than to external causes when explaining bad results. The next step involves determining whether there are cultural differences in the extent in which managers from the three different countries show self-enhancing and self-protecting biases by comparing the IP–EP and EN–IN differences. This enables us to examine cultural variability in self-serving attributional biases and to answer propositions 3 and 4 which were as follow:

⁸ We checked whether the large amount of letters not explaining any positive or negative effects influences the outcomes. Using a restricted sample of 204 letters with at least one positive effect and 150 letters with at least one negative effect, we do not find different results. In this restricted set self-serving biases are still overwhelmingly present.

Proposition 3a–Self-enhancing attributions and self-versus group interest: *Managers from collectivistic cultures use external-positive causal statements to a larger extent than do managers from individualistic cultures.*

Proposition 3b–Self-protecting attributions and self-versus group interest: *Managers from collectivistic cultures use internal-negative causal statements to a larger extent than do managers from individualistic cultures.*

Proposition 4a–Self-enhancing attributions and cultural emphasis on achievement: *Managers from high-achievement cultures will use internal-positive causal statements to a larger extent than do managers from low-achievement cultures.*

Proposition 4b–Self-protecting attributions and cultural emphasis on achievement: *Managers from high-achievement cultures will use external-negative causal statements to a larger extent than do managers from low-achievement cultures.*

In order to provide answers to these propositions we have to compare the three countries simultaneously and pair wise. According to Hofstede (2002), the United States is a culture that may be characterised as highly individualistic and highly masculine, hence as a culture in which “personal achievement” is highly valued. Japan, on the other hand is a highly collectivistic, masculine country. The Dutch values may be summarised as individualistic and feminine. In table 6.16 the results of the overall cultural comparison (using three countries) and three pair wise comparisons (each using two countries) are presented. The table contains the *p*-values of the comparisons, using non-parametric statistics. The comparisons are based on the difference in IP–EP and EN–IN of the three countries as have been reported in table 6.15. For example, the *p*-value of 0.489 is based on a comparison of 1.24 versus 0.97, of the US and Japan, respectively (see table 6.15). The figure (i.e. *p*-value) suggests that, when looking at frequency measures, the IP–EP difference of the two countries are not significantly different from each other. Hence, this implies that the US and Japan are not significantly different with respect to self-enhancement (when looking at frequency measures).

All effects					
<i>Panel A – Data excluding leveraged effects</i>					
		Overall	US-JP	US-NL	JP-NL
Positive effects	<i>Frequency</i>	0.439	0.489	0.488	0.211
	<i>Proportional</i>	0.040	0.067	0.014	0.421
Negative effects	<i>Frequency</i>	0.000	0.034	0.008	0.000
	<i>Proportional</i>	0.001	0.261	0.013	0.000
<i>Panel B – Data including leveraged effects</i>					
		Overall	US-JP	US-NL	JP-NL
Positive effects	<i>Frequency</i>	0.680	0.590	0.678	0.400
	<i>Proportional</i>	0.033	0.080	0.011	0.309
Negative effects	<i>Frequency</i>	0.000	0.056	0.007	0.000
	<i>Proportional</i>	0.002	0.605	0.009	0.001
Overall comparison based on a Kruskal-Wallis test (<i>p</i> -value)					
Pair wise comparison based on a Mann-Whitney test (<i>p</i> -value)					
<i>For underlying averages see table 6.15</i>					

Table 6.16 Cross-cultural differences in self-serving attributional biases

Such comparisons may be used to provide answers to propositions 3 and 4. Turning our attention to self-enhancement first (hence, propositions 3a and 4a), we observe that we have to make a distinction between the frequency data and the proportional data. In terms of average number (hence, frequency data) we do not detect any significant cultural difference between any of the three countries. That is, as no *p*-value is equal or lower as 0.10, we have to conclude that the average difference IP–EP is the same for all three nations, notwithstanding that it is the lowest in Japan (see table 6.15). However, the proportional data, which express the relative use of attributional tactics, do indicate the presence of cultural differences. The figures in table 6.16—representing *p*-values based on a non-parametric comparison of IP–EP—suggest that in letters from Japanese (a collectivistic, high-achievement oriented culture) and the Netherlands (an individualistic, low-achievement oriented culture) the use of external, positive attributions is more prevalent than in U.S. (an individualistic, high-achievement oriented culture) letters. These results are (partially) in line with propositions 3a and 4a. In partial support of proposition 3a, which stated that the use of external-positive causal attributions is greater in group-oriented, collectivistic cultures, such as Japan, than in individualistic cultures, such as the United States and the Netherlands, we find that American managers compared to their Japanese colleagues show more

elaborate self-enhancing tendencies. The difference in the proportion in which positive outcomes are explained internally compared with the proportion that is ascribed in external terms is significantly larger for the American CEOs than for the Japanese CEOs. In table 6.15 we saw that the difference in locus of causality, based on proportional data, for the United States is almost 75% compared to 58% for the Japanese. The inclusion of “in spite of”-statements (see Panel B), which are predominantly used in enhancing ways, does not influence the outcomes. However, in contrast with proposition 3a we do not detect a significant difference between the Dutch (an individualistic, feminine culture) and the Japanese (a collectivistic, masculine culture) with respect to self-enhancing tendencies. On the other hand, the Dutch tend to make less self-enhancing than their American colleagues. This finding is in line with proposition 4a, which stated that the use of internal-positive causal attributions is greater in masculine, achievement-oriented cultures, such as Japan, and the United States, than in more feminine oriented cultures, such as the Netherlands. Indeed, in table 6.15 we observed that, when looking at the proportional measures, the Dutch showed the smallest tendency to self-enhance (IP–EP difference is 50%). Taken together these results not only indicate that, as expected, there is an East-West difference—i.e. Japan versus the United States—regarding the use of self-enhancing attributions, but also, and more surprisingly, that the use of self-enhancing attributions differs among western cultures. In the next section we will investigate whether differences in masculinity-femininity are able to account for this difference.

Propositions 3b and 4b relate to self-protection. If we investigate the self-protecting tendencies based on the EN–IN differences, we see—in a simultaneous analysis of all three nations—a significant cultural effect (p -values < 0.010). Irrespective of frequency or proportional data we notice that Dutch managers compared to their American and Japanese counterparts use significantly different tactics to explain bad news: a self-protecting tendency is completely absent when they account for negative outcomes in their letters to the shareholders. Previously, in table 6.15, we observed that the average difference EN–IN for the Dutch was almost equal to zero in case of frequency data and was even negative in case of proportional data. The managers from the other two countries, on the other hand, do show self-protecting tendencies. If we look at the difference in locus of causality based on the average numbers (hence frequencies) we see a slightly significant ($p < 0.100$) difference between Japan and the United States. However, if we take the relative use of the different attributions into account and look at the difference in the proportional use of external and internal factors to explain negative effects the difference between the Japanese and the American managers disappears. In sum, we can conclude the following regarding propositions 3b and

4b. First of all, in sharp contrast with proposition 3b, which stated that the use of internal-negative causal statements should be most prevalent in a collectivistic-oriented culture as Japan, we find (see tables 6.15 and 6.16) that its use is in fact the smallest of all three countries. This also explains why the amount of self-protection is the largest in the Japanese letters (although not significantly different from the United States). In the discussion section (6.2.5) we try to explain this rather unexpected result. On the other hand, proposition 4b is strongly supported: we found significant evidence that both the Japanese and American managers (two high-achievement oriented cultures) refer to a greater extent to external causes to explain negative outcomes than do their Dutch colleagues. This also accounts for the absence of self-protection among the Dutch, which significantly deviates from the Americans and the Japanese (see tables 6.16).

Accounting effects (sales, profits, and costs)					
<i>Panel A – Data excluding leveraged effects</i>					
		Overall	US-JP	US-NL	JP-NL
Positive effects	<i>Frequency</i>	0.463	0.681	0.739	0.518
	<i>Proportional</i>	0.121 [#]	0.078	0.059	0.778
Negative effects	<i>Frequency</i>	0.005	0.212 [#]	0.013	0.003
	<i>Proportional</i>	0.003	0.445	0.002	0.004
<i>Panel B – Data including leveraged effects</i>					
		Overall	US-JP	US-NL	JP-NL
Positive effects	<i>Frequency</i>	0.852	0.851	0.702	0.575
	<i>Proportional</i>	0.092	0.090	0.038	0.538
Negative effects	<i>Frequency</i>	0.005	0.285 [#]	0.059	0.003
	<i>Proportional</i>	0.002	0.203	0.001	0.007
Overall comparison based on a Kruskal-Wallis test (<i>p</i> -value)					
Pair wise comparison based on a Mann-Whitney test (<i>p</i> -value)					
[#] Cultural difference disappears after elimination of non-accounting items					
Table 6.17 Cross-cultural differences in self-serving attributional biases (accounting effects)					

Limiting ourselves to real accounting effects (that is to causal statements regarding sales, profits, or costs) produces marginally different results as becomes evident in table 6.17. A “#” in table 6.17 marks the changes in cultural differences due to the elimination of non-accounting items. The most important difference is, if we confine ourselves to accounting effects, that the American and Japanese managers are no longer different with respect to the amount in which they engage in self-protecting tendencies. Previously, when we looked at all effects, we observed that they differed in the extent of self-protection based on frequency

measures, whereas we did not detect differences between the United States and Japan based on proportional or relative use. For the remainder, the cultural differences found with respect to the extent to which managers from the United States, Japan, and the Netherlands make use of self-enhancing and self-protecting attributional biases still hold.

6.2.4 Discussion

More than 15 years ago Bruce (1987) observed that (American) letters to the shareholders are notorious for adopting optimistic attitudes and presenting euphemistic descriptions of company results and prospects. Direct evidence supporting his remark was provided by the findings of Bowman (1976), Bettman and Weitz (1983), Staw *et al.* (1983), and Salancik and Meindl (1984). These researchers all found that CEOs tend to take credit for good outcomes in their letters, but deny responsibility for bad results. Since Bruce's observation other researchers confirmed that CEOs show self-serving tendencies when they explain organisational results in their letters to the shareholders (e.g. Clapham and Schwenk, 1991; Schwenk, 1993; Aerts, 1994; Clatworthy and Jones, 1999; Tsang, 2002). These findings, with the exception of Tsang (2002), have all been obtained in a western context. Recent social-psychological literature, however, suggests that tendencies to remember success better than failure, to reconstruct history in self-flattering ways, to see oneself as above average, to internalise favourable outcomes and externalise unfavourable ones (Johns, 1999) may be more typical behaviour for people from western cultures than for people from eastern cultures; a topic we addressed more in detail in section 4.1. Indeed, social-psychological research confirms this cultural difference: though people from the East are not completely free of the self-serving attributional bias, they do tend to engage in it in smaller amounts than individuals from the West. Most of the studies that revealed the East-West difference have used undergraduates who participated in some experiment. Consequently, the results of those studies may be criticised as being "due to researchers' assigning target variables that are inconsequential to Asians" (Harrington and Liu, 2002: 39; see also Heine *et al.*, 2000). This problem is aggravated, as the results of the various researchers are sometimes conflicting. In this study we examined attributions from a naturally occurring source: the letter to the shareholders. According to Hallahan *et al.* (1997: 771) the major advantage to this approach is "that researchers can observe unsolicited attributions for actual behaviours that are meaningful to the person making the attributions. [Hence, it] nicely complements and extends experimental research."

Study	Country	% IP of positives	% EN of negatives
This study	US, JP, NL	80%	62%
Tsang (2002)	Singapore	78%	64%
Aerts (1994)	Belgium	79%	48%
Salancik and Meindl (1984)*	US	83%	80%
Staw et al. (1983)	US	70%	75%
Bettman and Weitz (1983)	US	60%	73%

* Estimation based on data provided in paper

Table 6.18 Comparison findings of this study with previous studies

In general, the pattern of attributions managers make for positive and negative results are in complete agreement with previous studies looking into self-serving attributional biases in letters to the shareholders (see table 6.18). In this study we as well find overwhelming evidence that managers tend to take credit for good outcomes and lay blame on the environment for disappointing results (the Dutch, however, assume and shift away blame for disappointing results in similar amounts). This confirms propositions 1 and partially 2 (the Dutch are the exception). We find that on average around 80% of the positive effects is attributed internally. Unfavourable outcomes, on the other hand, are generally speaking blamed on the environment: in only 38% managers refer to some internal cause to account for the deterioration in performance. For example, Bettman and Weitz (1983) in their study of 181 American letters to the shareholders found that the proportion of favourable outcomes attributed to internal causes is 60% while 73% of the unfavourable outcomes are ascribed externally. Staw and colleagues (1983), in their study of 81 letters from the United States, found comparable percentages of 70% and 75% for the positive and negative outcomes, respectively. In the most recent study published on self-serving behaviour in accounting narratives Tsang (2002), using a sample of Singaporean letters to the shareholders, finds a proportion of favourable outcomes attributed to internal causes of 78% and a proportion of unfavourable outcomes attributed to external causes of 64%. In sum, corroborating the findings of previous studies, we find as well that managers

display strong tendencies to credit themselves for positive outcomes and blame negative effects on the environment.

After having determined that managers from all countries tend to explain organisational results in a way that serves the self, we subsequently examined the data for possible cultural differences in the extent to which managers from the three cultures show the bias. The results of the analysis in view of the first four propositions are provided in table 6.19 below.

Hypothesis	Confirmed
1. Self-enhancement	ç
2. Self-protecting	Partial
3a. Self-enhancement and self vs group orientation	Partial
3b. Self-protection and self vs group orientation	Not
4a. Self-enhancement and emphasis on achievement	ç
4b. Self-protection and emphasis on achievement	ç
ç Proposition is supported	

Table 6.19 Preliminary results and confirmation of propositions 1 to 4

Regarding the tendency to internalise favourable results, we find—in support of proposition 3a—that, compared to the American CEOs, Japanese CEOs are significantly less inclined to engage in self-enhancement, although they are not free from it. This result is largely in line with the growing body of social-psychological studies of the past decade, which indicate that self-enhancement is attenuated in Asian cultures (Kitayama *et al.*, 1997; Semin and Zwier, 1997; Heine *et al.*, 1999). The findings regarding the Dutch managers seem at first sight surprising (and in contrast with proposition 3a). Relatively speaking, they showed the smallest degree of self-enhancement (though not significantly smaller than the Japanese). This result suggests that even among western cultures differences in the amount of self-enhancement arise. Indeed, in one of the few studies comparing western nations, Nurmi (1992) found the Dutch and Finnish participants to show smaller self-enhancing tendencies than their American counterparts. A possible explanation, as the countries are not different with respect to the construal of the self (hence, individualism), may be related to differences in masculinity and femininity. Previously, we saw that in the Dutch and the Finnish cultures achievement-oriented values are of less importance than in the American culture. It is possible that people’s attributions are different depending on their more masculine or feminine cultural background (de Mooij, 1998).

Regarding negative outcomes, we found evidence of self-protection among American and Japanese managers. The Dutch CEOs, in line with Aerts' (1994) findings among a sample of Belgian letters, did not show tendencies to self-protect when results are unsatisfactory. The most surprising result, however, concerns the strong tendency to externalise bad organisational outcomes among the Japanese managers. Relatively speaking they showed the strongest tendency to self-protect. This finding seems in sharp contrast with previous social-psychological findings, in which evidence of smaller amounts of self-protection and even self-deprecation was found. Consequently, we had to reject proposition 3b. There are two possible interpretations of our results. The first involves the Asia Crisis that affected the Japanese companies more severely than the companies in the Western nations (Harrigan, 2000). The crisis was an internationally recognised and widely discussed phenomenon and is likely to have gained some legitimacy as a causal factor in the failure of Japanese firms. Indeed, the observation that Japanese firms chose to externalise the bad results in a time of crisis is in line with Kelley's (1971a) augmentation principle. Based upon this principle it is expected that if unfavourable outcomes are experienced in an economically bad year, managers are likely to refer to one of the many potential external reasons for the disappointing results. In both Bettman and Weitz's (1983) and Tsang's (2002) studies evidence supporting the augmentation principle in the financial reporting-context was found. In the next section we will examine whether the augmentation principle is valid in a cross-cultural context. An alternative—or maybe additional—way to interpret our results relate to the sample. Previous social-psychological research has relied on undergraduates and it is possible that the findings are not generalizable. Hence it may be possible that cultural differences in self-serving behaviour fade away over time and that managers do no longer show behaviours that are considered typical for the cultural-context in which they operate. Indeed, Heine *et al.* (1999: 787) leave room for that possibility. They comment that “it may be the case that in situations in which Japanese are in positions of leadership or near the top of a hierarchy they may self-enhance and be motivated to believe that they have the requisite skills and abilities to fulfil their roles and to take care of their subordinates. Thus, we might expect that seniors at schools would demonstrate more self-enhancement than freshmen, full professors more than assistant professors, and older sisters more than younger brothers. Likewise, we may find that there are phases in life in which one is more likely to be in positions higher in the hierarchy; namely, old age, and this period may be associated with more self-enhancement and less self-criticism. [Typically social-psychological] studies have been conducted with undergraduates, and the relative lack of self-enhancement [and the tendency toward self-criticism] among the Japanese may

reflect their lower position in the hierarchy due to their youth. That a cardinal tenet of Confucianism is to respect the elderly suggests that Japanese gain esteem from others as they age. Japanese youth may be making payments in humility and effacement until they reach the age that they can retire from self-criticism and finally accrue feelings of esteem and respect from others. Thus, Japanese self-improving motivations to become better may reflect a comparable desire for positive self-regard, and this desire is satisfied by knowing that one is working toward securing this regard in the future.” A related argument, in which self-serving tendencies are linked with power, has been recently advanced by Lee and Tiedens (2001: 51-52). These authors argue that self-serving biases are “more prevalent among high power than low power individuals. People with high socioeconomic status generally have higher self-esteem and self-confidence than people in low socioeconomic status. Also, people in high power positions are more likely to rate themselves as more competent, more likeable, more desirable, and better looking than people in lower power positions. When things go wrong, people in high power positions are less likely to take personal responsibility and blame themselves than people in lower power positions.” Although we cannot fully discount the effects of the Asia Crisis, we tend to favour the interpretation that—at least Japanese—managers maybe less inclined to self-efface than undergraduates. This preference is linked to Tsang’s (2002) recent study of letters to the shareholders of Singapore companies in a period preceding the Asia Crisis—a country with a similar collectivistic orientation as Japan—in which he too found strong tendencies to blame negative outcomes on the environment. In the next section we examine which factors, apart from culture, may explain differences in self-serving attributional biases in accounting narratives.

6.3 Determinants of self-serving attributions: Propositions 5 to 10

6.3.1 Introduction

Thus far we observed that American, Dutch, and Japanese managers use self-serving attributions to explain organizational outcomes in their letters to the shareholders. That is, they tend to internalize good outcomes and externalize bad ones. Furthermore, the preliminary analyses of section 6.2 reveal the presence of cultural differences among the three countries. In this section we investigate what factors, apart from culture, influence the tendency to engage in self-serving attributions. It draws on the discussion in the previous chapter in which we identified possible determinants, such as stability of firm performance, CEO tenure, firm size, etc., that may exacerbate or attenuate self-serving tendencies.

Before formally testing propositions 5 to 10 via two forms of regression (count regression and ordered logit regression), we first deal with how we have operationalized our independent variables in section 6.3.2. In that sub-section we also discuss how we checked the data for multicollinearity. In subsection 6.3.3 we present our results regarding the two models, which are discussed in subsection 6.3.4.

6.3.2 Independent variables

In section 5.1 we described how organisational and CEO-related circumstances might affect the amount of self-serving attributions in letters to the shareholders. Apart from CEO-tenure we also hypothesised on the possible impact of so-called performance- and structure-related variables. Below we address how we have operationalized these independent variables. Descriptive statistics and tests for multicollinearity follow this presentation.

Firm performance—Firm performance is measured by sales, net income, net sales margin (calculated as: net income/sales), return on assets (ROA, calculated as net income/total assets), and earnings per share (as expressed in the company's reporting currency). These measures, which represent indicators of short-term financial performance, have been frequently used in previous accounting and management research (e.g. Salancik and Meindl, 1984; Gomez-Mejia *et al.*, 1987; Abrahamson and Park, 1994; Aerts, 1994; Barlow, 1996). An additional consideration was that all firms include information on sales, net income and earnings per share in their annual reports, while net sales margin and ROA can be easily determined from annual report information. Furthermore, the Worldscope database includes information on all these variables. For each year that was coded, we determined the relative change on a one-year period. That is, we used a growth index representing the change in this year's performance compared to previous fiscal year's performance. Three of the five measures are used to determine whether the firm experienced a good year (with a rising performance trend) or a bad year (with a declining performance trend), *viz.*: net sales margin, return on assets, and earnings per share. The first two measures, net sales margin and ROA, say something about the quality of the results. More specifically, they reflect the profitability/efficiency of the company (Salancik and Meindl, 1984). Earnings per share, on the other hand, plays an important role on capital markets as it reflects a company's investment/capital market potential (Salancik and Meindl, 1984). A year was considered "good" if (at least) two out of the three measures showed positive growth. Similarly, it was considered "bad" if two measures declined. Hence, firm performance was measured as a dummy, with "0" representing a bad

year and “1” a good year. Out of the 278 company observations, 137 concerned bad years, i.e. years in which the company (had to) report a deterioration in company performance. The other 141 observations were coded as being a good year.

Stability of performance—Similar to Salancik and Meindl’s (1984) we calculate coefficients of variation to measure the stability of a firm’s performance. It is determined by dividing the standard deviation by the mean, which assures that differences in scales or magnitudes are taken into account (Madsen and Moeschberger, 1986). Each firm’s mean and standard deviation are computed for the three performance indicators mentioned above—net sales margin, ROA, and earnings per share (raw performance, not growth index)—using Worldscope data from 1994 to 2000 (which comprised our sample period). Hence, stability in firm’s performance is based on a seven-year time frame. Subsequently, for each performance measure the deviation from the overall (and/or country) average was determined for each firm. If the firm scored negative (implying a variation below average) on two out of the three measures, the firm is classified as stable and is scored “0”. If the firm scores positive (implying a variation above average) on two out of the three measures, the firm is given the score “1”, implying that it is seen as a firm with unstable performance. This procedure resulted in 71 firms that have stable performance, while the other 68 companies are considered unstable ones.

