Northumbria Research Link

Through the rose coloured glasses dimly: non-compliance with the UK corporate governance code

Philip J. Shrives
Newcastle Business School, Northumbria University, City Campus East, Newcastle upon Tyne, UK.

> The 'comply or explain' approach is the trademark of corporate governance in the UK. It has been in operation since the Code's beginnings and is the foundation of the Code's flexibility. It is strongly supported by both companies and shareholders and has been widely admired and imitated internationally.
>
> **(FRC, 2010, paragraph 1)**

Please note:
This is a (very) first draft of the paper. Some parts of the research are still on-going. The paper illustrates the method, the typology and some initial results.

A sister paper is related to this paper (Shrives and Brennan, 2013).

Abstract

Any UK Company not complying with the Code of Corporate Governance is required by the Code to provide explanations for each item of non-compliance. This is the capstone of the 'comply or explain' system. Although the 2012 UK Code contains slightly more information on what constitutes an explanation than previous versions of the Code, there are no regulations about the content of those explanations, which means that shareholders and other stakeholders are left to judge their appropriateness. Checks on these explanations are at best minimal by gatekeepers (e.g. auditors) and realistically may not exist. A related paper develops a typology for assessing the quality of those explanations (Shrives and Brennan, 2013). This paper takes a different approach in that it looks at impression management in those explanations.

Where companies fail to comply, due to their unattested nature, managers have much discretion as to how explanations are crafted and presented. They will want to present the company and its corporate governance in the best possible light. The study assesses the use of impression management strategies within explanations for non-compliance using a typology derived from the prior literature. Using the typology, this study examines explanations for non-compliance of UK FTSE 100 companies examining two different periods seven years apart (2004/5 and 2011/12). These periods were chosen as they follow substantial changes made in the 2003 Code and 2010 Code. Two periods are examined because during this time compliance with the Code has increased substantially and non-complying companies have a greater incentive to impression manage their situation.

Keywords: Code of corporate governance, comply or explain, non-compliance, explanation, impression management strategy, typology.

1. Introduction

The UK corporate Governance system relies heavily on normative behaviour. Companies not complying with the Code of Corporate Governance (FRC, 2010; FRC, 2012b) should provide an explanation. In many ways, explanations of non-compliance with UK Corporate Governance requirements can be seen as a keystone of the 'comply or explain' system. However, Wymeersch (2005) raises questions about the validity of a system that is self-regulated and is therefore open to abuse (see also Pass, 2006; Shrives, 2010 and Arcot, Bruno, & Faure-Grimaud, 2010). Many narrative sections within the annual report are not subject to audit and there is a high degree of information asymmetry between users and preparers. When companies are trying to explain their departures from the UK corporate governance Code they will want any non-compliance to be seen in the best possible light. Consequently, managers are likely to engage in impressionistic behaviour. In doing so, they may believe that they are legitimising their non-compliance. Beattie and Jones (2002, p.547) state that "preparers have incentives to manipulate the content of annual reports or at least manage the impression conveyed by them."

Explanations can be viewed in the context of a number of theories. Institutional theory, resource dependency theory and legitimacy theory are all relevant in understanding company behaviour. However, neither these nor impression management theory suggest which *particular* approaches to impressionistic behaviour companies are likely to adopt.

This article is related to another article which looks at the *quality* of explanations (Shrives and Brennan, 2013). This paper is concerned with a related (and potentially overlapping) topic – the use of impression management strategies (or IMS) within explanations. The next section explores what is meant by impression management behaviour.

1.1 Impression Management – Some definitions

This section considers what impression management is and how it relates to accounting. A number of definitions can be found in the literature. Schlenker (190, p.6) defines it as "the conscious or unconscious attempt to control images that are projected in real or imagined social interactions". Tedeschi and Reiss (1981, p.3) define impression management behaviour as "any behaviour that has the purpose of controlling or manipulating the attributions and impressions formed by others". Finally, writing from an accounting disclosure viewpoint that is apposite to this study, Godfrey, Mather and Ramsey, 2003, p.96) assert that

> It is a strand of the financial disclosure literature that examines managers' attempts to manage the interpretations of annual reports. It occurs when management selects the information to display and presents (it) in a manner that is intended to distort readers' perceptions of corporate achievements.

These quotations indicate that impression management can manifest itself in a number of different ways. Practically anything in the annual report can be distorted, manipulated or concealed. It can impact on quantitative results in which case it may either be known as income smoothing (or earnings management) or may involve manipulative disclosure of performance indicators. It could also involve photographs (Anderson & Imperia, 1992) or diagrams. Graphs have also been examined in detail (Beattie & Jones, 2002, 2008; Mather, Ramsay & Serry, 1996; Mather, Ramsay & Steen, 2000). Other authors have also explored the various components of impression management and provide useful methodological advice on how to capture them, see for example, Brennan, Guillamon-Saorin & Pierce (2009).

This work focuses on the manipulation of words and is somewhere between the categories of 'rhetorical manipulation' and a 'meaning-orientated thematic study' as described by Brennan et al. (2009). Where companies are trying to explain something it is quite likely they will make use of impressionistic behaviour in order to maintain their legitimacy. Accordingly this study attempts to

investigate those strategies by developing a typology of impression management strategies from the literature.

Typologies are classification schemes organising phenomena into groups based on the similarity of their particular key features (Bailey, 1994). Like many research tools they exhibit advantages and some disadvantages. Complexity can be reduced by highlighting similarities and differences and they facilitate the making of comparisons. However, disadvantages include the oversimplification of complex issues and as social constructs (Bailey, 1994) they must be used carefully (Shrives and Brennan, 2013).

