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Unraveling Business Communication Strategies: Readability, Results Management, and Tone Management

ABSTRACT

Objective: This work aims to analyze the relationship between Print Management, Results Management and the readability of Reference Forms and Forms 20-F disclosed by Brazilian companies with American Depositary Receipts (ADR) in the period from 2015 to 2019.

Method: The study uses an empirical approach, applying quantitative scientific methods of descriptive statistics, correlation and regression to examine data collected from business documents.

Originality/Relevance: This study fills a theoretical gap by exploring the intersection between Print Management, Output Management and enterprise document readability. The academic relevance lies in the deeper understanding of strategic communication practices adopted by companies.

Results: The main results indicate that Tone Management have an impact on the readability of Reference Forms. Readability manipulation strategies, such as changing syntactic complexity, are employed to influence readers' perceptions.

Theoretical/Methodological contributions: Theoretical implications of this study include improved understanding of readability manipulation strategies and their impact on readers' perceptions. The study highlights the importance of simultaneously considering Impression Management and Results Management when analyzing the Readability of corporate reports.

Keywords: Earnings management, print management, readability, Reference Form, 20-F Form.

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1 INTRODUCTION

Earnings Management normally results from manipulations that are within legal limits. Adopted by managers and accountants, these aim to obtain the desired accounting results. Such practices distort the information contained in the financial statements, interfering with their analysis and the process of allocating resources in the economy (Dechow et al, 1995, Kothari et al., 2005, Novaes et al., 2018). Tone Management consists of exploring the informational asymmetry that exists between manager and stakeholder. The manager manipulates information in text or images to seek an advantage that is, for the most part, undue (Merkl-Davies & Brennan, 2007).

The manipulation of readability predicts that a narrative text can obscure, confuse, distract, and even surprise readers, leaving them bewildered or insecure. Thus, faced with negative performance levels, managers try to manipulate the transparency of the information made available by changing the syntactic complexity of the text (Courtis, 2004). It was then after the publication of the Flesch model (Flesch Readability Formula) that researchers began to use the methodology for assessing the degree of readability applied to different types of text, including financial and administrative reports (Yang et al., 2023).

Given the context presented, this study aims to answer the following question: what is the relationship between Tone Management and Earnings Management with the Readability of Reference Forms and Forms 20-F published by Brazilian companies? The objective of the study is to analyze the relationship between Tone Management and Earnings Management with the Readability of Reference Forms and Forms 20-F released by Brazilian companies with American Depositary Receipts (ADR) in the period from 2015 to 2020.

The inclusion of Reference and 20-F forms in this study is justified by a gap left in Santos and Costa (2008) that was little explored in subsequent years. In Brazil, the transition to the international accounting model gained momentum due to decisions by the *Comissão de*

Valores Mobiliários (CVM) and the Brazilian Central Bank, together with the promulgation of Law 11,638/2007. The new accounting pronouncements reflect IFRS, many of which share similar principles to US GAAP. Subsequently, the Securities and Exchange Commission (SEC) authorized companies with ADRs on the New York Stock Exchange to disclose accounting information in accordance with IFRS, eliminating the need for reconciliation with US GAAP. This convergence movement and the SEC's decision raise questions about the viability of a new accounting model to provide more relevant and reliable information to guide the efficient allocation of resources, connected to the country's institutional characteristics, which play a crucial role in the quality of accounting information. published (Santos & Costa, 2008).

When practicing Earnings Management and Tone Management in corporate reports, strategies related to concealment and manipulation stand out. The manipulation of readability is used to obfuscate bad news or clarify it in order to justify it as not harmful. Courtis (2004) noticed that the consequence of manipulation was a reduction in the clarity of the ideas present in the text. Although, Flesch (1948) had already attributed the difficulty in reading comprehension to the way sentences are constructed.

Clatworthy and Jones (2001), Lahmar and Piras (2023), Rutherford (2003) and Yang et al. (2023) are examples of studies that analyzed narrative accounting disclosures with the aim of clarifying whether more complex and manipulated information is deliberately sent by managers and whether this changes readers' perceptions. For these authors, this is an important topic to be investigated. Thus, by verifying the relationship between the adoption of the manipulation strategy in Tone and Earnings Management and the Readability Index of Forms 20-F and Reference Forms in the Brazilian context, this study aims to contribute to the academic discussion undertaken on this topic.

2 LITERATURE REVIEW

2.1 Accounting Information Management

Among the established means of communication from manager to stakeholder, financial reports stand out. It is through these that administrators make public facts that can reduce shareholders' uncertainty about the company and also assure stakeholders that the company is safe (Baker & Kare, 1992). Thus, the main objective of company disclosures is to communicate useful information to market users so that information asymmetry and agency conflicts between managers and stakeholders can be reduced (Bocmaru, 2015).

