Communicating the financial impact of the global financial crisis: a study of the annual reports of Australian NFP aid and development organisations

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Abstract

Purpose: To analyse the extent and nature of the communication of the GFC’s impact in the annual report narratives of a selection of Australian not-for-profit (NFP) aid and development organisations.

Design/methodology/approach: The content of the annual reports of 10 Australian not-for-profit aid and development organisations is analysed for their use of Impression Management (IM) techniques.

Findings: All organisations experienced some financial impact from the global financial crisis (GFC), with all but one referring to this in the narrative of their annual reports. This narrative was very limited however, indicating a missed opportunity to communicate with stakeholders. Furthermore, of the 9 orgs that did provide disclosure of the GFC’s impact, 8 of them used at least one IM technique in their narratives, thus reducing the transparency of their communication.

Research limitations/implications: This study provides a detailed analysis of a limited number of organisations in just one Australian NFP sub sector, international aid. Further research could broaden this study include more aid and development organisations or organisations in other categories of the sector.

Practical implications: In the current economic environment NFPs face ongoing resourcing and operational issues. The meaningful and transparent communication of these issues with their stakeholders will help to build a robust relationship that can ensure the future sustainability of organisations and the sector.

Originality/value: IM has been employed primarily in quantitative studies of profit-oriented organisations. This qualitative study focusing on the NFP sector not only reinforces the recognised need for narrative communication by NFP orgs, but also provides evidence of the quality of the communication currently provided.

Keywords: Global financial crisis; Australian NFPs; impression management; annual reports; financial reports
1. Introduction

The Global Financial Crisis (GFC) of 2008 and 2009 was a major economic event with continuing global ramifications. During this period, the worst was feared for Australian businesses and the economy, however, limited public attention was given to the GFC’s impact on the Not-For-Profit (NFP) sector. Australia successfully avoided going into recession; however evidence suggests that it still faced significant negative impacts including a decline in economic growth, rising unemployment rates and businesses performing poorly with many being forced to close (Access Economics 2008; Kim and Penn 2008; Edwards 2010; Butterly, 2011). As a result, in addition to a predicted decline in NFP funding, demands for the services of the sector increased significantly, threatening the ability of NFPS to fulfill their mission (Access Economics 2008; Melouney and Mayoh, 2010). It also created uncertainty regarding the sustainability of NFP organisations during and after the crisis (CSI, PwC & FIA, 2009a, 2009b; Besel et al., 2011; Boney 2011). However NFP organisations also had to balance this sustainability struggle with the presentation of an unimpaired image to stakeholders, in order to ensure that they continued receiving funds to operate.

This tension of balancing economic hardship while presenting a positive image could lead to NFP organisations managing their communication of the crisis by presenting the performance of the organisation in the best possible light. This is a strategy known as impression management (IM). The application of this concept to organisations, i.e. promoting corporate reputation through annual reports, is relatively recent, but has gained extensive adoption. There is limited research, however, analysing the communication by organisations in the NFP sector about the impact of the GFC, especially relating to the presentation of negative or potentially negative outcomes.

The purpose of this qualitative study is therefore to use IM theory to analyse the way the impact of the GFC was communicated in the annual report
narratives of a sample of Australian Non Government Organisations \(^1\) (NFP aid and development organisations). The focus of the study is on analysing the annual reports of 10 organisations in a section of the NFP sector, aid and development organisations. The organisations whose reports are used in this study were signatories and/or members of the Australian Council for International Development (ACFID), a council that oversees the accountability of NFP international aid organisations in Australia.

This study is the first qualitative study to analyse the way NFP organisations communicate with stakeholders through their annual reports during times of economic hardship from the perspective of IM theory. From this, we identified opportunities where communication could be improved.

The paper is structured as follows. First, we provide an overview of the impact of the GFC on Australia and its NFP sector. We then introduce IM theory, identifying the way it is used to analyse annual reports and developing a framework for the conduct of the study. Following this we outline the qualitative research design, including the development of an IM theory framework used to answer the research question through content analysis. Results and findings of the narrative analysis are then presented and discussed. The conclusion identifies opportunities for future research, and highlights the contribution of the study.

2. The Global Financial Crisis and the Australian not-for-profit sector

The 2008-2009 GFC was a major economic event that shook financial markets worldwide. Prior to the crisis, financial markets were considered highly sustainable with easy access to credit, limited risks and low interest rates that encouraged aggressive lending practices in a highly deregulated market (Antonopoulou, 2010). In the US this led to the creation and distribution of new and innovative financial securities that were backed by residential mortgages (Crotty, 2009). Expectation of low risks and high returns led investors to demand more of these securities, and financial institutions were encouraged to lend even to the least creditworthy (sub-prime)

\(^1\) Specifically these are organisations that form part of the wider Australian NFP sector
individuals, creating a bubble in the US housing market (Crotty, 2009; Routheli, 2010).

Signs of economic meltdown were evident by August 2007 as US homeowners defaulted on their mortgages; house prices started declining and interest rates increased. This resulted in losses to investors holding mortgage-backed securities (Crotty, 2009; Routheli, 2010). Trust in credit markets and counterparties ceased and financial institutions tightened credit conditions. The aggregate loss of investors was too large for the financial markets to bear, leading to further financial deterioration. Due to the interconnectedness of the financial markets and banking systems worldwide, the impact of the crisis was felt worldwide, being in full swing by September 2008 (Antonopulou, 2010). The crisis had a direct impact on households by reducing consumption levels and household wealth.

