Strategic Formatting in Firm Disclosures

H. Scott Asay
University of Iowa
Iowa City, IA 52242
scott-asay@uiowa.edu
Phone: (319) 335-1813

Cory Hinds
University of Iowa
Iowa City, IA 52242
cory-hinds@uiowa.edu
Phone: (319) 335-1813

Kristina Rennekamp
Cornell University
Ithaca, NY 14850
kmr52@cornell.edu
Phone: (607) 255-0500

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ABSTRACT

Prior research finds that qualitative features of disclosures can have important effects on investor judgments. We extend this research by examining how preparers' disclosure *formatting* choices vary in response to firm incentives. Using an experiment, we manipulate firm performance and capital market pressure, and observe experienced IROs' decisions regarding (1) how financial information will be presented, (2) whether certain information will be emphasized, and (3) where financial information will be located. To operationalize these formatting choices, we examine their use of tables, bulleted lists, and headlines within an earnings announcement, each of which alters the salience of firm performance information. We find that preparers make formatting choices that highlight positive performance information and deemphasize negative performance information, and supplemental analyses corroborate their intention to use certain qualitative disclosure features to strategically alter the salience of firm performance information.

Keywords: voluntary disclosure, formatting, disclosure characteristics, investor relations

1. Introduction

A large literature focuses on the discretion used by preparers in firms' financial reporting. For example, prior research suggests that preparers strategically manage earnings (Nelson, Elliott, and Tarpley 2002; Graham, Harvey, and Rajgopal 2005), opportunistically define non-GAAP earnings (Doyle, Jennings, and Soliman 2013), and selectively report prior-period benchmarks (Schrand and Walther 2000). Collectively, this prior work provides compelling evidence that preparers strategically exercise discretion over disclosure *content*. In this paper, we explore discretionary choices over more qualitative disclosure features. Specifically, we examine how capital market pressures and firm performance combine to influence discretionary choices over the *format* of earnings announcements.

A growing body of research shows that the qualitative features of disclosures can influence investor perceptions and judgments in important ways (e.g., Hirst and Hopkins 1998; Bloomfield 2002; Bamber, Jiang, Petroni, and Wang 2010; Elliott, Hodge, and Sedor 2012; Rennekamp 2012; Elliot, Rennekamp, and White 2015). Consistent with this idea, some studies argue that preparers could use the qualitative features of disclosures to obfuscate poor performance – specifically by making them longer and/or less readable (e.g., Li 2008). However, more recent work suggests that bad news disclosures may be longer and less readable not because of intentional obfuscation, but instead because bad news is inherently more difficult to explain, or because firms disclose more about bad performance in order to provide useful information or protect against potential litigation (Asay, Libby, and Rennekamp 2018a; Bloomfield 2008; Merkley 2014; Guay, Samuels, and Taylor 2016; Bushee, Gow, and Taylor 2018). Although this evidence suggests that preparers may not intentionally change the language in disclosures to obfuscate poor performance, they still have strong incentives to portray the firm

in a favorable light. In this paper we investigate whether preparers might respond to capital market pressures by strategically changing the formatting of disclosures. For example, tabulation, bulleting, and headlines can change the presentation, emphasis, or location of information. Further, these formatting choices affect how individuals process information, and could have downstream consequences for investors' judgments and decisions. In other words, even in settings where preparers choose not to strategically change the *language* in disclosures, they may strategically make different *formatting* choices in order to portray the firm more favorably.

Preparers of firm disclosures could strategically vary these types of formatting choices for several reasons. First, formatting choices affect the salience of information, which has been shown to reliably influence investors' judgments (Maines and McDaniel 2000; Hodge, Kennedy, and Maines 2004; Elliott 2006; Elliott, Hodge, Kennedy, and Pronk 2007). Theory and empirical evidence also suggest possible downstream market-wide consequences of information salience, such as delayed stock price reactions to obfuscated news (Bloomfield 2002; Hirshleifer and Teoh 2003; DellaVigna and Pollet 2009). As a result, preparers with incentives to portray the firm in a favorable light could potentially use formatting choices to temper negative market reactions to poor performance. Second, the SEC's Plain English Handbook includes recommendations (*not* requirements) related to disclosure formatting, consistent with the idea that formatting choices may have important downstream consequences. Finally, formatting choices are largely unregulated for many disclosures (such as earnings announcements), providing preparers with the flexibility to use disclosure formatting opportunistically. For these reasons, we expect preparers of firm disclosures to respond to capital market pressures by making strategic choices with respect to the formatting of earnings announcements.

To examine strategic formatting choices, we use a 2 x 2 between-participants experiment where investor relations officers (IROs) prepare an earnings announcement press release.[1] Our experiment manipulates (1) firm performance (*Positive* vs. *Negative*), and (2) the level of capital market pressure facing the firm (*Low vs. High*). We manipulate firm performance by telling participants that current period earnings either increased or decreased 10% relative to the prior period. We manipulate capital market pressure by varying expectations around a potential future secondary stock offering. In all conditions participants are told that their firm completed a secondary stock offering two years ago. Participants in the *Low Capital Market Pressure* condition are further instructed that the company's CEO does not expect to raise additional capital in the near future. Participants in the *High Capital Market Pressure* condition are told that the CEO anticipates another secondary stock offering near the end of the current quarter, and that the CEO has stressed the importance of achieving the highest possible offering price to maximize the capital available to the firm.

Participants then make a series of formatting choices related to an earnings announcement that the firm intends to release. Specifically, participants must choose how financial information will be presented, what information will be emphasized, and where financial information will be located. To operationalize these formatting choices we ask participants to select either a tabular or narrated summary of firm performance, select among good and bad news events to highlight in a bulleted list, and select among four headline options. All of these choices directly affect the salience of the reported information by changing the

[1] All participants are the designated IR contact for their respective firms. Approximately 27% of participants also hold other job titles, such as CEO, CFO, IR consultant, or general counsel. Because of their involvement in the preparation of firms' earnings announcements, we expect IROs to have the requisite knowledge to understand the formatting choices that a firm might make as performance and capital market pressures vary. Nevertheless, we acknowledge that other individuals, such as managers, likely also play a role in the preparation of firm disclosures. For ease of exposition, we refer to our participants as either "preparers" or "IROs", despite the fact that some of them hold other positions in their firm.

presentation, emphasis, and/or location of information within the earnings announcement. After participants make their formatting choices, we also ask them to explain how the format of earnings announcements differ for positive versus negative news, and how common they believe it is for other companies to use different formatting for negative news disclosures to reduce attention to the negative news.