1.2 Impression management in disclosures

Meaningful and authentic explanations are critical to the effectiveness of the 'comply or explain' system. This study examines explanations for non-compliance in UK FTSE 100 company annual reports in order to assess the extent of the use of impression management strategies. The study is carried out in two different time periods 2004/5 and 2011/12 and this enables the examination of changes that may have taken place since the development of the new versions of the Code (2006,8 and 10). The most recent version of the Code is 2012 although companies are not required to have implemented this at the time of writing. A key part of this work is the development of an impression management typology which could be used in a wider range of research whenever an explanation is required such as:

- Explaining any type of non-compliance

- Explaining poor performance (financial, nonfinancial, or environmental)

- Explaining the imposition of fines or sanctions

Currently, UK companies have free rein over these disclosures in their annual reports. Although the Code specifies what companies should comply with, it is silent as to what happens when non-compliance occurs other than to require companies to provide an explanation. The author (and many others) had previously made representations to the Financial Reporting Council raising issues

about the quality of explanations. A change occurred in the 2012 Code (issued in September 2012) which provided a little more detail as to what was required (FRC, 2012b, page 4, paragraph 3).

> In providing an explanation, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular provision relates, contribute to good governance and promote delivery of business objectives. It should set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle. Where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the company expects to conform with the provision.

However these changes are fairly minimal and will start applying to financial year ends after September 30, 2013. It is hoped that they will improve quality of explanations but is likely to increase the use of impression management in corporate governance statements as companies attempt to justify their explanations.

Four research questions are addressed by the study:

- RQ (1) To develop a typology of impression management strategies (IMS) to describe the use of impression management in explanations for non-compliance.

- RQ (2) To identify how compliance has changed between the 2003 Code and the 2010 Code for FTSE 100 companies

- RQ (3) To assess which IMS are most commonly employed in explanations.

- RQ (4) To explore how the use of impression management strategies have changed over time 2004/6 to seven years later 2011/12.   The 2003 and 2010 Codes are examined (which are relevant to these two years) because both introduced substantial changes vis a vis the Codes in between (i.e. 2006 and 2008).

Although the development of a typology is focussed on compliance statements it could also be applied or adapted for other accounting disclosures. The paper makes the following three contributions to the prior literature:

(i)   This research develops an array of impression management strategies for detecting their use in annual reports.

(ii)   This research identifies the use of IMS in explanations for non-compliance an area which by its nature is likely to be subject to the use of such strategies

(ii)   The research identifies the extent to which the use of IMS has changed over time.

This paper proceeds as follows: the next section examines the background to corporate governance in the UK, then the paper examines the development of impression management. Next a suggested typology is described and the results are discussed. The paper ends with a conclusion and suggestions for further research.

2 Background to the UK Corporate Governance Code

The current (2012) Corporate Governance Code in the UK (and Ireland) has developed over 20 years beginning with the Cadbury Report (Committee on the Financial Aspects of Corporate Governance, 1992) and more recently resulting in the 2012 Code. The essence of the Code is flexibility, with companies able to choose whether or not to fully comply. Many British companies comply with the majority of items in the Code. For those that do not comply, an explanation is required. Although Anand (2006), for example, extols the virtues of the UK Code vis a vis the US equivalent (the Sarbanes Oxley Act), there seems little doubt that companies exploit the flexibility offered by the Code (Fasterling, 2006; Shrives and Brennan, 2013). Although the 'zero tolerance' attitude taken by the Sarbanes-Oxley Act may be welcomed by those who believe that British companies are likely to exploit the flexibility that the UK Code offers, the problem with the former is the enormous resources companies have had to devote to it. Given that companies seem unable or unwilling to provide high quality explanations (Pass, 2006; Shrives and Brennan, 2013) they are arguably likely to be tempted to use impression management to gloss over their non-compliance. In the next section the origins of impression management re considered further.

3 The origins of impression management and a theoretical lens

Impression management research has been carried out by a number of authors in the areas of accounting, performance and corporate governance. However impression management has its origins in a book written by Erving Goffman in 1959 "The presentation of self in everyday life" (Goffman, 1959) and was developed further by authors such as Edward Jones in the field of psychology and notably by Schlenker in 1980 (Schlenker, 1980). Originally it related to the behaviour of individuals but authors such as Oliver (1991) and Elsbach and Sutton (1992) and Elsbach (1994 and 2006) were influential in applying in to the corporate world.

Elsbach defined it as "tactics designed to effect the perceptions of the image, identity or reputation of an organization" (Elsbach, 2006, p. xvii). One possible way of categorising impression management in accounting divided the topic into the subdivisions of defensive and assertive categories (Ogden & Clarke, 2005). These categories are utilised in this study.

From a theoretical perspective a number of possible theories are relevant and it is possible that impression management is a theory in itself (see Benoit, 1995). Where companies are trying to explain non-compliance they are likely to use impression management strategies to improve their legitimacy. Hiding non-compliance or 'putting a spin on it' are likely to make the non-compliance seem less serious to readers. Institutional theory suggests that companies may choose to behave like other companies in order to obtain legitimacy. Institutional theory may also explain non-compliance – if it acceptable for one large company not to comply then others may feel that they are justified in non-compliance. Finally one other theory is useful in exploring non-compliance. Resource dependency theory can help explain why companies fail to comply in the first instance. Non-executive directors play a huge part in corporate governance (for instance they staff the key

committees) but sometimes a conflict exists between complying with the Code and supplying a valuable resource to the company. Companies are likely to want to hold on to non-executives who become very useful and the Code with its rules about length of service may become seen as interference.

4 Defensive and Assertive Impression Management Strategies

This section examines possible impression management strategies. These categories were developed from an extensive literature review. These were then tested out on a pilot study of 20 companies. The twelve strategies were then utilised an earlier version of this study (Shrives, 2010). Although not essential, it is quite helpful to subdivide the categories into assertive and defensive following Ogden and Clarke (2005).