Beyer et al. (2010) highlight the monitoring of committed capital (ex-post) and the assessment of potential return given the investment opportunity as important roles that accounting information plays in market economies. To do this, clear and precise information about the company's financial position is necessary, contained in cohesive and fluid texts.

The CPC 00 (R2) pronouncement - Conceptual Framework for Financial Reporting – published in 2019, sets out the requirements considered essential to accounting information. Among which is comprehensibility, which presents clarity and objectivity as components of the accounting information disclosed, covering elements of a formal nature, such as the organization and graphic resources used, as well as the writing and exposition technique used (Lahmar & Piras, 2023).

Additionally, Brazilian companies that have their shares traded on the New York Stock Exchange (NYSE) issue ADRs as a form of security. These must also follow United States legislation, which imposes strict legal parameters. Strict criteria are adopted to ensure reliable audit mechanisms, mitigate risks inherent to the business, avoid accounting fraud and add transparency to companies' accounting results (Yang et al., 2023). Kirch et al. (2012) showed that, when following the rigor of American standards, the Form 20-F of Brazilian companies tends to become more complex.

The Reference Form (FR) began to be adopted by Brazilian companies following a requirement from the Securities and Exchange Commission (CVM), through CVM Normative Instruction 480/2009. This is in addition to the other statements that must be disclosed in the Brazilian market and its structure is mainly based on narrative texts, without being limited to accounting statements and economic-financial indicators. According to a statement from the CVM itself, the creation of the form represents the perspective of a model compatible with the Brazilian market, both from the point of view of the manager and the investor, ensuring an increase in the quality of what is disclosed, in addition to the convergence of national rules and standards those recommended internationally (Souza, 2011).

Santos and Costa (2008) analyzed how accounting profit is presented in statements according to BR GAAP and US GAAP in companies researched. The authors conclude that there is evidence that accounting profit under BR GAAP more prominently incorporates economic return. This may be due to the earlier release of accounting results under Brazilian standards, occurring until April, two months before the results under US GAAP (released in June). One possibility is that the market anticipates the June return when it has access to results in Brazilian standards in April. Another relevant factor may be the concentrated shareholding control of the companies in the sample, where the controllers have privileged information and may be aware of the accounting results in US GAAP before their official disclosure.

2.2 Legibility of 20-F and Reference Forms

Narrative is one of the ways to present thoughts and build conviction, which is as legitimate as the one based on quantitative methods. When narrated information is transmitted at a complex reading level, it inhibits the user's understanding, damaging the assimilation of the transmitted knowledge (Llewellyn, 1998).

Effective communication assumes that the message received by the reader is interpreted in the same way as that intended by the sender. When annual report narratives are written in a

way that requires a level of understanding greater than the target audience's capacity, this principle is compromised (Miranda et al., 2018). In this context, Souza (2011) realized that a high level of education has been required from the user of accounting information, regarding reading the Reference Forms.

However, we need to remember that the North American market is the main destination for foreign companies seeking to join dual listing programs through ADRs. Although it has existed for a long time, Brazilian companies only began to adopt this practice in the 1990s, when the CVM allowed publicly traded companies to trade their shares in other markets, with the aim of strengthening the Brazilian capital market. However, with the evolution of the capital market in Brazil and its increasing integration with international markets, it is becoming increasingly challenging for local investors to achieve exceptional gains in their investment portfolios (Oliveira & Delorme, 2014).

To measure “ease of reading”, researchers from different areas of knowledge use the Flesch index as they consider the to be a simpler and more accurate measure from a holistic perspective (Holtz & Santos, 2020). The Flesch Readability Formula proposes a readability score scale, using parameters such as the average length of sentences and the average number of syllables per word, according to Equation 1 (Flesch, 1948). The readability scale ranges from 0 to 100, from very difficult to very easy in four index ranges (Martins et al., 1996).

$$iLegit = 206,835 - (1,015 \times ASLit) - (84,6 \times ASWit) \quad (1)$$

Where: iLeg: Flesch Legibility index; ALS: number of words divided by the number of sentences; ASW: number of syllables divided by the number of words.

2.3 Earnings Management

The harmful effects of Earnings Management, especially for the prosperity of companies and the economy as a whole, occur due to the influence that accounting information

exerts on the decision-making models of different economic agents. Therefore, the inadequacy of accounting information can lead to allocative inefficiencies between companies and cause an unjustifiable distribution of wealth (Collins et al., 2017).