We find evidence that our IRO participants make strategic formatting choices. First, we find that they respond to higher capital market pressure by choosing more transparent tabulations of positive firm performance information and less transparent narrative disclosures of negative firm performance information. However, IROs' preferences regarding the tabulation of firm performance information do not vary when capital market pressure is lower. This provides direct evidence that preparers respond to capital market pressure by using tabulation or narrative formats to strategically vary the transparency of firm performance. Second, regardless of the valence of firm performance or the level of capital market pressure, we find that IROs bullet more positive news events than negative news events. This suggests that preparers use bulleting in a broad sense to emphasize more positive news. Finally, we find that IROs choose headlines that highlight positive performance or avoid highlighting poor performance, regardless of the level of capital market pressure. Although earnings and EPS are generally assumed to be the most informative metrics to shareholders, participants generally only include the change in earnings or EPS in the headline when the metric is positive. When earnings and EPS metrics are negative, they instead highlight a *different* positive metric in the headline or choose a neutral headline that does not report any metric. This suggests that preparers broadly change the location of metrics to highlight positive performance. Post-experiment debriefing questions suggest that the overall structure of earnings announcements is typically relatively stable over time, but that

within that structure preparers exercise discretion over disclosure formats to emphasize positive news and downplay negative news. Further, approximately 72% of IROs in our study report that it is at least somewhat common for companies to use different formatting for negative news disclosures in order to reduce attention to negative news. Taken together, these responses provide evidence that preparers of firm disclosures use disclosure formats strategically to manage reactions to positive and negative firm performance information.

Our findings complement those of Asay et al. (2018a), who conclude that their results do not support the idea "that managers obfuscate poor performance by making disclosures less readable" (p. 397). Instead, when reporting poor performance, manager participants in Asay et al. (2018a) use more passive voice and fewer first-person singular pronouns, provide additional explanations for poor performance, and focus more on future expectations. Our findings suggest that preparers intentionally vary the formatting of firm disclosures to highlight positive performance and reduce the salience of negative information. Thus while Asay et al.'s (2018a) evidence largely suggests that managers attempt to provide additional useful information about the determinants of poor performance to satisfy investor demand, our results suggest that preparers also attempt to reduce the attention that is paid to that information.

Our study also capitalizes on the comparative advantages of experiments to contribute to the broader literature on strategic disclosure (Libby, Bloomfield, and Nelson 2002). Specifically, our design allows us to directly observe participants' formatting choices, control for confounding factors, and independently vary both firm performance and the level of capital market pressure. This approach avoids the endogeneity inherent in earnings announcement formatting and otherwise holds constant the information content of the disclosure. As a result, we complement prior archival studies that suggest that preparers strategically emphasize favorable firm

performance metrics in headlines (Guillamon-Saorin, Osma, and Jones 2012; Huang, Nekrasov, Teoh 2018) and throughout disclosure documents (Bentley, Stubbs, Tian, and Whited 2021) by providing direct evidence that preparers use disclosure formats strategically. In doing so, we isolate the contributions of experienced preparers to the disclosure, thereby disentangling the effect of preparers' reporting motives from those of other parties (e.g., legal counsel) that contribute to finalized disclosures. Further, participants' written explanations provide additional insights into the strategic motives underlying firms' disclosure formatting choices.

The rest of the paper proceeds as follows: Section 2 provides background information and develops our hypotheses. Sections 3 and 4 describe our experimental design and present results, respectively. Section 5 presents supplemental analyses that shed additional light on preparers' decisions, and Section 6 concludes.

2. Background and Hypothesis Development

2.1 *Qualitative disclosure features*

The SEC requires public companies to file audited periodic financial statements that are consistent with Generally Accepted Accounting Principles, and encourages the use of plain English in all disclosure documents to enhance the informativeness of the reports. While periodic financial statements are subject to greater regulatory requirements, preparers of firm disclosures have considerable discretion over the content and format of voluntary earnings announcement press releases that summarize key information from periodic reports. When preparing earnings announcement press releases, preparers use their judgment to determine not only *what* information to include in the disclosure, but also *how* to format that information. As a result, they might use the qualitative features of the disclosure document (e.g., length, readability, and format) to influence how the content is processed.

The qualitative features of disclosures have been an increasing focus of academic research (Bowen, Davis, and Matsumoto 2005; Elliott 2006; Li 2008; You and Zhang 2009; Miller 2010; Rennekamp 2012; Tan, Wang, and Zhou 2014, 2015; Asay, Elliott, and Rennekamp 2017; Asay, Libby, and Rennekamp 2018b), and this literature suggests that these qualitative features can have important downstream effects on investor reactions to disclosures. Prior literature has also argued that preparers use qualitative features of disclosures to strategically influence investors' judgments, but there is limited direct evidence to support these claims. For example, one common argument is that preparers strategically change the understandability of firm performance information by varying the length and readability of disclosures. Consistent with this, Li (2008) documents that, on average, firms with lower earnings produce longer and less readable annual reports. However, subsequent work suggests that bad news disclosures may be longer and less readable not because of intentional obfuscation but instead because bad news is inherently more difficult to explain, firms disclose more to protect against potential litigation, or firms provide additional useful information to the market (Bloomfield 2008; Merkley 2014; Guay, Samuels, and Taylor 2016; Bushee, Gow, and Taylor 2018). Further, recent experimental work directly manipulates reporting motives and concludes that preparers are unlikely to strategically vary disclosure readability to obfuscate information (Asay et al. 2018a). Overall, there are compelling reasons why preparers might strategically vary the qualitative features of disclosures, but there is limited empirical evidence linking such behavior directly to obfuscation motives.

2.2 *Formatting choices*

In relation to earnings announcements, with the exception of certain financial measures, "neither the disclosure of specific information, nor the structure of that information, is regulated

by the Commission" (SEC 2018). [2] One advantage of this flexibility is that preparers can take a long and complex periodic report and summarize the most important facts about firm performance in the earnings announcement press release. A potential disadvantage of this flexibility is that preparers can strategically alter the format of an earnings announcement to change the salience of positive and negative firm performance information. Formatting choices influence salience by affecting (1) how financial information is presented, (2) whether certain information is emphasized, and (3) where financial information is located. For example, preparers can use tables, bullet points, or headlines to influence the salience of select information. While these formatting choices are not specifically regulated, the SEC encourages preparers to follow prescriptive standards outlined in the Plain English Handbook for formatting disclosure documents (SEC 1998). We test preparers' strategic use of disclosure formatting by comparing the choices they make to recommendations in the Plain English Handbook (SEC 1998). We briefly review the recommendations for each formatting choice we study.

2.2.1 Tabulated versus narrated disclosure of firm performance

The SEC's Plain English Handbook was published in 1998 to provide guidelines that help firms create clearer and more informative disclosures. The handbook states that preparers can use tables to "increase clarity", "cut down on text", and "convey information more quickly" (SEC 1998). There is limited research on the selective use of tables in disclosures. However, the Plain English Handbook argues that tables make the presentation of information more

[2] With respect to pro forma financial measures, Section 401(b) of the Sarbanes-Oxley Act of 2002 specifically directs the SEC to issue regulations to ensure that publicly disclosed pro forma financial information not be materially misleading and be accompanied by a reconciliation to the related financial statements presented in accordance with GAAP. In early 2003, the SEC issued Regulation G to implement the provisions of the Act. We do not consider pro forma financial measures to be a formatting choice, and are therefore beyond the scope of our paper.

transparent for investors. As a result, preparers could strategically vary the salience of positive and negative information by selectively tabulating or narrating key information.

2.2.2 Textual features (e.g., bulleting, bolding, and underlining)

Preparers can make information more salient by adding emphasis within an earnings announcement. This can be accomplished by changing the features of the text associated with the information through bulleting, bolding, or underlining. The SEC's Plain English Handbook recommends using bullets to "make information easier to absorb in one quick glance" (SEC 1998). However, preparers could also exercise discretion to selectively make positive performance information more accessible and salient. Consistent with this idea, some evidence suggests that firms may be opportunistic in the textual emphasis of GAAP metrics within earnings announcements (Bentley, Stubbs, Tian, and Whited 2021).