Firm size—Especially researchers from the positive accounting tradition have looked into the effect of firm size on amongst others financial disclosures quantity (e.g. Hagerman and Zmijewski, 1979; Holthausen and Leftwich, 1983; Lang and Lundholm, 1993; Lewellen *et al.*, 1996; Ichausti, 1997), with mostly confirmatory results (Ahmed and Courtis, 1999). The idea is that larger firms are more visible and, consequently, more likely to be subject of a political process. Firms respond to this greater scrutiny by increasing the amount of disclosure in their financial reports. In this study we pay attention to possible size effects as well. In order to assert the influence of size three proxies were used namely: total assets, sales and market capitalization. Fiscal 1997 was used as our base-year as it is exactly in the middle of the sample period. Furthermore, like many researchers before us did, we use the natural logarithm form of the variables in order to get around the problem of heterocedasticity (e.g. Hackston and Milne, 1996; Ichausti, 1997; Patten and Nance, 1998; Ahmed and Courtis, 1999; Aerts, 2001).

Influence of large shareholders—Recently, La Porta *et al.* (1999) have observed that since Berle and Means the corporate world has changed significantly.

Dispersed ownership—which Berle and Means had in mind when their book was published—no longer seems to characterise the contemporary corporate world: in many countries corporations have large shareholders. This is an important observation as previous research suggests that shareholders who control 5% or more of the firm's stock have significant influence in the corporation and form a group with which management has to reckon (Gomez-Mejia *et al.*, 1987; Tosi and Gomez-Mejia, 1989; Abrahamson and Park, 1994; Lewellen *et al.*, 1996; Wade *et al.*, 1997). Not only does it seem that these large shareholders, in comparison with private investors are more motivated to monitor management more actively, in addition, they are also in the position to effectively do so. Therefore, it seems important to include the presence of large shareholders as independent variable in the analysis. Like La Porta *et al.* (1999) we rely on Worldscope data to identify possible large shareholders. Again fiscal 1997 formed our base year, although in some cases we had to use other years due to data availability. However, “since ownership patterns tend to be relatively stable, the fact that the ownership data do not all come from the same year is not a big problem” (La Porta *et al.*, 1999: 475). In addition, the internet (for proxy statements of American companies) and other bibliographical sources were consulted as well. Originally, we tried to follow a procedure similar to Gomez-Mejia *et al.* (1987) who included shareholder control as dummy variable. More specifically, a firm was designated as owner-controlled—implying the presence of least one large shareholder—if 5 percent or more of the outstanding stock was in the hands of one individual or organisation that was not involved in actual management of the company. A firm was given the code “0” if there was a large shareholder; otherwise it was coded “1”. However, as only 2 out of the 139 firms did not have a major shareholder, we decided to include the percentage of the largest controlling block in the analysis instead.

CEO tenure—A number of studies have hypothesised a link between CEO-tenure and self-serving attributional behaviour in letters to the shareholders (Staw *et al.*, 1983; Schwenk, 1993; Barker and Patterson, 1996; Barlow, 1996). The results, however, are still inconclusive, while the underlying rationales are difficult to reconcile as well. In this study we make a distinction between a CEO who is in his first term and more experienced CEOs, and expect attributions to differ accordingly. In order to test the effect of CEO-change we use a dummy variable. The dummy variable is assigned the value of “1” if it is the CEO's first year in office; that is, if he was appointed during the fiscal year being examined. In all other cases the dummy is given the value of “0”. Information on CEO appointment was derived from annual reports. 53 Of the 278 observations concern years in which the firm experienced a change of CEO. That is, in almost 20% of the letters

to the shareholders we analysed it was the first time that a CEO drew up the letter. In the other 225 letters it was a sitting CEO who spoke. In previous studies CEO-tenure has been measured as the number of years the CEO has held his position (e.g. Staw *et al.*, 1983; Schwenk, 1993; Westphal and Zajac, 1994; Barlow, 1996; Wade *et al.*, 1997). The idea is that the longer a CEO has held his post the greater his power, the more immune he becomes to outside influence and performance problems (Hambrick and Fukutomi, 1991; Hill and Phan, 1991; Ocasio, 1994; Westphal and Zajac, 1994; Wade *et al.*, 1997) and the less he has to fear that he is forced to step down (Staw *et al.*, 1983; Barlow, 1996). Whereas most previous studies looked at the number of years per se, in this study, however, we used a dummy variable to include CEO tenure into the analysis. More specifically, we dichotomised between CEOs who were in office three years or less (in which case it was coded “0”) and CEOs who were in office more than three years (in which case it was given the value of “1”). This choice of using three years as a sort of cut-off point was based on Frederickson, Hambrick and Baumrin (1988) and Allgood and Farrell (2000). Frederickson *et al.* (1988) observed that especially in the first three years newly appointed CEOs experience a period of extreme vulnerability, evidenced by “the disproportionate number of CEOs whose tenure lasts three years or less” (1988: 258). Similarly, Allgood and Farrell (2000) found the most CEO turnovers to take place in those early years. In our sample almost half (139) of the CEOs who drew up a letter to the shareholders are considered experienced and are coded “1”. The other 137 observations concern letters that have been written by relatively inexperienced CEOs, i.e. those who were in office for less than three years.

Economic conditions—Previously we asserted that in order to remain credible management might be inclined to provide explanations that fit the fact to a certain extent. We also saw that general economic conditions form an important contextual factor which may limit the possibility to overly use self-serving attributions and that it is likely that management’s explanations for organisational outcomes will reflect information on these conditions. Indeed, previous studies looking into self-serving attributional biases in letters to the shareholders assessed the impact of this information on self-serving attributions (Bettman and Weitz, 1983; Salancik and Meindl, 1984). In this study we also measured possible effects of general economic conditions. Two national economic indicators relevant to corporations and previously used in Bettman and Weitz’s (1983) and Salancik and Meindl’s (1984) studies were included in the analysis: gross national product and stock market indices. For each year—that is: 1994 to 2000—and country, the relative growth was calculated for each measure based upon information from the

OECD and Datastream. In the actual analysis we used dummy variables to indicate whether a corporate performance was experienced in favourable or unfavourable economic conditions. If both indices showed a declining trend, the concerning year was designated unfavourable and was scored “0”. If the trend for both indicators was upwards, it was coded “1” implying that the year was favourable. Table 6.20 displays the outcome of this procedure for our sample period.

Year	US	JP	NL
1994	1	1	1
1995	0	1	0
1996	1	1	1
1997	1	1	1
1998	1	0	1
1999	1	0	1
2000	1	1	1
2001	0	0	0
“0” Year is considered unfavourable			
“1” Year is considered favourable			

Table 6.20 Favourability of the economy (based on GDP and stock index)

Culture—Cultural values for each of the three countries have been obtained from Hofstede (2001). A country’s cultural values for dimensions of Individualism, Masculinity, Power distance, Uncertainty avoidance, and Long-term versus short-term orientation have been used as proxies for the culture in which the firm’s head office is based. It means that cultural values of all companies from a single country will be the same. A similar approach has been used in other, related studies (Gray and Vint, 1995; Zarzeski, 1996; Jaggi and Low, 2000). Below we reproduced Hofstede’s indices of cultural values for the three countries of interest (see table 6.21). It is important to note that “the country scores on the five dimensions do not provide *absolute* country positions, but only their positions *relative* to the other countries in the set” (Hofstede, 2001: 36). That is, they indicate whether a certain cultural trait is, relatively speaking, more or less valued in a country than in another. Thus, Hofstede’s value indices are measures of differences only (Hofstede, 1997a: 25). The value indices are measured on a scale of 0 to 100, where 0 indicates a small preference for a cultural trait and 100 a high preference.

In the table we also reproduced (in parentheses) the original ranks of the countries in Hofstede’s study among 53 countries.⁹

Cultural index	US		JP		NL	
Individualism (IDV)	91	(1)	46	(22)	80	(4)
Power distance (PDI)	40	(38)	54	(33)	38	(40)
Uncertainty avoidance (UAI)	46	(43)	92	(7)	53	(35)
Masculinity (MAS)	62	(15)	95	(1)	14	(51)
Long-term orientation (LTO)	29	(17)	80	(4)	44	(10)

Table 6.21 Country scores on Hofstede’s value indices

Descriptives and multicollinearity

Table 6.22 below displays some basic descriptive statistics regarding the independent variables such as the mean, minimum, maximum, and standard deviation. It is followed by a table (6.23) in which the correlation coefficients are reproduced.

⁹ The fifth dimension, long-term versus short-term orientation, was obtained in a later study among 23 countries.

Variable	Description	Mean	S.d.	Min	Max
<i>Company-specific variables</i>					
Perform	Dummy variable coded 1 for year in which performance improved (based on net sales margin, EPS, and ROA) and 0 if performance deteriorated	0.51	0.50	0	1
Stable	Dummy variable coded 1 for firms with stable performance in period 1994-2000 (based on coefficients of variation for net sales margin, EPS, and ROA) and 0 if unstable	0.51	0.50	0	1
Salesln	The natural logarithm of “97 sales (in USD)	15.37	1.59	9.14	18.97
Assetsln	The natural logarithm of “97 total assets (in USD)	15.25	1.69	10.07	19.43
MCln	The natural logarithm of “97 market capitalisation (in USD)	15.10	1.69	10.67	18.70
Share	Dummy variable coded 1 for firms in which there is at least one blockholder (a shareholder who owns 5 percent or more of the company’s shares) and 0 for other firms (based on “97 figures)	0.98	0.12	0	1
Block	Percentage of shares owned by the largest blockholder	0.14	0.15	0.00	0.70
CeoNew	Dummy variable coded 1 for fiscal year in which there is a new CEO (i.e. year in which a CEO writes the letter for the first time) and 0 for years with no change of CEO	0.19	0.39	0	1
CeoExp	Dummy variable coded 1 for years in which the current CEO has held office for three or more years and 0 otherwise	0.50	0.50	0	1
<i>Country-specific variables</i>					
Econ	Dummy variable coded 1 for fiscal year in which general economic conditions have been favourable (based on GDP and stock index figures) and 0 if they have been unfavourable	0.71	0.46	0	1
IDV	A measure for the degree of individualism in a country’s culture (on a scale of 0-100)	71.40	20.13	46.00	91.00
MAS	A measure for the degree of masculinity in a country’s culture (on a scale of 0-100)	62.26	31.48	14.00	95.00
PDI	A measure for the degree of power distance in a country’s culture (on a scale of 0-100)	44.74	7.22	38.00	54.00
UAI	A measure for the degree of uncertainty avoidance in a country’s culture (on a scale of 0-100)	64.97	21.11	46.00	92.00
LTO	A measure for the degree of long-term orientation in a country’s culture (on a scale of 0-100)	51.86	22.56	29.00	80.00

Table 6.22 Definition and descriptive statistics of independent variables

As is obvious from table 6.23 there are a number of cases of high collinearity. The first group of variables with high collinearity concerns market capitalization, sales, and total assets. This seems logical, as the three measures are proxies for firm size. In subsequent analysis we use (the natural logarithm of) total assets to control for firm size. The other cases of high collinearity occur between the cultural proxies, which can be ascribed to the small number of countries represented in this study. With respect to individualism, power distance, uncertainty avoidance, and long-term versus short-term orientation we even observe (almost) perfect correlations (which in case of individualism on the one hand and power distance, uncertainty avoidance, and long-term versus short-term orientation is negative). Given these perfect correlations we had to omit three of these four cultural proxies, in order to avoid problems due to singularity. In the analysis we include individualism only. With respect to the relationship of masculinity on the one hand and the other four cultural proxies on the other, we observe moderate collinearity ($r > 0.60$). To ensure that no severe multicollinearity exists, we obtained the variance inflation factors (VIFs) for all independent variables, which tell us the degree to which an independent variable is explained by the other independent variables. Only two of the original independent variables—power distance, uncertainty avoidance and long-term versus short-term orientation were already omitted—namely the size proxies had VIFs larger than 10, which according to Hair, Anderson, Tatham and Black (1998) is a common cutoff threshold. All other VIFs are lower than five. A similar result is obtained by another test for multicollinearity, which is based on the variance-decomposition matrix and condition indices (see Hair *et al.*, 1998). This procedure yields the same results. From the foregoing tests, which resulted in the omission of three cultural proxies (namely long-term versus short-term orientation, power distance, and uncertainty avoidance) and two size proxies (total sales and market capitalisation), we are not concerned about making incorrect inferences due to multicollinearity.

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Market Capitalisation ^a														
2. Total Assets ^a	.85**													
3. Sales ^a	.82**	.96**												
4. Firm performance	.02	.02	.02											
5. Major shareholder	-.03	-.09	-.09	.00										
6. Blockholding in %	-.04	-.13*	-.11	.01	.12									
7. Stability firm performance	.00	-.02	.00	.00	.00	.14*								
8. New CEO	-.15*	-.10	-.12*	-.16**	-.10	-.05	-.00							
9. CEO experience	.07	.04	.07	.02	.00	-.01	.09	-.49**						
10. General economic conditions	-.07	-.20**	-.16**	.11	.06	.09	.37**	-.07	.08					
11. Individualism	-.01	-.24**	-.19**	.01	.15*	.08	.48**	-.10	.13*	.69**				
12. Masculinity	.28**	.44**	.38**	-.02	-.13*	-.22**	-.30**	-.01	-.04	-.55**	-.66**			
13. Power distance	.13*	.35**	.29**	-.01	-.16**	-.14*	-.45**	.07	-.10	-.69**	-.95**	.87**		
14. Uncertainty avoidance	.04	.27**	.21**	-.01	-.16**	-.09	-.47**	.10	-.12*	-.70**	-.99**	.72**	.97**	
15. Long-term orientation	-.01	.23**	.17**	-.01	-.15*	-.06	-.48**	.11	-.13*	-.68**	-.99**	.63**	.93**	.99**

^aBased on natural logarithm

**Correlation is significant at the 0.01 level (2-tailed)

*Correlation is significant at the 0.05 level (2-tailed)

Table 6.23 Correlation coefficients independent variables

6.3.3 Testing of propositions 5 to 10

Introduction

In this study we use two sorts of regression to establish which factors induce managers to engage in self-serving attributional behaviour in their letters to the shareholders. We use discrete choice regression models in this study, as the nature of our dependent variables does not permit the use of ordinary least squares (OLS). First and foremost the distribution of the various dependent variables are highly skewed to the left, suggesting that the regression error terms are heteroscedastic. Consequently, “OLS estimates of parameters are inefficient and nominal significance levels associated with the test statistics may be unreliable” (Noreen, 1988: 121). In that case it is more appropriate to use specifically designed regression models that are able to capture the specific nature of our dependent variables. Firstly, we use count regression models (Cameron and Trivedi, 1998) to investigate whether the occurrence of IP, EP, IN, and EN varies across companies and/or cultures. Such models have been developed to deal with event counts; that is with the number of times a certain event occurs. An important characteristic of count data is that they can only assume non-negative and integer-valued numbers. In our case the event concerns the number of times a specific causal attribution (e.g. internal-positive) is mentioned in the CEO’s letter to the shareholders. In many cases, and in previous studies of letters as well, linear regression (such as OLS) has been used. However, according to both Long (1997) and Cameron and Trivedi (1998) treating count data as though they are continuous—which they are not—and applying linear regression “can result in inefficient, inconsistent, and biased estimates” (Long, 1997: 217). After discussing count regression models and applying them to our data, we discuss a model that is able to analyse dependent variables that have a limited number of possible values. Ordered logit regression is used to analyse whether company- or cultural-specific factors influence the likelihood of engaging in self-enhancement and self-protection. The results of the two models, in view of our propositions and previous studies, are discussed in section 6.4.4.

Model 1: Count regression

The content analysis used in this study has yielded data that refer to the number of times a certain type of causal attribution is used to account for outcomes in the CEO’s letter to the shareholders. After the content analysis we were able to say that, for example, company X has used 4 internal and 1 external attribution to account for positive results. Count regression models have been developed to

analyse such non-negative, integer-valued dependent variables (Cameron and Trivedi, 1998; Greene, 2000; Winkelmann, 2000). In our study we use count regression to determine which factors influence the counts of the various types of attributional statements. The count models are not suitable to analyse which factors determine the presence of self-serving attributional biases. For that analysis we use (ordered) logit regression models that are discussed subsequently.

The most basic form of count regression is the Poisson regression model (PRM) that is derived from the Poisson distribution, by allowing the intensity parameter μ to depend on the independent variables. One important characteristic of the Poisson distribution, and hence, underlying any Poisson count regression model, is that the expected value and the variance are equal to μ . More specifically, we can denote this relationship as follows:

$$E(Y_i | \mathbf{x}_i) = Var(Y_i | \mathbf{x}_i) = e^{\mathbf{x}_i \cdot \boldsymbol{\beta}} = \mu_i$$

where \mathbf{x}_i is a vector of independent regressors that are thought to influence Y_i , the number of counts, and $\boldsymbol{\beta}$ is a vector representing the coefficients. In the regression model, the exponential value of $\mathbf{x}_i \cdot \boldsymbol{\beta}$ is used in order to assure that the expected count is positive. Furthermore, the model assumes that the dependent variable, Y_i , is Poisson distributed:

$$f(Y_i | \mathbf{x}_i) = \frac{e^{-\mu_i} \cdot \mu_i^{Y_i}}{Y_i!}, \text{ with } Y_i = 0, 1, 2, \dots$$

Given equations 6.1 and 6.2 maximum likelihood procedures are used to obtain estimations of the $\boldsymbol{\beta}$'s. As stated Poisson models assume *equidispersion*, implying that the variance and the mean are equal. However, as is noted by Long (1997) and Cameron and Trivedi (1998), count data are usually overdispersed implying that the variance of the dependent variable exceeds the mean. The use of Poisson models if data are overdispersed yield estimates of $\boldsymbol{\beta}$'s that are consistent, but inefficient, while the standard errors are biased downwards, z-values to be spuriously large, and, consequently, to overestimate the significance of the regressors (Long, 1997: 230). In case of *overdispersion* the negative binomial regression model is more appropriate. This regression model uses the negative binomial distribution (NBRM), which allows the variance to exceed the mean. More specifically the negative binomial model assumes the variance to be a quadratic function of the mean:

$$Var(Y_i | x_i) = \mu_i + \alpha \cdot \mu_i^2$$

where α is the dispersion parameter. The dispersion parameter affects the shape of the distribution: the larger it becomes, the larger the variance of the distribution will be. Obviously, we have the Poisson distribution when $\alpha = 0$. Just like the Poisson distribution, the negative binomial model has an expected value that is equal to the intensity parameter, hence:

$$E(Y_i | \mathbf{x}_i) = e^{\mathbf{x}_i \cdot \boldsymbol{\beta}} = \mu_i$$

The count regression model which assumes that the dependent variable follows a negative binomial distribution, uses maximum likelihood to estimate the coefficients. For more mathematical considerations and derivations we refer to Cameron and Trivedi (1998), Greene (2000), and Winkelmann (2000) as those are beyond the scope of this study. As recommended by those authors we report the results of both the Poisson (PRM) and the negative binomial (NBRM) regression model to estimate regressors in the following model:

$$Y_i = \beta_0 + \beta_1 \cdot Perform + \beta_2 \cdot Stable + \beta_3 \cdot CeoNew + \beta_4 \cdot CeoExp + \beta_5 \cdot Size + \beta_6 \cdot Econ + \beta_7 \cdot Block + \beta_8 \cdot IDV + \beta_9 \cdot MAS$$

where Y_i = count of Z^+ , Z^- , IP, EP, IN, or EN.

Table 6.24 below displays the estimates from the Poisson and negative binomial regression models based on maximum likelihood estimation procedures. Panel A contains the estimates for the positive effects (hence Z^+ , IP, and EP), while Panel B displays the results for the negative effects (Z^- , EN, and IN). Additionally, the dispersion parameters (α) are reported as well, indicating that the various dependent variables are indeed overdispersed. In table 6.24 we first of all see that the two models yielded similar results. In most cases the signs of the coefficients (β 's) are the same, while the models essentially estimate the same coefficients to be statistically significant as well. Most striking is that the results presented in table 6.24 indicate that the type of performance the company has to report in a particular year (as measured by the dummy variable "perform") exerts

Panel A: Positive effects

	Z+		IP		EP	
	<i>PRM</i>	<i>NBRM</i>	<i>PRM</i>	<i>NBRM</i>	<i>PRM</i>	<i>NBRM</i>
Constant	0.19	0.47	0.47	0.30	0.26	0.33
Perform	0.59 ***	0.61 ***	0.48 ***	0.48 ***	0.92 ***	0.88 ***
Stable	0.12	0.12	-0.02	-0.04	0.51 **	0.41
CeoNew	0.17	0.22	-0.07	-0.11	0.32	0.34
CeoExp	0.30 ***	0.30 **	0.04	0.04	0.22	0.30
Size	0.03	0.04	0.04	0.05	0.10 *	0.06
Econ	-0.18	-0.04	0.02	0.03	0.03	0.06
Block	0.39	0.47	-0.47	-0.39	-1.45 **	-1.29
IDV	0.01 **	0.01	-0.00	0.00	-0.03 ***	-0.03 **
MAS	-0.01 ***	-0.01 *	-0.01 ***	-0.01 ***	-0.02 ***	-0.02 ***
α		0.68 **		0.70 *		1.65 *
-2lnLog	1281.36	1117.51	1088.88	952.00	513.36	465.93

Panel B: Negative effects

	Z-		IN		EN	
	<i>PRM</i>	<i>NBRM</i>	<i>PRM</i>	<i>NBRM</i>	<i>PRM</i>	<i>NBRM</i>
Constant	1.42	0.84	2.30 **	2.22	2.07 **	2.25 *
Perform	-1.18 ***	-1.15 ***	-1.30 ***	-1.37 ***	-1.21 ***	-1.16 ***
Stable	0.60 ***	0.70 **	0.49 **	0.38	0.45 ***	0.46 *
CeoNew	0.70 ***	0.59 *	-0.22	-0.33	-0.39 **	-0.36
CeoExp	0.41 **	0.24	-0.06	0.02	-0.08	-0.07
Size	-0.01	0.02	-0.03	-0.01	-0.04	-0.06
Econ	-0.05	-0.36	0.23	0.19	-0.23	-0.33
Block	0.33	0.01	-0.18	-0.03	-0.12	0.42
IDV	-0.03 ***	-0.02 *	-0.02 ***	-0.02 **	-0.02 ***	-0.01
MAS	0.00	0.00	-0.01 ***	-0.02 ***	0.00	0.00
α		1.64 **		1.08		1.47 *
-2lnLog	652.67	575.92	440.42	465.72	757.82	670.78

*** Coefficient (β) is significant at the 0.01 level

** Coefficient (β) is significant at the 0.05 level

* Coefficient (β) is significant at the 0.10 level

Table 6.24 Count regression results

the strongest influence on the counts of the various attributional statements. In all cases the reported β 's are not only highly significant with p-values < 0.01, but the

β 's are among the largest as well. Furthermore, we observe that stability, only affects the negative part of the attributional statements. The influence of culture (via individualism and masculinity) on the number of IP, EP, EN, etc. is noticeable as well: the β 's are in most cases statistically significant. As count regression models are non-linear models, there are not only various ways to interpret the results of the two count regression models, but we have to transform the reported coefficients as well to indicate the effect of the various independent variables. According to Long (1997) the percentage change in $E(Y_i | \mathbf{x}_i)$ and the discrete change in $E(Y_i | \mathbf{x}_i)$ are the most informative. The first, the percentage change, indicates that a unit change in a certain x_k , while holding all other variables constant at their mean value, will result in a change in the expected count by $100 \cdot (\exp(\beta_k) - 1)$ per cent. The discrete change, on the other hand, indicates the change in $E(Y_i | \mathbf{x}_i)$ due to a change in x_k from x_{MIN} to x_{MAX} , again holding all other variables constant. In that respect it expresses the maximum variability in the results due to the k^{th} variable. The percentage and discrete changes are reported in table 6.25 below. As the results of the two models are similar, we only report the percentage and discrete changes based on the negative binomial regression model. In table 6.25 below, Panel A displays the results for positive effects and Panel B those for the negative effects. The first column (labelled "sig") indicates whether coefficients are statistically significant or not. The second column (denoted "% \hat{e} ") reports the percentage change. That is, it presents the percentage increase or decrease in the number of counts as a result of a unit increase in the corresponding independent variable. The third column (marked "0 1") displays the discrete change in Y_i due to a change in a dummy variable from 0 to 1. The last column (named " \hat{e} range") presents the discrete change in the expected number of counts as a result from letting a continuous variable increasing from its minimum to its maximum value. In that respect it shows the total possible effect of a continuous independent variable on Y_i .