Some models were developed to assist the study of earnings management through the analysis of accruals. The term accruals is presented as the difference between net income and operating cash flow. This aims to measure the result in an economic sense, regardless of the financial achievement (accrual basis). For such calculation, Kothari et al. (2005) improved the model by Dechow et al. (1995), also known as Modified Jones. Thus, the authors began to capture the effects of companies' performance in addition to return on assets (ROA), according to Equation 2.

$$TACC_{i,t} = \beta_0 + \beta_1(1/AT_{i,t-1}) + \beta_2(\Delta REC_i - \Delta CREC_i) / AT_{i,t-1} + \beta_3(PPE_{i,t}/AT_{i,t-1}) + \beta_4ROA_{i,t} + \epsilon_{i,t} \quad (2)$$

Where: β_0 : intercept; $TACC_{i,t}$: Total accruals of firm i in period t ; ΔREC_i : variation in revenue of firm i in period t ; $\Delta CREC_i$: variation in accounts receivable from firm i in period t ; $PPE_{i,t}$: Fixed Assets of firm i in period t ; $AT_{i,t-1}$: Total assets of company i in the previous period; $\epsilon_{i,t}$: Discretionary Accruals (AD) of firm i in period t .

In view of this, managers can be encouraged to manipulate their reports for users' perceptions and meet their expectations (Silva, 2020). Silva (2020) showed that companies whose accounting information quality level was low tended to carry out more management and present management reports with more optimistic texts.

The paper of Kothari et al. (2010) showed that the negative (positive) linguistic content of business disclosures results in an increase (decrease) in the cost of capital and the volatility of returns. Twedt and Rees (2012) revealed that the textual tone of financial analysts' reports has significant informational content beyond forecasts and recommendations. In contrast, the

results of Novaes et al. (2018) do not support the hypothesis developed that earnings manipulation influences analysts' subsequent forecasts.

In this sense, Lo et al. (2017) found that companies that manipulate profits, both in the previous and current year, prepare complex and complicated management analysis and discussion reports. Ajina et al. (2016) found that companies proven to be involved in earnings management had the highest FOG index values or low readability in their management analysis and discussion reports; This confirms that when managers notice a decrease in results, they increase the complexity of the annual report. Earnings management actions can be categorized as actions of dishonesty or lies by company management, because they create a difference between actual performance and reported performance. Furthermore, results management also violates the company's code of ethics. Companies proven to be involved in results management will produce more complex reports. These reports are difficult to read since, according to Hancock et al. (2008), truth is more accessible compared to lies, and liars will produce more words during communication. Based on the previous discussion, hypothesis 1 of this study is:

Hypothesis 1 (H1): Companies that manage their results tend to publish more readable reports.

2.4 Tone Management

The information contained in the textual narratives of financial reports is as relevant as the other information present in quantitative accounting statements. These are fundamental as relevant instruments for users, as they are a vehicle of information and understanding in the set of financial reports released by companies for the dissemination of accounting information (Llewellyn, 1998; Yamamoto & Salotti, 2006).

With this in mind, Tone Management is a way for managers to manage the image that stakeholders have of the company (Saorin & Osma, 2010). For Courtis (2004) and Saorin and Osma (2010), Tone Management focuses on distorting words and/or illustrations that are part

of the narratives released to the market. Academic literature brings as vehicles for management: letters from the president, reports from presidents, reports with management analysis and discussion, financial and operational analyses, audit reports, footnotes to financial statements, interim reports, prospectuses, press releases, and environmental disclosures (Brennan et al., 2009).

Cavalheiro et al. (2021) analyzed the characteristics of impression management through the use of abnormal tone in the management reports of public companies listed on the Brazilian stock exchange during the period from 2010 to 2017. Their results showed that the probability of observing the use of abnormal positive tone (positive impression management) in management reports decreases as companies' financial performance decreases and it becomes necessary to inform stakeholders of the situation so that they have an understanding of the situation that most favors the company's perception of the future.

Research on clarity and language bias in companies' annual reports indicates that disclosures vary according to the company's performance, and it is common for managers to use complex language and a specific tone to hide unsatisfactory results and highlight good ones (Hassan et al., 2019; Tsileponis et al., 2020; However, studies such as that by Caglio et al. (2020) points out that investors and analysts value more accessible integrated reports, which translates into more positive evaluations of companies. Other researchers, such as Elshandidy et al. (2022), defend the importance of clarity in risk disclosures in integrated reports to adequately assess the quality of this information. It is crucial that comprehensive risk disclosure, now required in the wake of the global credit crisis and by integrated reporting guidelines, be presented in a readable manner and without narrative bias to be truly meaningful (Elshandidy et al., 2022; Gosselin et al., 2021; Linsley & Lawrence, 2007). From these discussions, Hypothesis 2 of this study is:

Hypothesis 2 (H2): The positive tone resulting from the use of Tone Management in reports is negatively related to the readability index.