The impact on the Australian economy was evident with its slowing after years of unprecedented economic growth (Edwards, 2010). While a proactive approach by the Australian government ensured that Australia did not go into recession, the country still suffered negative impacts from the GFC due to rising unemployment, falling commodity prices and business closures that put pressure on its low-middle income earning population (Access Economics, 2008; Commonwealth of Australia, 2009).

These factors increased the demand for social services in Australia with the federal department of Human Services reported increasing pressure in the number of people asking for government support growing rapidly (Commonwealth of Australia, 2009). NFP organisations also experienced a similar increase in demands for their services (AusAID, 2010). The Australian Parliament’s 2009 report on the impact of the GFC on Australia noted that NFP services providers were lacking the financial and human capital to meet the increase in unemployment (Commonwealth of Australia, 2009). The NFP

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2 A Canadian survey in 2010 found that demand for the services of NFPs had increased there, but was accompanied by stagnant revenues and expenditures that threatened to overwhelm those revenues (Imagine Canada, 2010).
sector was therefore not immune from the effects of the GFC across the Australian economy³.

The Australian NFP sector consists of over 700,000 organisations and agencies that assist families and individuals with financial and human services both directly and through facilitating government programs (Barned, 2009). In 2007, NFP organisations assisted over 2 million Australians (Access Economics, 2008). This made these organisations an essential part of the Australian community but there were signs that indicated that the sector was already working at full capacity. More than 70,000 individuals were turned away in 2007 by NFP organisations due to a lack of resources (Access Economics, 2008). In 2008 the GFC thus put further pressure on an already struggling sector. This raised the question of the financial sustainability of the sector in a time of economic downturn, where the demand for the services of the sector increased but the resources needed for the sector to operate were constrained.

Two studies were conducted in an attempt to find evidence of how the NFP sector was impacted by the financial crisis. The first of these studies was a two stage survey-based study conducted by the Centre for Social Impact (CSI), PricewaterHouse Coopers (PwC) and Fundraising Institute of Australia (FIA) (CSI et al., 2009a; 2009b). The surveys assessed what the management across a range of NFP organisations sensed to be the impact of the crisis, using responses from 119 different organisations (CSI et al., 2009a; 2009b). The results of the two surveys confirmed the expectation that the NFP was being impacted negatively, but also that it was not as severe as anticipated. This finding was similar to the impact on the Australian economy, which was also not as severe as originally anticipated. The survey respondents indicated that the income of their NFP organisation had decreased and was expected to continue decreasing for a further 12 months, specifically donations, fundraising and investment income (CSI et al., 2009b).

³ A 2012 US study identified that the nonprofit sector there was still struggling to meet the demands of the public in the “aftermath of the 2007 – 2009 economic recession” (Salamon et al, 2012, p. 1).
The second study by Access Economics (2008) relating to the impact of the GFC on the NFP sector was derived from an assessment of the impact on the Australian economy, specifically employment, the housing sector and emergency relief, all of which are linked to the rise of demand in social service sector. This study came to the logical conclusion that the NFP sector was negatively impacted, because of the increase in demand for services concurrently with a decrease in funding. Australian aid and development organisations faced the demands of the developing world at a time of global economic downturn, alongside the prospect of receiving decreased funding from Australian stakeholders.

The overall anticipated impact of the crisis has been captured in these studies, however they do not reveal how NFP organisations communicated this negative impact to their stakeholders. While NFPs communicate through websites and media releases, for research purposes the most reliable method of studying the communication with stakeholders is to analyse an organisation's annual reports (Koonce and Mercer, 2005; Brennan et al., 2009; Merkl-Davies et al., 2011). These not only provide audited financial information, but their narratives provide a means of assessing how firms communicated any major events that have affected them during the year. Therefore, it would be expected that any impacts of the GFC should be reflected in the financial statements and that a more detailed discussion on the issue would be available in the narratives of the annual report. It is well established in academic literature that besides the use of annual reports as a tool to communicate with stakeholders, management uses these reports to present their activities in the best possible light, adopting IM techniques (White and Hanson, 2002; Brennan et al., 2009; Merkl-Davies et al., 2011).

3. Impression Management

The concept of IM was developed by Goffman (1959) who argued that self-presentation was an important instrument for individuals to hold a place in the social order. In social psychology, IM is a study of how individuals present themselves to build a favourable image and reputation among the people around them (Hooghiemstra, 2003). Since organisations take the form of a ‘legal person’ IM has been applied extensively to organisations to analyse the
extent to which they have reflected or constructed an image. IM construction entails either reflection or construction of an image. Reflection involves presenting an accurate view of the organisation but focuses on more favourable or positive outcomes whereas construction of image involves presenting an image that may not be accurate (Merkl-Davies et al., 2011).

The concepts of corporate reputation and corporate image play a central role in corporate communication (Hooghiemstra, 2003). Previous literature has emphasised the importance for firms of image and reputation in a competitive environment (Dowling, 1986; Schmitt et al, 1995; White & Hanson, 2002). This image is mainly built on the financial soundness of the firm, although recent studies identify narratives in annual reports as a contributing factor (Merkl-Davies & Brennan, 2007; Brennan et al, 2009). A corporate annual report can be seen as “an exercise in communication” that is carried by the images and words that are voluntarily included along with financial statements and other regulated reports (Davison, 2008, p. 792). The use of annual reports for these purposes is quite logical because annual reports are among the most common formal form of corporate communication with external parties (Barnd, 2009). Subsequent researchers, in studying individual behaviour, have adopted this work.