2.2.3 Headlines versus the body of the disclosure

The Plain English Handbook recommends that preparers use the disclosure document to "highlight information that is important to investors" (SEC 1998). The headline to the press release is generally the first thing that the reader of the earnings announcement sees and can capture users' attention. As a result, many firms place important performance metrics, such as changes in earnings, directly in the headline. Again, however, preparers have discretion over these choices, and prior work suggests that they may sometimes strategically place favorable but less informative financial metrics in earnings announcement headlines (Guillamon-Saorin, Osma, and Jones 2012; Huang, Nekrasov, Teoh 2018).

2.2.4 Formatting choices summary

Overall, there is considerable theoretical and empirical evidence that qualitative features of disclosures can influence how disclosures are processed, suggesting that preparers may have

incentives to strategically vary the format of their disclosures. However, there is relatively little evidence that they actually do so, and attributing formatting choices to preparers' intentional, strategic behavior is difficult. For example, archival results may be confounded by unobserved firm economics, such as the relevance and amount of good and bad news available at the time of disclosure. Further, motivated reasoning or other cognitive biases could contribute to disclosure choices, making it difficult to infer the intentionality of these choices. We provide more-direct evidence of how firm performance and capital market pressures influence strategic formatting choices.

2.3 *Firm performance and capital market pressure*

The above discussion suggests that preparers' reporting incentives, such as those due to capital market pressures, may lead them to intentionally vary disclosure formatting to highlight positive or downplay negative firm performance. Although this is conceptually appealing, prior research finds that capital market pressures influence disclosure choices in different ways. For example, various capital market pressures, such as the company's stock price performance (Burns and Kedia 2006; Efendi, Srivastava, and Swanson 2007) and analyst following (Huang, Pereira, and Wang 2017), could increase pressure to perform and encourage strategic disclosure choices that increase the salience of good news and decrease the salience of bad news. On the other hand, conflicting evidence suggests that capital market pressures can also serve as an effective external monitor that disciplines firms to make more transparent and informative disclosures (Lang and Lundholm 1996; Armstrong, Jagolinzer, and Larcker 2010). It therefore also seems plausible that increased capital market pressure instead incentivizes preparers to be more transparent and forthcoming about firm performance.

We argue that earnings announcement formatting choices provide an ideal setting for testing strategic behavior because these choices are unregulated, affect the salience of information, and likely result from conscious choice (as opposed to many language choices that are nonconscious). Because of this, we predict an interaction between overall firm performance and capital market pressure. When the firm is performing well, we expect preparers' strategic reporting incentives to be aligned with their incentives to report transparently. Consequently, they will be more likely to make formatting choices consistent with the recommendations in the Plain English Handbook. Alternatively, when the firm is performing poorly, we expect preparers to act in a way that is consistent with their strategic reporting incentives, and to therefore be more likely to make formatting choices that deviate from the recommendations in the Plain English Handbook. In both cases, we expect the effect to be stronger when capital market pressure is high. This hypothesis is formally stated as follows:

> *Hypothesis: Preparers' disclosure formatting choices will be more consistent with recommendations in the Plain English Handbook when firm performance is positive than when firm performance is negative, especially when capital market pressure is high.*

3. Experiment Design

3.1 *Participants*

We recruit participants following the approach described in Brown, Call, Clement, and Sharp (2019) and Asay, Clor-Proell, and Durney (2021).[3] Specifically, we send emails to 4,222 IROs of companies with a unique I/B/E/S ticker symbol and at least one analyst-provided earnings estimate or stock recommendation between March 2018 and February 2020. One week after sending the initial

[3] Institutional Review Board approval was received from the institution through which the survey was distributed to participants.

email, we send a reminder email. We obtain 147 completed responses, a response rate of 3.5 percent.[4]

Participants in our experiment self-identify as an investor relations officer (73.5 percent), chief financial officer (7.5 percent), chief executive officer (2.0 percent), or as some other type of experienced manager (17.0 percent). Each participant is the designated investor relations contact for their firm. As a result, we refer to participants as IROs for ease of exposition. On average, IROs in our study have approximately 24 years of work experience, and approximately 11 years of experience in investor relations. All IROs work for a publicly traded company, with the majority of participants (73.5 percent) indicating that the market capitalization of their firms is greater than $1 billion. Most IROs report either being directly (87.8 percent) or indirectly (10.9 percent) involved in the preparation of financial disclosures (including earnings announcements). Full participant demographics are displayed in Table 1.

[INSERT TABLE 1]

3.2 *Experimental task and manipulations*

We adapt our experimental materials from Asay et al. (2018a). Participants are asked to assume that they work in Investor Relations at Dexico Corporation, a hypothetical public firm. In addition, they are asked to assume that one of their primary job duties is to help prepare the periodic earnings announcement press releases. After reading a brief introduction to the task, participants are presented with the experimental manipulations. We use a 2 x 2 between-participants design manipulating firm performance (*Positive* vs. *Negative*) and the level of capital market pressure facing the firm (*Low* vs. *High*) while holding constant other factors. To

[4] We recruited participants in four stages. Stage is not significant as a covariate and is excluded in our analyses. The demographics of our participants are qualitatively similar to the participant demographics in Brown et al. (2019) and Asay et al. (2021).

manipulate firm performance, we tell participants in the *Positive* (*Negative*) firm performance condition that Dexico's annual earnings increased (decreased) 10% relative to the prior year. To manipulate capital market pressure, we vary participants' expectations around a potential future secondary stock offering. In all conditions participants are told that their firm completed a secondary stock offering two years ago. To operationalize capital market pressure in the *Low* condition, participants are further instructed that the company's CEO does not expect to raise additional capital in the near future. In contrast, participants in the *High* condition are told that the CEO anticipates another secondary stock offering near the end of the current quarter, and that the CEO has stressed the importance of achieving the highest possible offering price to maximize the capital available to the firm. We manipulate capital market pressure because survey evidence indicates' its importance as a factor that influences preparers' discretionary accounting choices (Graham et al. 2005) and because prior literature widely asserts preparers of firm disclosures respond opportunistically to capital market forces (for reviews, see Fields, Lys, and Vincent 2001; Merkl-Davies and Brennan 2011). Participants are instructed to rely on their past experiences when considering the information. Thus, we expect participants to draw upon their own expertise to format the earnings announcement in light of the information about firm performance and capital market pressure.

3.3 *Dependent variables*

After reviewing all background information, participants are informed that they will be responding to a number of questions asking them how they would prepare the annual earnings announcement given the information provided about Dexico's most recent performance. Each formatting choice is designed to vary the earnings announcement format while otherwise holding

constant the information content of the disclosure. Refer to Appendix A to view each formatting choice as presented in the experiment.