Panel A: Positive effects (based on NBRM)

	Z+				IP				EP			
	Sig.	% \hat{e}	0	1 \hat{e} range	Sig.	% \hat{e}	0	1 \hat{e} range	Sig.	% \hat{e}	0	1 \hat{e} range
Perform	***	83%	1.39	-	***	61%	0.75	-	***	142%	0.91	-
Stable	n.s.	13%	0.28	-	n.s.	-4%	-0.06	-	n.s.	50%	0.41	-
CeoNew	n.s.	24%	0.53	-	n.s.	-10%	-0.17	-	n.s.	40%	0.38	-
CeoExp	**	35%	0.68	-	n.s.	4%	0.06	-	n.s.	35%	0.30	-
Size	n.s.	4%	-	0.75	n.s.	5%	-	0.75	n.s.	7%	-	0.58
Econ	n.s.	-3%	-0.08	-	n.s.	3%	0.04	-	n.s.	6%	0.06	-
Block	n.s.	59%	-	0.82	n.s.	-32%	-	-0.39	n.s.	-73%	-	-0.72
IDV	n.s.	1%	-	0.65	n.s.	0%	-	-0.28	**	-3%	-	-1.36
MAS	*	-1%	-	-0.98	***	-1%	-	-1.22	***	-2%	-	-1.84

Panel B: Negative effects (based on NBRM)

	Z-				IN				EN			
	Sig.	% \hat{e}	0	1 \hat{e} range	Sig.	% \hat{e}	0	1 \hat{e} range	Sig.	% \hat{e}	0	1 \hat{e} range
Perform	***	-68%	-1.22	-	***	-75%	-1.50	-	***	-69%	-1.23	-
Stable	**	100%	0.71	-	**	47%	0.39	-	*	58%	0.46	-
CeoNew	*	80%	0.72	-	n.s.	-28%	-0.30	-	n.s.	-30%	-0.32	-
CeoExp	n.s.	28%	0.25	-	n.s.	-2%	-0.02	-	n.s.	-6%	-0.07	-
Size	n.s.	2%	-	0.22	n.s.	-1%	-	-0.12	n.s.	-6%	-	-0.59
Econ	n.s.	-30%	-0.40	-	n.s.	21%	0.19	-	n.s.	-28%	-0.36	-
Block	n.s.	1%	-	0.01	n.s.	-3%	-	-0.02	n.s.	-34%	-	-0.27
IDV	*	-2%	-	-0.92	***	-2%	-	-1.15	n.s.	-2%	-	-0.64
MAS	n.s.	0%	-	-0.36	***	-2%	-	-1.58	n.s.	0%	-	0.04

*** Coefficient (β) is significant at the 0.01 level

** Coefficient (β) is significant at the 0.05 level

* Coefficient (β) is significant at the 0.10 level

% \hat{e} Percentage change in $E(Y_i | x_i)$ due to one unit increase in x_k ; calculated as $100 \cdot (\exp(\beta_k) - 1)$, c.p.

0 1 Increase in $E(Y_i | x_i)$ (raw count) due to a change in x_k , dummy from 0 to 1, c.p.

\hat{e} range Increase in $E(Y_i | x_i)$ (raw count) due to a change in x_k , continuous from x_{MIN} to x_{MAX} , c.p.

Table 6.25 Percentage and discrete changes based on NBRM

The following picture arises from table 6.25 above. If we look at the positive attributional statements, it is obvious that the company's results (indicated by the dummy "perform") largely determines the counts of Z^+ , IP, and EP. Drawing up a letter to the shareholders in a good year—a year in which the company is able to present favourable performance—increases the expected number of Z^+ , IP, and EP

by, respectively, 1.39, 0.75, and 0.91, when compared to a year in which performance was unfavourable. Similarly, the number of negative attributional statements decreases along company's performance. A change in the dummy "perform" from 0 to 1, while holding all other variables constant, results in a decline in the expected counts of Z^- , EN, and IN with 1.21, 1.23, and 1.50, respectively. In a subsequent model we will investigate whether this performance variable is able to account for differences in self-serving tendencies as well.

The results reported in the table furthermore suggest that stability of performance only influences the negative component of attributional statements. We find that stability has a significant positive effect on Z^- , EN, and IN. This finding, which we discuss more in detail later, seems to be in line with Aerts' (1994) and Clapham and Schwenk's (1992) findings, but in contrast with Salancik and Meindl (1984). With respect to CEO-related factors (tenure and change) we fail to find any significant relationships (except for the number of positive unexplained effects that is positively related to whether a CEO is considered tenured or not). Regarding the positive attributional statements, and IP and EP in particular, the result is in line with previous research by Schwenk (1993) who content analysed 60 American letters to the shareholders. However, he also found a significant positive effect of tenure on the number of EN, suggesting that the longer the CEO has been with the company, the more likely it is that the annual report will contain external-negative attributions. A possible explanation for this difference may be that Schwenk measured CEO tenure as "the number of years the CEO had been employed in the company" (1993: 452), suggesting that years prior to his appointment as CEO were included as well, while we only looked at the number of years a person really served as a company's CEO in order to determine whether he is considered "tenured" or not. In line with Aerts (1994)—other studies did not look at this variable—we do not find company size (measured by the natural logarithm of total assets) to influence the number of any of the six forms of attributional statements we examined. The general economy does not seem to influence the various counts significantly. This result, however, has to be interpreted with care as in our sample period, comprising the years 1994 up to 2000, only 4 years were considered unfavourable. Generally speaking, the size of the blockholding a major shareholder controls does not influence the individual counts of Z^+ , Z^- , EP, IP, EN, or IN.

If we turn our attention to culture it is important to make a distinction between positive and negative effects. If we consider the positive explained effects first, we do not see an influence of individualism on the number of internal-positive statements in a letter to the shareholders, which confirms the results of the preliminary analysis. That is, we fail to find a significant East-West difference

with respect to IP. This result suggests that managements from eastern (Japan) and western cultures (US and the Netherlands) are equally inclined to credit themselves for positive results. With respect to external-positive attributions we find a significant negative effect. More specifically, the results suggest that every additional point on Hofstede's Individualism index results in a decrease by roughly 3% in the expected number of EP's present in a letter to the shareholders (holding all other variables constant). This difference is more striking if we compare the United States and Japan, which of the three countries have, respectively the highest and lowest IDV-score. The discrete change from varying IDV from its minimum to its maximum results in a decrease in the expected EP-count by 1.36. In line with previous research, and in support of proposition 3a (see also section 6.3.4), this result suggests that managers from the West, compared to their eastern colleagues, are less inclined to take the environment into consideration when they address favourable results. In the next model we will examine whether this also implies that self-enhancement—which is measured as the difference IP-EP—varies depending on Individualism (as one would expect). The results also point to a difference within the Western cultures with respect to the number of positive attributional statements. From table 6.25 above (Panel A) we see that every additional point on Hofstede's Masculinity-index yields a decrease of respectively 1, 1, and 2% in the expected number of Z^+ , IP, and EP. At first sight this effect is somewhat surprising as it indicates that letters of companies from the more masculine countries (i.e. Japan and the United States) contain a smaller amount of positive attributional statements. However, it is less surprising given the larger number of pages the Dutch reports on average comprised. Regarding the negative attributional statements, we can remark the following. First of all, we fail to find a significant effect of Individualism on the number of external-negative statements, which confirms the findings of our preliminary analyses (in which we failed to find a difference between the U.S. and Japan as well). This result indicates that managers, irrespective of whether they are from the East or the West, are equally inclined to blame the environment if performance was bad. We do, however, see an East-West difference with respect to the inclination to accept blame for a failure. If we hold all other variables constant and let IDV increase from its minimum (Japan) to its maximum (US), we see a decrease in the expected count of IN by 1.15 statement. That is, managers from the West, and the United States in particular, compared to eastern managers (i.e. Japan) use less internal statements to account for negative outcomes. Whether this implies that western managers show more self-protecting tendencies than their eastern counterparts is examined in model 2. We also observe, in conformity with our preliminary analyses, that masculinity has a negative effect on the expected

IN-count, implying that managers from masculine countries are less inclined to accept blame for a failure than those from feminine countries; which is in line with our previous findings supporting proposition 4b.

Model 2: Ordered logit regression

So far we have showed how company- and cultural-related factors influenced the use of specific types of attributional statements in letters to the shareholders. In model 2 we show how these same variables are likely to influence managers' use of self-serving attributional biases in their corporate stories. More specifically we use ordered logit models to analyse this. Such discrete choice models have been used in accounting studies, for example to investigate the relationships between accounting method choices and variables such as size and leverage (see Noreen, 1988 and Stone and Rasp, 1991 for overviews). An ordered logit model is a discrete choice model which may be used to analyse dependent variables that have a limited number of possible values. Furthermore, the ordered logit model assumes the dependent variable to be ordinally-scaled implying that it is possible to rank the outcomes in terms of "low" to "high", with distances between adjacent categories to be unknown. In order to apply ordered logit models to our data we transformed them in the following manner:

- 0 = No positive/negative outcome is addressed
- 1 = Positive/negative outcome is addressed, but no self-serving tendency is present
- 2 = Positive/negative outcome is addressed, self-serving tendency is present

The categories $Y=1$ and $Y=2$ are based on the following decision-rules: self-enhancement is present if $IP-EP>0$, while self-protecting implies $EN-IN>0$, hence $Y=2$; in all other cases Y assumes the value of "1".

The basic idea of ordered logit models is the estimation of thresholds or cutpoints, θ_j , from an unobserved continuous latent variable Y^* . The value on the observed variable Y (hence 0, 1, or 2) depends on whether or not you have crossed a certain threshold. For example, in case of self-enhancement, the observed value Y is related to the latent Y^* in the following manner:

$$Y = \begin{cases} 0 & \text{no positive effects} & \text{if } Y^* \leq \theta_0 \\ 1 & \text{positive effects, no self-enhancement} & \text{if } \theta_0 < Y^* \leq \theta_1 \\ 2 & \text{positive effects, self-enhancement} & \text{if } \theta_1 < Y^* \leq \theta_2 \end{cases}$$

In order to estimate both the threshold parameters, τ 's, and the regressor coefficients, β 's, information on the latent variable Y^* is used. Usually, Y^* is assumed to be the following function:

$$Y^* = x_i \cdot \beta + \varepsilon_i$$

Maximum likelihood techniques, which in our case assumes that ε_i has logistic distribution with $\mu = 0$ and $\sigma = 2/3$, are used to estimate the regression of Y^* on x_i (see Long, 1997 chapter 5 and Greene, 2000 chapter 19 for further details). In this study the following models are estimated:

$$\begin{aligned} Selfenh = & \beta_0 + \beta_1 \cdot Perform + \beta_2 \cdot Stable + \beta_3 \cdot CeoNew + \beta_4 \cdot CeoExp + \\ & \beta_5 \cdot Size + \beta_6 \cdot Econ + \beta_7 \cdot Block + \beta_8 \cdot IDV + \beta_9 \cdot MAS \end{aligned}$$

and

$$\begin{aligned} Selfpro = & \beta_0 + \beta_1 \cdot Perform + \beta_2 \cdot Stable + \beta_3 \cdot CeoNew + \beta_4 \cdot CeoExp + \\ & \beta_5 \cdot Size + \beta_6 \cdot Econ + \beta_7 \cdot Block + \beta_8 \cdot IDV + \beta_9 \cdot MAS \end{aligned}$$

The results of the ordered logit models with $\tau_0 = 0$ are displayed in table 6.26 below. The table is divided into three parts. The top part contains the estimates of the β 's. The middle part of the table reports the thresholds-values. The bottom part presents some general statistics with respect to the model (comparable to R-square figures for ordinary least squares). The information in this table can be used to estimate the probability that Y will take the value of 0, 1, or 2.¹ First of all, information about the signs and significance of the coefficients tell us that only the variables “perform” and the score on the masculinity index influence the probability of engaging in self-enhancement. Regarding self-protection, we observe that again “perform” and the score on the cultural value individualism affect the probability.

¹ In the models we have omitted the leveraged effects to estimate the regressors. In additional analyses we have, however, checked that the inclusion of such effects does not significantly affect the outcomes.

<i>Variable</i>	Selfenh (IP-EP>0)	Selfpro (EN-IN>0)
Perform	0.74 ***	-1.30 ***
Stable	-0.14	0.51 *
CeoNew	-0.14	-0.39
CeoExp	0.40	-0.23
Size	0.07	-0.09
Econ	-0.17	-0.40
Block	-0.42	-1,15
IDV	-0.01	-0.02 *
MAS	-0.01 *	0.00
<i>Thresholds</i>		
1	-0.67	-3.88
2	-0.07	-2.89
<i>General</i>		
-2lnLog	509.69	480.37
G ² (9 df)	18.34	41.35
p-value	0.031	0.000
*** Coefficient (β) is significant at the 0.01 level		
** Coefficient (β) is significant at the 0.05 level		
* Coefficient (β) is significant at the 0.10 level		

Table 6.26 Ordered logit regression results

Comparable with count regression, information about the coefficients does not tell us how those variables really affect Y. Here we can look at the discrete changes as well. These are provided in table 6.27 below. With ordered logit models, the discrete changes show the change in the predicted probability in Y assuming a certain state as a consequence of a change in x_k , while holding all other variables at a certain value. Furthermore it is important to note that, as the model is non-linear, “the value of the discrete change depends on (1) the level of all of the variables that are not changing; (2) the value at which x_k starts; and (3) the amount of change in x_k . Most frequently, each continuous variable except x_k is held at its mean” (Long, 1997: 136). Furthermore, the *average absolute discrete change* is reported as well, in table 6.27 this change is included under the column marked as “ $\overline{\Delta}$ ”. This measure summarises the effects by a variable x_k by computing the average of the absolute values of the changes across $Y=0$, $Y=1$, and $Y=2$. It shows which effects exert the strongest influence on a certain dependent variable. Panel A of the table contains the results of the positive effects, while Panel B displays those with respect to the negative outcomes.

Panel A: Self-enhancement (IP-EP>0)							
Variable	Sig	Change		$\bar{\Delta}$	Y=0 (No Pos)	Y=1 (No Enhance)	Y=2 (Yes Enhance)
Perform	***	0	1	0.12	-0.15	-0.03	0.18
Stable	n.s.	0	1	0.02	0.03	0.01	-0.04
CeoNew	n.s.	0	1	0.02	0.03	0.01	-0.04
CeoExp	n.s.	0	1	0.07	-0.09	-0.01	0.10
Size	n.s.	ê range		0.10	-0.13	-0.02	0.15
Econ	n.s.	0	1	0.03	0.04	0.01	-0.03
Block	n.s.	ê range		0.05	0.06	0.01	-0.07
IDV	n.s.	ê range		0.04	0.05	0.01	-0.06
MAS	**	ê range		0.16	0.20	0.04	-0.24
Panel B: Self-protecting (EN-IN>0)							
Variable	Sig	Change		$\bar{\Delta}$	Y=0 (No Neg)	Y=1 (No Protect)	Y=2 (Yes Protect)
Perform	***	0	1	0.21	0.31	-0.07	-0.25
Stable	*	0	1	0.08	-0.13	0.03	0.10
CeoNew	n.s.	0	1	0.06	0.10	-0.03	-0.07
CeoExp	n.s.	0	1	0.04	0.06	-0.01	-0.05
Size	n.s.	ê range		0.15	0.22	-0.05	-0.17
Econ	n.s.	0	1	0.07	0.10	-0.02	-0.08
Block	n.s.	ê range		0.13	0.19	-0.06	-0.15
IDV	*	ê range		0.13	0.20	-0.04	-0.16
MAS	n.s.	ê range		0.05	0.07	-0.02	-0.05
*** Coefficient (̢) is significant at the 0.01 level							
** Coefficient (̢) is significant at the 0.05 level							
* Coefficient (̢) is significant at the 0.10 level							
$\bar{\Delta}$ Average absolute discrete change							
0 1 Increase in P(Y _i x _i) due to a change in x _{ik} , dummy from 0 to 1, c.p.							
ê range Increase in P(Y _i x _i) due to a change in x _{ik} , continuous from x _{MIN} to x _{MAX} , c.p.							

Table 6.27 Discrete changes based on ordered logit regression

The data provided in Panel A, first of all tell us that the variable “perform” has the strongest influence on the way managers address positive outcomes in their letters to the shareholders. Of all variables “perform” has the highest average absolute discrete change. The impact of this variable is as expected. The figures in table 6.27 above indicate that the probability of letters containing no explained positive effects is 16% higher if a letter is drawn up in a bad year than when it is written when the company experienced improving results (i.e. a good year). Similarly, we see that being able to report good news (hence “perform” assumes

the value of “1”) increases the likelihood that managers present those good outcomes in a self-enhancing way by 18%. Of the cultural values, masculinity is the only one that is able to explain differences in self-enhancing behaviour. From table 6.27 we observe that moving from the minimum score on this dimension (the Netherlands with 14) to its maximum (Japan with 95), while holding all other variables constant, results in an increase by 20% in the probability that a letter does not contain any positive effects that is explained. The effect on the probability that a letter explain positive effects are explained in a self-enhancing manner is negative: moving from the minimum to the maximum score decrease the probability of self-enhancement with 24%. The other variables, including individualism and the state of the general economy, did not significantly influence the way managers explain positive outcomes.

If we turn our attention to the negative effects, we again observe that the variable “perform” exerts the strongest influence (as indicated by the highest Δ^-). The numbers reported indicate that the probability of letters containing no negative effects is 31% higher for years in which performance improved compared to years in which performance deteriorated. Similarly, the chance that managers explain results in a self-protecting way is 25% higher if it concerns a bad year (i.e. results worsened) compared to a good year. Furthermore, we previously observed that stability of company’s performance has a significant influence on the way negative outcomes are explained. In table 6.27 we see that if a company’s performance is unstable, the likelihood that CEO addresses negative outcomes in a self-protecting mode is 10% higher compared to companies with stable performance. This result suggests that managers of unstable firms are more likely to explain negative results in a self-protecting way and confirms the findings of Salancik and Meindl (1984). Regarding the influence of culture we see that individualism, which is the dimension that is most frequently used to account for East-West differences, has a rather unexpected influence in view of previous social-psychological findings. If we let the score on IDV increase from its minimum (Japan with 62) to its maximum (the US with 91) we see a decrease by 15% of the probability of letters containing self-protecting tendencies. That is, western managers are less likely to engage in self-protection than their colleagues from the east are likely to do, which confirms our results found in the preliminary analysis.

6.4.4 Discussion

In this section we used two models to analyse which factors determine the way in which managers explain organisational performance. These models enabled us to provide answers to the propositions we have previously formulated. Model 1 (count regression) indicates managers’ preferences for certain sorts of

explanations, while Model 2 (ordered logit regression) can be used to examine which factors influence the presence of self-serving attributional biases in letters to the shareholders. The two models yielded similar results with respect to the determinants of explanatory behaviour in management's letters. First of all, the variable that measured the type of performance a company obtained in a fiscal year—good versus bad—exerts the strongest influence on both the numbers of causal statements (e.g. Z^+ , IP, EN, etc.) as well as on the presence of self-serving biases therein. The count regression model shows that the number of positive statements (Z^+ , IP, and EP) is significantly higher in letters regarding years in which the CEO is able to report improving performances, compared to years in which performance deteriorated. The ordered logit regression model subsequently indicated that the likelihood of managers engaging in self-enhancement (i.e. $IP-EP > 0$) is 18% higher in good years compared to bad years. A similar effect is present with respect to causal statements regarding negative company results. Model 1 indicated that Z^- , EN, and IN are more prevalent in years in which company performance worsened than in years in which company performance improved. Additionally, the results of Model 2 tell us that the probability of self-protection is 26% smaller in favourable years than in unfavourable ones. Together these results suggest the presence of a significant performance effect and confirm the findings of Barlow (1996) who found a tendency to disclose information to shareholders that is based on the performance level of the company. They also confirm proposition 5 which stated that self-enhancement is more prevalent in years in which the company achieved a performance improvement, while self-protection is more prevalent in years a company experienced a deterioration of performance. The results further indicate that the change in the number of negative statements (in absolute terms) is larger than the change in number of positive statements if we vary company performance. This result, at least partially, confirms the results of Abrahamson and Park (1994) and Aerts (2001), who found a “consistently high level of positive attributions and [a] non-responsiveness of this level to overall performance” (Aerts, 2001: 29). We also found evidence that the responsiveness to performance of self-protection is larger than that of self-enhancement. The results of the ordered logit model, first of all, revealed that a change in company performance from favourable to unfavourable leads to a 15% decrease in the likelihood that letters do not address any positive results at all. However, the decrease in the probability that letters do not contain any negative result being explained due to a shift in performance from bad to good is twice as large (31%). These results, combined with the larger decrease in likelihood of encountering self-protection in letters (26%) compared to the decrease in probability of self-enhancement (18%) due to performance change, corroborate Staw *et al.*'s (1983)

findings that even if firms have been unsuccessful they still try to report positive news.