Many studies now focus on strategies used by management to promote a corporate image through annual report disclosures (Dowling, 1986; Gardner & Martinke, 1988; Rose and Thomsen, 2004; Provis, 2010). These studies have focused primarily on use of IM in annual reports as an instrument of manipulation to mislead investors by presenting an inaccurate image of the firm for personal perverse incentives (White & Hanson, 2002; Aerts, 2005; Skaerbaek, 2005; Merkl-Davies & Brennan, 2007; Brennan et al. 2009; Merkl-Davies et al., 2011). Another focus of analyses is the importance of the role that narratives in the annual reports play in communication between management and stakeholders (Koonce & Mercer, 2005; Skaerbaek 2005; Brennan et al., 2009; Merkl-Davies et al., 2011). Merkl-Davies et al. (2011) argued that the narratives are a vehicle by means of which management forge relationships with stakeholders by providing an account of managerial decisions and actions.
It is well established that annual reports act as an information tool for stakeholders and that management uses these reports to present their firms in the best possible light (White & Hanson, 2002; Clatworthy & Jones, 2001; Aerts, 2001; Merkl-Davies & Brennan, 2007; Brennan et al., 2009). This can involve constructing and maintaining a desired reputation and image through the use of IM techniques (Neu et al., 1998).

IM theory thus has been applied to disclosures in annual reports to understand how management uses these reports to explain performance, and in particular to account for a change in performance. Therefore when analysing annual reports, it is necessary to assess the way in which management has explained organisational performance particularly since the change in performance may be an explanation or apology for negative outcomes and events (Merkl-Davies & Brennan, 2007). Merkl-Davies and Brennan (2007) reviewed and synthesized the literature on discretionary narrative disclosure, including previous works on opportunistic behaviour and engagement in IM, and identified seven IM techniques.

3.1 **Syntactical Manipulation**

The majority of prior studies relating to the analysis of IM used in disclosures in annual reports have focused on the language used to make the disclosures and the use of syntactical manipulation. Difficulty in reading is regarded as obfuscation (Merkl-Davies & Brennan, 2007), defined as “a narrative writing technique that obscures the intended message, or confuses, distracts or perplexes readers, leaving them bewildered or muddled” (Courtis 2004b).

Previous studies have identified managers’ use of language that is difficult to read to obscure negative performance (Baker & Kare, 1992; Kohut & Segars, 1992; Smith & Taffler, 1992; Courtis, 1995; 1998; Jones, 1997; Clatworthy & Jones, 2001). These studies have focused on the readability of the narratives and have compared this to the performance of the firm, where difficulty in readability about negative performance provides evidence of the use of IM. Research using obfuscation hypothesis has provided mixed results. Courtis (2004b) found that the firm’s financial performance and reading difficulty are inversely related, whereas Clatworthy and Jones (2001) and Rutherford (2003) did not find any such relationship. Merkl-Davies and Brennan (2007),
on the other hand, found that organisational size was the determinant of reading difficulty, as larger organisations’ annual reports were more difficult to read.

3.2 Rhetorical Manipulation

Rhetorical manipulation is the use of linguistic choices and rhetorical language to influence meaning, and hence foreshadow any negative performance (Brennan et al. 2009). The technique is also based on the obfuscation concept. Issues such as persuasion, arguments, verbal jousting, credibility, arguments and plausibility of the language can be identified (Brennan & Gray, 2000; Jameson, 2000). Rhetorical language has been used for concealing negative performance by using a passive tone hence it is primarily focused not on what is said, but how it has been said (Merkl-Davies & Brennan, 2007).

The way the managers argue, debate or converse with the intention of pursuing the reader, is the focus of rhetoric technique (Merkl-Davies & Brennan, 2007). Managers may be more direct when performance is positive and less direct otherwise (Jameson, 2000). Thomas (1997) reviewed the linguistic choices adopted by the management of a tool manufacturer with decreasing profits over four years. He found that a decline in organisational performance was associated with an increase in rhetorical language. In this case, the use of rhetorical language underlined the motivations and priorities of the organisation (Brennan et al., 2009).

3.3 Attribution

Attribution is the process whereby an organisation explains the reasons for its performance. Studies on attribution (Aerts, 1994; 2001; Baginski et al., 2000; Hooghiemstra, 2000; Clatworthy & Jones, 2003; Baginski et al., 2004; Aerts, 2005; Barton & Mercer, 2005) have found that management can attribute the responsibility of positive outcomes to organisational or internal factors, hence engaging in self-enhancement. Conversely, management can attribute negative outcomes to external factors, thus giving excuses for bad performance. These studies focus on explanations of performance. Internal factors influencing performance include better performance by staff and
success in achieving planned goals and strategies, whereas external factors could include the state of the economy, industrial factors, and geographic factors. Studies of performance explanations by management in the narratives of annual reports in listed and unlisted companies found that positive performance was disclosed clearly through cause-effect statements whereas negative performance was disclosed using complex accounting terminology (Aerts, 1994; 2001; 2005). When an organisation has both positive and negative outcomes, the IM technique of attribution can be used to attribute positive outcomes to internal factors and negative outcomes to external factors (Hooghiemstra, 2000; Clatworthy & Jones, 2003).