4.1 Defensive impression management strategies

1. Apology

Although different authors look at apology in slightly different ways in this section apology is used in the same way as Ogden and Clarke (2005) as meaning my fault (mea culpa). However, the initial pilot study revealed that no companies used an apology when explaining their non-compliance with the Code. However it was retained for completeness because it may have some use in other disclosures to do with wrongdoing, non-compliance or fines.

2. Corrective Action

Although Goffman listed this as a component of apology (Goffman, 1959) this study treats this as a strategy in its own right. Benoit (1995) provides an example referring to the US company Tylenol who apologised when customers of their drugs were poisoned by extremists; the corrective action was to withdraw items from shelves and issue tamper proof bottles. Corrective action appears highly effective as a strategy. The problem has been resolved or is to be resolved. Most problems in life seem less concerning when the promise of restitution is provided. "The car has been damaged" is

much softened by the addition of "but it is booked in for repair" or (even better) "is already repaired". The problem with this explanation is that it suggests no further questions or action to be taken. In reality some other questions are needed (for instance), why exactly was the car damaged, will it affect the insurance premium and was any one hurt? These are all relevant and reasonable questions but the corrective action strategy implies that these questions are not needed despite their relevance. For companies we need to know why did the non-compliance occur (lack of succession planning, for example), was any damaged caused in the meantime and is it likely to reoccur? The narrator of corrective action fears these questions and wishes them to be 'swept under corrective action cover up'. Yet these are questions the reader deserves to know the answers to and may influence the investors' view of risk or future investment.

A pilot study found that this category was highly used by companies and four different categories were proposed which were relevant to compliance statements (Shrives, 2010). These categories are:

2a Corrective action already taken. This category is used where the only explanation is that corrective action has been taken by the date the annual report was finalised.

2b Corrective action to be taken with clear timescales. This category indicates that although corrective action is planned it has not yet been actioned. It is worthwhile noting that in some cases promises may not be met.

2c The promise of corrective action in the future (without timescales). This is like 2b but no timescale for the rectification is provided which make suggest that the corrective action is less likely to occur.

2d The promise to keep the need for corrective action under review. This last approach acknowledges that an issue exists but does not suggest whether it will be fixed or not. The reader will not know whether the directors don't agree with the Code or simply do not feel the need to comply.

3. Bolstering

Bolstering involves referring to some positive event which diverts the reader away from the area in question. This approach is particularly successful if the "positive traits or actions appear relevant" (Benoit, 1995, p.77). Thus stating the company had received an award for good corporate governance may for example, make someone less concerned about incidences of non-compliance. Awards for good corporate governance are perhaps less likely to be awarded to non-compliers but it is possible as non-compliance with an explanation should ideally be seen as equal to full compliance.

4. Minimisation of negative feeling

This is a very common strategy within the impression management literature (Goffman, 1959; Schelnker, 1980; Scott & Lyman 1968; Tedeschi & Reiss, 1981; Bebbington, Larrinaga, & Moneva, 2008). It essentially says that non-compliance is likely to cause little damage. It could be seen as quite insulting to the Code originators (and developers) though because it is suggestive that the Code section that is not complied with is trivial. This would be perhaps less serious if the company is just claiming non-compliance for a short period of time or has put in place other corporate governance controls. It would be up to users to determine whether it mattered that controls were not in place for a short time (which could be serious) or whether the company had adequate additional controls. However, one would think that it would be difficult to maintain that non-compliance with a key aspect of the Code is trivial.

5. Differentiation

This strategy is employed where the company or individual agrees that a particular act is undesirable but is less so when seen in the light of some other more serious act. Jameson (2000) refers to this as

an adjusted perspectives comparison in which the context of a misdemeanour is somehow altered. It is possible companies may use this approach but on balance it seems unlikely.

6. Transcendence

Transcendence also alters the context but takes the view that some act is necessary because of a the need to envision a larger or bigger picture. The action may seem bad but in fact has a silver lining which more than compensates and thus the 'end justify the means'. This is a common strategy discussed in the literature and a number of studies have referred to it (e.g. Jameson, 2000; Oliver, 1991; Schlenker, 1980; Scott & Lyman, 1968; Tedeschi & Reiss, 1981; Bebbington et al., 2008). In one sense the bad action is attributed to a good outcome and thus it could be seen as a variant of attribution (Aerts, 2005). Resource dependency theory can explain this approach in that the company fails to comply with the Code because of a need for particular resources e.g. the need to retain a non-executive director who despite lacking independence (possibly because of time in the role) nevertheless performs a very useful service. Oliver (1991) suggests that when managers choose not to comply with regulations (or Code in this case) a "virtue is made out of non-compliance" (Oliver, 1991, p.150). The implication is that shareholders can be served better. Similarly Elsbach and Sutton (1992) discuss how companies can utilise "impression management tactics (so as to) shift attention away from controversial actions and toward socially desirable goals" (p.699). The literature thus suggests that this particular strategy is likely to be very popular in impression management statements.

7. Attribution

Attribution is listed as a defensive strategy by Ogden and Clarke (2005) but it could be seen as an assertive strategy too. This approach which aims to present the directors in the best possible light is consistent with the self-serving basis of agency theory. Again in the literature this is a common approach (Burke, 1970; Tedeschi & Reiss, 1981; Jameson, 2000; and Aerts, 2001 are examples).

When challenged the respondent agrees that something is wrong but the excuse they give is to blame something or someone else (Scott & Lyman, 1968). The fault is blamed on others, perhaps previous directors or owners (sometimes called dissociation or decoupling) and rectification is attributed to the current managers.