Proposition 6 hypothesised on the effect of performance stability on causal attributions. In accordance with Salancik and Meindl (1984) we expected the unstable firms to make greater use of both internal-positive and internal-negative causal statements. The rationale of that expectation is that managers of unstable companies lack control over organisational outcomes and “as a consequence strategically manipulate causal attributions to manage impressions of their control” (Barlow, 1996: 31). According to Salancik and Meindl (1984: 238) this strategic manipulation implies that “managements [of unstable firms] claim responsibility for both positive and negative outcomes more than do the managements of firms with stable performance, and, contrary to psychological theories, seem reluctant to attribute poor performance to uncontrollable, environmental events.” Indeed, their findings confirm the idea that managers of unstable firms try to create an impression of being in control of the circumstances. The IP–EP bias for unstable firms was significantly larger than for stable ones, while the EN–IN bias was smaller (the latter was due predominantly to the smaller use of external-negative causal statements by the unstable firms). Although our results are largely in line with Salancik and Meindl’s findings and with proposition 6, they not unequivocally support them. First of all, although the signs were as expected, the count regression (Model 1) did not yield a significant stability effect on the number of positive statements. Most important is that stable and unstable firms only marginally differed with respect to the number of internal-positive causal attributions. This result is in with Clapham and Schwenk’s (1991) and Aerts’ (1991) findings. In the second analysis, using ordered logit regression, we discovered that although unstable firms are slightly more likely to self-enhance they do not differ significantly from the stable firms in this respect. This finding corroborates the results of Clapham and Schwenk (1991), Aerts (1991), and Barlow (1996). Regarding the negative outcomes, the results are more in line with Salancik and Meindl. In line with Salancik and Meindl (1984) and Clapham and Schwenk (1991) we as well find that unstable firms make significantly less use of external-negative causal statements in their letters to the shareholders than do the stable firms. They, however, as one might expect following Salancik and Meindl’s arguments, do not make significant greater use of internal causes to explain unfavourable performances. Consequently, in Model 2, we find in line with the results of Salancik and Meindl (1984) and Clapham and Schwenk (1991), but in contrast with Aerts’ (1991) findings, that managements of unstable firms, compared to those of stable ones, are less likely to show self-protecting tendencies. Taken together these results partially support the idea that

managements of unstable firms, at least compared to their colleagues of stable firms, to larger extent use causal statements strategically as an attempt to “convince constituents of their ability to direct the corporation more effectively” (Salancik and Meindl, 1984: 252).

Proposition 7 hypothesised on the negative effect of visibility, as measured by firm size, on self-serving attributional biases. The idea was that larger firms are confronted with more intense public scrutiny and consequently have fewer possibilities to engage in self-serving attributional biases in their letters to the shareholders than do smaller firms. Our results, however, in accordance with Aerts (1994, 2001), failed to indicate any significant effect of firm size on either the number of the various types of causal statements or the presence of self-serving biases. A possible explanation may be the nature of the companies included in the sample. All firms are quoted on major stock exchanges, and all may be considered large firms in their countries (and frequently in an international setting as well). Additionally, it is noted that researchers from the positive accounting field looked at the quantity of financial disclosures in general and not accounting narratives in particular. Hence, both our and Aerts’ studies suggest that firm size has no influence on accounting narratives.

Although the effects of the general economy were as expected, they failed to reach a statistically significant level. Hence, although we observed that managements try to remain credible by increasing the number of external-positive and decreasing the number of external-negative causal statements if the economy was generally favourable, the effect was not strong enough to unconditionally support either propositions 8a or 8b. In a related study, Bettman and Weitz (1983) neither found unequivocal evidence that the economy exerts influence on managers’ attributions in their letters to the shareholders. The only effect they found was that if economic conditions were generally harsh managers did refer more often to those unfavourable circumstances to account for worsening performances. In a recent replication of Bettman and Weitz’s research, Tsang, using letters of Singapore companies from 1985 and 1994, did find that economic conditions influenced managers’ explanations. He not only confirmed Bettman and Weitz’s finding that harsh economic conditions lead to greater use of external-negative causal statements, but also that management tended to use internal-positive statements more often in a year in which the economy was unfavourable. Few words of caution are in order here when comparing our results with those of these researchers. First of all there is a difference in sample selection procedure. Their studies started with choosing a good and a bad year in terms of economic conditions, based on GDP and stock price information. Subsequently from the two years thus selected they obtained the companies’ letters. Hence, their main

objective was to arrive at a sample that was balanced in view of the economic circumstances. Our study on the other hand aimed at arriving at a sample that was balanced in terms of company performance. That is, from the period 1994 to 2000 we tried to obtain, for each company, a letter from a year in which company results improved and one from a year in which company results deteriorated (see also section 5.2). As a consequence our sample was not balanced in terms of economic conditions. It is not inconceivable that this has driven the results with respect to the influence of the economy on managers' explanations and that it may be well possible that results would have been different if more unfavourable years (in terms of the general economy) were included.

Propositions 9a and 9b concerned the possible effect on managers' explanations of a new CEO and tenured CEOs, respectively. In section 5.2 we argued that newly appointed CEOs might show stronger self-serving tendencies than do their colleagues who are not in their first term. Particularly, newly appointed CEOs may feel the need to prove themselves or to show how successful they have been in their first term, which may exacerbate self-enhancement. However, comparable to Staw *et al.* (1983) and Schwenk (1993) we do not find evidence that CEOs who write their first letter to the shareholders are particularly motivated to use self-enhancing attributions. The only significant effect we find is that the disclosure of negative unexplained effects (Z^-) is significantly higher for newly appointed CEOs. This finding is partially in line with Barlow's (1996) results who found that CEOs with little tenure disclosed more negative news than did their highly-tenured counterparts. According to her "this tendency seems to be an effort by CEOs with low company tenure to show that they intend to address the problem. This exertion of control is another way in which a CEO with low tenure can increase his power in the company. [Alternatively], this may be an effort by the low tenure CEOs to gain shareholder support by telling them everything about the poor performance" (Barlow, 1996: 76). However, in view of the last possibility raised by Barlow it is strange that they leave the negative outcomes unexplained (we do not find a difference regarding EN or IN). Maybe they hope that the constituents—that is the shareholders—will put the blame on the circumstances or their predecessors for the disappointing performance themselves. Our results do not indicate that tenured CEO, i.e. those with three or more years experience as company's CEO, differ significantly from the relatively speaking inexperienced CEO. Hence, proposition 8b cannot be substantiated. This finding is largely in line with the results of Staw *et al.* (1983), Schwenk (1993), and Barlow (1996). The only effect we observe is that our more experienced CEOs make greater use of Z^+ statements. That is, they include more unexplained positive effects than do their less experienced colleagues. This may indicate that they feel

less pressure to take credit for successes—they also referred in larger amounts to external-positive statements though not statistically significant—than do the inexperienced CEOs and let the results speak for themselves.

The last possible determinant we looked at concerned the influence of blockholders. Comparable to Staw *et al.* (1983) we do not find this variable to be significantly related to managers’ causal statements. Hence, we have to reject proposition 10. However, although the effect is statistically insignificant we do observe that it has a negative effect on the likelihood of engaging in self-serving behaviour, and—in line with previous findings of Abrahamson and Park (1994) and Barlow (1996)—that they do seem to disclose marginally more negative effects in their letters to the shareholders. This seems to be an indication—though weak—that a CEO feels more pressure to disclose information, even if negative, as shareholders become more influential “in order to be loyal to the shareholders and institutions that invest in his company (Eisenhardt, 1985)” (Barlow, 1996: 77).

Table 6.28 summarises the results with respect to propositions 5 to 10.

Hypothesis	Confirmed
5. Performance effect	ç
6. Stability effect	ç
7. Visibility (firm size) effect	Not
8a. Economic conditions and favourable results	Not
8b. Economic conditions and unfavourable results	Not
9a. Effect of new CEO	Not
9b. Escalation of commitment (CEO tenure)	Not
10. Large shareholders and self-serving biases	Not
ç Proposition is supported	

Table 6.28 Discrete choice regression results and propositions 5 to 10

In sum, we observed that a large part of the way managers explain organisational results in their letters to the shareholders depends upon the kind of performance they are able to report. That is, the chance of letters containing self-enhancing or self-protecting attributional biases increases if company results have been favourable or unfavourable, respectively. Culture, as measured through two proxies, seems to work on a “secondary” level. Though we found differences in “self- or group interest” and “achievement orientation” to influence managers’ tendencies to engage in self-serving attributions, this effect was smaller than the performance effect. Our results seem to confirm the idea that the role of culture in shaping behaviour is indirect (Earley, 1989; Earley and Erez, 1997; Lonner and

Adamopoulos, 1997). Indeed, this “seems to be a fairly common position within Western psychology ... [who, RH] treats culture as a mediator variable” (Lonner and Adamopoulos, 1997: 69). The idea of culture affecting behaviour—in our case the use of self-serving attributional biases—indirectly is also noticeable in Hofstede’s ideas regarding individualism and collectivism as well as Markus and Kitayama’s ideas concerning the construal of the self (Lonner and Adamopoulos, 1997).

6.5 Other ways to impression manage with accounting narratives

6.5.1 The accounting bias

So far we have examined self-serving attributional biases in accounting narratives. We saw which factors either exacerbate or attenuate CEOs’ tendencies to show such biases in their explanations for organisational outcomes. These explanations, self-serving or not, are part of a wider range of impression management techniques available to managers when they present news with respect to organisational outcomes in the annual report. In the introduction to this study we saw that apart from self-serving explanations, managers also show biases in the kind of news they convey, make selective use of and manipulate graphs, and seem to vary the readability of reports depending on the valence of the news they have to address. Another way to selectively present organisational outcomes is the use of so-called “accounting explanations” by which managers try to avoid addressing who was responsible for the outcome (Aerts, 1994). As was briefly addressed in section 2.4.2, accounting explanations “use the internal logic of the financial accounting model, relating (intermediary) accounting effects and categories, in order to explain financial actions and results” (Aerts, 1994: 339). Given their ambiguity it is possible to see such accounting explanations as a specific form of meta-accounts (Scott and Lyman, 1968). This ambiguity is clear in the following example of such accounting-technical explanation we encountered in Samas’ annual report: “The large improvement in net profit is a result of the substantial increase of operating profit in both the Division Office Furnishing as well as the Division Office Supplies” (annual report Samas Group 1999). Given accounting explanations’ ambiguity and managers’ self-interest, Aerts expected the accounting and causal, self-serving explanations to be complementary. While positive outcomes are stated in ordinary, causal explanations, where responsibility may be easily assigned, he suggested that negative outcomes are more likely to be explained in ambiguous, accounting language. Indeed, he even suggested the possibility of a so-called “accounting bias”, which “manifests itself as a tendency to explain negative

performance more in technical accounting terms, while positive performance are more accounted for in strict cause-effect terminology whereby responsibility becomes clear” (1994: 341). Though his results indicate that positive outcomes are predominantly explained in clear-cut language, he does not find his Belgian managers to address bad results in accounting-technical language. In this study we look at the accounting bias as well. The results are presented in table 6.29 below. Panel A contains frequency data (number in parentheses represents the standard deviation); Panel B presents the proportional measures.

Language use (effects concern sales, profits, and costs)				
<i>Panel A – Frequency data</i>				
<i>Positive effects</i>	US	JP	NL	Total
Number of positive effects	1.35 (2.07)	1.83 (2.58)	3.59 (4.34)	2.09 (3.09)
Causally explained	1.11 (1.72)	1.38 (1.87)	2.23 (2.65)	1.49 (2.09)
Technically explained	0.24 (0.73)	0.45 (0.91)	1.36 (2.15)	0.60 (1.37)
<i>Negative effects</i>	US	JP	NL	Total
Number of negative effects	0.74 (1.38)	1.62 (2.31)	1.84 (2.92)	1.35 (2.25)
Causally explained	0.64 (1.25)	1.24 (1.89)	1.16 (2.14)	1.00 (1.77)
Technically explained	0.10 (0.36)	0.38 (0.85)	0.68 (1.20)	0.35 (0.85)
<i>Panel B – Proportional data</i>				
<i>Positive effects</i>	US	JP	NL	Total
% causally	84.85 (24.45)	78.64 (28.48)	69.13 (32.29)	77.69 (29.20)
% technically	15.15 (24.45)	21.36 (28.48)	30.87 (32.29)	22.61 (29.20)
<i>Negative effects</i>	US	JP	NL	Total
% causally	86.71 (29.42)	78.16 (35.61)	61.11 (37.19)	75.79 (35.58)
% technically	13.29 (29.42)	21.84 (35.61)	38.89 (37.19)	24.21 (35.58)

Table 6.29 Language use in letters to the shareholders

The results in table 6.29 indicate that both positive and negative outcomes are predominantly explained for in clear-cut causal language. Somewhat more than

75% of both good and bad results are described in simple cause-effect terminology. However, Kruskal-Wallis tests with nation as grouping variable, reveal cultural differences in language use for both positive ($\chi^2 = 7.68$; p-value = 0.021) and negative outcomes ($\chi^2 = 13.70$; p-value = 0.001). Further pair wise comparison (based on Mann-Whitney tests) show that the Dutch are solely responsible for the difference between the three countries. Relatively speaking they make the most elaborate use of accounting-technical terminology in their letters to the shareholders. Between Japanese and American managers we do not see any significant difference in language use. Table 6.30 presents the relative difference in language (analogous to the self-serving bias). The results suggest that only one side of the accounting bias is present: positive outcomes are mostly addressed in clear-cut causal language. However, we do not find a protecting tendency via the use of language, that is we fail to find that negative outcomes are accounted for in accounting-technical terms. On the contrary, we see arising significant negative differences implying that disappointing results are presented in clear cause-effect language as well. In sum, the results—corroborating Aerts’ (1994) findings—suggest that managers, irrespective of culture, do not try to obscure their responsibility for bad results by wrapping it in ambiguous accounting-technical terminology.

<u>The accounting bias</u>		US	JP	NL	Total
Positive effects (Cau–At)	Frequency	0.87 *** (1.65)	0.92 *** (1.41)	0.87 *** (2.14)	0.89 *** (1.70)
		69.70 *** (48.90)	57.28 *** (56.96)	38.25 *** (64.59)	54.78 *** (58.41)
	Proportional				
Negative effects (At–Cau)	Frequency	-0.55 *** (1.22)	-0.88 *** (1.82)	-0.47 ** (1.88)	-0.65 *** (1.64)
		-73.41 *** (58.83)	-56.27 *** (71.21)	-22.22 * (74.37)	-51.58 *** (71.16)
	Proportional				

*** Significant at 0.01 using a Wilcoxon signed rank test

** Significant at 0.05 using a Wilcoxon signed rank test

* Significant at 0.10 using a Wilcoxon signed rank test

Table 6.30 The accounting bias

6.5.2 The art of presenting news

Apart from looking at the variation in language used to explain organisational outcomes, in this study we also look at the location of the news being conveyed. In one of the earlier studies looking at attributions in letters to the shareholders, Staw

et al. considered “the art of presenting good and bad news” (1983: 596). First of all, they found both high- and low-performing firms emphasising positive events, something Jones and Clathworthy (2000b) found as well in a more recent study of British companies. Apart from looking at the emphasis on type of news, Staw and colleagues also looked at the location of positive and negative information. The results they found are rather interesting. The high-performing companies in their sample tried to maintain a positive tone throughout the whole letter to the shareholders. The low-performing companies, however, also had to account for negative news. The results of Staw *et al.*’s study indicate that the low-performing firms prefer to address negative news “at the outset and to end their letters on an upbeat tone that is nearly as positive as the information presented by successful companies” (1983: 597).² This finding is interesting in view of the so-called primacy and recency effects. Basically, the first suggests that the impressions people form of other persons are primarily based on the information they receive first. The recency effect, on the other hand, assumes that the information that is conveyed last, is the most important when people form their impressions of another person (Vonk, 1999; Pruyn and Wilke, 2001). According to Pruyn and Wilke (2001) there is no agreement among social psychological researchers about which effect is strongest, although researchers do agree that the information that is provided in the middle is remembered least. The findings of Staw *et al.* (1983) may indicate that managers, assuming that they are aware of the existence of such effects, think that readers of the letters to the shareholders base their judgement of management on the information that is provided at the end in the letter to the shareholders. Therefore, in this study we decided to look at the tone of the message contained in the first and last few lines of the letter to the shareholders. More specifically, we examine whether the tone at the outset and at the end is considered “negative”, “neutral”, or “positive.” For example, a statement such as “Once again Royal Ahold had an excellent year, achieving record performances in all trade areas” (annual report Royal Ahold 2000) is clearly positive. On the other hand an opening statement such as “In the fiscal year ended March 31, 1999, Tokyo Electron’s consolidated net sales decreased 31.1 percent year-on-year to ¥313,820 million as unfavourable economic conditions in Asia and oversupply in the DRAM market depressed investment in equipment among semiconductor manufacturers worldwide” (annual report Tokyo Electron 1999) is clearly negative

² It is also possible that the credibility issue is at stake here. Usually speaking disappointing performance is not what investors expect and therefore is likely to attract extra attention. In order to remain a credible messenger this information has to be

of tone. Panel A of table 6.31 below indicates that especially managers from the Western cultures have strong tendencies to begin their letter positively and clearly want to avoid starting it with a message that has a negative tone. In only 15% and 10% of the analysed U.S. and Dutch letters, respectively, the first line is evaluated negatively. The Japanese CEOs on the other hand are more balanced with respect to the tone of the first sentence. A non-parametric Kruskal-Wallis test, with nation as grouping variable, reveals a significant country-effect with respect to the tone of the opening sentence ($\chi^2 = 20.16$; p-value = 0.000). Further pair wise comparison using Mann-Whitney tests indicates that the Japanese in larger extents start their message with negative news than either the American and Dutch managers do. Looking at the tone of the whole first section (see Panel B in Table 6.31) does not really alter the general tendency that the western managers prefer to start their message positively, while those from Japan do not seem to show such bias ($\chi^2 = 23.58$; p-value = 0.000). It is possible that due to the Asia Crisis, managers from Japan did not see much reason to start their letters in an upbeat tone.

Panel A – Tone opening sentence								
	US		JP		NL		Total	
	Count	%	Count	%	Count	%	Count	%
Negative	16	15.4	37	35.5	7	10.0	60	21.6
Neutral	40	38.5	37	35.5	24	34.3	101	36.3
Positive	48	46.2	30	29.0	39	55.7	117	42.1
Total	104	100.0	104	100.0	70	100.0	278	100.0
Panel B – Tone opening section								
Negative	21	20.2	39	37.5	13	18.6	73	26.3
Neutral	21	20.2	36	34.6	15	21.4	72	25.9
Positive	62	59.6	29	27.9	42	60.0	133	47.8
Total	104	100.0	104	100.0	70	100.0	278	100.0

Table 6.31 Cross tabulation tone opening sentence and section * country

We also looked at the tone of the closing section of the letter to the shareholders. Table 6.32 below displays the results. What stands out most is that, irrespective of culture, not one manager wants to end their letter with a negative message. This finding is line with Staw *et al.*'s (1983) result that CEOs tend to end their message on an upbeat tone. This seems to hold particularly for the CEOs of the Dutch and U.S. companies: their tendency to end the letter positively is

presented first, before management can pay attention to more positive aspects of the past fiscal year.

significantly stronger than that of their Japanese colleagues ($\chi^2 = 26.83$; p-value = 0.000). The Japanese, on the other hand, end their letters in a neutral tone which seems to be in line with their tendency to be modest (Yoshida, Kojo and Kaku, 1982; quoted in Markus and Kitayama, 1991).

<i>Tone closing section</i>								
	US		JP		NL		Total	
	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>	<i>Count</i>	<i>%</i>
Negative	0	0.0	2	1.9	0	0.0	2	0.7
Neutral	33	31.7	67	64.4	30	42.9	130	46.8
Positive	71	68.3	35	33.7	40	57.1	146	52.5
<i>Total</i>	<i>104</i>	<i>100.0</i>	<i>104</i>	<i>100.0</i>	<i>70</i>	<i>100.0</i>	<i>278</i>	<i>100.0</i>

Table 6.32 Cross tabulation tone closing section * country

In order to investigate which factors influence the tone of the opening and closing sections we run ordered logistic regression with the dependent variables being the tone (it is “1” if tone is negative, “2” if neutral, and “3” if positive. The results of the regression models are presented in table 6.33 on the next page.

	Tone first sentence	Tone first section	Tone closing section
Perform	1.32 ***	1.66 ***	0.15
ResultFirst	0.77 ***	0.36	—
OutlookCls	—	—	2.25 ***
Stable	-0.03	-0.40	-0.41
CeoNew	0.03 ***	-0.55	-0.61
CeoExp	-0.98	-0.13	-0.02
Size	0.02	0.11	0.11
Econ	-0.13	-0.13	0.28
Block	0.54	0.02	0.86
IDV	0.01	0.03 ***	0.05 ***
MAS	-0.01 **	-0.01	0.01 **
<i>Thresholds</i>			
1	-0.62	2.33	1.03
2	1.39	3.76	6.29
<i>General</i>			
-2lnLog	505.96	498.66	336.16
G ² (10 df)	79.97	81.83	66.43
p-value	0.000	0.000	0.000
*** Coefficient (β) is significant at the 0.01 level			
** Coefficient (β) is significant at the 0.05 level			
* Coefficient (β) is significant at the 0.10 level			

Table 6.33 Ordered logit regression results

Again information about the coefficients does not tell us how those variables really affect Y. To do so we have to look at the discrete changes. These are provided in table 6.34 below. Panel A contains the discrete changes with respect to the tone of the opening line, Panel B those for the opening section, while Panel C displays them for the closing section. A few observations can be made from the table. First of all by looking at the absolute discrete change (provided in the column marked as “ Δ ”) we observe that the type of performance a company is able to report has a strong influence on the tone of the opening sentence. If a company experienced a good year—and is able to report a performance improvement—it is 31% more likely that the letter begins with an opening sentence that is considered positive, than when the company has had a bad year. Furthermore, the discrete changes also indicate that if the first sentence contains a reference to the company result (designated by the variable “ResultFirst”), it is 19% more likely that that sentence will be positive of tone than if the opening line

does not contain a reference to the company results. The result regarding the variable that measured whether a CEO is in his first year is rather surprising: if there is a CEO who is in his first term it will be about 22% less likely that the opening line is positive of tone. At the same time it is about 16% more likely that the opening line will contain some negative information. It may be possible—though we did not specifically look at it—that a new CEO first presents some negative information regarding the results of his predecessor and subsequently provide an outline of how he is going to yield better performances. The influence of masculinity is in line with the difference in tone found as indicated in table 6.31. If we turn our attention to the complete opening section, we see that only the variables “perform” and individualism exert significant influence on the tone of the message. The influence of individualism is the same as found in table 6.31. The results with respect to the closing section—indicating that the type of perform does not influence the tone of the last section—are completely in line with Staw *et al.*’s (1983) findings. His study indicated that all firms, irrespective of performance, prefer “to end their letters on an upbeat tone.” We also find that especially if firms decide to include a statement concerning future expectations in the closing section it is likely to be positive (as indicated by the variable “OutlkCls”). The results indicate that the probability of a closing section that has a positively toned message is 45% higher if the section present some future-oriented information compared to when such information is not presented in the last section. Furthermore, confirming the result found in table 6.32, we find that the western, individualistic managers more clearly prefer to end their letters in an upbeat tone than their eastern, collectivistic colleagues.