3.4 Thematic Bias

Thematic technique involves management’s presenting a disclosure in the best possible light by using positive and negative words or sentences, thus creating a bias in the information disclosed (Smith & Taffler, 1995; Lang & Lundholm, 2000). Researchers have analysed words and sentence frequencies to analyse the use of thematic manipulation (Brennan et al., 2009). Clatworthy and Jones (2006), in assessing the effect of organisational performance on disclosures in Board Chairs’ statements, analysed quantitative data in the form of passive sentences, and financial performance and future-oriented sentences. Some studies have found that managers have a tendency to emphasise positive performance and marginalize negative outcomes regardless of their performance (Smith & Taffler, 2000; Rutherford, 2005). Lang and Lundholm (2000) used the terms “optimistic”, “pessimistic” and “neutral” to analyse disclosures relating to public offerings of shares before and after the offering. They found that the tone of the disclosures was more optimistic prior to the offering and more neutral after the offering.

3.5 Selectivity

Selectivity entails management’s choosing to disclose certain performance numbers that present the firm in the best possible light (Lougee & Marquardt, 2004), usually through choosing the earnings numbers (Brennan et al., 2009). Selectivity has been identified in prior studies by using quantitative measures, specifically earnings related numbers (Guillamon-Saorin, 2006). These
studies have argued that the aim of management was to engage in selectivity in order to demonstrate more profitability than had actually been achieved (Johnson & Schwarz, 2005; Brennan et al., 2009). Most prior studies have focused on pro forma earnings numbers to demonstrate engagement in IM for the self-serving behaviour of management. Guillamon-Saorin (2006), in her study of the disclosure of earnings amounts in press releases, found that management disclosed the category of earnings number that produced the highest number, thereby influencing the perception of performance.

3.6 Visual Presentation

Visual images in annual reports can provide powerful images that assist management to promote the image of the organisation (Davison, 2008). Visual presentation techniques can be utilized either to highlight or marginalize information by adding visual emphasis. Examples of visual presentation techniques include the placement of information, the use of colour, presenting text in bold, the size of the font, the use of bullet points, and the ordering of information (Courtis, 1996; 2004a; So & Smith, 2002; Bowen et al., 2005; Elliot, 2006; Guillamon-Saorin, 2006; Brennan et al., 2009). Studies have reported mixed findings on the use of visual presentation. Guillamon-Saorin (2006) found that information that enhances firm performance is made more obvious, while information relating to negative outcomes is less prominent. Courtis (2004a) however, in a study of the annual reports of 100 Hong Kong based firms, found no evidence of a difference in use of colour between positive and negative performance. He found that more colour was used both when profitability increased and when decreased.

3.7 Performance Comparisons

The final IM technique identified by Merkl-Davies and Brennan (2007) is the use of performance comparisons. This is the process by which management chooses to present performance comparisons with certain benchmarks that once again portray the firm’s performance in the best possible light (Cassar, 2001; Brennan et al., 2009). Lewellen et al. (1996), in the first study to focus on benchmarks, examined disclosures related to ordinary share price performance in proxy statements. They found that the benchmarks were
biased downwards and therefore the performance comparison was overstated. Short and Palmer (2003), when investigating how CEOs interpret and monitor firm performance using internal and external referent points, found that performance indicators were more likely to be internal referents (past performance) rather than external (industry averages). They also found that external comparisons were more likely to be used by well-performing firms than by poorly performing ones. Schrand and Walther (2000), in their study of use of favourable prior-period performance benchmarks involving the sale of property, plant and equipment, found that organisations were also more likely to present the lowest prior period benchmarks in order to enhance current period performance. This technique has been studied primarily by using quantitative performance comparisons.

Therefore, to assess the communication of the impact of the GFC on organisations, this study used these seven techniques to analyse the narrative disclosures in the annual reports of ten Australian aid and development organisations.

4. The study

The study was conducted using documentary analysis of archival data, specifically the content analysis of annual reports. Content analysis is recognised as the most suitable method for analysing documents (Lee and Petersen 1997; Dew 2005), particularly since risk related disclosures, such as the negative impact of external events, are largely presented qualitatively. Content analysis thus enables the capture of the volume and detail of such disclosures.

The sample for the study is made up of the annual reports of 10 organisations for the 3 years of 2008-2010. All organisations are signatories and/or members of ACFID whose Code of Conduct requires members to be accountable for the way their organisations are managed, to ensure that public trust is built and maintained, with the purpose of improving outcomes in international development activities (ACFID, 2010a). To comply with the Code of Conduct, audited financial reports must be accurate, conform to presentation guidelines, and be presented in a specified format (ACFID,
Transparency in reporting is identified as “a key part of their [organisations’] accountability to all stakeholders” (ACFID, 2010b, p. 12).

Access to the organisations’ annual reports was gained through a Memorandum of Understanding with ACFID, whose members and signatories make up a large portion of the Australian aid and development sector. Organisations whose reports are used are non-identifiable, with the organisations in the sample assigned a letter of the alphabet (see Table 1).

ACFID currently has over 70 members, however not all organisations had data available for all 3 years needed for the study; therefore the sampling size was reduced to 29 (ACFID, 2011). The remaining firms were cross-sectioned based on their total annual income in 2010, with Income Group 1 representing the smallest organisations in terms of annual revenue, Income Groups, 2 and 3 representing medium-sized firms, and Groups 4 and 5 representing the largest (see Table 1). The two median organisations in each of these five income groups were chosen, thus the final sample size is 10 organisations, providing a total of 30 annual reports for analysis, from 2008 to 2010. The aim of the selection and division into Income Groups is to generate a sample size that represents a full cross-section of the sector. Comparisons were made between the larger and smaller firms to assess whether size had any impact on communication.