A number of disclosure studies have examined attribution. Staw, McKechnie and Puffer (1983) examined letters to shareholders in 81 US companies and found that positive outcomes were linked to internal sources and negative outcomes were attributed to external influences such as the weather or the economy. Another example is provided by Ogden and Clarke (2005) in their study that examined privatisation of water companies in the UK. They showed how the existence of chemicals in the water supply (cryptosporidium) was attributed to heavy rain washing over treated agricultural land. The implication was that there was an undesirable outcome but it was not the company's (Yorkshire Water) fault. Yorkshire water also blamed past management. Similarly Aerts (1994) found that bad outcomes were obfuscated by using technical terms to describe them while good outcomes were linked to management. This internal/external dichotomy is a key defining feature of attribution studies. Attribution can be particularly effective as a strategy when combined with another strategy such as corrective action.

Attribution was explored during the pilot study and it was also discussed with a second coder (who carried out checks on the coding). It was decided that four different categories of attribution were useful. First external circumstances were blamed, second blame was put on internal factors such as a board restructuring, third non-compliance was attributed to a legal contract (typically set up prior to the Code) and finally the situation where shareholders voted about a situation leading to non-compliance.

8. Supplication

Supplication occurs when a company broadcasts its limitations (Bolino & Turnley, 2003; Jones & Pitman, 1982). For example, a company could indicate that it was having problems with compliance. This strategy was retained for completeness but it was thought to be relatively unlikely to occur after the pilot work was completed.

This section has considered defensive impression management strategies.in explanations for non-compliance it is more likely that companies will use defensive language rather than assertive approaches. Also work on the effectiveness of impression management behaviour has suggested that defensive approaches are more effective than assertive ones (Bateman & Crant, 1993). However, it is acknowledged that some companies may use a more assertive approach is explaining their non-compliance and this is explored in the next section.

4.2 Assertive impression management strategies

From the literature four different assertive strategies (9-12) were identified as being possibly relevant to explaining non-compliance.

9. Ingratiation

This strategy is concerned with flattering others (Jones & Pitman, 1982; Tedeschi & Melburg, 1984; Bolino & Turnley; 2003; Ogden & Clarke, 2005). This would be used if the company was trying to flatter those who were involved in the development of the Code.

10. Self-promotion and exemplification

These are seen as two different strategies in the literature (Jones & Pitman, 1982; Bolino & Turnley; 2003; Ogden & Clarke, 2005) but for the purposes of this study it would be difficult to distinguish reliably between them. Self-promotion is where individuals or organisations try to promote themselves by claiming a level of competence. This is could be demonstrated when companies claim

that their behaviour is an example to others (exemplification) and try to claim that it is superior to that of others.

11. Challenge

Oliver (1991) within her concept of defiance identified the strategies of challenge and attack. Challenge could be where companies challenge the basic premise of the Code or individual principles or individual Code sections, attack in contrast would be much more aggressive and may involve belittling or denouncing the Code. This might be in line with intimidation (Jones & Pittman, 1982). Challenge might be particularly powerful as an impression management strategy when combined with transcendence (strategy 6 above). In that way any "negative repercussions" of non-compliance can be removed by references to "higher goals" (Aerts, 2005, p.497). Again this would be consistent with a resource dependency based view (non-compliance is a necessary inconvenience in order to provide the company with the resources it needs) and Oliver's (1991) view articulated earlier that a virtue can be made out of non-compliance. Based on the work carried out in the pilot study two categories were envisaged (11a- slight challenge; 11b more aggressive or determined challenge).

12. Concealment or denial

Concealment is concerned with hiding or disguising non-conformity. It could be used where managers try to "disguise the fact that (they) do not intend to implement (rules or guidance)" (Oliver, 1991, p.154). This would also be consistent with other writers who suggest that denial implies that the failure event (in this case non-compliance) did not occur (Schonbach, 1980) or that managers claim to be innocent of the event (Schlenker, 1980).

As regards non-compliance there are a number of possibilities. The company could claim compliance despite not complying or admit to some non-compliance without disclosing all items. For example they may admit to non-compliance issues to do with the audit committee but fail to draw attention

to issues to do with directors' independence. In this study it would be difficult to pick up these concealment issues without carrying out an audit of the business (although these areas remain important areas for further work). Taking a straightforward approach, first, a single concealment strategy was identified:

- Non-compliance stated but no reason given – a company stated the non-compliance but did not provide the explanation (strategy 12a).   This also applies where the company states that the issue is now resolved but does not give an explanation which the issue occurred.

Second, three other related strategies were also identified. Some companies employed a strategy termed by this research (Shrives, 2010) as 'hunt the thimble' (strategy 12b). In this strategy compliance is claimed except 'as noted below'. This effectively means that the reader has to seek out non-compliance themselves. This is problematic for a number of reasons. It can be difficult to distinguish between whether companies are describing and claiming compliance or explaining non-compliance. Second, the reader does not know how many instances of non-compliance to look for although the presumption would be at least one. Thus non-compliance is hidden from the reader.

Another area where the company tries to hide non-compliance is through the use of 'weasel words' (strategy 12c). Weasel words are difficult to identify ex ante as they are likely to vary from company to company and each company uses them in a different way. These are words which detract the reader away from non-compliance and focus on compliance. For example companies may claim full compliance except for certain items. The company may refer to three items of non-compliance but list four perhaps combining two together. The company may claim highest standards of corporate governance despite non-compliance.[1] Reports were examined for hunt the thimble approaches and weasel words in addition to the 12 strategies.

Finally, this study accepts that quality and impression management inevitably overlap. The last strategy was used by Shrives and Brennan (2013) in assessing quality of disclosures and is termed comprehensiveness. It relates to whether or not companies provide the Code reference relating to the area of non-compliance. Surprisingly, it is commonly left out of explanations thus making it difficult for readers to be sure what exactly is not being complied with. Not including the Code reference helps hide exactly what is not being complied with and hence it is reasonable to include this strategy under denial (strategy 12d).