In sum, the results with respect to the tone at the outset and at the end of letters to the shareholders do not unequivocally favour either the primacy or the recency effect.³ However, the results do suggest a cultural difference in the presentation of news, which adds knowledge to the growing evidence provided by cross-cultural psychological research indicating a pervasive East-West difference (e.g. Fry and Ghosh, 1980; Miller, 1984; Kashima and Triandis, 1986; Morris and Peng, 1994; Markus *et al.*, 1996; Meijer, 1996; Kitayama *et al.*, 1997; Lee and Seligman, 1997; Semin and Zwier, 1997; Zwier, 1998; Choi *et al.*, 1999; Menon *et al.*, 1999).

³ Given the strong effect of performance on tone of opening sentence provides support of the importance of credibility in presenting information in financial reports, including the CEO’s letter to the shareholders.

<i>Panel A: Tone first sentence</i>							
<i>Variable</i>	<i>Sig</i>	<i>Change</i>	$\bar{\Delta}$	Y=1 (Negative)	Y=2 (Neutral)	Y=3 (Positive)	
Perform	***	0 1	0.21	-0.18	-0.13	0.31	
ResultFrst	***	0 1	0.12	-0.10	-0.09	0.19	
Stable	n.s.	0 1	0.00	0.00	0.00	0.00	
CeoNew	***	0 1	0.15	0.16	0.06	-0.22	
CeoExp	n.s.	0 1	0.01	-0.00	-0.00	0.00	
Size	n.s.	\hat{e} range	0.02	-0.02	-0.02	0.04	
Econ	n.s.	0 1	0.02	0.02	0.02	-0.04	
Block	n.s.	\hat{e} range	0.06	-0.05	-0.04	0.09	
IDV	n.s.	\hat{e} range	0.08	-0.07	-0.05	0.12	
MAS	**	\hat{e} range	0.17	0.13	0.12	-0.25	
<i>Panel B: Tone first section</i>							
<i>Variable</i>	<i>Sig</i>	<i>Change</i>	$\bar{\Delta}$	Y=1 (Negative)	Y=2 (Neutral)	Y=3 (Positive)	
Perform	***	0 1	0.26	-0.28	-0.12	0.40	
ResultFrst	n.s.	0 1	0.06	-0.06	-0.03	0.09	
Stable	n.s.	0 1	0.07	0.07	0.03	-0.10	
CeoNew	n.s.	0 1	0.09	0.10	0.03	-0.13	
CeoExp	n.s.	0 1	0.02	0.02	0.01	-0.03	
Size	n.s.	\hat{e} range	0.17	0.07	0.03	-0.10	
Econ	n.s.	0 1	0.02	0.02	0.01	-0.03	
Block	n.s.	\hat{e} range	0.00	0.00	0.00	0.00	
IDV	***	\hat{e} range	0.20	-0.22	-0.09	0.31	
MAS	n.s.	\hat{e} range	0.12	0.12	0.07	-0.19	
<i>Panel C: Tone closing section</i>							
<i>Variable</i>	<i>Sig</i>	<i>Change</i>	$\bar{\Delta}$	Y=1 (Negative)	Y=2 (Neutral)	Y=3 (Positive)	
Perform	n.s.	0 1	0.03	-0.00	-0.04	0.04	
OutlkCls	***	0 1	0.30	-0.01	-0.45	0.46	
Stable	n.s.	0 1	0.07	0.00	0.10	-0.10	
CeoNew	n.s.	0 1	0.10	0.00	0.15	-0.15	
CeoExp	n.s.	0 1	0.00	0.00	0.00	-0.00	
Size	n.s.	\hat{e} range	0.17	-0.01	-0.25	0.26	
Econ	n.s.	0 1	0.05	-0.00	-0.07	0.07	
Block	n.s.	\hat{e} range	0.10	-0.00	-0.14	0.14	
IDV	***	\hat{e} range	0.32	-0.01	-0.47	0.48	
MAS	***	\hat{e} range	0.19	-0.01	-0.29	0.30	
*** Coefficient (β) is significant at the 0.01 level							
** Coefficient (β) is significant at the 0.05 level							
* Coefficient (β) is significant at the 0.10 level							
$\bar{\Delta}$ Average absolute discrete change							
0 1 Increase in $P(Y_i x_i)$ due to a change in $x_{k, \text{dummy}}$ from 0 to 1, c.p.							
\hat{e} range Increase in $P(Y_i x_i)$ due to a change in $x_{k, \text{continuous}}$ from x_{MIN} to x_{MAX} , c.p.							

Table 6.34 Discrete changes in tone of opening and closing

6.5.3 The inclusion of future expectations

The presentation of future expectations forms another way by which the board of directors may try to manage people’s impressions. Forecasts of earnings play an important role in the pricing process on equity markets, as stock prices are said to reflect perceptions about future earnings (Ross, Westerfield and Jaffe, 1998). In most, if not all, developed countries, however, management is free to include such earnings forecasts in the annual report. For example, in a study of Canadian companies, Clarkson, Kao and Richardson (1994) found a mere 36 percent disclosing forecast information in their annual report (a comparable US sample of 100 firms led to a similar percentage of 33 percent). Their findings, however, do emphasise the importance of forecast information in the impression management process. Firstly, Clarkson *et al.* (1994) found their good news firms being more prepared to include a future outlook in the annual report. Secondly, it was found that “only 17.5 percent of the sample forecasts represent revisions downward relative to the previous year’s result” (1994: 425), while “the decision to forecast is not related to the firm’s forecast decision in the previous year” (1994: 433). If such future outlook was provided, in 50 percent of the Canadian (and 68 percent of the US) firms, the letter to the shareholders was the designated place. Given the possibilities to use information on future expectations to manage people’s impression, we investigated which factors determine both the decision to include this information in the letter to the shareholders, and additionally, if such information is included, which factors influence the tone of those expectations. Table 6.35 below displays the results regarding the inclusion of future statements in letters to the shareholders.

Future expectations in letter to the shareholders							
	US		JP		NL		Total
	Count	%	Count	%	Count	%	Count %
Yes	40	38.5	34	32.7	51	72.9	125 45.0
No	64	61.5	70	67.3	19	27.1	153 55.0
Total	104	100.0	104	100.0	70	100.0	278 100.0

Table 6.35 Cross tabulation inclusion future expectations * country

In table 6.35 we see that of the 278 letters we examined, only 45% contained expressions about next year’s results. Especially, among the Dutch this tendency is strong (and significantly different from the other two countries; $\chi^2 = 30.24$; p-value = 0.000) which can be ascribed to the fact that in all management reports we studied such statement is required by law. If we omit these 36 reports, the

percentages are similar to the other two countries (and no longer significantly different). Therefore, in further analysis we do not take these reports into consideration. First we analyse which factors influence the decision to include future statements in the letters or not using logistic regression. Subsequently, we use ordered logistic regression to determine which factors influence the tone of the future expectations if included. Table 6.36 displays the results. Contrary to the findings of Clarkson *et al.* (1994) we do not see that the good news companies are more than the bad news companies inclined to include statements about future expectations in their letters to the shareholders. A possible explanation why we do not find such difference may be that, whereas Clarkson *et al.* (1994) looked at the entire financial report, we only looked at the letter to the shareholders. Our findings—when limiting us to the restricted set—indicates that culture does not influence the decision to include future expectations in the letter (which is in conformity with the figures in table 6.35 after omitting the 36 Dutch reports that do not contain a formal letter). We observe that the stable companies are more likely to include future-oriented statements in their letters to the shareholders. Indeed, the discrete change due to a shift from 0 to 1 in the dummy “stable” (where “1” indicates stable performance), while holding all other variables constant, shows an increase of 26% in the probability of including future statements. This finding seems logical, as for the unstable companies future performances are more difficult to predict and, consequently, their managers may find it safer not to include such information at all, than having to explain why performance—and especially if it stays behind expectations—deviated from their expectations. The result that large shareholders have a negative impact on the likelihood that future-oriented information is included in the letter, may be a result of their access to more information other than the letter to the shareholders. The negative impact of size (measured by the natural logarithm of total assets) is contrary to Clarkson *et al.* (1994) findings among Canadian firms. There is no real explanation for this result.

	Outlook included	Tone outlook
Constant	5.44 ***	—
Perform	0.06	-0.62
Stable	1.06 ***	-0.71
CeoNew	-0.70	-0.44
CeoExp	-1.18 ***	0.38
Size	-0.26 **	-0.17
Econ	0.41	1.39
Block	-2.07 *	-2.77
IDV	-0.02	0.02
MAS	-0.01	-0.00
<i>Thresholds</i>		
1	—	-3.29
2	—	-2.77
<i>General</i>		
n	242	88
-2lnLog	284.84	89.94
G ² (9 df)	29.49	12.97
p-value	0.001	0.164
*** Coefficient (β) is significant at the 0.01 level		
** Coefficient (β) is significant at the 0.05 level		
* Coefficient (β) is significant at the 0.10 level		

Table 6.36 Ordered logit regression results

The results in table 6.36 furthermore indicate that not one factor has a significant influence on the tone of future expectations. This result seems logical, given the overwhelming presence of positively toned expectations. Of the 88 letter that do say something about future performances, 82% was optimistic about the company's near future. In only 13% managers warned the shareholders that next year's performance is likely to stay behind this year's results. The percentages are not in sharp contrast with Clarkson *et al.*'s observations. They found that somewhat less than two thirds of their forecasts were positive, while about 17% contained negative expectations. In section 2.4.2 we noted that self-handicapping implies that a person places "impediments or barriers in the face of success" (Rosenfeld *et al.*, 1995: 88; see also Tice and Baumeister, 1990). Such a strategy has two consequences for the self-handicapper: If he succeeds the value of the success is heightened, if he fails, the negative impact will be weakened. To a certain extent such behaviour can also be expected in annual reports (Rosenfeld *et al.*, 1995: 91). In these annual reports managers have to provide information on expectations on future profits, sales, etc.. Hence, it may be possible that management is very careful and even pessimistic about the future profits and sales,

although general economic conditions do not completely warrant such expectations. However, both our results as those of Clarkson *et al.* are in sharp contrast with Rosenfeld *et al.*'s (1995) observation. It seems that firms only include information about the future if they expect it to be positive.

7 Concluding thoughts

“Managerial work can be viewed as managing myths, images, symbols, and labels. The much touted “bottom line” of the organisation is a symbol, if not a myth. [...] Because managers traffic so often in images, the appropriate role for the manager may be evangelist rather than accountant”¹

Previously we commented that an important role of managers is symbolic. For example, the well-known organisational behaviouralist Jeffrey Pfeffer comments that “symbolic management operates fundamentally on the principle of illusion, in that using [...] language, settings, and ceremonies effectively elicits powerful emotions in people and these emotions interfere with or becloud rational analysis” (1992: 279). The CEO’s letter to shareholders forms an important element of this symbolism. They narrate the successes and failures of individuals (e.g. the CEOs), organisational subunits, and the entire company (Fiol, 1989) and have been the subject of this study. More specifically, in our study we have investigated whether CEOs’ explanations for company results in their letters to the shareholders are self-serving, implying that favourable outcomes are internalised whereas unfavourable ones are blamed on the environment. Furthermore, as recent social-psychological research has revealed the existence of a pervasive cross-cultural difference in people’s attributions, we have examined whether eastern and western CEOs differ in their use of self-serving attributions to account for company results in their letters to the shareholders. In this concluding chapter we first summarise the study in section 7.1. Subsequently, we provide lessons for both scholars and CEOs in section 7.2. Limitations of the study are discussed in section 7.3. The study concludes with section 7.4, which provides some food for thought regarding possibilities for future research for both managerial and accounting as well as social-psychological and cross-cultural researchers.

¹ Karl Weick (1979: 42).

7.1 Summary and conclusions

In this study we have looked at managers' reconstruction of reality in CEOs' letters to the shareholders. As its content is largely unregulated, management's discretion is large and, hence, the letter forms an excellent opportunity to manage people's impressions of the company (and of the CEO himself). Apart from making use of eye-catching pictures and charts, previous research has revealed that managers try to manage constituents' impressions by, e.g. varying the readability of its content, conveying news in a biased way (towards the positive) and engaging in self-serving attributional biases when they explain the company results. The focus of this study has been on the latter. The self-serving attributional bias consists of on the one hand self-enhancement—a tendency to internalise good outcomes by ascribing them to internal causes such as company strategy and the introduction of new products—and self-protection on the other—the tendency to externalise bad outcomes by blaming them on external causes such as the weather and the Asia Crisis. A large number of studies indicate that people in general show self-serving attributional biases when they explain outcomes of their behaviour. It occurs not only in the classroom among students, but on the soccer pitch and the running track as well. Prior research has confirmed its presence in letters to the shareholders too (e.g. Bettman and Weitz, 1983; Aerts, 1994; Tsang, 2002).

Indeed, such attempts to control the impressions others form of you seem to be a rather natural and universal phenomenon. It occurs among friends and colleagues, in the classroom, in the boardroom, in the press room, and so on. However, controlling impressions become more important when a person's behaviour is public—such as a CEO or a football coach—and when there is a gap between how a person is perceived and how that person wants to be perceived. Corporate managers may particularly be likely to strategically use impression management techniques: some scholars have even suggested that part of management's job is symbolic. By providing explanations, rationalisations, and legitimisation for the organisational activities management wants to create an image of being in control (Pfeffer, 1981, 1992; Meindl, 1990; Ginzel *et al.*, 1993; Elsbach, 1994). Establishing such an image reassures investors so that they will continue to invest in the company. More strongly, such a way of presenting information seems to be in line with people's general ideas of leaders. As is argued by Meindl and colleagues (1985, 1987, 1990) people, including the press (Hayward and Westphal, 2002), tend to have a “romanticized conception of leadership,” implying that they have a strong belief in the influence of leaders (CEOs) on organisational performance and, consequently, tend to overattribute organisational outcomes to leaders—and particularly when organisational performance is high (Shamir,

1992). For example, the press seems to favour to interpret organisational outcomes in terms of leadership as well (Chen and Meindl, 1991; Hayward and Westphal, 2002), which in turn could reinforce this leadership bias. Furthermore, the separation of ownership and control—which is typical for modern, quoted companies—enables managers to make effective use of this belief. Notwithstanding monitoring devices such as the publication of audited financial reports and the appointment of supervisory directors, due to uncertainty and unequally distributed information, managers are able to bias the information they provide in order to affect the perceptions of other people, notably the shareholders (Dassen, 1989; Bromwich, 1992; Abrahamson and Park, 1994; Hoogendoorn, 1996; Beaver, 1998). Maybe, as suggested by Meindl (1990: 161) it is easier to believe in leadership than to prove it. Organisations, and especially their leaders, can make use of this belief in their reconstruction of organisational outcomes in annual reports.

Although no one is completely free from trying to strategically convey certain impressions, for example by explaining organisational outcomes in a self-serving manner, there are, however, cultures in which its occurrence is less prevalent. Indeed, there is a growing number of studies which reveal that people from the East are very different from those from the West with respect to the way they explain achievement-related outcomes (e.g. Miller, 1984; Kashima and Triandis, 1986; Morris and Peng, 1994; Markus *et al.*, 1996; Meijer, 1996; Kitayama *et al.*, 1997; Lee and Seligman, 1997; Semin and Zwier, 1997; Choi *et al.*, 1999). Together, these studies suggest that self-serving attributional biases—though still present—are less pervasive in the East than in the West. Many researchers have found that the Japanese—at least to a larger extent than their American counterparts—are inclined to take the situation into account (i.e. to externalise) when they are asked to explain successes they achieved and assume personal responsibility when they have failed. Of the dimensions on which cultures may vary, the one that relates to the importance of the individual as opposed to the group (i.e. Self-interest versus Group-interest) is most suitable to explain the East-West difference. In their seminal work, Markus and Kitayama (1991) have argued that whereas in the West there is an independent construal of the self, in the East there is an interdependent construal of the self. While in the West the self is defined in terms of being an autonomous person where one's unique attributes are important, in the East the self is defined in terms of relationships with other persons. In the social-psychological literature on the self, it is advanced that such differences in construal of the self have implications for people's verbal behaviours and their definition of self-esteem. As the focus in the independent view of the self is on one's own person it is logical that outcomes are explained in

dispositional terms (e.g. Miller; 1984; Cousins, 1989; Markus and Kitayama, 1991; Al-Zahrani and Kaplowitz, 1993; Morris and Peng, 1994; Lee, Hallahan and Herzog, 1996; Heine and Lehman, 1997; Zvier, 1998). In addition, self-esteem in individualistic countries—where an independent construal of the self dominates—requires that one's uniqueness is emphasised and that inner attributes are expressed (Markus and Kitayama, 1991: 242). This will lead to self-serving behaviour. In collectivistic countries—where the interdependent construal of the self prevails—the focus is on the social context in which one is operating. Therefore, situational or contextual attributions are expected. In this study we explore whether managers with different cultural backgrounds show the same differences in self-serving attributional biases as found in previous social-psychological research. It not only adds perspective to previous accounting and organisational research on this subject, additionally it provides input to standard setting bodies, and notably the International Accounting Standards Board (IASB), as it is considering setting up a project that will investigate whether accounting narratives should become subject of more international regulation.

In order to explore such cultural difference we content analysed in total 278 Dutch, Japanese, and American letters to the shareholders. The analysis focused on “causal statements” in which an organisational outcome (i.e. profits, sales, etc.) is connected with a cause or a reason for that outcome. The following is an example of a typical causal statement: “In 2000, this pricing strategy was very successful, with net revenue per barrel increasing 2.5%” (annual report Anheuser-Busch 2000). The content analysis also encompassed so-called unexplained organisational results. These are similar to causal statements, except that the outcome is unexplained. We decided to include such statements, as it might be important from an impression management point of view. The causal statements had to be coded along a number of dimensions, such as valence of effect (positive, negative or uncodeable), direction of cause and effect (indicating whether cause and effect are stated in similar or in opposite directions), and locus of causality (internal or external cause, or uncodeable). The content analysis resulted in 914 unexplained effects, 911 explained effects that were explained by 1,420 causes.

Looking at the valence of both explained and unexplained effects, we find evidence of an East-West difference in letters to the shareholders. In line with prior research, we see that the large majority of outcomes addressed in Dutch and American letters have a positive valence from management's point of view. The Japanese on the other hand show a more balanced coverage strategy in which bad news is addressed as well. We find, in line with Tsang's (2002) recent study of Singapore letters to the shareholders, that about 35% of unexplained effects and 45% of the explained effects in Japanese letters present negative information (in

the US and Dutch letters the percentages were considerably smaller with approximately 20% and 34%). There are two possible interpretations of this East-West difference. The first relates to recent social-psychological evidence which indicates that the need for a positive self-regard is particularly strong in Western, individualistic cultures—cultures in which independence, success, and individual control are important (e.g. Markus and Kitayama, 1991). Hence following Heine *et al.* (1999: 775), the need to view oneself positively encourages people to “seek out, enhance and elaborate their positive characteristics.” Therefore, it is not surprising that individuals from western cultures perceive negative information as threatening to the self. However, in eastern cultures such as Japan negative information is not considered threatening. On the contrary, “information about where one has fallen short [...] is used to improve or perfect one’s actions and thus serves to affirm one’s belongingness to a certain social group” (Kitayama *et al.*, 1997: 1246). Another possible interpretation of our results regarding the East-West difference in coverage of news relates to the Asia Crisis which started around July 1997. Obviously, the Asia Crisis comprised large part of the years from which the letters were selected. A consequence might be that, as a result, the Japanese companies simply just had to address more bad news as they were affected more severely than companies from the West (Harrigan, 2000).

The pattern of attributions managers make for positive and negative results are generally speaking in line with previous accounting and managerial studies looking into self-serving attributional biases in letters to the shareholders. We find that managers from the United States, Japan, and the Netherlands claim responsibility for positive organisational outcomes by ascribing them in a larger extent to internal causes than to external causes. Furthermore, the tendency to blame bad organisational outcomes on the environment is significant for both the American and Japanese managers. Despite that managers in general engage in self-serving attributional biases when they explain company results, we do see cultural differences arising between the three countries. For example, we find self-enhancement to be stronger among the American managers than among their Dutch and Japanese counterparts. This result is largely in line with the growing body of social-psychological studies of the past decade indicating that self-enhancement is attenuated in Asian cultures (Kitayama *et al.*, 1997; Semin and Zwier, 1997; Heine *et al.*, 1999). The cultural comparison, however, also yielded two rather surprising results.

First of all, Dutch managers are free from the self-protecting bias. Similar to their Belgian counterparts (Aerts, 1994) they make relatively speaking more internal than external attributions when addressing disappointing results. Furthermore, they showed, relatively speaking, the smallest degree of self-

enhancement (though not significantly smaller than the Japanese). This result suggests that even among Western cultures with an independent construal of the self, differences in the amount of self-enhancement may arise. Indeed, in one of the few studies comparing Western nations, Nurmi (1992) found the Dutch and Finnish participants to show smaller self-enhancing tendencies than their American counterparts. A possible explanation, as the countries are not different with respect to the construal of the self (hence, individualism), are found in differences in masculinity and femininity. Hence, it is possible that people's attributions are different depending on their more masculine or feminine cultural background (de Mooij, 1998).