3 RESEARCH DESIGN

This research uses data from 2015 because, despite the international accounting standard having been introduced in Brazil after 2007, the Transitional Tax Regime (RTT) was established so that companies could gradually adapt to the new reality. The RTT ended on December 31, 2014 and from the beginning of 2015 Law No. 12,973/2014 acquired full applicability. Since then, companies have been obliged to fully follow the new standard of financial statements and increase transparency in relation to their accounts, with new views for calculating revenues, costs and expenses (Cunha & Barros, 2022).

The sample object of this study, of a quantitative, documentary and explanatory nature, comprises Brazilian companies with shares traded on B3 that have counterparties in ADR, therefore, the sample was restricted to those that made Reference Forms and/or Forms 20-F available on their websites, in Portuguese, for the period from 2015 to 2020, totaling 31 companies.

To determine the variables Return on Assets (ROA), Size (Tam) and Result (ResN), data collected in Economatica were used. The Discretionary Accruals (AD) variable was obtained through the residuals of the model by Kothari et al. (2005) for total accruals. The variable explained for the Flesch readability index was obtained with the inclusion of reports on the website “<https://legabilidade.com/>”, which provided separate data also considered in this analysis and the final value of the index according to the equation adapted for Portuguese. Table 1 addresses the variables used in the study, as well as the metrics used to formulate them, the theoretical basis that supported their choice and the expected sign for the correlation and regression analyses.

Table 1

Research Variables

Variable	Metrics	Based in	E.S.
Readability (iLeg)	$206.835 - (1.015 \times \text{average sentence length}) - (84.6 \times \text{average number of syllables per word})$	Flesch (1948), Martins et al. (1996), Borges (2020)	N.A.
Abnormal Tone (Tom)	$(\text{number of positive words} - \text{number of negative words}) / (\text{number of positive words} + \text{number of negative words})$	Carlsson, & Lamti (2015), Cavalheiro et al. (2021)	-
Positive Words Participation (PPos)	Percentage of positive words in relation to the total words in the document	Carlsson & Lamti (2015), Cavalheiro et al. (2021)	-
Negative Words Participation (PNeg)	Percentage of negative words in relation to the total words in the document	Carlsson & Lamti (2015), Cavalheiro et al. (2021)	+
Discretionary Accruals (AD)	Residual from the equation of Kothari et al. (2005) for total accruals	Kothari et al. (2005), Collins et al. (2017), Novaes et al. (2018)	-
Report Type (20F)	Dummy variable that takes the value 1 if Form 20-F and 0 if Reference Form	Lopes et al. (2016), Borges (2020)	+
Size (Tam)	Natural logarithm of Total Assets	Collins et al. (2017), Holtz e Santos (2020)	+
Return on Assets (ROA)	$(\text{Net Income} / \text{Total Assets}) \times 100$	Dechow et al. (1995), Kothari et al. (2005)	+
Negative Result (ResN)	Dummy variable that takes the value 1 if negative result and 0 if positive	Cavalheiro et al. (2021), Holtz e Santos (2020)	-

Where: E.S.: Expected Signal; N.A.: Not Applied.

In constructing the independent variable of interest Tom, the equation proposed by Carlsson and Lamti (2015) was used, which has a scale with intervals between -1 and +1. Where, if the result of the equation is equal to 0, it means that the manager report was probably constructed in a neutral way. If the result is between -1 and 0, it suggests that a greater number of negative words were used. However, a result between 0 and +1 suggests that more positive words were used. As for words pre-defined as positive and negative, this study used the dictionaries of positive and negative words proposed and validated by Cavalheiro et al. (2021). As it is a dictionary with only words in Portuguese, this study uses Forms 20-F and Reference Forms published in the same language as data.

Treatment for outliers was carried out with Winsorization of continuous variables at 1%, and then proceeded with their descriptive statistics. The Shapiro-Wilk test was performed to determine normality, where p-value > 0.01 reveals the presence of normal distribution for the variables. After the presence of a non-normal distribution for the study variables became

evident, the data were observed using Spearman's correlation (non-parametric) significant at 10%. The Variance Inflation Factor (VIF) Test was performed, in which $VIF < 10$ indicated the absence of multicollinearity, the Breusch-Pagan Test for heteroscedasticity, and the RESET Test to verify omission of significant variables at 1%, 5% and 10% (Fávero & Belfiore, 2020).