5. Sample and Method

The sample comprises two groups of FTSE 100 companies. The first group made up of FTSE 100 companies whose annual reports relate to the first time compliance with the 2003 Code (typically year ends 2004 or 2005). In order to maximise the number of possible explanations, the year after the 2003 Code (which contained the most Code changes) was selected. Although the Code has gone through other incarnations, the 2003 changes were most significant and thus it was felt they would provide a variety of explanations to test the quality typology. The second group related to financial reports produced approximately 7 years later in 2011/112 and complied with the 2010 version of the Combined Code.

Where companies failed to comply with the Code explanations for non-compliance were extracted from their annual reports. Annual reports were obtained from company websites (preferred), from websites that provided access to company reports, or as a last resort hard copies were obtained from the company, libraries or other sources. All companies that claimed compliance with the Code were excluded from the sample. Investment trusts were also excluded. This is because of their nature and the fact that they have a separate Code (Grant Thornton, 2011).

The final sample (2004/5 with 2011/12 in brackets) comprised 63 (45) non-compliant companies covering 168 (78) Code violations. The average number of violations per non-compliant company was 2.67 (1.7) Code violations. Explanations were identified from annual reports by searching (electronically) for the words 'compliance', 'Code', or 'corporate governance' within annual reports until the relevant section was found and then repeatedly until the researcher was sure all relevant items were located. Occasionally, explanations were in different places to violations so repeated searching helped identified them.

Explanations were extracted from the annual reports and then collated. For 2004/5 a detailed process of coding, recoding and then second coding was undertaken. The second coder was a

researcher in corporate governance but not in the same area. The first coder provided examples followed by training and then a test. Calculations of agreement were carried out allowing for the fact that chance agreement may be a factor. Where first and second coders disagreed it was necessary to reflect on the new for additional training. If the first coder was felt to be incorrect similar items were re-coded. Once the second coder accepts the view of the first coder additional raining was provided. Although not yet carried out to date the coding for the 2011/12 explanations will follow a similar pattern to ensure that the data presented is reliable. This ensures that the recognised techniques of content analysis are followed (see for example Krippendorff, 2004).

6. Preliminary results and discussion

6.1 Typology (Research Question 1)

A typology of impression management strategies was developed from the literature in order to provide a basis for assessing the quality of explanations. This typology has uses outside of this research and can be used/adapted wherever explanations are required in annual reports or press releases (including for poor financial performance). The typology is shown in Figure 1.

< Insert Figure 1 here>

6.2 Compliance (Research Question 2)

This research question examined the number of companies which failed to comply. The relevant details are provided in Table 1. The highest number of non-compliance in a FTSE 100 company was 12 items in 2004/5 versus 5 items in 2011/12. The key (top 5) specific areas of non-compliance are summarised in Table 2.

< Insert Tables 1 and 2 here>

While the system is described as 'comply or explain' there is little doubt that the FRC prefers compliance over non-compliance and the numbers complying with the Code have clearly increased. Similarly, of those that do not comply (the focus of this study), companies are not complying with

fewer items and the average number of non-compliances per company has fallen from 2.67 to 1.7 over the period. As indicated the key areas of non-compliance represent the proportion of the board comprising independent non-executives, followed by the constitution of the various board committees. It is very *surprising* how many large companies do not comply with what are arguably tenets of corporate governance. It is reasonable to suggest that managers of companies may feel that as other large companies do not comply, then there are fewer pressures on them to do so. From a different perspective it is not surprising that managers do not comply with these areas. For example a resource dependency theory would suggest that once companies feel confident with non-executives, they wish to retain them and benefit from the expertise they have developed. From a legitimacy perspective it seems that non-compliance does not create a legitimacy issue as so many other companies are also not complying. From an institutional theory perspective if a large FTSE company does not comply with a key aspect of the Code others may feel it is acceptable to mimic that behaviour. Thus, companies and their managers may be willing to violate the Code (in particular the rules on independence and the associated committees) in order to keep those resources (non-executives). Thus, resource dependency theory can explain the lack of compliance in these key areas.

6.3 Impression management strategies (RQs 3 and 4)

These are summarised in Table 3 although note that at the time of writing strategies 12b-d are not included in the summary. The popularity of certain strategies are similar in both accounting periods. Minimisation of negative feeling (strategy 4) is the most popular strategy in both circumstances but note that relatively speaking it is more common in 2011/12 than in 2004/5. If an adjustment was made for the number of non-compliances then this use of this strategy has increased by 60% since 2004/5 more than in 2004/5. The same is also true of transcendence (strategy 6). While there are fewer incidences occurring (27 versus 38), if an adjustment was made for the number of non-compliances then this strategy would show around a 50% increase since 2004/5. Similarly the 'no

clear explanation' category (12a) shows an increase in the number of strategies employed once an adjustment is made for the relative number of non-compliances. Although not included in the table, preliminary results suggest that the use of other strategies such as 'hunt the thimble' (12b) and weasel words (12c) have also increased in proportion to the number of non-compliances.

< Insert Table 3 here>

These initial results suggest that although non-compliance decreased substantially, key areas of corporate governance are still not being complied with. An earlier paper raised questions about the quality of explanations (Shrives & Brennan, 2013); in too many cases it is difficult to be totally sure which items of the Code companies have complied with. Yet these hidden away non-compliances are not trivial – often they concern key areas of the Code. This study also shows that companies make considerable use of impression management strategies to hide or put a gloss on their non-compliance. From a theoretical perspective resource dependency theory can explain non-compliance in these key areas and institutional theory explains how non-compliance is dressed up to look like compliance in order to achieve a (false) legitimacy. The problem is no-one is willing to challenge companies. The FRC feels that shareholders should raise questions, but there is a tendency not to ask questions if performance is strong. Auditors only audit a narrow aspect of corporate governance practice and refuse to look at explanations.