Table 1: Sampling Procedure

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Annual Revenue (2010)</th>
<th>Org Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Group 1</td>
<td>&lt;$500,000</td>
<td>Org A and Org B</td>
</tr>
<tr>
<td>Income Group 2</td>
<td>$500,000&gt;$1,000,000</td>
<td>Org C and Org D</td>
</tr>
<tr>
<td>Income Group 3</td>
<td>$1,000,000&gt;$5,000,000</td>
<td>Org E and Org F</td>
</tr>
<tr>
<td>Income Group 4</td>
<td>$5,000,000&gt;$10,000,000</td>
<td>Org G and Org H</td>
</tr>
<tr>
<td>Income Group 5</td>
<td>&gt;$10,000,000</td>
<td>Org I and Org J</td>
</tr>
</tbody>
</table>

This study analysed the narratives of the financial statements in 2008, 2009 and 2010 where information about performance relating to the GFC would be disclosed. The analysis also takes a broader view and assesses the importance of transparent communication by organisations to their
stakeholders relating to important events such as the GFC. The narratives were analysed qualitatively using key concepts from IM theory. The following table summarises the seven techniques, and the way they were interpreted in studying the annual reports of the aid and development organisations:

*Table 2: IM techniques, previous literature and their application in this study*

<table>
<thead>
<tr>
<th>IM Technique</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syntactical</td>
<td>Confusing or difficult language is used that is challenging to read; it is unclear what is being communicated</td>
</tr>
<tr>
<td>Rhetorical</td>
<td>The text directs the reader away from the performance of the organisation; the language used emphasises the social and humanitarian motivations and objectives of the organisations</td>
</tr>
<tr>
<td>Attribution</td>
<td>Negative performance is attributed to the GFC and positive outcomes are attributed to internal factors such as the dedication of staff or management policies</td>
</tr>
<tr>
<td>Thematic</td>
<td>Pessimistic statements or future-oriented statements may not present the actual view of the impact of the crisis, thus biasing the reader about the impact of the GFC on the organisation or the severity of the GFC</td>
</tr>
<tr>
<td>Selectivity</td>
<td>Earnings numbers and other quantitative or qualitative disclosures such as specific income and expenditure figures are presented, however they do not represent the overall financial performance during the GFC</td>
</tr>
<tr>
<td>Visual Presentation</td>
<td>Information is placed in later parts of the report; a distracting image such as people living in poverty is placed with the disclosure; different colour is used to provide positive information; small font size is used when disclosing negative outcomes</td>
</tr>
<tr>
<td>Performance Comparisons</td>
<td>Favourable earnings figures over 2008-2010 are presented, compared with poorly performing industries; the impact on developing countries as performance benchmarks is used to present the organisation in the best light</td>
</tr>
</tbody>
</table>

Key word searches and detailed reading of the reports were conducted specifically focusing on the narrative in the reports from Directors, Chairs and CEOs. Since these narratives are largely unregulated, they represent a potential tool for management to present a desired image when communicating with the stakeholders of the organisation (Merkl-Davies et al., 2011).

Disclosures identified were analysed for evidence of the use of the seven IM techniques, as portrayed in Table 2. In addition they were compared with the

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4 *Keywords used: crisis; down-turn; economy; economic crisis; recession; GFC; global crisis; financial crisis; external events; economic fluctuation; economic hardship; global challenges; economic environment*
financial performance from the organisation’s financial statements to assess the extent to which the disclosures corresponded with the actual financial impact.

5. Communicating the impact of the GFC

The financial reports of all organisations in the sample provided evidence of some negative impact of the GFC, with most displaying a reduction in donations and fundraising and/or investment income in 2008, 2009 and in some cases, 2010. The Appendix summarises the income of all 10 organisations over the period 2006-2010. The smallest organisations were impacted the most, with the biggest reported decline in income. The least impacted organisations were the middle-sized organisations in Income Group 3, both of which appeared to be almost completely unaffected by the GFC. The income of each income group is presented in the Appendix. The disclosures of each organisation were compared with the financial performance to assess the extent to which the disclosures correspond with what actually occurred and whether the organisations used IM techniques.

5.1 Income Group 1

The 2 organisations in Income group 1 were most severely impacted by the GFC, as evidenced the greatest decline in income. These it could be expected to have the highest level of disclosure in the narrative, however this was not the case for either organisation. Org A disclosed a significant level of explanatory information while Org B’s communication of the impact was limited.

Organisation A disclosed an aggregate of 851 words of information over the 3 years, 2008, 2009 and 2010. It presented this information in the Chair and CEO reports, using headings and specific subheadings: “Our environment”, “The economic backdrop”, “Looking for the future” and “After the crisis.” The information was easy to find and the language used was easy to read and straightforward, with little evidence of syntactical or visual presentation techniques. This finding is similar to that of Courtis (2004a), who found no evidence of the use of visual presentation technique between firms that were profitable and firms that recorded losses. Therefore, despite being negatively
impacted by the GFC, Org A did not use visual presentation techniques. Org A identified the impact of the GFC on donations and fundraising income and also informed its stakeholders about the commencement of government and private grants that offset the impact on income and allowed the organisation to recover in 2010.

“This economic background did affect our donation income during the year, …was largely offset by increased support from government and corporate sponsors.” (Org A, 2010, Year in review)

However this was all the information disclosed about the financial impact of the GFC. Org A used rhetorical language and performance comparisons in the 3 years of disclosures.

“…we remain privileged in comparison to most others.” (Org A, 2008, Year in review)

“…the need for our work remains as relevant and necessary today as it has ever done.” (Org A, 2008, Year in review)

“Our relative good fortune through the global financial crisis contrasts sharply with that of the nearly 1 billion people in the Asia Pacific…” (Org A, 2010, Year in review)

This language was presented to give report users a sense that, despite the impact of the GFC on the revenue of the organisation, it was not severely affected, with the impact of far less importance than that on the people that they help.