3.3.1 Tabulated versus narrated disclosure of firm performance

The first question presents participants with two summaries of Dexico's prior-year and current-year annual revenues, net earnings, and EPS numbers. The first summary is presented in a table format, showing the prior year number, the current year number, and the percentage change. The second summary presents the same information in a narrative format. Participants are asked to decide whether they prefer the table summary or the narrative summary and then to indicate the strength of their preference on a 7-point scale (1 = weakly prefer; 7 = strongly prefer). The summary choice and scale are combined to create a 14-point scale that represents our dependent measure capturing tabulation preference (-7 = strongly prefer the narrative summary; 7 = strongly prefer the table summary; 0 is missing). As the SEC Plain English Handbook recommends using tables to convey information with greater clarity (SEC 1998), we interpret higher values of our tabulation measure as more transparent reporting.

3.3.2 Textual features – bulleting

The second question focuses on the choice to emphasize certain material information about firm performance using bulleting. IROs can attempt to highlight key aspects of firm performance in disclosure documents by capitalizing, bolding, italicizing, or bulleting the text. These textual features help the information stand out from other text and increase their salience to readers. We provide participants with six events (three positive and three negative) that contributed to Dexico's current period performance. These six events are held constant across all conditions, which allows us to control for the amount, the type, and the balance of information available to the preparer. For each event, participants are asked to select the event if they would

like to "prominently display" the information in a bulleted list at the beginning of the press release. Further, to ensure that these are formatting choices that do not change the total information available in the earnings announcement, we make clear that the items will be included in the body of the press release whether or not they choose to highlight the facts in the bulleted list. We then calculate the difference between the number of positive and negative events emphasized to determine preparers' net emphasis. In our setting, positive values of net emphasis indicate that preparers' emphasis choices lean more towards positive events.

3.3.3 Headlines versus the body of the disclosure

The last choice participants make relates to which performance metric will be included in the earnings announcement press release headline. We provide participants with four different headline options: a neutral headline with no metric emphasized and three different headlines emphasizing revenue, net earnings, or EPS. We hold constant Dexico's revenues in all conditions, with the firm reporting a 5% increase in annual revenues. As a result, the neutral headline and the revenue headline do not vary across conditions. However, recall that we manipulate firm performance by telling participants that net earnings either increase or decrease by 10%. Therefore, in the *Positive* firm performance conditions, the net earnings (EPS) headline highlights the 10% increase in net earnings (EPS). In the *Negative* firm performance conditions, the net earnings (EPS) headline highlights the 10% decrease in net earnings (EPS). We ask participants to rank the four headline options from 1 (most likely headline choice) to 4 (least likely headline choice). Given that earnings is widely considered an informative summary measure of firm performance, and that investors and analysts often fixate on earnings, we interpret higher average rankings (i.e., rank closer to 1) for the net earnings and EPS headlines as

an indication of transparent reporting. Because the neutral and revenue headlines do not change across conditions, we interpret a shift towards these headlines as less transparent.

3.3.4 Debriefing questions

After making their formatting choices, participants respond to two open-ended debriefing questions: (1) "How does the format of an earnings announcement press release differ for positive versus negative news, if at all," and (2) "[In] your experience, how common do you believe it is for other companies to use different formatting for negative news disclosures in order to reduce attention to the negative news?" Responses provide further insights into preparers' motives, and are summarized in Section 5.

4. Results

4.1 *Analysis of Variance*

To test whether differences in preparers' formatting choices between experimental conditions are consistent with our hypotheses, we run an analysis of variance (ANOVA) test for each dependent measure. Except as otherwise noted, all p-values reported in the text are two-tailed. In this section, we present the results for each dependent measure, with graphical representations of the results presented in Figure 1.

[INSERT FIGURE 1]

4.1.1 Tabulated versus narrated disclosure of firm performance

We first test our hypothesis by examining participants' choices to provide information about firm performance in a table versus a narrative format. Table 2, Panel A presents descriptive statistics for the choice, including cell means, standard deviations, and sample size. The ANOVA results are presented in Table 2, Panel B, and reveal a significant interaction

between firm performance and capital market pressures ($p = 0.049$, one-tailed equivalent).[5] Specifically, we find that when capital market pressure is high, preparers are more likely to provide transparent tabulations of positive firm performance and less transparent narrative disclosures of negative firm performance. We conclude that for preparers' tabulation choice, our hypothesis is supported.

[INSERT TABLE 2]

4.1.2 Textual features – bulleting

Next, we examine preparers' decision to emphasize events related to current period performance through bulleting. Table 3, Panel A presents descriptive statistics for IROs' net emphasis (positive events bulleted *less* negative events bulleted). If preparers attempt to strategically report poor performance, we predict that they will emphasize positive events to a greater extent overall than negative events. As reported in Table 3, Panel C, we find that preparers' net emphasis is positive and significantly greater than zero in all conditions and overall (all $p < 0.001$). In addition, we predict that when performance is poor, capital market pressures should increase the extent to which positive events are emphasized and/or decrease the extent to which negative events are emphasized. To test this predicted interaction, we perform ANOVA, with results reported in Table 3, Panel B. Contrary to our prediction, we find no significant interaction of firm performance and capital market pressure on preparers' net emphasis ($p = 1.000$). Further, we find no main effect of firm performance or capital market pressure. Overall, our results suggest that, on average, preparers bullet more positive news events than negative news events, regardless of the sign of firm performance or the level of capital

[5] Approximately two weeks after we finish participant recruitment, and download and analyze data, one additional participant completed the study. If we include this participant in our analysis, the interaction for the tabulation measure becomes marginally significant ($p = 0.058$, one-tailed equivalent). All other inferences are unchanged.

market pressure. This suggests that preparers use bulleting in a broad sense to emphasize more positive news.

[INSERT TABLE 3]

4.1.3 Headlines versus the body of the disclosure

The final choice participants to make relates to the headline of the earnings announcement. We present IROs with four different headline options and ask them to rank each option (where a ranking of 1 indicates the headline is the most preferred and a ranking of 4 indicates the headline is the least preferred). Two of the headline options (neutral and revenue) are constant across all conditions, and two of them (net earnings and EPS) vary with our firm performance manipulation. The average ranking of the latter two headline options is used in our tests. Importantly, headline options ranked higher (i.e., closer to 1) represent the more preferred options. Table 4, Panel A reports the descriptive statistics based on participants' responses, and Panel B reports results from the ANOVA analysis.

[INSERT TABLE 4]

We predict that preparers will rank the headline options with the more informative net earnings and EPS metrics better when firm performance is positive than when firm performance is negative. Consistent with our prediction, we find a significant main effect of firm performance on preparers' ranking of the net earnings and EPS headlines, where these headlines are ranked better when firm performance is positive ($p < 0.001$) and worse when firm performance is negative ($p < 0.001$).[6]

[6] As discussed previously, we interpret headlines that include earnings or EPS as more transparent than headlines that exclude either of these metrics. However, we acknowledge that highlighting revenue could also be viewed as transparent in some cases (e.g., in the case of a growth company with negative earnings). This alternative interpretation does not change our inferences as participants in the negative firm performance condition rank the neutral headline option as more preferred to the revenue headline option ($p < 0.001$).