Regarding data regression, it was evaluated how the independent variables affect the readability of the forms. Three models were used for the dependent variable, proposed in Equations 3 (analysis by type of form) and 4 (analysis of the sample as a whole), one for the sample as a whole, one in which only the Reference Forms were analyzed, and another only with data referring to Forms 20-F.

$$iLegi,t = \beta_0 + \beta_1Tomi,t + \beta_2PPosi,t + \beta_3PNegi,t + \beta_4ADi,t + \beta_5Tami,t + \beta_6ROAi,t + \beta_7ResNi,t + \beta_8DummySetoresi,t + \beta_9DummyAnosi,t + \varepsilon_{i,t} \quad (3)$$

Equation 3 was used only when the forms were analyzed individually and therefore does not include the dummy variable (20F) which has a value of 1 when Form 20-F and a value of 0 when using a Reference Form. Equation 4 relies on the variable 20F to distinguish between the two types of documents used.

$$iLegi,t = \beta_0 + \beta_1Tomi,t + \beta_220Fi,t + \beta_3Tomi,t*20Fi,t + \beta_4PPosi,t + \beta_5PNegi,t + \beta_6ADi,t + \beta_7ADi,t*20Fi,t + \beta_8Tami,t + \beta_9ROAi,t + \beta_{10}ResNi,t + \beta_{11}DummySetoresi,t + \beta_{12}DummyAnosi,t + \varepsilon \quad (4)$$

The analysis of equations 3 and 4 was carried out through multiple linear regressions with panel data using the Pooled, Fixed Effects and Random Effects models. The Chow, Breusch and Pagan Lagrangian (LM) Test and the Hausman Test were then carried out to determine which of the models is most suitable for the data set of this study (Fávero & Belfiore, 2020).

4 PRESENTATION AND DISCUSSION OF RESULTS

4.1 Presentation of Results

In this analysis, descriptive statistics of the variables broken down by Reference Form and Form 20-F, the mean, standard deviation, and minimum and maximum values of the variables were verified. Table 2 also includes the components of the formulas for readability and tone in order to elucidate the causes of such different results.

Table 2

Descriptive statistics of interest variables

	iLeg _{i,t}	Sil/Pal _{i,t}	Pal/Fra _{i,t}	Palavras _{i,t}	Tom _{i,t}	POS _{i,t}	NEG _{i,t}	PPoS _{i,t}	PNeg _{i,t}	AD _{i,t}
Reference Forms										
N	105	105	105	105	105	105	105	105	105	104
Mean	13.75	1.82	38.91	178257	-0.04	619.40	729.59	0.38	0.42	2.562e-05
Sd	4.97	0.08	4.63	72646	0.23	322.52	767.99	0.22	0.32	0.000e+00
Min	5.02	1.44	24.71	15315	-0.75	205.00	214.00	0.15	0.13	-4.406e-02
Max	35.85	1.91	53.98	398616	0.43	1671.00	6039.00	1.34	2.33	4.172e-02
Forms 20-F										
N	57	57	57	57	57	57	57	57	57	57
Mean	13.00	1.83	38.53	150351	0.00	528.54	520.84	0.36	0.37	-1.413e-15
Sd	3.87	0.09	6.38	44187	0.15	158.47	138.81	0.11	0.12	0.000e+00
Min	6.06	1.47	31.54	87832	-0.36	236.00	303.00	0.18	0.15	-5.082e-14
Max	22.30	1.90	66.56	263911	0.31	857.00	1159.00	0.60	0.70	1.813e-16
Whole sample										
N	162	162	162	162	162	162	162	162	162	161
Mean	13.49	1.82	38.78	168438	-0.03	587.43	656.14	0.37	0.40	1.647e-05
Sd	4.61	0.09	5.30	65321	0.20	278.97	630.63	0.19	0.27	0.000e+00
Min	5.02	1.44	24.71	15315	-0.75	205.00	214.00	0.15	0.13	-4.406e-02
Max	35.85	1.91	66.56	398616	0.43	1671.00	6039.00	1.34	2.33	4.172e-02

Note: iLeg: Flesch legibility index; Tone: Positive abnormal tone; POS: Number of positive words; NEG: Number of negative words; Words: Total words in the document; PPos: Percentage of positive words in relation to the total number of words in the document; PNeg: Percentage of negative words in relation to the total number of words in the document; DA: Discretionary Accruals using the Kothari et al. (2005) equation.

Examining the variables at first, the Flesch Readability Index was perceived to have values between 5.02 and 35.85 with an average of 13.49, varying respectively between very difficult and difficult on the scale proposed by Martins et al. (1996) of ease of reading, therefore, none of the documents analyzed were understood outside this trend. The Readability Index of the Reference Forms varied between very difficult and difficult, whereas among Forms 20-F, it varied only within the very difficult range. Another highlight should be given to the Tom variable, which proved to be more negative for the Reference Forms.