A second surprising result concerns the strong tendency to externalise bad organisational outcomes among the Japanese managers. Relatively speaking they showed the strongest tendency to self-protect. This finding seems in sharp contrast with previous social-psychological findings, in which evidence of smaller amounts of self-protection and even self-deprecation was found. There are two possible interpretations of our results. The first involves the aforementioned Asia Crisis that affected the Japanese companies more severely than the companies in the Western nations (Harrigan, 2000). As part of our sample was drawn from years in which Southeast Asia was hit by the Crisis, the Crisis constituted a credible explanation why company results have been disappointing. An alternative explanation of our results relates to the sample. Previous social-psychological research has relied on undergraduates and it is possible that those findings are not generalizable across all groups within a culture. That is, it is possible that cultural differences in self-serving behaviour become less pronounced as people grow older and have more experience and that, consequently, managers do no longer show behaviours that are considered typical for the cultural-context in which they operate. Indeed, Heine *et al.* (1999: 787) leave room for that possibility. They comment that "it may be the case that in situations in which Japanese are in positions of leadership or near the top of a hierarchy they may self-enhance and be motivated to believe that they have the requisite skills and abilities to fulfil their roles and to take care of their subordinates. Thus, we might expect that seniors at schools would demonstrate more self-enhancement than freshmen, full professors more than assistant professors, and older sisters more than younger brothers. Likewise, we may find that there are phases in life in which one is more likely to be in positions higher in the hierarchy; namely, old age, and this period may be associated with more self-enhancement and less self-criticism." Lee and Tiedens (2002: 51-52) advance a related argument. They argue that self-serving biases are "more prevalent among high power than low power individuals. People with high socioeconomic status generally have higher self-esteem and self-confidence than

people in low socioeconomic status. Also, people in high power positions are more likely to rate themselves as more competent, more likeable, more desirable, and better looking than people in lower power positions. When things go wrong, people in high power positions are less likely to take personal responsibility and blame themselves than people in lower power positions.”

Apart from investigating the influence of culture on self-serving attributions in the context of letters to the shareholders—which constitutes the main part of this research—we also examined which other factors are likely to influence the pervasiveness of the bias. Using discrete choice models—namely count and ordered logit regression models—we find the type of performance (i.e. favourable or unfavourable) and stability of performance to influence the bias. Type of performance exerts the strongest influence on both the type of causal statements and bias present in letters to the shareholders. Our results suggest the presence of a significant performance effect and confirm the findings of Barlow (1996). She found a tendency to disclose information to shareholders that is based on the performance level of the company. That is, we as well find that self-enhancement is more prevalent in years in which the company achieved a performance improvement, while self-protection is more prevalent in years a company experienced a deterioration of performance. The results further indicate that the change in the number of negative statements (in absolute terms) is larger than the change in number of positive statements if we vary company performance. This result, at least partially, confirms the results of Abrahamson and Park (1994) and Aerts (2001), who found a “consistently high level of positive attributions and [a] non-responsiveness of this level to overall performance” (Aerts, 2001: 29) and corroborate Staw *et al.*’s (1983) findings that even if firms have been unsuccessful they still try to report positive news.

Furthermore, we found weak support of the idea that managers of unstable companies—lacking real control over organisational outcomes—“strategically manipulate causal attributions to manage impressions of their control” (Barlow, 1996: 31). This strategic manipulation implies that “managements [of unstable firms] claim responsibility for both positive and negative outcomes more than do the managements of firms with stable performance, and, contrary to psychological theories, seem reluctant to attribute poor performance to uncontrollable, environmental events” (Salancik and Meindl, 1984: 238). In line with Salancik and Meindl (1984) and Clapham and Schwenk (1991) we find that unstable firms make significantly less use of external-negative causal statements in their letters to the shareholders than do the stable firms. However, just like Clapham and Schwenk (1991), Aerts (1991), and Barlow (1996), we do not find support of the idea that managers of unstable firms claim successes and accept blame for failures

in larger extents than do managers of stable ones. Taken together these results provide only weak support of the idea that managers of unstable firms to greater extent strategically use causal statements in order to “convince constituents of their ability to direct the corporation more effectively” (Salancik and Meindl, 1984: 252). Regarding the other factors, such as firm size, CEO-tenure, and the general economy, we fail to find evidence that they have a significant impact on self-serving attributional biases.

7.2 Lessons learnt

In the previous section we noted that although almost every person—whether being a student, teacher, coach, employee, manager, etc.—attempts to control the impressions other people form. However, we also remarked that for some types of persons controlling impressions might be particularly important. Leary (1996: 82), for example, observed that especially “leaders have recognised that their effectiveness and powers depends, in part, on their public images.” Indeed, the charismatic leadership theories “acknowledge the importance of symbolic behaviour and the role of the leader in making events meaningful for followers” (Yukl, 1999: 285-286; see also Conger and Kanungo, 1998; Fiol, Harris and House, 1999). The idea that leadership and charisma are “in the eye of the beholder” is clearly underscored in Conger and Kanungo’s (1987, 1998) attributional model of charisma. Their model “builds on the idea that charismatic leadership is an attribution based on followers’ perceptions of their leader’s behaviour” (Conger and Kanungo, 1998: 47). Therefore, it is not surprising to observe that impression management techniques are important to charismatic leaders or those who try to gain charisma (Leary, 1996; Gardner and Avolio, 1998; Awamleh and Gardner, 1999; Yukl, 1999). For example, Conger (1989: 92) remarked that “charismatic leaders are *meaning makers*. They pick and choose from the rough materials of reality to construct pictures of great possibilities. Their persuasion then is of the subtlest kind, for they interpret reality to offer us images of the future that are irresistible.” This fits ideas of social psychologists such as Goffman and Schlenker who “see nothing inherently superficial or deceitful about impression management—it simply involves the packaging of information in order to lead target audiences to desired conclusions” (Gardner and Avolio, 1998: 33). Furthermore, it seems that leaders have certain images in mind when they communicate with their “followers.” According to Leary (1996) and Gardner and Avolio (1998) images of trustworthy, credible, innovative, esteemed, and powerful are valued by all leaders and charismatic ones in particular. Previously we also saw that “credibility” is particularly important in a financial reporting context

(Gibbins *et al.*, 1990; Ginzel *et al.*, 1993; Aerts and Theunisse, 2000). Claiming an image to be what one is not, and then failing to match one's words with deeds, not only will produce negative reactions in others and in oneself, but will also be at the expense of management's credibility (Schlenker, 1980). These images require that leaders show through tangible results, or the appearance of such, that they can deliver (Gardner and Avolio, 1998: 40). The strong performance effect we found seems to confirm this: in line with prior research (Salancik and Meindl, 1984; Barlow, 1996) we found self-enhancing biases to be more profound if performance was good and the self-protecting biases to be more profound if performance was bad. That is, "the information basically fits the situation" (Barlow, 1996: 85). Furthermore, the use of such self-serving attributional biases suggests that CEOs want to influence followers' perceptions of competence and power. According to Conger and Kanungo (1987, 1998) this involves the ability to show past successes and may include behaviour such as "exaggerating the leader's positive achievements and taking unwarranted credit for achievements" (Yukl, 1999: 296). However, as Yukl (1999: 297) notes "charisma is transitory" and may be lost as a consequence of "leader's decisions which results in obvious failure." In order to help organisational audiences forming their perceptions of failures, a CEO may try to deflect responsibility away by blaming it on the external environment. That is, CEOs can use "facework [e.g. self-protecting attributions, RH] to help protect or repair their image" (Gardner and Avolio, 1998: 47), which may involve "covering up mistakes and failures" and "blaming others for the leader's mistakes" (Yukl, 1999: 296). Hence, the use of such self-serving attributions—the packaging of information—is aimed at guiding the audience to reach the conclusion that the CEO is still competent and credible.

Jeffrey Pfeffer (1997: 130)—in line with the idea that cultural forces influence many aspects of the leadership phenomenon—believes that the degree to which people have a romanticised conception of leadership may vary across cultures and may be more relevant in individualistic, western societies. Furthermore, "cultural groups may vary in their conceptions of the most important characteristics of effective leadership" (Den Hartog *et al.*, 1999: 225). Indeed, it has been suggested that management practices that work in one culture may be ineffective in another and, consequently, that "many aspects of organisational theories produced in one culture may be inadequate in other cultures" (Triandis, 1983: 139). What do our results indicate when we look at it from a cross-cultural perspective? Though we found cultural differences in the use of self-serving attributional biases in letters to the shareholders, we also concluded that culture seems to work on a "secondary" level. That is, though we find differences in "self-or group interest" and "achievement orientation" influencing managers' tendencies to engage in self-

serving attributions, the cultural effect is considerably smaller than the performance effect. This result confirms the idea that the role of culture in shaping behaviour is indirect (Earley, 1989; Earley and Erez, 1997; Lonner and Adamopoulos, 1997), which is “a fairly common position within Western psychology” (Lonner and Adamopoulos, 1997: 69). Furthermore, our findings are in line with recent research regarding the influence of culture on leadership conducted by the “Global Leadership and Organisational Effectiveness” (GLOBE) group. The main objective of the GLOBE project is to develop “an empirically based theory to describe, understand, and predict the impact of cultural variables on leadership and organisational processes and the effectiveness of these processes” (House *et al.*, 1999: 2). One of the projects focuses on the influence of culture on charismatic leadership and investigates whether attributes that are seen as characteristic or prototypical for leaders strongly vary across cultures (Den Hartog *et al.*, 1999). The results of Den Hartog’s *et al.* (1999) study indicate that certain images of leadership are universally endorsed, including: trustworthy, just, and honest (reflecting integrity), decisiveness and performance orientated. There are also some images that are universally seen as impediments to leadership, such as being nonexplicit and dictatorial.² The results we find, and especially the “secondary” or “fine-tuning” role of culture in shaping CEOs’ attributions (which in most instances were in line with our propositions), indicate that maintaining an image of a credible messenger—fitting the universally endorsed image of integrity—is of utmost importance to all leaders. This may also explain why the cultural difference we found—and especially the East-West effect—was considerably smaller than the one typically found in prior cross-cultural and social-psychological research. They also shed another light on Heine *et al.*’s (1999: 787) suggestion that “it may be the case that in situations in which Japanese are in positions of leadership or near the top of a hierarchy they may self-enhance and be motivated to believe that they have the requisite skills and abilities to fulfil their roles and to take care of their subordinates.”

This brings us to the managerial implications. Although the *Global Village* has remained a dream (Kanter, 1991), it is a fact that the world has become more integrated. Companies have become more globally oriented and “executives no longer question the increasing importance of global business” (Adler, 1997: 3). Furthermore, financial reporting practices are converging and expected to

² Apart from commonly shared leadership images, there are also leadership images that vary across cultures, such as independent, self-effacing and individualistic. However, as Den Hartog *et al.* (1999) do not provide information regarding (clusters of) cultures in

converge even more once listed companies have adopted the *International Financial Reporting Standards* (IFRS) by 2005. Such convergence or globalisation, however, “does not mean that cultural differences are disappearing or diminishing” (Javidan and House, 2001: 291). Our study has provided evidence of how culture subtly shapes CEOs’ reconstruction of reality in their letters to the shareholders. The main managerial implication of the study is that CEOs have to carefully frame the story behind the company results. Remaining credible should be the ultimate goal for all CEOs when drawing up their letter, mainly because “integrity” seems to be a universally endorsed and positively valued leadership image. Credibility, however, does not completely rule out the use of self-serving attributions and other forms of impression management. Using such techniques by CEOs—and other departments involved in drawing up the letter—would simply “involve the packaging of information in order to lead target audiences to desired conclusions” (Gardner and Avolio, 1998: 33).

Indeed, making use of such impression management techniques is what readers—at least those in western cultures—of financial reports expect of CEOs. In a US-based study, Limacher (1997) discovered that management’s optimism or pessimism regarding the company’s business environment and future prospects in the letter to the shareholders influences investors’ perceptions of both firm performance and managers’ credibility. His findings, which are largely in line with previous social-psychological results (Schneider, 1981; Schlenker and Leary, 1982; Robinson, Johnson and Shields, 1995), suggest that investors can be affected by the way managers present performance information in the letter to the shareholders. The main premise of Limacher’s study—again underlining the importance of credibility—is that unbridled optimism is not always an advisable tactic. If performance does not match the story in the letter to the shareholders, investors will make lower assessments of both firm performance and managers’ credibility. As Limacher’s findings have been obtained in an American context—a context where people are encouraged “to seek out, enhance and elaborate their positive characteristics” (Heine *et al.*, 1999: 775)—the preference for adopting a mildly optimistic attitude in presenting information seems logical. In a more eastern context, however, it is questionable whether such attitude would work. In those cultures it is less likely that stressing the positive and neglecting negative information will be effective in influencing readers’ perceptions in a desired way. Such attitude would not fit the cultural values of modesty and self-criticism (Heine *et al.*, 1999). Therefore, an advisable presentation tactic might be that CEOs “fine

which such images are perceived positively or negatively we are not able to relate them to our findings.

tune” the way they present the company results depending on the composition of the target audience (and especially the composition of the group of main investors). If it is largely composed of people from western cultures, it would do no harm to follow a mildly optimistic attitude in which positive results are being stressed and self-enhancing attributions are used to account for those results. If, however, the target audience has mainly an eastern background a more moderate way—hence, also addressing negative outcomes and using self-serving biases in smaller amounts—may be the most effective way to affect readers’ perceptions. This, however, does not completely exclude the use of self-serving attributions.

The fact that CEOs, irrespective of their cultural background, tend to explain organisational outcomes—at least to a certain extent—in a self-serving manner may cast doubts regarding the effectiveness of such behaviour. After all, if everybody else is doing it, how can it still be effective? Indeed, it has been suggested that letters to the shareholders “are notorious for adopting optimistic attitudes and presenting euphemistic descriptions of company’s results and prospects” (Bruce, 1987 as quoted in Limacher, 1997: 2). Consequently, it seems logical to assume that readers are aware that managers tend to adopt an optimistic attitude (Limacher, 1997). However, Limacher’s (1997) study as well as those of, e.g., Elsbach and Sutton (1992) and Rosenfeld *et al.* (1995) indicate that notwithstanding such awareness, the use of impression management techniques is still effective at influencing people’s perceptions of the organisation and its members. Therefore, the use of impression management techniques when presenting organisational results seems to be an important consideration within framing corporate communications.

The suggestion that the way results are presented affects people’s perceptions may also have important policy implications. In the introduction to this study we already pointed that the IASB considers setting up a project that will investigate whether accounting narratives should become subject of more international regulation. More specifically, the IASB is considering to explore whether they should provide guidance on the presentation of information presented outside the financial statements in the form of management’s explanation of the enterprise’s financial condition, changes in financial condition, results of operations, and causes of changes in material line items. In view of our findings, as well as the fact that users of financial reports are more interested in the narrative sections of the financial report than in the pure financial data (e.g. Klaassen and Schreuder, 1980, 1981; Epstein and Pava, 1993; Bartlett and Chandler, 1997; Hyland, 1998; Smith and Taffler, 2000), such regulation is desirable in this area. However, as the use of impression management may take very subtle forms in the financial reports, issuing guidelines may be problematic to practically implement.

7.3 Limitations of the study

Like any other study, this study, too, has its limitations. Some relate to the methodology used, while others concern the data.

The first limitation of the study concerns the method used—content analysis. As we have described in section 5.2, content analysis is a rather subjective method which asks a lot of the coders engaged in the content analysis procedure. Though we have carefully designed our coding procedure, selected the coders with care, made sure that they received adequate training before the actual coding started, and the high kappa's generally point that the content analysis yielded sufficiently reliable results, we cannot completely ignore the possibility that the outcomes reflect differences in familiarity with the concepts of interests. Both Staw *et al.* (1983) and Clapham and Schwenk (1991) in their studies of US letters to the shareholders refer to such ambiguity problems attached to content analysis as well. Clapham and Schwenk (1991: 223), for example, comment that “one of the more difficult problems of content analysis is the identification of causal statements. Even though general rules for coding are developed, problems may result from the ambiguity of category definitions (Weber, 1990). In annual reports the problem is confounded further, because while some attributions are clearly and simply stated, they are more often imbedded in lengthy discussions where cause and effect may be separated by considerable text to support or explain the attribution.” Hence, it is possible that some statements have not been included in the analysis because the coders either did not identify them as such or failed to agree on phrases being a causal statement. Alternatively, it is also possible that statements have been included in the analysis that others would not have identified as “causal.”

Other limitations relate to the sample of letters to the shareholders that we content analysed. One main objective of the research is to determine whether there are cultural differences in the self-serving attributional bias in letters to the shareholders. Although we find some evidence supporting the idea of cultural variability between the East and the West, the research is limited to three countries. The basic reason why we have limited ourselves to analyse reports from Japan, the Netherlands, and the United States, involves the use of a research method that is rather labour intensive. We decided to align with previous research from the social-psychological field and to focus on (at least) the United States and Japan. It is possible—though previously not examined—that if we had included more countries in the study we would find other cultural dimensions to influence the pervasiveness of the bias as well. Another possible caveat relates to the period from which the sample has been drawn. It is possible that our surprising results with respect to the Japanese managers, who showed the greatest tendency to self-

protect, is a product of the time period as it includes the Asia Crisis. Though we do not believe that this surprising result is merely an artifact of the period from which the letters were drawn—as in a related study using 1994 letters of Singapore companies Tsang (2002) finds similar results—we cannot completely exclude that possibility either. It would be interesting to see whether an alternative sample period, i.e. from which the Asia Crisis has been excluded, would yield similar results. A final limitation relating to the sample concerns that we have only looked at firms that are listed on the world major stock markets. This limitation was mostly driven by data availability. To get access to financial reports, which include letters to the shareholders as well, of unlisted Japanese companies is particularly tough. Indeed, Camfferman (1996) made a similar observation for Dutch firms. We cannot exclude the possibility that the culture within these firms—though we have selected them based on the cultural background of the CEO—does not fully reflect the culture of the country they should represent, and are more internationally oriented. Hence, we cannot completely ignore the possibility that if we focused on unlisted firms the results would provide stronger cultural differences and an extension of this study to the area of unlisted companies might be desirable.

Another limitation of the study involves our focus on letters to the shareholders to examine self-serving attributional biases in letters to the shareholders. Firstly, as briefly indicated in the introduction, the way managers explain organisational outcomes is just one way in which they may try to influence people's perceptions of the organisation. Other possible ways include biases in the conveyance of news, graphically distortions in graphs, variations in readability, etcetera. It is possible that these other forms to manage people's impressions work hand-in-hand with the use of self-serving attributional biases in the letters. Alternatively, it is possible that firms that do not show self-serving attributional bias, or only in limited amounts, make use of other forms in order to compensate it. It is interesting to examine which forms of impression management firms are using and in what manner. Our exploration of the use of accounting language (Aerts, 1994), positiveness of opening and closing sentence, and the way future expectations are addressed has provided some insight, but needs to be extended. Research by Barlow (1996), in which she considers various impression management techniques (e.g. attributional biases, the use of visionary language, etc.), forms a good starting point to achieve that. Another—related—limitation involves that we have looked only at the letters to the shareholders and ignored other elements of the financial report. We agree with Barlow (1996: 84) that the CEO's letter is often read along with financial information. As this study only considered the, relatively speaking, unregulated letter to the shareholders, it is

unclear if the results would be different if we looked at other parts instead. That is, it may be possible that in other, more regulated parts, and the Management Discussion and Analysis section in particular, self-serving attributional biases are smaller.

A final possible caveat of the study concerns the language of the letters that we content analysed. As indicated in section 5.2, due to data availability, large part of the Japanese reports was read in English. Although the 15 letters that were read in Japanese did not yield significantly different sentences to be identified as causal attributions to be coded along a number of dimensions, it is possible that the influence of language was subtler than our content analysis was able to capture. It is possible that Japanese consider a causal statement like “*We* were able to achieve an outstanding result” already self-enhancing; though from a western point of view it is not considered self-enhancing at all. That is, the coders involved in the content analysis did not have an eastern mindset, and, consequently, such subtleties are likely to be ignored. Similar to Hofstede this study not only reflects the mindsets of the managers whose letters we have examined, but also those of the coders involved in the content analysis, and “between the lines also the values of the author” (1984: 287)

7.4 Food for thought

This study has provided some insight in the way managers reconstruct the organisation’s reality in the CEO’s letter to the shareholders and cultural differences therein. Many questions, however, remain unanswered and, additionally, the study and its results have also raised new ones. Below we present some food for thought for researchers from both the managerial and accounting domains as well as those from the social-psychological field.

The first avenue for future research involves how readers perceive the use of the various forms of impression management techniques, and whether there exist cultural differences in readers’ perceptions. Although Limacher’s study (1997) has provided evidence that the way in which managers present the company performance impinges on readers’ perceptions of firm performance and managers’ credibility, his findings have been obtained in the American context. Therefore, also in view of possible international regulation, it is interesting to extend his study to a cross-cultural context and see whether his results apply other countries as well.

Another area where future research may be fruitful relates to Fiona Lee and colleagues’ (Lee and Robinson, 2000; Lee and Tiedens, 2001) findings which suggest that self-protecting attributions are not necessarily self-serving for

individuals in high-status roles, like CEOs, or, instead, might actually be “disserving.” After all, the use of self-protecting attributions—blaming the environment for a negative outcome—suggests “that the attributor does not have control over critical outcomes, does not have the ability to affect and change the course of events, and appears dependent on others” (Lee and Tiedens, 2001: 257). Hence, it may evoke a perception of “powerlessness.” Furthermore, the admission of lack of power and control, which external attributions seem to imply, are also “contradicting others’ knowledge and expectations associated with the high-status role. As such, high-status individuals who make external attributions may come across as dishonest, lying, evasive or as having something to hide” (Lee and Tiedens, 2001: 258). This may lead to negative impressions and affect towards the attributor. In various experimental settings, Lee and colleagues found strong evidence that external attributions are indeed highly disserving for people in high-status positions: audiences’ perceptions of managerial power and credibility were affected negatively. Hence, this strongly supports the idea that “passing the buck and pointing the finger elsewhere” (Meindl, 1990: 171) may not always be the best tactic for managers to use. Indeed, Salancik and Meindl (1984) suggested that managers will be *less* likely to lay blame than the social-psychological framework might imply. Although our results do not unequivocally support this suggestion it is possible that managers, when they have to address negative outcomes, try to create an image of a leader that is in control of the circumstances in an alternative way. It might be interesting to examine whether managers refer in larger amounts to corporate strategies when they have to account for unfavourable outcomes than when they are able to address successes.

A third possible area for research relates to how leaders try to gain charisma. Though in the past decade a lot of empirical work on charisma has been published (see e.g. Conger and Kanungo, 1998 and Fiol *et al.*, 1999 for overviews) and revealed that “the ability to articulate a compelling vision of a bright future is the *sine qua non* of charisma” (Emrich *et al.*, 2001: 589), the role of financial reports in the charisma process has largely been ignored. Hence, it would not only be interesting whether CEOs use “imagery words”, words that evoke pictures, sounds, smells, tastes, and other sensations (Emrich *et al.*, 2001), in the financial report, but also, if they do so, whether (a) such words do actually contribute to build an image of charisma, (b) whether the use differs depending on the performance CEOs are able to address, and (c) whether culture affects its use. More generally speaking, researchers could investigate which other impression management techniques, apart from self-serving attributions and future expectations, CEOs use in their letters to the shareholders to create an image of

being a charismatic, successful leader. An unpublished Ph.D.-thesis of Barlow (1996) provides a good starting point for achieving that.