Further, we predict that increased capital market pressure will magnify this effect. However, we do not find a significant interaction between firm performance and capital market pressure ($p = 0.336$) or a significant main effect of capital market pressure on preparers' headline rankings ($p = 0.409$). These results are consistent with prior archival findings and suggest that preparers are broadly opportunistic when it comes to selecting metrics to highlight in earnings announcement headlines. Overall, these findings suggest preparers report metrics in earnings announcement headlines that are favorable, even when capital market pressure is low. Perhaps preparers are broadly opportunistic when it comes to headline choices because selecting the most favorable metric for the headline is a low-cost choice. Further, if this type of opportunistic reporting is broadly expected, such choices may largely go unpunished.

5. Supplemental Analysis

5.1 *Debriefing questions*

To provide further insights into preparers' motives underlying their formatting choices, we ask IRO participants two open-ended debriefing questions. We review the responses provided by IROs and develop a separate coding scheme for each question.

5.1.1 How do formats differ for positive versus negative news?

The first question asks IROs how the format of an earnings announcement press release differs for positive versus negative news, if at all. Two independent coders, blind to condition, separately code each response by placing a one under each category if the response mentions that item, and a zero otherwise. Coders' overall initial agreement is 87.1 percent. The coders met to resolve all differences, and we use their resolved coding in our analysis. Results are summarized in Figure 2, Panel A and Panel B.

[INSERT FIGURE 2]

We received 144 responses to the first open-ended question. IRO responses indicate how formats differ and/or reasons why formats do not differ. Out of the 144 responses, 29.9 percent indicate that firms use formats to emphasize positive news and 9.7 percent indicate that they use formats to downplay negative news. Additionally, 19.4 percent of responses indicate that disclosure formats vary to provide a clearer discussion of negative news. However, IROs also provide some insights into reasons why their discretionary formatting choices may be constrained. For example, 11.8 percent of responses indicate that reporting requirements, such as GAAP rules regarding equal prominence, prevent them from being overly opportunistic in their emphasis of non-GAAP metrics. Further, 10.4 percent of responses indicate that analysts and investors would notice changes to formatting, and that it is important to report transparently. Taken together, these self-reported responses complement our primary results and indicate that preparers are concerned about varying the salience of both positive and negative news, presumably to manage expectations or reactions to the news. However, their responses also suggest some factors that may serve as potential moderators to preparers' strategic formatting choices.

5.1.2 How common is it for formats to differ for negative news disclosures?

For question two, we ask IROs how common it is for other companies to use different formatting for negative news disclosures in order to reduce attention to the negative news. Responses are coded for their expressed belief that it is (1) very common, (2) somewhat common, or (3) not very common for companies to differ in the format of their positive and negative news disclosures.[7] Two independent coders, blind to condition, separately code each response. Responses can only relate to one category, and coders place a one under the category

[7] The majority of responses indicate the degree to which they believe it is common or uncommon, and no additional explanation. Those responses that did provide additional explanations had no clear theme.

that best represents IROs' beliefs regarding how common it is for other companies to vary negative news disclosure formats, and a zero in the other categories. Overall initial agreement is 79.8 percent. The coders met to resolve differences, and we use their resolved coding in our analysis.

Figure 2, Panel C summarizes the percentage of responses that indicate it is very common, somewhat common, or not very common for other companies to vary the format of negative news disclosures. We receive 137 responses, of which 46.0 percent indicate that it is very common for negative news disclosure formats to differ, compared to 26.3 percent indicating it is somewhat common and 27.7 percent indicating is not very common.[8]

It is important for us to note that some of the responses that indicated it is not very common for disclosure formats to vary appeared to be making reference to the overall structure of the disclosure document. That is, many suggested that the structure of a disclosure document (e.g., headline then bullets then table) is sticky. However, some of these responses appear to contradict themselves by additionally saying that it is common to emphasize positive news or downplay negative news. We suggest that our results speak to preparers using features of disclosure formats within their pre-defined structure in a strategic manner. For example, if companies are in the practice of providing bullet points at the forefront of an earnings announcement, our results indicate that preparers are more likely to highlight positive news within those bullets. As a result, the overall structure of the disclosure may not change period-to-period, but the salience of positive and negative news will still vary based on preparers' choices of how to use the disclosure document's format to manage users' expectations.

[8] We receive five responses from IROs indicating they are unsure about how often other companies use different disclosure formats for negative news. These five responses are coded as '0' in all three categories and not included in our tabulation.

6. Conclusion

Prior research finds that qualitative features of disclosures can have important effects on investor judgments. We extend this research by examining how preparers' disclosure formatting choices vary in response to firm incentives. Using an experiment, we manipulate firm performance and capital market pressure, and observe experienced IROs' disclosure decisions regarding (1) how financial information will be presented, (2) whether certain information will be emphasized, and (3) where financial information will be located. To operationalize these formatting choices, we examine preparers' use of tables, bulleted lists, and headlines within an earnings announcement, each of which alters the salience of firm performance information. We find that preparers make formatting choices that highlight positive performance information and deemphasize negative performance information. We also find that increased capital market pressure amplifies this effect for formatting choices that relate to tabulation of information. Supplemental analyses corroborate preparers' intention to use certain qualitative disclosure features to strategically alter the salience of firm performance information.

Our findings contribute to the literature on the qualitative characteristics of disclosures. Some have argued that preparers use the qualitative features of disclosures to obfuscate poor performance (e.g., Li 2008), and research finds that the qualitative features of disclosures can influence investor perceptions and judgments in important ways (e.g., Hirst and Hopkins 1998; Bloomfield 2002; Bamber, Jiang, Petroni, and Wang 2010; Elliott, Hodge, and Sedor 2012; Rennekamp 2012; Elliot, Rennekamp, and White 2015). Nevertheless, despite documented differences in the qualitative features of disclosures of good and bad news, there is little evidence to date directly showing that firms strategically alter the qualitative characteristics of disclosures to highlight positive performance and/or downplay negative performance. We follow a similar

approach to Asay et al. (2018a), and find evidence that complements their work. Whereas Asay et al. (2018a) conclude that managers in their study do not appear to make opportunistic choices with respect to disclosure readability, we provide direct evidence that preparers do make strategic *formatting* choices in disclosures to portray the firm more favorably.

Of course, our paper is subject to limitations, each of which represent opportunities for future work. First, our study asks only about the reporting decisions of IROs. We do this intentionally to isolate their influence on firm disclosures. Nevertheless, the resulting disclosures in our experiment may not reflect the finalized disclosures that firms would provide after others are involved (e.g., legal counsel). Future research might investigate the influence that different groups within a firm have on the features of a disclosure. Second, we investigate only a subset of the qualitative disclosure features that firms might vary. We do this to be mindful of the time of our experienced participants, and to focus our study on the formatting features of a disclosure that are likely to have the most impact. Future research might investigate how preparers vary other formatting features to strategically change the emphasis in firm disclosures.

Appendix A – Experimental materials

Tabulation versus narration of firm performance

Positive Firm Performance Condition

Review the following options for presenting Dexico's 20X2 summary financial results in the earnings announcement press release, then respond to the prompt below.

Option A:

Dexico Corporation Summary Results			
($ in millions except per share amounts)			
	20X1	20X2	% Change
Revenue	800.00	840.00	5%
Net Earnings	80.00	88.00	10%
EPS	1.20	1.32	10%

Option B:

Revenue increased 5% in 20X2, to $840.00 million, relative to a reported $800.00 million in revenue in 20X1. Net earnings increased 10% in 20X2, to $88.00 million, relative to a reported $80.00 million in net earnings in 20X1. EPS increased 10% in 20X2, to $1.32, relative to a reported EPS of $1.20 in 20X1.