With regard to Tone Management, in most documents the presence of words with a negative tone prevailed. However, the difference in the proportion between positive and negative words in the Reference Form is significant. In the Reference Forms, the proportion of negative words in relation to the whole stands out, approaching 60% on average, while in the 20-F Reports, in general, the proportion tends to balance, approaching 50% and showing a tone close to neutral. Therefore, the creation of the Reference Form by the CVM, following what was proposed by the SEC when creating Form 20-F, still left room for Tone Management. This management is in contrast to that found by Cavalheiro et al. (2021) who, when analyzing management reports from Brazilian companies, noticed that most companies rely on the predominance of words with a positive tone.

Given the results of the Shapiro-Wilk test for normality, it was clear that the variables presented a non-normal distribution. Tables 3 and 4 cover the results of the Spearman correlation analysis for non-normal distribution. The analyzes were carried out considering the sample in its entirety and individually for the Reference and 20-F Forms.

Table 3

Correlation analysis

Spearman Correlation Matrix – Reference Forms								
	iLeg _{i,t}	Tom _{i,t}	PPos _{i,t}	PNeg _{i,t}	AD _{i,t}	Tam _{i,t}	ROA _{i,t}	ResN _{i,t}
iLeg _{i,t}	1.0000							
Tom _{i,t}	-0.0688	1.0000						
PPos _{i,t}	-0.1484	0.6958*	1.0000					
PNeg _{i,t}	-0.0159	-0.4080*	0.2710*	1.0000				
AD _{i,t}	0.0355	0.0114	-0.0281	-0.0640	1.0000			
Tam _{i,t}	-0.0898	-0.1346	-0.2094*	-0.1043	0.1022	1.0000		
ROA _{i,t}	-0.0016	-0.0494	0.0063	0.0933	0.4000*	0.1081	1.0000	
ResN _{i,t}	0.1695*	0.0291	0.1875*	0.2183*	-0.1910*	0.0167	-0.1585	1.0000
Spearman Correlation Matrix – Forms 20-F								
	iLeg _{i,t}	Tom _{i,t}	PPos _{i,t}	PNeg _{i,t}	AD _{i,t}	Tam _{i,t}	ROA _{i,t}	ResN _{i,t}
iLeg _{i,t}	1.0000							
Tom _{i,t}	-0.1007	1.0000						
PPos _{i,t}	-0.1097	0.3331*	1.0000					
PNeg _{i,t}	0.1242	-0.5111*	0.5675*	1.0000				
AD _{i,t}	-0.0550	0.1556	0.0535	-0.1024	1.0000			
Tam _{i,t}	-0.1394	-0.2727*	-0.4829*	-0.2075	0.0279	1.0000		
ROA _{i,t}	0.0546	0.0057	0.2087	0.2442*	0.4139*	0.0097	1.0000	
ResN _{i,t}	-0.0578	-0.2419*	-0.0947	0.1131	0.0631	0.1604	-0.0053	1.0000

Note: *: significant at 10%.

Table 4

Correlation analysis: whole sample

Spearman Correlation Matrix – Full Sample									
	iLeg _{i,t}	Tom _{i,t}	PPos _{i,t}	PNeg _{i,t}	AD _{i,t}	20F _{i,t}	Tam _{i,t}	ROA _{i,t}	ResN _{i,t}
iLeg _{i,t}	1.0000								
Tom _{i,t}	-0.0776	1.0000							
PPos _{i,t}	-0.1337*	0.5732*	1.0000						
PNeg _{i,t}	-0.0011	-0.4408*	0.3911*	1.0000					
AD _{i,t}	0.0988	0.0692	0.1474*	0.0784	1.0000				
20F _{i,t}	-0.0587	0.0968	0.1026	0.0238	-0.0456	1.0000			
Tam _{i,t}	-0.1265	-0.1084	-0.2619*	-0.1431*	-0.2774*	0.2171*	1.0000		
ROA _{i,t}	-0.0274	-0.0252	0.0784	0.1374*	0.0356	0.0601	0.1206	1.0000	
ResN _{i,t}	0.0494	-0.0580	0.0836	0.1727*	0.3169*	0.0507	0.1085	-0.0463	1.0000

Note: *: significant at 10%.

Based on the research data, panel data regression was performed seeking to analyze the relationship between the Legibility of Forms and Earnings Management and Tone Management for Brazilian companies that trade in ADRs. Table 5 presents the regression results for data with treatment for outliers (Winsorized at 1%) of the non-binary variables.