7. Concluding Comments: A game of corporate governance cluedo?

In theory, 'comply or explain' is a good system of corporate governance. In practice there are some concerns and until these concerns are resolved other countries should delay imitating a system which is flawed. Shrives and Brenan (2013) demonstrate the poor quality of explanations. This paper shows increased use of impression management strategies as companies are pushed towards compliance.

Although the FRC may feel that increased compliance is 'good' and as more companies comply the concern for explanations is lessened (FRC, 2012a), the situation is somewhat more complex. Compliance can be seen as a cause for concern. Companies may be tempted to take short cuts in order to demonstrate 'so called' compliance. Where non-compliance is admitted to, it can become difficult to see which items are explanations for non-compliance and which disclosures are trying to justify and turn non-compliance into what appears to be compliance. In many ways the 'explain' part of 'comply or explain' is the most important, yet it appears to the author that the FRC is mainly focussed on compliance (FRC, 2012a).

Non-compliance should, in fact, be welcomed where company directors have made a clear and conscious decision and it should only be questioned where the explanation is of low quality. The truth is that in many cases non-compliance is either hidden (through a glass dimly) and it is often dressed up and written in manipulative language (making it appear as if it is read through rose coloured spectacles). The combination of these together means it is very difficult for readers to appreciate company's real corporate governance situation. In short it is like playing corporate governance 'cluedo'.[2] This is particularly concerning because the non-compliance items are likely to be of a risky nature and cannot be described as trivial.

This paper has a number of limitations. The typology is not necessarily comprehensive and the occurrence of items is generally a matter of judgement.[3] Nevertheless, some important areas have been highlighted and these remain a topic for further research.

Figure 1: Architecture of coding scheme –Impression management in explanations (Based around Beattie, McInnes and Fearnley, 2004)
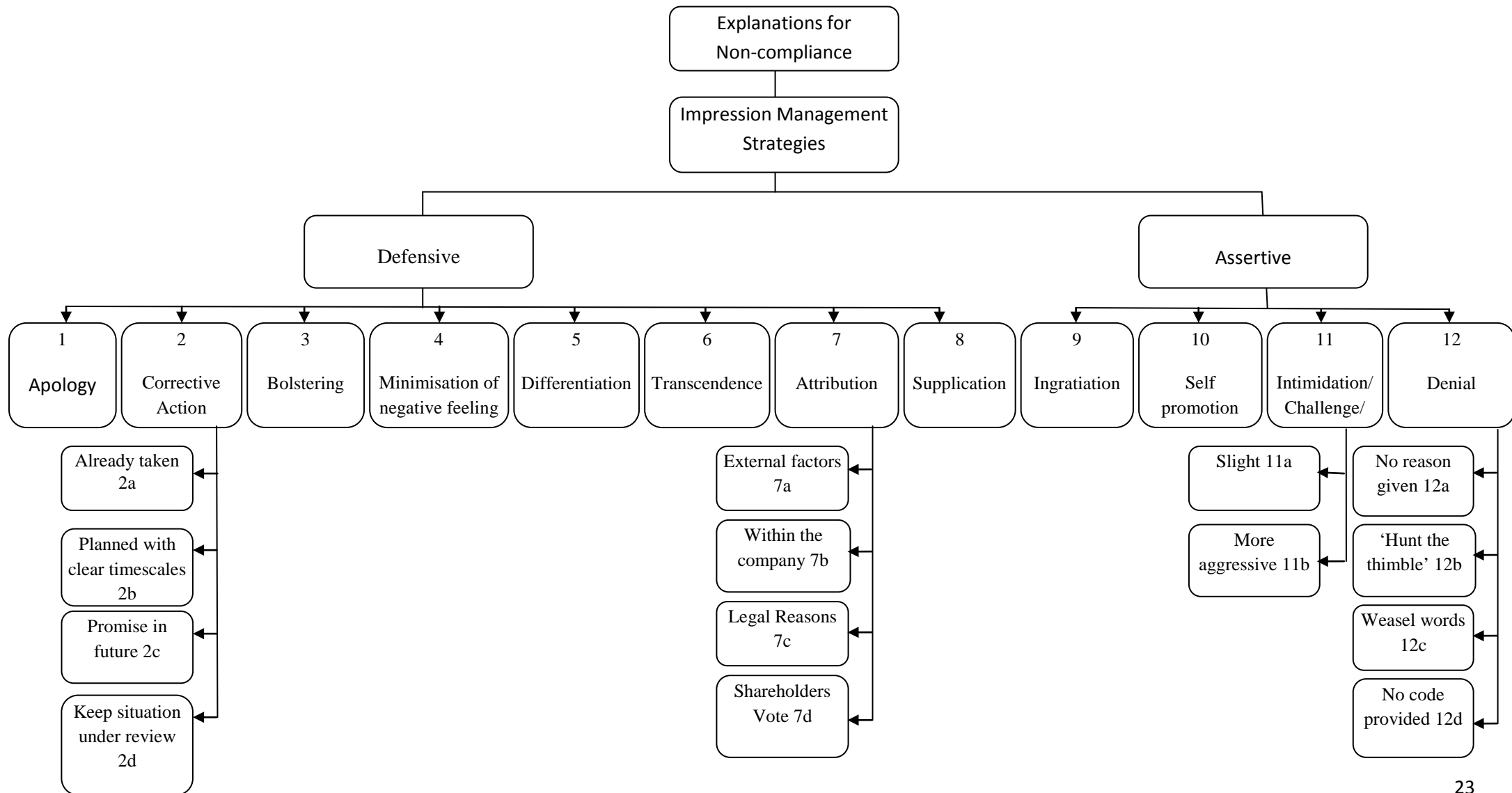
No. of Items	FTSE 100 2004/5 No. of companies	%	FTSE 100 2011/12 No. of companies	%
Table 1: The extent of non-compliance				
1	21	32%	27	60%
2	16	26%	10	22%
3	15	24%	3	7%
4	6	10%	3	7%
5	0	0%	2	4%
6 or more	5	8%	0	0%
Total	**63**	**100%**	**45**	**100%**