A final possibly rewarding avenue for future research for both managerial as well as social-psychological researchers, is to try to get more access to other subjects than “just” undergraduates when executing experiments and/or consider alternative research methods as well. Indeed, researchers as Harrington and Liu (2002) and Heine *et al.* (2000) recently have pointed to the possibility that the East-West difference social psychologists have found with respect to pervasiveness of the self-serving attributional biases may be typical for undergraduates they relied on, and may not be generalizable across all cultural groups. Indeed, our findings support the idea that cultural differences in self-serving behaviour become less pronounced as people grow older and become more experienced and that managers no longer show behaviours that are considered typical for the cultural-context in which they operate (or at least in smaller amounts than do people of younger age). Though we acknowledge that the managerial elites are not easily accessible (Pettigrew, 1992), it may be rewarding indeed to extend ones efforts in order to see whether cultural differences typically found among undergraduates apply to managers as well.

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Appendices

I Company list

	JP	US	NL
1	Ito-Yokado	The Kroger	Ahold
2	Jusco/Aeon Group	Nash Finch	Laurus
3	Mitsukoshi	JC Penney	Vendex KBB
4	Seiyu	Stein Mart	MacIntosh Retail Group
5	Snow Brand Milk Product	Conagra Foods	Wessanen
6	Ajinomoto	Campbell Soup	CSM
7	Kirin Brewery	Anheuser-Busch	Heineken
8	Sapporo Breweries	Adolph Coors	Grolsch
9	Sony	Motorola	Philips Electronics
10	Nissei Sangyo	Grainger	Otra
11	Sumitomo Electric Indus	General Cable	Draka Holding
12	Alps Electric	American Power Conversion	Neways Electronics
13	DDI	Bellsouth	KPN
14	Japan Telecom	Century Tel	Libertel
15	Meitec	Peoplesoft	Ordina
16	Canon	Xerox	Oce
17	Kokuyo	Herman Miller	Samas Groep
18	Toppan Printing	Gannett	Wolters Kluwer
19	Dai Nippon Printing	Knight-Ridder	VNU
20	Japan Airlines	Northwest Airlines	KLM
21	Nippon Express	United Parcel Services	TNT Postgroep
22	Nippon Yusen Kabushiki	Alexander and Baldwin	Vopak
23	Kawasaki Kisen Kaisha	Tidewater	Nedlloyd
24	Seino	JB Hunt	Frans Maas Groep
25	Bridgestone	Goodyear	Vredestein
26	Oji Paper	Boise Cascade	Buhrmann
27	Kubota	Paul Mueller	Prolion
28	Daiichi Jitsugyo (DJK)	Hughes Supply	Geveke
29	Shimizu	Halliburton	HBG
30	Kajima	Centex	Ballast Nedam
31	NKK Corporation	US Steel Group (USX)	Hoogovens
32	Sumitomo Chemical	DuPont	Akzo Nobel
33	Nippon Shokubai	Hercules	DSM
34	Tokuyama	Chemfirst	Norit
35	Dai Nippon Pharmaceutic	Perrigo	Numico
36	Toyota	General Motors	

JP	US	NL
37 Honda	Ford Motors	
38 Cosmo Oil	Tosco	
39 Mitsubishi Heavy Indust	Caterpillar	
40 Fuji Photo Film	Kodak Eastman	
41 Fujitsu	Compaq	
42 Nec Corporation	Hewlett Packard	
43 NTT Docomo	ATandT	
44 Kyocera	Applied Materials	
45 All Nippon Airlines	Continental Airways	
46 Bandai	Mattel	
47 Yamanouchi	Pharmacia and Upjohn	
48 Japan Tobacco	RJR Nabisco	
49 Mitsubishi Electric	United Technologies Corp.	
50 Konami	Intuit	
51 Tokyo Electron	Kulicke and Soffa Industries	
52 Mitsubishi Rayon	Rohm and Haas	

II Coding instructions

INTRODUCTION

These coding instructions contain a short outline of the content analysis to be performed on CEOs' letters to the shareholders. The intention of the content analysis is to determine in what way managers explain organisational outcomes or results in the letter to the shareholders. Otherwise stated: the focus of this project will be managers' causal attributions with respect to organisational outcomes. The key concepts used in this project are described first. Subsequently, attention is paid to the procedure to be followed. It ends with an outline of the coding dimensions used in this project.

KEY CONCEPTS

Letter to the shareholders—The letter to the shareholders, also known as the management report or chairman's statement, contains a narrative analysis of causes that influenced the organisation's results in the preceding fiscal year. In addition, it usually contains management's future expectations with respect to the organisational results as well. Generally speaking, a letter to the shareholders comprises two or three pages.

Organisational result—In this project, the organisational results to be coded include "sales", "profits"/"earnings", "earnings before/after tax", and other similar accounting concepts. Also included are statements with respect to market share and "shareholder value" (and similar concepts). These are what we refer to as the "outcome" or "effect."

Causal attribution—A causal attribution consists of one or more sentences (or parts thereof) in which an outcome (organisational result) is linked to one or more reasons or causes for that outcome. Often it is possible to identify a causal attribution by connective words or phrases. Examples of those connective words or phrases are "due to", "caused by", "attributed to", "because of", "resulted in", "contributed to", etc.. However, it is also possible that causal attributions are implicit—implying that such connective words or phrases are absent—because cause and effect can be reasonably linked to each other. In order to be a causal attribution, the cause-effect relationship needs to be clear. Usually, cause and effect are stated in each other's proximity, for example, in one or two sentences, or in one paragraph. If an outcome (organisational result) is linked to two or more causes, whether or not in the same sentence, each of the cause-effect relationships

is treated as a separate causal attribution, also implying that each of them is coded individually on each of the dimensions.

EXAMPLES

Examples of causal attributions as may be present in the letter to the shareholders are presented below.¹

“Influenced by the Asia crisis our sales, compared to last year, decreased by 30%.”

“Notwithstanding the crisis in Latin America, the company succeeded in enlarging sales by 25%.”

“The increase of profits by 20% can mainly be ascribed to a decrease in financial costs.”

“Market prices of product X increased and sales for the year rose as well.”

“The continuing increase in profits is a result of a clear strategy on the one hand and favourable economic conditions on the other.”

PROCEDURE

When performing the content analysis on the letters to the shareholders the procedure described below is followed:

Identification—Independently of each other, two coders read the letter to the shareholders and identify the causal attributions by marking it directly in the letter to the shareholders. The cause (code: **A**) and the effect (code: **B**) are given a logical and consecutive code as if they form an entity. If an outcome/effect (organisational result) is explained by more causes, each of the cause-effect relationships (forming a causal attribution) is given a separate code.²

¹ The last excerpt is an example of an organisational outcome (effect) explained by more than one cause. Preceding that one, is an example of an implicit causal attribution.

² Example: “The continuing profit increase (**A1**) is the result of a good corporate strategy on the one hand (**B1.1**) and favourable economic conditions on the other (**B1.2**). [...] The market prices of product X increased (**B2**) and sales for the year rose as well (**A2**)” (Etc.).

Recording—Recording of the causal attributions as have been identified by the coders have to take place on the letters to the shareholders for each of the coders separately (for example by highlighting it in the letter to the shareholders).

In addition, coders need to identify organisational results for which no cause has been stated in the letter to the shareholders. These are coded **Z** and are the so-called “unexplained effects.”

Reconciliation—Causal attributions and “unexplained effects” as have been identified by the two coders are then reconciled with each other in order to arrive at a common set of causal attributions and “unexplained effects.” In case of doubt, a third, the arbiter, decides. The agreed upon set is recorded (e.g. by underlining or highlighting with a marker) on a clean version of the letter to the shareholders –the so-called coding version. This coding version is used to code the causal attributions and “unexplained effects.”

*CODING THE ATTRIBUTIONS*³

The causal attributions as have been agreed upon by the two coders are subjected to further coding along a number of dimensions, which are addressed in more detail below. Recording of the coding decisions is done on a coding sheet for each cause-effect relationship separately. Appendix II contains an example of a coding sheet.

Identification—First of all, some general issues for identification purposes are recorded on the coding sheet. These concern name and initials of the coder, the name of the company, identification code (Ax.Bx), and page number. Furthermore, the first three and the last three words of the causal attribution are recorded (per cause-effect relationship).

Length—A number of general characteristics with respect to the length of the causal attributions are determined and recorded on the coding sheet. These concern:⁴

- *Number of lines*: concerns the length of the causal attribution as measured in terms of number of lines, in annual report format. Round off in half lines (approximately).

³ This step is only relevant for the “genuine” causal attributions, i.e. where both cause and effect are stated. In case of “unexplained effects”: see below.

- *Number of standard lines*: concerns the length of the causal attribution in terms of grid boxes. This number is determined by the use of the grid: an A4-sheet divided into 400 boxes of equal size (see appendix 3). The number is determined by placing the transparent on the text and counting the number of boxes. A box is counted if the text of the causal attribution covers half or more of the box. Page margins are *not* counted.
- *Words*: concerns the number of words the causal attribution consists of.

Coding—Subsequently, the causal attributions are coded along a number of dimensions as will be addressed in section “Coding dimensions.”

COVER SHEET AND CODING “UNEXPLAINED ORGANISATIONAL OUTCOMES”

For each of the letters to the shareholders that is coded, the coding sheets are joined together into one set and accompanied by a “cover sheet.” The letter to the shareholders is also included in this set. Appendix II contains an example of such a cover sheet.

On the cover sheet the following is recorded:

- Data with respect to the coder (name, initials, date, and time spent);
- Data with respect to the annual report (name of company and fiscal year);
- Data with respect to the letter to the shareholders (number of pages, number of columns, number of causal attributions, and number of “unexplained effects”).

Additionally, the following issues are recorded on the cover sheet:

- *Information with respect to the opening sentence and –paragraph*. More specifically, it concerns your perception whether the message contained in the opening paragraph is positive, neutral or negative. Furthermore, you have to indicate whether the opening (that is: first) sentence contains a reference to the result that has been obtained in the preceding fiscal year.
- *Information with respect to the closing paragraph*. In this part of the cover sheet you record whether the management board addresses the expectations about the future and/or directs words of gratitude towards its employees, shareholders, and so on. In addition, you need to record your perception of the tone of the final paragraph: positive, negative, or neutral.

⁴ In case of causal attributions where an effect is explained by several reasons (i.e. concern combinations as Ax-Bx.1, Ax-Bx.2, Ax-Bx.3 etc.), the length is determined for each of the cause-effect (i.e. Ax-Bx.1) separately.

- *Future outlook*: Here, you record whether the management board expresses his expectations about the future (for example, on a location other than the final paragraph). If so, record as well whether the expectations are positive, negative, or neutral.
- *Words of gratitude*: lay down whether the management board directs his words of gratitude towards a specific interest group, as shareholders, employees, customers, society, or other (it is possible to cross mark more than one category).

On the cover sheet the coding of the “unexplained effects” are recorded as well. The meaning of the dimensions is the same as is described below under “outcome/effect” in the section section.

Appendix 4 contains an example of a letter to the shareholders that has been coded (including coding and cover sheets).

CODING DIMENSIONS

The causal attributions as have been identified and agreed upon by the coders are coded on each of the dimensions described below. Only if you think that not one of the provided options (for a single dimension) is able to reflect the meaning of the cause or effect that is coded, you may use the option “Uncodeable on this dimension.” Below, we first address the dimensions concerning the outcome/effect (e.g., profit increase, sales decrease, etc.) (dimensions 01 to 05). Subsequently, we address the dimensions concerning the causes/reasons (dimensions 10 to 17).

A. Outcome/effect

01. Nature of the effect

- 1 Profits/net earnings/results
- 2 Sales/revenues
- 3 Costs
- 4 Market share
- 5 Shareholder value/earnings per share
- 6 General/other
- 9 More than one of those mentioned above

02. Valence of the effect

- 1 Positive (e.g., sales increase, decrease of profits, record profits, etc.)
- 2 Negative (e.g., earnings decrease, increasing losses, etc.)
- 9 Uncodeable on this dimension

When coding on valence of the effect, you need to evaluate the effect from management's point of view in order to determine whether the effect is positive or negative.

03. Time orientation of the effect

- 1 Past (effect concerns an event of preceding fiscal years)
- 2 Present (effect concerns an event of the fiscal year under review)
- 3 Future (effect concerns a future event)
- 9 Uncodeable on this dimension

The fiscal year that is reviewed in the letter to the shareholders is the point of reference for deciding on this dimension.

04. Effect is quantitative and/or qualitative

- 1 Quantitative
- 2 Qualitative
- 3 Both quantitative as well as qualitative
- 9 Uncodeable on this dimension

When coding on this dimension you decide whether the effect has been expressed in quantitative terms, with monetary values or percentages being mentioned (e.g., "sales increased by x%" or "Profits decreased to Y million", etc.). Alternatively, it is also possible that only qualitative terms are used, with possibly adjectives being used (e.g., "The record performance can be attributed to ...", "The considerable improvement in sales can be explained by ..."). Another possibility is that both qualitative and quantitative terms have been used.

05. Level of effect

- 1 Division/product/geographic segment
- 2 Group level/company as whole
- 9 Uncodeable on this dimension

When coding on this dimension you determine whether the effect concerns the company as whole, or specifically addresses a division/product/segment of the company.

B. Cause/reason

10. Explicitness of the cause-effect relationship

- 1 Explicit
- 2 Implicit
- 9 Uncodeable on this dimension

A cause-effect relationship is coded “explicit” if connective words or phrases as “because”, “influenced by”, “has resulted in”, “is attributable to”, etc. are present. A cause-effect relationship is implicit if no such connective words or phrases have been used, but a causal relationship can be easily identified from the text.

11. Direction of cause-effect relationship

- 1 Same direction
- 2 Opposite direction
- 9 Uncodeable on this dimension

The direction concerns whether cause and effect have the same sign (e.g. both positive or negative). Examples of cause-effect relationships that have the same sign are: “The improvement in sales was the results of the marketing strategy we implemented last year” and “The record loss of 199x is the result of the increasing material prices.” Cause-effect relationships stated in opposite directions may frequently be recognised because connective words or phrases are used. Examples of such connective words or phrases are “notwithstanding”, “despite”, “although”, etc. (e.g., “Notwithstanding the Asia

crisis our company succeeded in achieving outstanding results for the fiscal year”).

12. Time orientation of cause/reason

- 1 Past (cause is situated in preceding fiscal year(s))
- 2 Present (cause is situation in fiscal year under review)
- 3 Future (cause will occur in future fiscal years)
- 9 Uncodeable on this dimension

In coding this dimension the moment that the cause has occurred or will occur is the point of reference. In this context, the present refers to the fiscal year that is reviewed in the letter to the shareholders.

13. Cause/reason is quantitative and/or qualitative

- 1 Quantitative
- 2 Qualitative
- 3 Both quantitative and qualitative
- 9 Uncodeable on this dimension

When coding along this dimension you decide whether the cause has been expressed in quantitative terms, with monetary values or percentages being mentioned (e.g., “Profits decreased due to an increase in interest rates to 8%”). Alternatively, it is also possible that only qualitative terms are used, with possibly adjectives being used (e.g., “The decrease in profits may be explained by the increased interest rate compared to last year”). Another possibility is that both qualitative and quantitative terms have been used.

14. Nature of cause/reason

- 1 Causal explanation (“clear-cut, ordinary” language)
- 2 Accounting-technical explanation
- 9 Uncodeable on this dimension

Causal explanations are explanations that have been stated in “clear-cut, ordinary” language, for example: “sales decreased as a result of a drop in demand in the Latin American region.”

In case of accounting-technical explanations, the causes or reasons are predominantly stated in accounting-technical terms. Examples of such explanations are: “The profit decline can be attributed to the increase in financial costs”, “An extraordinary benefit resulting from the sale of Division X has resulted in the outstanding profit level we obtained this year”, etc..

15. Locus of causality of cause/reason

- 1 Internal cause, with explicit reference to management board/CEO
- 2 Internal cause, with explicit reference to segments/divisions within the company
- 3 Internal cause, with explicit reference to personnel
- 4 Other internal causes
- 5 External cause; cause is on sector- or industry level
- 6 External cause; cause is on general economic level
- 7 Other external causes
- 9 Uncodeable on this dimension

When coding on this dimension the origin of the cause is central. A cause/reason is coded “internal” if it refers to an action, policy, decision, etc. taken or executed by members of the company. Examples of internal causes are “corporate strategy”, “RandD efforts”, “marketing efforts”, “quality of personnel”, etc.. A cause is external if the origin of the cause lies outside the corporation, e.g., inflation, interest rates, market prices, competition, etc..

16. Stability of cause/reason

- 1 Stable
- 2 Temporal
- 9 Uncodeable on this dimension

This dimension concerns whether the cause changes over time. A cause is coded stable if it would persist in the future and, more or less, would lead to the same outcome. Otherwise stated, stable causes are to a certain extent permanent and unchanging. Corporate strategy, the economic trend are examples of stable causes. Temporal causes, on the other hand, are less permanent. On the contrary, they are temporal and may change within the period of a year. It is very likely that such variable causes would lead to a

different outcome. One time divestment of a division, starting up costs, etc. are examples of variable causes.

17. Controllability of cause/reason

- 1 Controllable
- 2 Uncontrollable
- 9 Uncodeable on this dimension

The issue whether management or the corporation is able to influence, i.e. to control, the cause is central when coding on this dimension. Examples of controllable causes are the corporate strategy, marketing efforts, decisions to buy or sell a company, etc.. In case of uncontrollable causes, management does not have the ability to control whether or not the cause will arise. Examples of uncontrollable causes include oil prices going up or down, inflation, governmental regulation or legislation, etc..

III Cover sheet

Personal details

Name		Initials	
Date			
Time spent			

Company

Name	
Year	

Letter to the shareholders

Length:					
# Pages (round off in ½ pages)					
# Columns	1	2	3	4	> 4
# Causal attributions		# Explained effects			# multiple attributions
# Unexplained effects (Z)					

Opening sentence and –paragraph

Opening sentence addresses the organisation's results	Yes	No	Mark/ circle your choice	
According to me the opening sentence is ...	Positive	Negative	Neutral	Mark/circle your choice
According to me the opening paragraph is ...	Positive	Negative	Neutral	Mark/circle your choice

Closing paragraph

<i>The closing paragraph contains management's future expectations</i>	Yes	No	Mark/circle your choice	
<i>The closing paragraph contains a word of gratitude</i>	Yes	No	Mark/circle your choice	
<i>According to me the closing paragraph is ...</i>	Positive	Negative	Neutral	Mark/circle your choice

Future outlook

<i>The letter to the shareholders contains an expression of management about future expectations</i>	Yes	No	Mark/circle your choice	
If so,				
<i>According to me the expectations management expressed are ...</i>	Positive	Negative	Neutral	Mark/circle your choice

Words of gratitude

<i>In the letter to shareholders the following persons and/or groups are thanked for their contribution:</i>			
<i>- former CEO/board members</i>	Yes	No	Mark/circle your choice
<i>- shareholders</i>	Yes	No	
<i>- employees</i>	Yes	No	
<i>- partners</i>	Yes	No	
<i>- customers</i>	Yes	No	
<i>- society</i>	Yes	No	
<i>- stakeholders (in general))</i>	Yes	No	

UNEXPLAINED EFFECTS

(If necessary you can add an extra page containing coding information with respect to Z's)

Z1	Copy the first and last three words		
<i>Nature</i>	1 Profits/earnings/etc	4 Market share	
	2 Sales/revenues	5 Shareholder value/e.p.s.	
	3 Costs	6 General/other	9 More than one
<i>Valence</i>	1 Positive	2 Negative	9 Uncodeable
<i>Quantitative /qualitative</i>	1 Quantitative	2 Qualitative	3 Both
	9 Uncodeable		

Z2	Copy the first and last three words		
<i>Nature</i>	1 Profits/earnings/etc	4 Market share	
	2 Sales/revenues	5 Shareholder value/e.p.s.	
	3 Costs	6 General/other	9 More than one
<i>Valence</i>	1 Positive	2 Negative	9 Uncodeable
<i>Quantitative /qualitative</i>	1 Quantitative	2 Qualitative	3 Both
	9 Uncodeable		

IV Coding sheet

For each of the causal attribution (i.e. cause-effect relationship) use a separate coding sheet.

Identification

Coder		Company	
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Causal attribution

Identification	Page		Id.number	.
Text effect (A) (copy first and last three words)				
Text cause (B) (copy first and last three words)				
Length	# Lines		# Words	
	# Grid boxes			

OUTCOME/EFFECT		(Mark/circle your choice)		
01 Nature	1	Profits/net income/etc.	5	Shareholder value/e.p.s.
	2	Sales/revenues	6	General/other
	3	Costs	9	More than one of those mentioned above
	4	Market share		
02 Valence	1	Positive		
	2	Negative	9	Uncodeable on this dimension
03 Time orientation	1	Past	3	Future
	2	Present	9	Uncodeable on this dimension
04 Quantitative/ qualitative	1	Quantitative	3	Both quantitative and qualitative
	2	Qualitative	9	Uncodeable on this dimension
05 Level	1	Division/product/etc.		
	2	Group level	9	Uncodeable on this dimension

CAUSE/REASON		(Mark/circle your choice)		
10 Explicitness relationship	1	Explicit		
	2	Implicit	9	Uncodeable on this dimension
11 Direction relationship	1	Similar		
	2	Opposite	9	Uncodeable on this dimension
12 Time orientation	1	Past	3	Future
	2	Present	9	Uncodeable on this dimension
13 Quantitative/ qualitative	1	Quantitative	3	Both quantitative/qualitative
	2	Qualitative	9	Uncodeable on this dimension
14 Nature	1	Causal language		
	2	Accounting language	9	Uncodeable on this dimension
15 Locus of causality	1	Internal cause, with reference to management/CEO	5	External cause; cause is on sector- or industry level
	2	Internal cause, with reference to company division	6	External cause; cause is on general economic level
	3	Internal cause, with reference to personnel	7	Other external causes
	4	Other internal causes	9	Uncodeable on this dimension
16 Stability	1	Stable		
	2	Temporal	9	Uncodeable on this dimension
17 Controllability	1	Controllable		
	2	Uncontrollable	9	Uncodeable on this dimension

Samenvatting (summary in Dutch)

Dit boek gaat over zelfpresentatie in jaarverslagen. Meer in het bijzonder hebben we onderzocht op welke wijze bestuursvoorzitters (CEOs) ondernemingsresultaten in hun “Bericht aan de aandeelhouders” verklaren. Daar de inhoud van dergelijke “Berichten” nauwelijks door wet- of regelgeving wordt beïnvloed, bieden ze bestuurders van ondernemingen de mogelijkheid om indrukken die mensen van de onderneming (en van de bestuursvoorzitter zelf) hebben te beïnvloeden. Eerder onderzoek heeft aangetoond dat impressie management—ook wel aangeduid als zelfpresentatie—veelvuldig in jaarverslagen voorkomt. Afgezien van het gebruik van in het oog springende plaatjes, passen bestuurders in jaarverslagen een variëteit aan zelfpresentatietechnieken toe. Hierbij kan worden gedacht aan het aanbrengen van variatie in de leesbaarheid van stukken, het presenteren van “gekleurde” informatie (waarbij vooral het positieve wordt benadrukt) en het verklaren van ondernemingsprestaties op een zelfdienende of zelfzuchtige manier (*self-serving bias*). Hierbij worden goede resultaten, als stijgende winsten, vooral aan het management toegeschreven (*self-enhancement*), terwijl de schuld van tegenvallende resultaten, zoals dalende winsten of groeiende verliezen, wordt gelegd bij factoren in de omgeving (*self-protection*).