Table 5

Regression analysis

iLeg _{i,t}	Reference Form	Form 20-F	Full Sample
Intercept		13.09 ** (4.29)	10.77 *** (1.50)
Tom _{i,t}	25.60 *** (5.66)	2.18 (3.62)	-0.30 (1.43)
PPos _{i,t}	-66.42 *** (10.08)	-4.65 (3.42)	-0.06 (1.64)
PNeg _{i,t}	19.37 *** (4.68)	2.32 (4.14)	-0.69 (1.89)
20F _{i,t}			-0.55 (0.69)
20F _{i,t} *Tom _{i,t}			-0.15 (1.30)
AD _{i,t}	21.34 (41.06)	-0.32 (1.02)	-0.28 (0.35)
AD _{i,t} *20F _{i,t}			0,01 (0,01)
Tam _{i,t}	-5.54 ** (2.06)	-0.79 (0.99)	-0.72 (0.45)
ROA _{i,t}	28.40 * (12.49)	-0.35 (1.42)	-0.10 (0.47)
ResN _{i,t}	-1.14 (0.99)	-1.75 (1.93)	0.44 (1.14)
	Fixed Effects	Random Effects	Pooled
R2	0.54	0.48	0.23
R2 adjusted	0.24	0.21	0.11
Prob > F	0.00	0.04	0.02
Control for Sector	Yes	Yes	Yes
Control for Year	Yes	Yes	Yes

Note: *, **, ***: significance at 5%, 1%, and 0,1%, respectively.

The Pooled, Fixed, and Random Effects models were adopted, following what was determined by preliminary tests. The F statistic suggests overall significance of the models at 5%. The variance inflation factor (VIF) tests revealed a tendency towards the absence of multicollinearity for the variables treated in the analysis. The adjusted coefficient of multiple determination (R²) indicates that the models for the variable iLeg (Readability Index) explain between 11% and 24% of the variability of the response data around its mean. All years and sectors present in the sample were controlled in the regression analyses, however, only the financial sectors, basic materials, and the year 2020 showed significant coefficients.

The independent variable of interest Tom, for Tone Management, is positively significant at 0.1% in the regression analysis for iLeg in the first model (Reference Form). This converges with the findings of Carlsson and Lamti (2015) and Cavalheiro et al. (2021) and contradicts hypothesis 2 of this study, which determined that the use of Tone Management mechanisms would lead to a reduction in readability. In addition, the participation of positive (PPos) and negative (PNeg) words in relation to the total presented negative and positive coefficients, respectively, both significant at 0.1%, leading to the understanding that the use of positive words makes the Reference Forms more difficult to read, while the use of negative words facilitates such readability.

In a previous additional analysis to determine the period analyzed, it was noticed that in the period affected by the COVID-19 pandemic (2020 – 2021) the drop in the use of negative words was not as great as in the use of positive words, it can then be to assume that perceived Tone Management was partially contained and the lack of prospects for improvement in the following years forced the use of words classified as negative (Vidya et al., 2023).

4.2 Discussion of Results

In general, it is clear that Reference Forms are longer and at the same time easier to read than 20-F reports. The results of this research are in line with what Borges (2020) noticed, that

the readability of the accounting standard is positively related to the readability of the reports. Just like what Miranda et al. (2018) stated that it is a principle of effective communication that the message received by the reader is interpreted in the same way as what was intended by the sender. The results of this research lead to the understanding that there is greater familiarity among Brazilian companies with Brazilian accounting standards than with North American standards, consequently leading to greater difficulty in reading Forms 20-F, even though they are smaller, this length It may be related to difficulty understanding the standard due to the language barrier.

The variable for Earnings Management (AD) presents different means, being positive in the sample for reference forms and negative for 20-F reports. It is clear that companies that publish their 20-F reports in Portuguese present lower Earnings and Tone Management, closer to zero, that is, when they use management methods, they do so in a more neutral way than the others analyzed (Brazilian companies that trade in ADR and publish a 20-F report only in English).

Given the period analyzed, better observation of the phenomenon in each year and individually was perceived as necessary. The number of words increased over the period analyzed. Likewise, the amount of positive and negative words was also perceived as increasing until 2019.

The results in Tables 5 and 6 show that there is a correlation between both Tone Management and Earnings Management, at 13% and 22% respectively, with the Readability Index of corporate reports. Corroborating the findings of Cavalheiro et al. (2021) and Holtz and Santos (2020), the size of the company is a factor that weighs in the disclosure decision to generate the impression on the reader that the administrator desires. The results that allow us to understand that larger companies that publish Form 20-F in Portuguese make less use of

Earnings and Tone management stand out, confirming the findings through the descriptive statistics of the variables in this research.

Regarding the results for verifying hypothesis 1, no model allowed confirmation, since the variable for Discretionary Accruals (AD) was not significant. Given this, what was predicted by Collins and Kothari (1989) and Silva (2020), that companies that manage their results tend to disclose reports that are easier to read to their stakeholders, is not confirmed in the sample studied. It is also necessary to highlight that companies in the financial and basic materials sectors were positively significant at 1% and 5%, with coefficients varying between 4.5 and 6.0 for determining the ease of reading the forms.