Table 2: Violations by code reference: Top 5 violations					
2003 Code Reference **/2010 Code (where different)**	**Code Details**	**FTSE 100 Companies**			
		2004/5 **No. of violations**	**Rank**	**2011/12** **No. of violations**	**Rank**
A.3.2/B.1.2	Percentage of the board to comprise independent non-executive directors	23	2	14	1
B.2.1/D.2.1	Remuneration committee constitution	22	3	13	2
C.3.1	Audit committee constitution	30	1	9	3
A.4.1/B.2.1	Nomination committee constitution	14	4	5	4
A.2.1	Duality principle	9	5	4	Outside top 5
A.3.3/A.4.1	Rules re senior independent director	6	Outside top 5	5	4=

Table 3: Incidence of impression management strategies (ranked by 'top five' strategies in each group*) in FTSE 100 companies							
Impression management Strategy	Details of strategy	2004/5 No.	%	Ranking	2011/12 No.	%	Ranking
4	Minimisation of negative feeling	51	23%	1	38	30%	1
2a	Corrective action taken	50	22%	2	17	13%	3
6	Transcendence	38	17%	3	27	21%	2
12a	No clear explanation	16	7%	4=	12	9%	4
7b	Attribution – internal	16	7%	4=	4	4%	Not in top 5
2c	Corrective action planned	15	7%	Not in top 5	6	5%	5
Other categories		38	17%		23	18%	
Total		224	100%		127	100%	
Note: A full list of strategies is provided in Figure 1.							
Source: Developed by author (including taxonomy)							

Notes

1. Coding rules were developed during the pilot study. It is accepted that a company can claim high standards without complying with all aspects of the Code. However it was felt claiming 'highest' standards was an example of a weasel word.

2. In North America this game is called 'Clue'. It is a murder/mystery deduction game. A similar game could be devised around corporate governance working out for example the percentage of independent non-executives or assessing the constitution of the audit committee. While no murders

are likely to be involved (excusing the possibility of the death of Robert Maxwell) players will need all their deductive skills to solve the hidden corporate governance mysteries.

3. Undoubtedly there are other strategies that could have discussed such as obfuscation (see Courtis, 2004). That perspective was ultimately felt to be more associated with disclosure quality see Shrives and Brennan, 2013). It is accepted that the quality/impression management strategy split is subject to judgement.

References

Aerts, W. (1994). On the use of accounting logic as an explanatory category in narrative accounting disclosures. *Accounting, Organizations and Society*, *19*(45), pp. 337-353.

Aerts, W. (2001). Inertia in the attributional content of annual accounting narratives. *European Accounting Review*, *10*(1), pp. 3-32.

Aerts, W. (2005). Picking up the pieces: Impression management in the retrospective attributional framing of accounting outcomes. *Accounting, Organizations and Society*, *30*, pp. 439-517.

Anand, A. (2006). An analysis of enabling vs. mandatory corporate governance structures post Sarbanes-Oxley. *Delaware Journal of Corporate Law*, *31*, 229-252.

Anderson, C. & Imperia, G. (1992). The corporate annual report: A photo analysis of male and female portrayals, *The Journal of Business Communications*, *22*(2), pp. 113-128.

Arcot, S., Bruno, V., & Faure-Grimaud, A. (2010). Corporate governance in the UK: Is the 'comply or explain' approach working? *International Review of Law and Economics*, *30*(2), 193-201.

Bailey, K.D. (1994). *Typologies and Taxonomies – An Introduction to Classification Techniques.* Sage Publications, Thousand Oaks, CA.

Bateman, T. S., & Crant, J. M. (1993). The proactive component of organizational behavior: A measure and correlates. *Journal of Organizational Behavior*, *14*(2), 103-118.

Beattie, V. & Jones, M.J. (2002) Measurement distortion of graphs in corporate reports: An experimental study. *Accounting, Auditing and Accountability Journal*, *15*(4), pp. 546-564.

Beattie, V. & Jones, M.J. (2008) Corporate Reporting using graphs: A review and synthesis. *Journal of Accounting Literature*, *27*, pp. 71-110.

Beattie, V., McInnes, W. & Fearnley, S. (2004). A methodology for analysing and evaluating narratives in annual reports: A comprehensive descriptive profile and metrics for disclosure quality attributes. *Accounting Forum*, *28*(3), 205-236.

Bebbington, J., Larrinaga, C. & Moneva, J.M. (2008). Corporate social reporting and reputation risk management. *Accounting, Auditing and Accountability Journal*, *21*(3), pp. 337-361.

Benoit, W. (1995). *Accounts, Excuses and Apologies: A Theory of Image Restoration* (Albany, New York, State University of New York Press).

Bolino, M.C. & Turnley, W.H. (2003). More than one way to make an impression: Exploring profiles of impression management. *Journal of Management*, *29*(2), pp. 141-160.

Brennan, N.M., Guillamon-Saorin, E., & Pierce, A. (2009). Methodological Insights: Impression management: Developing and illustrating a scheme of analysis for narrative disclosures – a methodological note. *Accounting, Auditing and Accountability Journal*, *22*(5), 789 – 832.

Burke, K. (1970). *The Rhetoric of Religion* (Berkeley, University of California Press).