Negative Firm Performance Condition

Review the following options for presenting Dexico's 20X2 summary financial results in the earnings announcement press release, then respond to the prompt below.

Option A:

Dexico Corporation Summary Results			
($ in millions except per share amounts)			
	20X1	20X2	% Change
Revenue	800.00	840.00	5%
Net Earnings	80.00	72.00	-10%
EPS	1.20	1.08	-10%

Option B:

Revenue increased 5% in 20X2, to $840.00 million, relative to a reported $800.00 million in revenue in 20X1. Net earnings decreased 10% in 20X2, to $72.00 million, relative to a reported $80.00 million in net earnings in 20X1. EPS decreased 10% in 20X2, to $1.08, relative to a reported EPS of $1.20 in 20X1.

1. Indicate the financial results presentation option you prefer to include in the earnings announcement press release.
   - ☐ Option A
   - ☐ Option B

2. Indicate how strongly you prefer option A (or option B).

Weakly Prefer						Strongly Prefer
1	2	3	4	5	6	7

All Conditions

Listed below is additional information about Dexico's 20X2 financial and operating results.

For each item below, please select the item if you would like to prominently display the information in a bulleted list at the beginning of the press release. Whether you choose to include the information in a bulleted list or not, all the items will appear in the body of the press release. You may leave all items unselected if you do not wish to include any items in a bulleted list at the beginning of the press release.

- ☐ Revenue increased by 5% relative to 20X1 as a result of increased customer demand for our products.
- ☐ Dividend distributions to shareholders are expected to increase next quarter for the 12th consecutive year.
- ☐ A patent was secured for one of Dexico's promising new products. After receiving approval, Dexico's CEO announced the new product would hit the market in 20X3.
- ☐ Rent Expenses increased dramatically relative to 20X1 as a result of new lease arrangements for several of our facilities, including our corporate headquarters.
- ☐ Recently passed environmental regulations will require costly investments in equipment at several satellite facilities to come into compliance with new emission standards.
- ☐ Tariff increases levied on materials imported from a major supplier for our top product become effective in 20X3. There are currently no alternative suppliers of the materials.

Note: Items contained within the solid border are the positive events from Dexico's 20X2 annual period, and items without a border are the negative events from Dexico's 20X2 annual period. Items were held constant across all conditions and presented to participants in random order.

Positive Firm Performance

Listed below are some headline options for the earnings announcement press release. The information contained in each headline is also included in the body of the earnings announcement.

Use the drag and drop feature to rank the following headline options from 1 (most likely headline choice) to 4 (least likely headline choice).

- Dexico Corporation Reports 20X2 Results - Net Earnings increases 10%
- Dexico Corporation Reports 20X2 Results - EPS increases 10%
- Dexico Corporation Reports 20X2 Results
- Dexico Corporation Reports 20X2 Results - Revenue increases 5%

Negative Firm Performance

Listed below are some headline options for the earnings announcement press release. The information contained in each headline is also included in the body of the earnings announcement.

Use the drag and drop feature to rank the following headline options from 1 (most likely headline choice) to 4 (least likely headline choice).

- Dexico Corporation Reports 20X2 Results - Net Earnings decreases 10%
- Dexico Corporation Reports 20X2 Results - EPS decreases 10%
- Dexico Corporation Reports 20X2 Results
- Dexico Corporation Reports 20X2 Results - Revenue increases 5%

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Figure 1

Panel A: Observed interaction of IROs' choice to tabulate firm performance

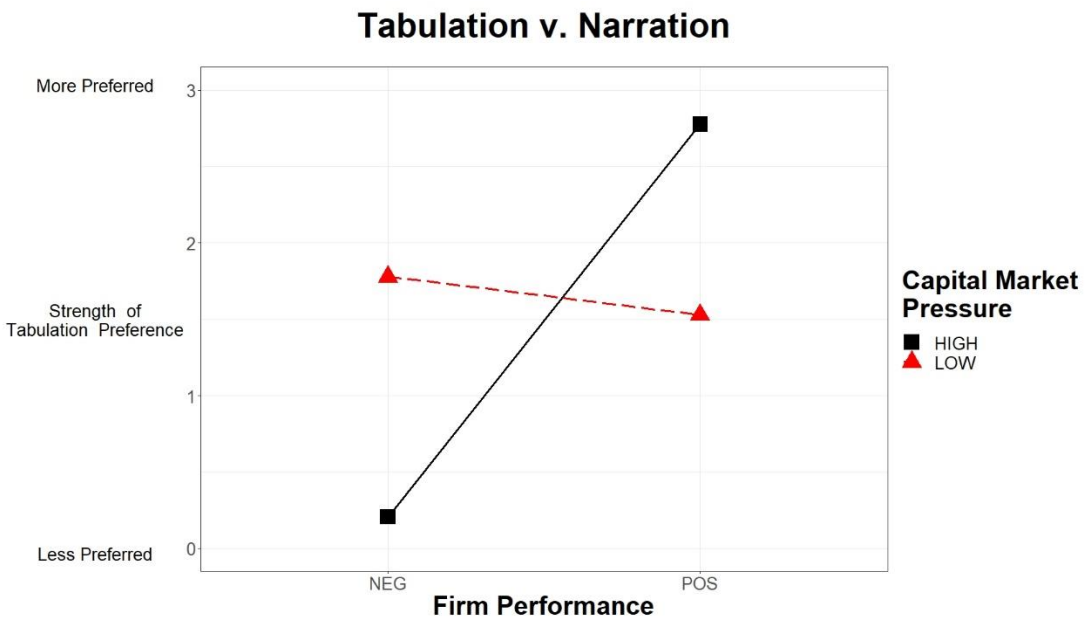


Figure 1, Panel A presents a graphical representation of IROs' observed choice to tabulate firm performance. The results are from a 2 x 2 experiment that independently varies both firm performance (*Negative v. Positive*) and capital market pressure (*Low v. High*). Participants are asked to decide whether they prefer a table summary or a narrative summary of firm performance, and then are asked to indicate the strength of their preference on a 7-point scale (1 = weakly prefer; 7 = strongly prefer). The summary choice and scale are combined to create a 14-point scale that represents our dependent measure capturing tabulation preference (-7 = strongly prefer the narrative summary; 7 = strongly prefer the table summary; 0 is missing).