These techniques take the attention away from the impact on the organisation to draw attention to their goals and mission and the people who need their help. While this is an important issue for aid organisations, it does not present the actual impact on the organisation and could potentially create confusion and uncertainty about the actual impact.

The annual reports of Org B, in contrast, contained a brief discussion of the impact of the GFC only in 2009, with a mere 58 words. In these words, the organisation engaged in thematic IM technique, and failed clearly to identify the impact of the GFC.
“We have re-shaped [organisation name] to improve our effectiveness, and in doing so, have met the challenges of the Global Financial Crisis.” (Org B, 2009, Message from the CEO)

Org B stated that it reorganized operations to improve effectiveness and in the process combated the effects of the GFC. It thus provided a positive account of its response to the GFC and as a result, could have biased readers.

This statement, however, was not supported by the financial performance of the organisation. While the surplus increased significantly in 2009 in comparison with 2008, income from donations and fundraising declined and no investment income was received that year. Org B failed to disclose that the only reason for an improved surplus in 2009 was due to a significant reduction in expenditure. Furthermore, the surplus decreased significantly in 2010 due to an increase in program expenditure in that year. Again, Org B failed to disclose this change in expenditure and how it actually met the challenges of the GFC. Therefore the disclosure by Org B was limited and lacked clarity and transparency in its presentation of the actual financial impact and in providing details of its response.

5.2 Income Group 2

The two organisations in Income Group 2 disclosed the least amount of narrative information about the impact of the GFC of any of the organisations across the five income groups. This was despite the fact that the financial statements of both organisations provided evidence of the impact of the GFC, Org C had a significant decline in income in 2008, especially in its income from donations and fundraising, while Org D suffered a small deficit in 2008 and large deficits in 2009 and 2010. Org C failed to disclose any information related to the effects of the GFC while Org D disclosed a mere 78 words over two years, 2008 and 2009. However, the information disclosed was not informative regarding the impact of the GFC.

Due to a decrease in expenditure, Org C did manage to report a surplus in both 2008 and 2009 despite the negative impact on its revenue. The organisation had the opportunity to disclose information about how it
managed its expenditure through the GFC. However the failure to do this represents an opportunity missed by its management.

Org D’s limited disclosures about the impact of the GFC provide evidence of the use of IM techniques. It is suggested that the organisation engaged in the techniques of thematic bias and attribution evident in this disclosure. Despite the impact of the crisis being felt by Org D in 2008, 2009 and 2010, it marginalised the impact of the crisis in its narratives. While the management admitted to the significant impact of the crisis, they used a negative thematic technique to suggest that financial performance and external events are common, multiple and a regular occurrence and that the GFC was merely one of many negative occurrences.

“The global financial crisis has impacted significantly, but so too have natural disasters, war and conflict in many parts of the world.” (Org D, 2010, From the CEO)

This negative theme gives the sense that declining or negative financial performance is to be routinely expected. This also signals the use of the IM technique of attribution where the organisation’s continued deficits were attributed to the external environment or events that occurred in the current period, such as the GFC.

Hooghiemstra (2000), in a study of firms from US and Japan, found that organisations always attribute negative outcomes to external factors regardless of performance. This is reflected in the reports of Org D, which attributed its negative outcomes to multiple external circumstances. Therefore, both organisations in this income group failed to disclose much needed information relating to the impact of the GFC, despite its impact being evident in the financial reports.

5.3 Income Group 3

In contrast to the other income groups, the organisations in Income Group 3 were financially the least impacted by the GFC. This provided an opportunity for the organisations to disclose how they remained unaffected and what decisions management took to ensure a limited impact. They also had the opportunity to enhance their image and reputation by informing stakeholders
of their ability to protect their funds and utilize it appropriately regardless of the economic environment. Both organisations took up this opportunity to report how well they had performed. In doing so, they were selective about the performance numbers that they disclosed, compared performance to the previous year, used thematic bias to enhance their performance and engaged in attribution.

Org E disclosed 350 words in 2008 and 2009 while Org F disclosed 250 words over the same two years. The selectivity of performance numbers was in the form of revenue and surplus amounts and percentages that were compared with those from the previous year. Org F provided details of the increase in its total assets from the previous year. Org F also failed to disclose narrative information about the decreased surplus in 2009 and the deficit in 2010. It therefore missed the opportunity to clarify how it remained unaffected by the GFC and still had a lower surplus from previous years in 2009 and a deficit in 2010.

Both organisations also engaged in attribution by giving all the credit for the success of the organisations to their internal efforts, specifically of staff members. The narratives of both organisations also provided evidence of thematic bias to paint a picture of the GFC as a crisis that was severe and had a significant impact on the sector.

“… particularly in the climate of poverty and global financial crisis where so many people are genuinely struggling to live what we would call a 'meaningful' life.” (Org E, 2008, Program)

“A challenging economic environment to mobilise resources is how 2008 will be remembered.” (Org F, 2008, Resources)

Thus organisations E and F both presented an image of a hostile financial operating environment, but of their triumph through those challenging times. This gave readers the sense that the GFC did have a significant impact on the sector, thus potentially enhancing the magnitude of the financial performance of both the organisations. Therefore both organisations fully utilized the opportunity to present an unharmed image through the crisis. However, in doing so, they engaged in multiple IM techniques that could have misled their
stakeholders regarding the severity of the impact of the GFC on the rest of the Australian aid and development sector.