Courtis, J.K. (2004). Corporate report obfuscation: Artefact or phenomenon. *The British Accounting Review*, *36*(3), 291-312.

Elsbach, K. & Sutton, R. (1992) Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories. *Academy of Management Journal*, *35*(4), pp. 699-738.

Elsbach, K. (1994). Managing organizational legitimacy in the California cattle industry: The construction and effectiveness of verbal accounts. *Administrative Science Quarterly*, 57-88.

Elsbach, K. (2006). *Organizational perception management*. Psychology Press.

Fasterling, B. (2006). Prospects and limits of corporate governance codes. In: P. Ali & G. Gregoriou (Eds.) *International Corporate Governance after Sarbanes-Oxley* (467-484). Hoboken, N.J: John Wiley and Sons.

(The) Financial Reporting Council (FRC) (2003). *The Combined Code on Corporate Governance*. Available at www.frc.org.uk (Accessed 30.09.06).

(The) Financial Reporting Council (FRC) (2009). *Review of the effectiveness of the Combined Code: Call for Evidence.* Available at www.frc.org.uk (Accessed 30.04.09).

(The) Financial Reporting Council (FRC) (2010). *The UK Corporate Governance Code*. Available at www.frc.org.uk (Accessed 07.07.10).

(The) Financial Reporting Council (FRC) (2011). *Cutting Clutter. Cutting Clutter in Annual Reports*. London: FRC. (Accessed 11.12.11).

(The) Financial Reporting Council (FRC) (2012a). What constitutes an explanation under comply or explain? Report of discussions between companies and investors. London: FRC. Available at www.frc.org.uk (Accessed 07.08.12).

(The) Financial Reporting Council (FRC) (2012b). *The UK Corporate Governance Code*. Available at www.frc.org.uk (Accessed 06.11.12).

Godfrey, J., Mather, P. & Ramsay, A. (2003). Earnings and impression management: The case of CEO changes. *Abacus*, *39*(1), pp. 95-123.

Goffman, E. (1959). *The Presentation of Self in Everyday Life* (New York, Doubleday/ Anchor Books).

Grant Thornton (2011). *Corporate Governance Review (A changing climate Fresh challenges ahead*) Grant Thornton Risk Management Services. Available at: www.grant-thornton.co.uk (Accessed: 01.05.12).

Jameson, D.A. (2000). Telling the investment story: A narrative analysis of shareholder reports. *The Journal of Business Communication*, *37*(1), pp. 7-38.

Jones, E. & Pittman, T. (1982). Toward a general theory of strategic self presentation, in: J. Suls (Ed) *Psychological Perspectives on the Self* (Hillsdale, NJ, Lawrence Erlbaum Associates).

Krippendorff, K. (2004). *Content Analysis: An Introduction to its Methodology,* 2nd edition, (Thousand Oaks, CA., Sage Publications).

Mather, P., Ramsay, A. & Serry, A. (1996). The use and representational faithfulness of graphs in annual reports: Australian evidence. *Australian Accounting Review*, *6*(2), pp. 56-63.

Mather, P., Ramsay, A. & Steen, A. (2000). The use and representational faithfulness of graphs in IPO prospectuses. *Accounting, Auditing and Accountability Journal*, *13*(1), pp. 65-83.

Ogden, S. & Clarke, J. (2005). Customer disclosures, impression management and the construction of legitimacy. *Accounting, Auditing and Accountability Journal*, *18*(3), pp. 313-345.

Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review. 16*(1), 145-179.

Pass, C. (2006). The revised Combined Code and corporate governance: An empirical sample of 50 large UK companies. *Managerial Law*, *48*(5), 467-478.

Seidl, D. Sanderson, P. & Roberts, J. (2012). Applying the comply or explain principle: Discursive legitimacy tactics with regards to codes of corporate governance. *Journal of Management and Governance 16* (1), 1-36.

Schlenker, B. (1980). *Impression Management: The Self Concept, Social Identity and Interpersonal Relations.* (Monterey, CA., Brooks/Cole publishing).

Scott, M. & Lyman, S. (1968). Accounts, *American Sociological Review*, *33*, pp. 46-62.

Shrives, P.J. (2010). *Disclosure in Disarray: Assessing corporate governance explanations of non-compliance.* Ph.D. dissertation, University College Dublin.

Shrives P.J. & Brennan, N.M. (2013). *A typology for exploring the quality of explanations for non-compliance with UK Corporate Governance Regulations.* Accepted paper K010 for APIRA (Asia Pacific Interdisciplinary Research in Accounting) conference, July 26-28 2013, Kobe, Japan.

Staw, B.M., P.I. McKechnie & S.M. Puffer. (1983). The justification of organizational performance. *Administrative Science Quarterly*, *28*, 582-600.

Sydserff, R. & Weetman, P. (1999). A texture index for evaluating accounting narratives: An alternative to readability formulas. *Accounting, Auditing and Accountability Journal*, *12*(4), 459-488.

Tedeschi, J. & Melburg, V. (1984). Impression management and influence in organization, in: Bacharach, S. & Lawler, E. (Eds.), *Research in the Sociology of Organizations*, Vol. 3, (Greenwich, CT., JAI Press).

Tedeschi, J. & Reiss, M. (1981). Verbal strategies in impression management, in: Antaki, C. (Ed.), *The Psychology of Everyday Explanations of Social Behaviour* (London, Academic Press).

The Times (2008). M&S move to promote Rose is appalling says Schroders, *The Times*, March 29, 56.

Wymeersch, E. (2005). Implementation of the Corporate Governance Codes. In Hopt, K., Wymeersch, E., Kanda, K. & Baum, H. (Eds.) *Reforming Company and Takeover Law in Europe* (403-419). Oxford: Oxford University Press.