As expected for the research, the unforeseen scenario of the coronavirus pandemic that has been changing capital markets around the world (Nicola et al., 2020) also influenced the readability of the Reference Forms and 20-F for the year 2020, both published/disclosed during a period affected by the circulation of the coronavirus, a result that is related to the effects of the pandemic showed by Vidya et al. (2023).

5 FINAL CONSIDERATIONS

The aim of this study was to analyze the relationship between Tone Management and Earnings Management with the Legibility of Reference Forms and Forms 20-F published by Brazilian companies with ADR in the period from 2015 to 2020. The sample comprised Brazilian companies that traded on B3 that have a counterparty in ADR, therefore, the sample is restricted to those that made the Reference Form and/or Form 20-F available in Portuguese for the period, totaling 31 companies.

Adopting a methodology based on descriptive analysis, correlation analysis, and multiple linear regression, it was possible to specify the mathematical relationship between the use of Earnings Management and Tone Management on the Flesch Readability Index, as well as other control variables indicated by the literature as necessary for analysis. The control

variables proved to be important not only for determining readability, but also for understanding the relationships that were studied, partially corroborating the findings of Collins and Kothari (1998), Carlsson and Lamti (2015), Lopes et al. . (2016), Miranda et al. (2018), Cavalheiro et al. (2021), Holtz and Santos (2020), Borges (2020), Nicola et al. (2020), and Silva (2020). As evidenced by Cavalheiro et al. (2021) it was not possible in this study to demonstrate that earnings management and tone management are significantly related, lacking other specific studies for just these two variables.

The findings allow us to infer the relationship between both forms of management and the Readability Index. In short, it can be highlighted that larger companies are the ones that most publish Forms 20-F in Portuguese. These larger companies manage less, whether in terms of Tone Management and Earnings Management, at the same time that their Forms 20-F are more difficult to read, that is, they have a lower readability index compared to Reference Forms of the sample as a whole (larger and smaller companies). Regarding the Reference Forms, they had a more negative tone (predominance of negative words) and a higher readability index, even though they are long, they are easier to read than Forms 20-F. Companies that manage their results deliver reports that are easier to read. Tone Management is also positively related to readability, however, it is the majority use of negative words that makes the reference form easier to read.

The analysis presented limitations regarding the availability of data in Portuguese and the type of file available, which sometimes cannot be read by the software. Regarding the independent variables of interest, this did not include organizational life cycles as it used a small sample that made their adoption impossible. It is suggested for future research that this analysis be redone with a larger sample of companies and over longer periods, in order to make it possible to compare the relationships established here year by year. Considering the limitations of the study, it is worth checking the behavior of the variables for a dictionary of positive and

negative words in English. It is also necessary to look for mechanisms that guarantee the joint analysis of values for reports in different languages, the main limitation for the reduced sample of this study.

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Desvendando Estratégias de Comunicação Empresarial: Legibilidade, Gerenciamento de Resultados e Impressão

RESUMO

Objetivo: Este trabalho tem como objetivo analisar a relação entre o Gerenciamento de Impressão, o Gerenciamento de Resultados e a legibilidade dos Formulários de Referência e Formulários 20-F divulgados por empresas brasileiras com American Depositary Receipts (ADR) no período de 2015 a 2019.


Método: O estudo utiliza uma abordagem empírica, aplicando métodos científicos quantitativos de estatística descritiva, correlação e regressão para examinar dados coletados dos documentos empresariais.

Originalidade/Relevância: Este estudo preenche uma lacuna teórica ao explorar a interseção entre o Gerenciamento de Impressão, o Gerenciamento de Resultados e a legibilidade de documentos empresariais. A relevância acadêmica reside na compreensão mais profunda das práticas de comunicação estratégica adotadas pelas empresas.

Resultados: Os principais resultados indicam que o Gerenciamento de Impressão tem impacto na legibilidade dos Formulários de Referência. Estratégias de manipulação da legibilidade, como a alteração da complexidade sintática, são empregadas para influenciar a percepção dos leitores.

Contribuições Teóricas/Metodológicas: As implicações teóricas deste estudo incluem o entendimento aprimorado das estratégias de manipulação da legibilidade e seu impacto nas percepções dos leitores. O estudo destaca a importância de considerar simultaneamente o Gerenciamento de Impressão e o Gerenciamento de Resultados ao analisar a Legibilidade dos relatórios corporativos.

Palavras-Chave: Gerenciamento de resultados, gerenciamento de impressão, legibilidade, formulário de referência, formulário 20-F.

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