In het onderzoek staan twee onderzoeksvragen centraal. De eerste onderzoeksvraag heeft tot doel vast te stellen in hoeverre bestuursvoorzitters de resultaten daadwerkelijk op een zelfdienende manier verklaren in hun “Bericht aan de aandeelhouders.” Eerder onderzoek, voornamelijk uit de Verenigde Staten, laat zien dat mensen in het algemeen, bestuurders inbegrepen, de neiging hebben om successen aan eigen kunnen toe te schrijven. Indien bijvoorbeeld een student voor een tentamen slaagt, zal hij dit in de meeste gevallen aan zichzelf toeschrijven (“Ik heb hard gestudeerd”). Evenzo zal een squashspeler die zijn partij wint dit toeschrijven aan bijvoorbeeld zijn talent of trainingsarbeid. Dezelfde persoon zal echter tegenvallende of teleurstellende prestaties aan de omgeving c.q. factoren die hij niet kan beïnvloeden toeschrijven. Indien de eerder genoemde student zakt voor een tentamen zal hij bijvoorbeeld de schuld geven aan de docent (“Hij kan niet lesgeven”, “De vragen sloten niet aan bij de stof”). Evenzo zal de squashspeler zijn verliespartij wijten aan bijvoorbeeld pech. Onderzoek van onder meer Bettman & Weitz (1983), Staw *et al.* (1983) en Clapham & Schwenk (1991) heeft aangetoond dat dit soort vertekeningen ook optreden in verklaringen die bestuursvoorzitters in hun “Bericht aan de aandeelhouders” voor

ondernemingsprestaties verstrekken. Meer recentelijk is er onderzoek geweest dat laat zien dat ook bestuurders uit België (Aerts, 1994, 2002) en Singapore (Tsang, 2002) niet geheel vrij zijn van deze *self-serving bias*. In hoofdstuk 2 is uiteengezet dat dergelijk gedrag verklaard kan worden vanuit drie theoretische invalshoeken. In alle drie wordt benadrukt dat managers bepaalde indrukken in stand wensen te houden, hetgeen ertoe kan leiden dat ze de ondernemingsresultaten op een nogal vooringenomen manier verklaren. In de eerste invalshoek, gebaseerd op de sociaal-psychologische literatuur over impressie management, wordt de nadruk gelegd op de strategische aard van zelfpresentatie. Meer in het bijzonder wordt aangegeven wanneer mensen juist geneigd zijn aan impressie management te doen. Dit blijkt het geval indien hun gedrag voor publiek waarneembaar is en indien de persoon van mening is dat er een kloof bestaat tussen de manier waarop hij gezien wil worden en de manier waarop hij momenteel wordt gezien. Het idee dat impressie management op een doelbewuste en –gerichte wijze wordt gebruikt sluit ook aan op de literatuur over *symbolic management*. Een belangrijke boodschap binnen deze managementstroom, met vertegenwoordigers als Jeffrey Pfeffer en James Meindl, is dat managers door het verschaffen van verklaringen en het legitimeren van ondernemingsactiviteiten de indruk willen wekken dat zij controle hebben over de omstandigheden. Het behoud van bestaande en aantrekken van nieuwe investeerders is de voornaamste reden waarom zij de indruk van het *in control* zijn in stand wensen te houden. In het tweede theoretische raamwerk, *corporate communications*, afkomstig uit de marketing literatuur, staan identiteit en imago/reputatie centraal. De eerste, identiteit, heeft hoofdzakelijk betrekking op de wijze waarop ondernemingen zich presenteren aan de omgeving (middels gedrag, communicatie en symboliek). Imago/reputatie daarentegen heeft betrekking op de wijze waarop buitenstaanders de onderneming percipiëren. Het centrale doel van *corporate communications* is het verbeteren of behouden van een bepaald, uiteraard positief, imago mede omdat een goed imago toegang tot de kapitaalmarkt vereenvoudigt en de onderneming in staat stelt hogere prijzen te rekenen voor zijn producten. De laatste invalshoek is de economisch-georiënteerde *agency* theorie. In de *agency* literatuur wordt gewezen op de schadelijke effecten van de scheiding tussen leiding en eigendom die beursgenoteerde ondernemingen typeert. Niettegenstaande disciplinerings-mechanismen als het instellen van een raad van commissarissen en de wettelijke plicht om, door accountants geverifieerde, jaarrekeningen op te stellen en te publiceren, hebben bestuurders, dankzij het bestaan van onzekerheid en hun informatievoorsprong, de mogelijkheid om de informatie die zij verschaffen te vertekenen.

De tweede onderzoeksvraag richt zich op mogelijke culturele verschillen in de mate waarin bestuursvoorzitters geneigd zijn de ondernemingsprestaties op een zelfdienende wijze te verklaren. Daartoe zijn in *hoofdstuk 3* een aantal belanghebbende onderzoeken naar cross-culturele verschillen, van onder meer Hofstede (1980, 2001) en Schwartz (1994, 1999), besproken. De waarde van hun werk moet vooral worden gezocht in het feit dat ze hebben getracht cultuur te vatten in een beperkt aantal dimensies; dimensies die als het ware de essentie van verschillen tussen culturen weerspiegelen. Er blijkt grote mate van overeenstemming te bestaan over een aantal dimensies. De volgende vijf dimensies keren het meest terug: eigenbelang versus groepsbelang, macht versus gelijkheid, hoge versus lage mate van prestatiegerichtheid, korte versus lange termijn oriëntatie en hoge versus lage mate van onzekerheidsvermijding. In *hoofdstuk 4* zien we hoe culturele verschillen van invloed zijn op de wijze waarop mensen uitkomsten van hun (en andermans) prestaties verklaren. In steeds grotere mate wordt binnen de cross-culturele en sociale psychologie aangetoond dat mensen uit Oosterse culturen—en Japan in het bijzonder—in veel geringere mate uitkomsten op een zelfdienende wijze verklaren dan mensen uit Westerse—lees: Amerikaanse—culturen geneigd zijn te doen. Enerzijds zijn mensen uit Oosterse culturen meer bereid hun successen ook aan de omgeving toe te schrijven, bijvoorbeeld aan de docent indien een student slaagt voor zijn tentamen. Anderzijds zijn ze in het geval van falen meer bereid (dan mensen uit Westerse culturen) om dit aan zichzelf te wijten. Bijvoorbeeld, daar waar een Amerikaanse student het zakken voor een tentamen aan de docent zou wijten, is een Japanse student meer bereid dit toe te schrijven aan zijn gebrekkige inspanning. De reden voor dit verschil in verklaringsgedrag wordt vooral gezocht in verschillen in de cultuurdimensie die gerelateerd is aan eigenbelang versus groepsbelang. In een nu al klassiek stuk wijzen Markus & Kitayama (1991) erop dat een verschil in eigenbelang versus groepsbelang van grote invloed is op wat zij de *construal of the self* noemen. In essentie onderscheiden zij de onafhankelijke en interdependente *construal of the self*. Daar waar de onafhankelijke *construal* voornamelijk in het Westen voorkomt en nadruk legt op de persoon als onafhankelijk individu met eigen wensen en karakteristieken, laten Oosterse culturen zich typeren door een interdependente *construal* waarbij de persoon vooral gedefinieerd wordt in termen van relaties met anderen. Deze verschillen werken ook door in de manier waarop mensen eigenwaarde (*self-esteem*) trachten te behouden. In Westerse culturen, met de nadruk op de persoon als individu, vereist het verkrijgen dan wel behouden van eigenwaarde juist dat unieke persoonskenmerken en individuele prestaties worden benadrukt. Dit komt onder meer tot uitdrukking in de vorm van het zich voordoen van een zelfdienende

vertekening in het verklaringsgedrag. Voor mensen uit Oosterse culturen daarentegen staat het bewaren van harmonie binnen de groep juist centraal en zou het verklaren van eigen prestaties op een zelfdienende wijze juist averechts werken op de “eigenwaarde”.

Teneinde antwoord te verkrijgen op deze twee onderzoeksvragen zijn in totaal 278 “Berichten aan de aandeelhouders” van Amerikaanse, Japanse en Nederlandse ondernemingen onderworpen aan inhoudsanalyse. In het onderzoek, waarvan het ontwerp beschreven staat in *hoofdstuk 5*, hebben we ons gericht op zogeheten causale attributies. Dit zijn zinnen of zinsdelen waarin een oorzaak-gevolg relatie tot uitdrukking komt. Met andere woorden in een causale attributie worden ondernemingsresultaten gekoppeld aan verklaringen. Een voorbeeld van zo’n causale attributie is de volgende: “In 2000 bleek deze prijsstrategie erg succesvol, resulterend in een 2.5% stijging van de opbrengsten per vat” (uit verslag Anheuser-Busch 2000). Daarnaast hebben we in de inhoudsanalyse ook gekeken naar niet-verklaarde ondernemingsresultaten, omdat die vanuit oogpunt van zelfpresentatie belangrijk (kunnen) zijn. De causale attributies werden gecodeerd naar aard van de uitkomst (positief óf negatief óf niet ondubbelzinnig vast te stellen), de richting van relatie tussen oorzaak en gevolg (gelijke richting óf tegengestelde richting—bijvoorbeeld door gebruik van “ondanks”—óf niet ondubbelzinnig vast te stellen) en *locus* (interne óf externe oorzaak óf niet ondubbelzinnig vast te stellen). In totaal heeft de inhoudsanalyse geresulteerd in 914 onverklaarde ondernemingsresultaten en 911 ondernemingsresultaten die door 1420 verklaringen vergezeld werden.

Hoofdstuk 6 bevat de onderzoeksresultaten. Wat allereerst opvalt is dat in de “Berichten” van de Westerse ondernemingen erg veel nadruk wordt gelegd op positieve uitkomsten. Dit contrasteert erg sterk met de Japanse “Berichten” waarin bestuursvoorzitters voor een meer uitgebalanceerde strategie lijken te kiezen. We vinden, in overeenstemming met Tsang’s onderzoek onder ondernemingen uit Singapore, dat 35% van de onverklaarde ondernemingsresultaten en 45% van de causale attributies in Japanse “Berichten” betrekking hebben op tegenvallende ondernemingsresultaten c.q. negatieve informatie presenteren. We zien twee mogelijke interpretaties voor dit Oost-West verschil. De eerste is gerelateerd aan recente sociaal-psychologische inzichten die benadrukken dat de behoefte om zichzelf in positieve termen uit te drukken vooral aanwezig is in Westerse culturen. Dientengevolge, zo is het argument, wordt ook negatieve informatie als een bedreiging voor de eigenwaarde gezien. In Oosterse culturen daarentegen wordt negatieve informatie helemaal niet als bedreigend ervaren. Integendeel, informatie over waar men tekort heeft geschoten wordt juist gebruikt om zichzelf te perfectioneren en is ook van belang bij het benadrukken van het feit dat iemand

tot een bepaalde groep behoort. Een andere mogelijke interpretatie is gerelateerd aan de Azië Crisis die om en nabij juli 1997 vat begon te krijgen op de economieën in het Verre Oosten. Daar een deel van de “Berichten” betrekking heeft op de periode waarin deze crisis zich voordeed, is het niet denkbeeldig dat de Japanse bestuursvoorzitters eenvoudig weg meer negatieve informatie te presenteren hadden dan hun Westerse collega-bestuurders.

Voor wat betreft de vertekening in causale attributies (*self-serving bias*) vinden we uitkomsten die grotendeels in lijn zijn met eerder onderzoek. We zien dat, ongeacht afkomst, bestuursvoorzitters krediet nemen voor goede ondernemingsresultaten door deze in grotere mate aan interne factoren—factoren die zij kunnen beïnvloeden—dan aan externe factoren toe te schrijven. Voorts zien we dat de Amerikaanse en Japanse bestuursvoorzitters weigeren schuld op zich te nemen voor tegenvallende resultaten door deze in grotere mate aan externe dan aan interne factoren toe te schrijven. Ondanks dat de *self-serving bias* zich in de drie onderzochte landen lijkt voor te doen, zien we ook duidelijke verschillen tussen de landen. Ten eerste blijken de Amerikaanse CEOs in sterkere mate dan hun Japanse en Nederlandse collega's geneigd te zijn positieve uitkomsten aan eigen kunnen toe te schrijven. Dit resultaat bevestigt het Oost-West verschil zoals eerder gevonden is in de sociale en cross-culturele psychologie. Het vergelijken van de drie landen heeft echter ook een aantal opmerkelijke bevindingen opgeleverd. In de eerste plaats lijken de Nederlandse bestuursvoorzitters niet geneigd te zijn teleurstellende resultaten systematisch aan externe factoren te wijten. Net als hun Belgische collega's (Aerts, 1994) schrijven zij slechte resultaten enigszins in grotere mate toe aan interne dan aan externe factoren. Voorts waren ze in veel geringere mate dan de Amerikanen geneigd om krediet te nemen voor gunstige uitkomsten. Dit laatste resultaat suggereert dat er zelfs tussen Westerse culturen zich verschillen in verklaringsgedrag voordoen; iets dat voorheen nog maar weinig aandacht heeft gekregen. Een mogelijke oorzaak voor dit verschil kan gelegen zijn in het verschil in prestatiegerichtheid—daar de landen niet verschillen voor wat betreft *construal of the self*. Terwijl in de Amerikaanse cultuur prestatiegerichtheid een erg belangrijke rol speelt, is zij in de Nederlandse cultuur van geringere betekenis (Hofstede, 2001). Een andere opvallende uitkomst heeft betrekking op de sterke mate waarin Japanse managers slechte ondernemingsprestaties aan de omgeving wijten. Deze bevinding staat in sterk contrast met eerder sociaal-psychologisch en cross-cultureel onderzoek. Daarin werd schuldbevestiging onder Japanners voor tegenvallende resultaten meermalen aangetoond. Er zijn twee mogelijke verklaringen voor dit verschil. De eerste heeft betrekking op de eerder geduide Azië Crisis, die een legitieme en geloofwaardige reden vormde om tegenvallende ondernemingsresultaten aan toe te schrijven. Een

andere, ook in de literatuur genoemde, reden heeft betrekking op de steekproef. Daar waar men in sociaal-psychologisch en cross-cultureel onderzoek voornamelijk onderzoek heeft gedaan onder studenten had ons onderzoek betrekking op bestuursvoorzitters. De mogelijkheid is dus aanwezig dat vertekeningen die over het algemeen onder studenten gevonden worden niet persé generaliseerbaar zijn naar alle groepen binnen een cultuur. Het is dus mogelijk dat vertekeningen die erg sterk onder studenten c.q. jonge mensen aanwezig zijn afzwakken naarmate men ouder en meer ervaren wordt. Zowel Heine *et al.* (1999) als Lee and Tiedens (2002) hebben expliciet op deze mogelijkheid gewezen. Ons onderzoek lijkt een en ander te bevestigen.

Naast de invloed van cultuur op verklaringsgedrag hebben we ook gekeken naar de invloed van factoren als type prestatie (dat wil zeggen was het een goed of slecht jaar voor de onderneming qua prestaties), stabiliteit van de prestaties (is de onderneming in staat relatief gelijkmatige groei te tonen of is er sprake van sterk wisselende resultaten), of de bestuursvoorzitter net benoemd is, de invloed van de algemene economische toestand, etc.. De resultaten laten zien dat type prestatie het verklaringsgedrag erg sterk beïnvloedt en wijzen op het belang van geloofwaardigheid. Net als in eerder onderzoek in de Verenigde Staten van Barlow (1996) vinden ook wij dat bestuursvoorzitters de neiging hebben informatie in hun “Berichten” te presenteren die gebaseerd is op het prestatieniveau van de onderneming. Met andere woorden, het in grotere mate toeschrijven van goede uitkomsten aan interne factoren komt vooral voor indien de onderneming gunstige resultaten gerealiseerd had. Evenzo werden externe factoren voor slechte uitkomsten vooral aangedragen in jaren die vanuit ondernemingsprestaties als ongunstig moeten worden gezien. Wat wel opvalt is dat, indien we de ondernemingsprestaties variëren, de verandering in het aantal negatieve passages aanzienlijk groter is dan de verandering in het aantal positieve passages. Dit suggereert, in lijn met eerder onderzoek van bijvoorbeeld Aerts en Staw *et al.*, dat zelfs indien ondernemingen relatief gesproken slecht presteerden zij toch nog trachtten positieve informatie te presenteren.

De belangrijkste les die bestuursvoorzitters uit dit onderzoek kunnen trekken en die in het concluderende *hoofdstuk 7* wordt benadrukt is de volgende. Ondanks dat de *Global Village* een droom is gebleven zien we wel dat de wereld meer en meer geïntegreerd is geraakt terwijl ondernemingen ook steeds globaler zijn gaan opereren. Ook op het gebied van de financiële verslaggeving is merkbaar dat convergentie van regelgeving en praktijk optreedt, hetgeen alleen maar versterkt wordt onder invoering van de *International Financial Reporting Standards (IFRS)* die vanaf 2005 verplicht zijn voor alle beursgenoteerde ondernemingen. Deze convergentie impliceert echter niet dat culturele verschillen in hun geheel zullen

gaan verdwijnen. Ons onderzoek heeft aangetoond dat cultuur op een nogal subtiele manier van invloed is op de wijze waarop bestuursvoorzitters ondernemingsresultaten presenteren in hun “Bericht aan de aandeelhouders”. Ondanks dat we cultureel bepaalde verschillen in zelfzuchtig gedrag aan hebben getroffen, lijkt de invloed van cultuur van secundaire aard te zijn. Dat wil zeggen, ondanks dat we zagen dat verschillen qua eigenbelang versus groepsbelang en mate van prestatiegerichtheid—twee veel genoemde aspecten waarop culturen verschillen—invloed hadden op de mate waarin bestuursvoorzitters zelfzuchtig verklaringsgedrag aan de dag leggen, is ook gebleken dat dit cultuureffect aanzienlijk kleiner is dan het prestatie-effect. De sterke invloed die uitging van het type ondernemingsprestatie laat zien dat de informatie in het “Bericht” grotendeels in lijn is met de behaalde prestaties en onderstreept het belang van het behouden van geloofwaardigheid. Al met al kunnen we concluderen dat het behouden van het imago van een geloofwaardige boodschapper voor alle bestuurders, ongeacht hun culturele achtergrond, belangrijk is. Dit sluit aan op recent onderzoek van Den Hartog *et al.* (1999) dat laat zien dat “integriteit” in alle culturen wordt gewaardeerd als een positief leiderschapskenmerk. Dit kan ook verklaren waarom het culturele verschil dat wij vonden—en het Oost-West effect in het bijzonder—aanzienlijk kleiner is geweest dan in eerder sociaal psychologisch en cross-cultureel onderzoek. De voornaamste implicatie voor bestuurders is dat zij zorgvuldig het verhaal ten aanzien van de ondernemingsprestaties moeten vormgeven. Het behouden van geloofwaardigheid zou voor iedere bestuursvoorzitter de hoofddoelstelling moeten zijn bij het opstellen van het “Bericht aan de aandeelhouders”. Geloofwaardigheid sluit echter het gebruik van zelfpresentatietechnieken niet in zijn geheel uit. Het gebruik van dergelijke technieken houdt eenvoudig gezegd in dat men de informatie op een dusdanige wijze probeert te verpakken waardoor men alles het ware de lezer helpt bij het trekken van—uiteraard door de bestuursvoorzitter wenselijk geachte—conclusies.

Biography

Reggy Hooghiemstra was born on 14 January 1972 in Oranjestad (Aruba). From 1990 till 1996 he studied economics at the University of Groningen. During this time he spent half a year as an exchange student at the Universidad de Salamanca in Spain. He was furthermore employed by the Department of Auditing of the University of Groningen as a research assistant and completed an internship on value for money auditing at Price Waterhouse in The Hague. After obtaining his Master's degree he worked as an auditor at Price Waterhouse from 1996 till 1998, during which he also obtained his *registeraccountant* certificate (at the University of Groningen).

From September 1998 onwards Reggy Hooghiemstra has been appointed as a PhD student at the Financial Management Department of the Rotterdam School of Management at Erasmus University. From 1999 onwards he also worked as a research associate, specialised in corporate governance, at the Department of Auditing at the University of Groningen.

Reggy Hooghiemstra werd op 14 januari 1972 geboren in Oranjestad (Aruba). Van 1990 tot 1996 studeerde bij economie aan de Rijksuniversiteit Groningen. In deze periode verbleef hij een half jaar als uitwisselingsstudent aan de Universidad de Salamanca in Spanje. Bovendien liep hij stage bij Price Waterhouse in Den Haag op het gebied van 'value for money auditing.' Daarnaast was hij als onderzoeksassistent verbonden aan de Vakgroep Accountancy van de Rijksuniversiteit Groningen. Na zijn afstuderen heeft hij van 1996 tot 1998 als assistent-accountant gewerkt bij Price Waterhouse. In deze periode heeft hij tevens de postdoctorale opleiding tot registeraccountant succesvol afgerond aan de Rijksuniversiteit Groningen.

Vanaf september 1998 is Reggy Hooghiemstra als AIO verbonden aan de vakgroep Financieel Management van de Faculteit Bedrijfskunde aan de Erasmus Universiteit. Sinds 1999 is hij tevens als wetenschappelijk medewerker verbonden aan de Vakgroep Accountancy van de Rijksuniversiteit Groningen, waar hij zich voornamelijk bezighoudt met onderzoek op het gebied van corporate governance.

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