Figure 1 (continued)

Panel B: Observed interaction of IROs' net emphasis through bulleting

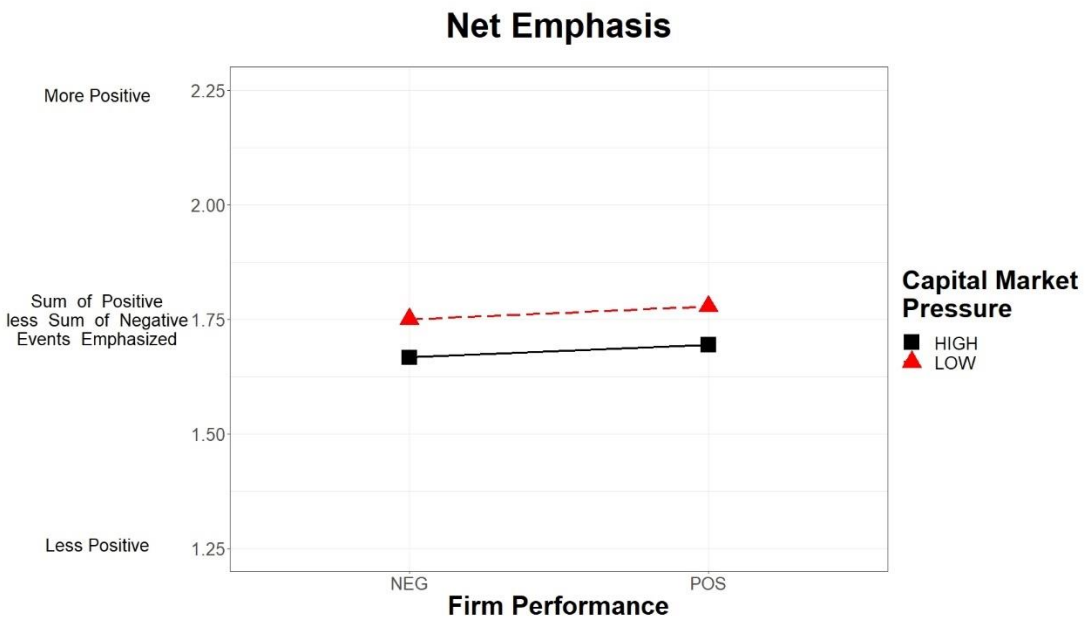


Figure 1, Panel B presents a graphical representation of IROs' observed net emphasis choices. The results are from a 2 x 2 experiment that independently varies both firm performance (*Negative v. Positive*) and capital market pressure (*Low v. High*). We provide participants with six events (three positive and three negative) that contributed to a hypothetical firm's current period performance. For each event, participants are asked to select the event if they would like to "prominently display" the information in a bulleted list at the beginning of the press release. To determine if IROs are more forthcoming about positive events than negative events, we measure the difference between positive events emphasized and negative events emphasized to determine how balanced IROs are in their emphasis.

Figure 1 (continued)

Panel C: IROs' headline rankings (collapsed across Capital Market Pressure conditions)

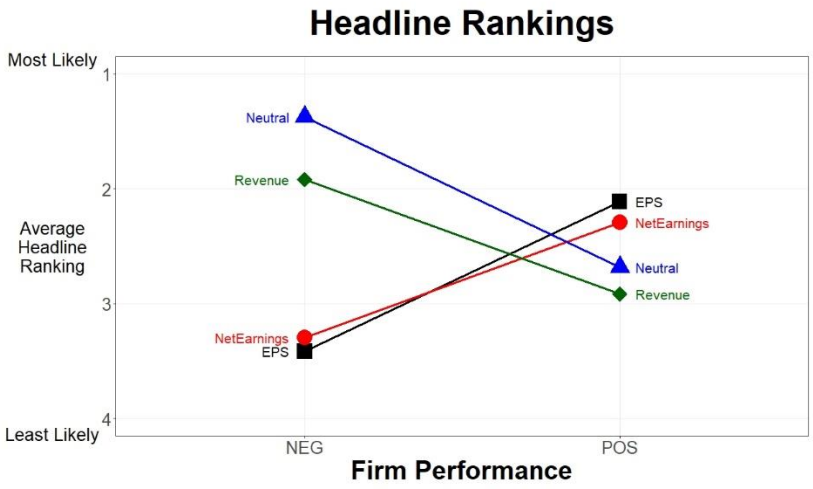
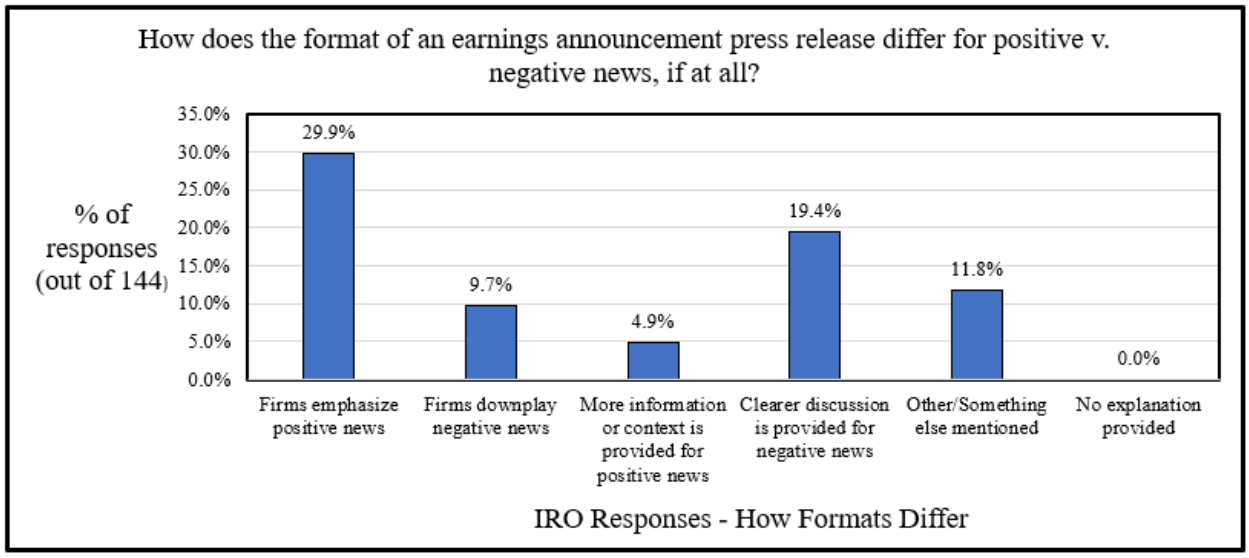


Figure 1, Panel C presents a graphical representation of IROs' observed rankings for four earnings announcement headlines. We provide participants with four different headline options: a neutral headline with no metric emphasized and three different headlines emphasizing revenue, net earnings, or EPS. We ask participants to rank the four headline options from 1 (most likely headline choice) to 4 (least likely headline choice). The results are from a 2 x 2 experiment that independently varies both firm performance (*Negative v. Positive*) and capital market pressure (*Low v. High*). Results are collapsed across capital market pressure conditions given no main effect was detected.

Figure 2

Panel A. Coding of IRO responses to question 1: Indications of how formats differ.



Panel B. Coding of IRO responses to question 1: Indications of why formats should not differ.