5.4 Income Group 4

The organisations in Income Group 4 were negatively impacted by the GFC, with both experiencing a decrease in income in 2008. Both organisations disclosed the impact of the GFC with similar information that included admitting to the negative impact but using the IM technique of performance comparison to marginalize its impact on the organisation. Org G disclosed 740 words over 2008 and 2009, whereas Org H disclosed only 150 words in 2010.

The acknowledgment of the impact of the crisis was in the form of discussing the impact on the sector, rather than providing specific information about the organisation. Both organisations used developing countries as the performance benchmark to highlight positive performance, thus engaging in performance comparison technique (Lewellen et al., 1996; Schrand and Walther, 2000; Cassar, 2001; Short and Palmer, 2003). The organisations disclosed information about how significantly people in developing countries had been affected by the crisis and how fortunate Australia was in comparison, in experiencing a smaller GFC impact.

"...the global financial crisis is very much affecting the funds provided for development assistance ... Australia is one of only a handful of countries that have continued their international assistance at the same level." (Org G, 2010, Chairperson’s Report)

This was in contrast to Income Group 3, where Org E and F presented the impact of the GFC as severe and significant. This provided evidence of the way organisations in the same sector use IM techniques to present information differently to promote their desired image. Smith and Taffler (2000), Rutherford (2005) and Guillamon-Saorin (2006) found evidence of firms enhancing positive outcomes regardless of performance, indicating that organisations with both positive and negative performances have engaged in this technique.
The remainder of the disclosures from both organisations focused on discussing the impact on the developing countries in which they operated and using performance comparison with Australia and Australian organisations to present the impact of the GFC as less significant. The use of performance comparison technique can create misunderstanding of the actual impact of the crisis on an organisation. There was inconsistency between the financial performance and the narrative disclosures of the organisations. Stakeholders could have got a sense that the impact of the GFC on Australia was very limited compared with other countries. This implies that the GFC was not such a significant event, and as a result there was limited to no impact on the organisations. However the financial performance of both organisations shows that the impact was felt by organisations in Australia.

5.5 Income Group 5

Both organisations in Income Group 5 reported a decline in income over the period. For Org I, this was in 2010 and for Org J this occurred in 2009. However it was also the decrease in the rate of growth in income that provided an impact. The two organisations provided very contrasting disclosures about the crisis. Org I provided transparent disclosure about the impact of the GFC. Of the 10 organisations’ reports examined in this study, Org I provided the most disclosure on the impact of the GFC, with 868 words over 2008, 2009 and 2010. In contrast, Org J only provided 150 words of disclosure in 2009. Org I provided disclosure of aspects of performance that were negatively impacted from the crisis and the management response to those impacts.

“Expenses in Australian dollars rose by over 30% and donation income was down around 15%.” (Org I, 2009, Chair’s Report)

Org I reported a limited impact of the GFC in 2008 and 2009. The organisation did not attribute the better than anticipated performance to internal factors.

“This was achieved on the basis of stronger than projected income and the favourable Australian dollar exchange rates that prevailed through most of the year.” (Org I, 2010, Team Director’s Report)
This was also in contrast to the organisations in Income Group 3 that attributed their positive financial performance to internal factors. Org J’s disclosure was more focused on attributing performance of the organisation to the generosity of the Australian public. It failed to clarify the reason for its deficit in 2009 or any other aspects of the impact of the crisis. Org J also engaged in performance comparison technique by comparing donation levels with the previous year, and reinforcing that they were consistent.

This disclosure however was not accurate, as revenue from donations decreased in 2009 from 2008. The organisation also failed to disclose the impact of the GFC on the halting of its income from donations each year.

“Despite the worldwide financial crisis, donations remained at last year’s level for the year ending 30th June 2009.” (Org J, 2009, Making a difference)

“…income has remained significantly constant.” (Org J, 2009, Executive Report)

Furthermore it attributed the results to the Australian public, thus marginalizing the impact of the crisis on the organisation. This form of attribution does not fall under the traditional definition of attribution of assigning positive outcomes to internal factors however it does fall under the criteria of management using attribution for self-serving behaviour (Merkl-Davies and Brennan, 2007).

“I've come to appreciate even more, the overwhelming generosity of the Australian people.” (Org J, 2009, Executive Report)

“…our Australian donors have continued to recognise the needs of those living in poverty and distress.” (Org J, 2009, Executive Report)

“I would like to take the opportunity to sincerely thank our Australian donors for their ongoing efforts in helping to relieve poverty throughout the world.” (Org J, 2009, Executive Report)

These reports could have given the readers of Org J’s reports the impression that the revenue of the organisation was unaffected by the GFC due to continued support from the Australian public. It demonstrates the use of thematic bias, whereby Org J provided a positive image of its performance that did not correspond with the financial analysis.
5.6 Discussion

It is evident from the narrative analysis that there was limited communication by the organisations in their annual reports about an event that caused an impact on them all. The largest organisation in the sample (Org I) provided very limited disclosure and the smallest organisation (Org A) provided the second largest volume of disclosure. Org C failed to provide any disclosure of the impact despite their financial statements revealing evidence of a negative impact. In each income group, one organisation provided the majority of the disclosures except for income group 3, where both organisations provided comparable amount of disclosure.

The analysis found evidence of the use of IM techniques by all organisations except Org I. Table 3 provides a summary of this:

**Table 3: The Impression management techniques used by organisations**

<table>
<thead>
<tr>
<th>Income Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>E</td>
<td>F</td>
</tr>
<tr>
<td>No. Words (2008-2010)</td>
<td>851</td>
<td>58</td>
<td>0</td>
<td>78</td>
<td>350</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>740</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>868</td>
<td>150</td>
</tr>
<tr>
<td>IM Technique</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Syntactical</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rhetorical</td>
<td>✓</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Attribution</td>
<td>-</td>
<td>-</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>Thematic</td>
<td>-</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Selectivity</td>
<td>-</td>
<td>-</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>Visual Presentation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Performance Comparison</td>
<td>✓</td>
<td>-</td>
<td>-</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Total IM Techniques used</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

There was no evidence of the use of syntactical techniques and little evidence of rhetoric being used, as the information presented was easy to read and understand from a common sense viewpoint. Thus there appeared to be no obfuscation in the narratives. Previous studies of syntactical manipulation also found no evidence of this technique, and Courtis (1995), Baker and Kare (1992), Smith and Taffler (1992), Clatworthy and Jones (2001) and Rutherford (2003) found no link between an organisation's performance and the use of
syntactical manipulation. There was also no evidence of visual presentation technique as the information disclosed was easy to find and was generally located in the CEO’s or Chair’s reports, located in the early parts of the annual report. There was no evidence of attempts to emphasise positive outcomes or marginalize negative performance. This is contrary to previous studies on for-profit firms, where Bowen et al. (2005) and Guillamon-Saorin (2006) asserted that firms visually directed the reader to emphasise positive outcomes.

The most commonly occurring IM technique identified was the use of thematic bias. This was used differently by organisations in Income Groups 3 and 4. Orgs E and F in Income Group 3 used it to present the GFC as a significant event and contrast their performance with it, whereas Orgs G and H in Income Group 4 disclosed the impact of the GFC as insignificant. This detracted from the communication about the way the organisation performed as well as the severity of the GFC. It may have contributed to a lack of clarity, thus jeopardizing stakeholders’ understanding of the actual impact.

The other contributing factor in the lack of clarity in communication was use of the IM technique of performance comparisons. Organisations made performance comparisons relating to the impact of the GFC between people living in poverty and the countries most severely impacted by the GFC. Although bringing the focus of the impact of the GFC to developing countries was a key issue for aid organisations, this form of communication could have caused stakeholders confusion in making an assessment of the impact on the organisation itself. There was also some evidence of the use of attribution and selectivity. Particularly in the case of Income Group 3, organisations attributed negative performance to the GFC and positive performance to internal factors, while selectively presenting favourably comparative income and surplus figures.

6. Conclusions

It can be concluded from this analysis that the organisations studied failed to communicate the impact of the GFC as transparently as they could have, foregoing the opportunity to communicate meaningfully with their stakeholders. Instead, some engaged in the use of IM techniques that further
reduced the transparency of their GFC-related narratives. This is of concern, and indicates that narrative disclosures may need to be more closely monitored by boards, regulators and auditors to ensure greater clarity in communication. The sample organisations missed an opportunity to present the impact of the GFC and management responses to it, and in consequence, they missed an opportunity to strengthen communication and bonds with their stakeholders. A similar concern relating to the transparency of communication was presented by Barned (2009), however he was more focused on the transparency of financial reporting by NFP organisations rather than narrative disclosures.

This study has two obvious limitations, one inherent in any qualitative research design and the other relating to the small sample size. There is inevitably some subjectivity in analysing the narratives in annual reports. This is an issue common with using content analysis to analyse texts, particularly when adopting a theoretical lens such as IM. While the selection of only 10 organisations provides an opportunity for in-depth analysis, it nevertheless provides a limited snapshot of Australian aid and development organisations.

These limitations however, do open up the opportunity for future research. A larger study could be undertaken to extend the results of this study to more Australian aid organisations and to other sub-sectors of the NFP sector, such as social service providers or NFP employment agencies, with the aim of making organisations aware of the potential of annual reports to communicate meaningfully with stakeholders.

This study contributes to the literature by being the first to analyse qualitatively how NFPs use their annual reports to communicate the impact of a crisis from the perspective of IM theory. In doing so, it provides practical guidance for NFP organisations about the importance of transparency of communication by identifying communication techniques used that may not be helpful and by identifying areas that need to be addressed to improve communication.

NFP organisations, including Australian aid and development organisations, play an important role in improving social wellbeing. However, as revealed in
this study, there is a need to improve the quality of communication between NFP organisations and stakeholders especially during times of economic difficulties. It is necessary for these organisations to communicate their financial policies and performance with full transparency in order to build trust and partnership with stakeholders and society, all of whom are pivotal to the survival of the sector and to the continuing fulfillment of their mission. This raises the matter of the need to educate stakeholders on the issues that NFPs face in discharging their mission.
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Appendix

To analyse the financial performance of the 10 organisations, the income of each organisation over a five-year period, from 2006-2010 was analysed. This time frame enabled comparison of the pre-GFC operating period in 2006 and 2007, operations during the economic downturn of 2008 and 2009, and the return to normal in 2010. The information was gathered from the Financial Statements that are prepared according to the ACFID Code of Conduct that determines the presentation of the statements including the individual line items that are presented. The results are presented in the form of figures (figures A-1 to A-5 below) that show the income trends for each organisation rather than specific figures, due to the requirements of the Memorandum of Understanding with ACFID, that organisations should not be identifiable.

Income Group 1

![Figure A.1. Financial Performance of Income Group 1](image)

Income Group 2

33
Figure A.2. Financial Performance of Income Group 2

Income Group 3

Figure A.3. Financial Performance of Income Group 3

Income Group 4
Income Group 5

Figure A.4. Financial Performance of Income Group 4

Figure A.5. Financial Performance of Income Group 5