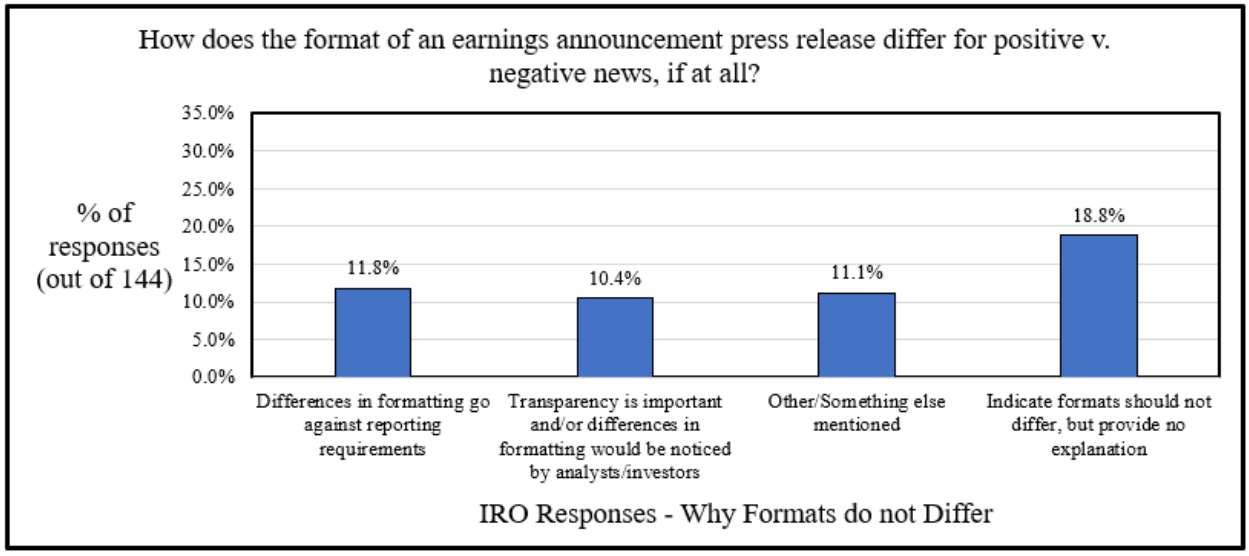


Figure 2 (continued)

Panel C. Coding of IRO responses to question 2: Indications of how common it is for companies to use different formatting for negative news disclosures in order to reduce attention to the negative news.

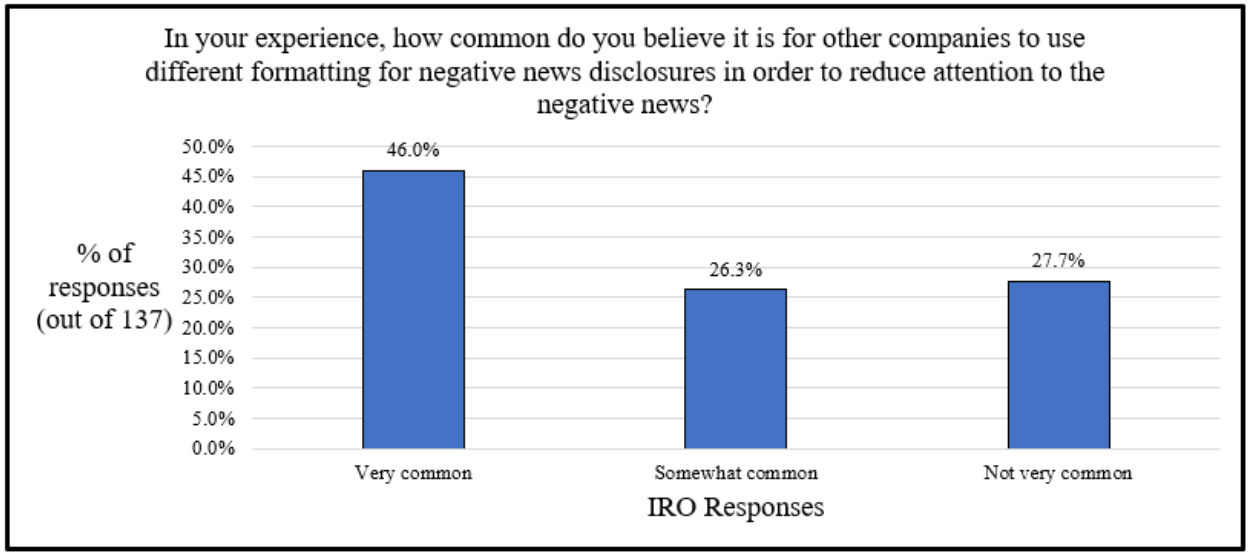


Figure 2 presents the coding of IRO responses to our two open-ended questions asking in our experiment. **Panel A** and **Panel B** present the results from coding question 1: "How does the format of an earnings announcement press release differ for positive v. negative news, if at all?" A total of 144 IROs responded to this question providing both indications of how formats differ (**Panel A**) and indications of why formats should not differ (**Panel B**). Percentages do not add to 100 percent because IROs responses often fit into multiple categories. **Panel C** presents the results from coding question 2: "In your experience, how common do you believe it is for other companies to use different formatting for negative news disclosures in order to reduce attention to the negative news?" A total of 137 IROs responded to this question.

For both questions, two independent coders, blind to condition, coded the responses based on a pre-determined schema created by the authors. Coders overall agreement was 87.1 percent for question one and 79.8 percent for question two. After separately completing the coding, the coders met to resolve all differences. The analysis is based off the final coding after all differences were resolved.

Table 1

Participant demographics and other information.

Gender	**%**
Male	63.3
Female	34.0
Other/Prefer not to say	2.7
Current Job Title	**%**
Chief Executive Officer	2.0
Chief Financial Officer	7.5
Investor Relations Officer	73.5
Other	17.0
Total Work Experience	**%**
< 10 years	7.5
10 – 19 years	20.4
20 – 29 years	38.8
30 – 39 years	26.5
> 40 years	6.8
IR Work Experience	**%**
1 – 5 years	31.3
6 – 10 years	23.8
11 – 15 years	15.7
16 – 20 years	16.3
> 21 years	12.9
Company Market Capitalization	**%**
< $100 million	2.7
$100 – $249 million	8.9
$250 – $499 million	6.1
$500 – $999 million	6.1
$1 – $10 billion	46.9
> $10 billion	26.5
Did not respond	2.7
To what extent is the participant involved in the preparation of financial disclosures (e.g., earnings announcements, financial statements, etc.)?	
	%
Directly involved	87.8
Indirectly involved	10.9
Not involved	1.4

Table 1 presents participant demographics and other information for the 147 IROs that participated in the experiment.

Table 2

Primary experiment descriptive statistics and analysis of variance: tabulation measure

Panel A. Descriptive statistics – mean, (standard deviation), and number of participants

	Capital Market Pressure		
	Low	High	Overall
Firm Performance Positive	1.53 (5.43) *n* = 36	2.78 (5.02) *n* = 36	2.15 (5.23) *n* = 72
Firm Performance Negative	1.78 (5.14) *n* = 36	0.21 (4.98) *n* = 39	0.96 (5.09) *n* = 75
Overall	1.65 (5.25) *n* = 72	1.44 (5.13) *n* = 75	1.54 (5.17) *n* = 147

Panel B. Results of analysis of variance (ANOVA)

Source	S.S.	d.f.	M.S.	F-statistic	p-value
Firm Performance	49.50	1	49.50	1.87	0.173
Capital Market Pressure	0.96	1	0.96	0.04	0.850
Firm Performance * Capital Market Pressure	73.11	1	73.11	2.77	0.049†

Panel C. Follow-up simple effects tests

Source	F-statistic	p-value
Effect of Firm Performance given Low Capital Market Pressure	0.04	0.837
Effect of Firm Performance given High Capital Market Pressure	4.69	0.016†
Effect of Capital Market Pressure given Positive Firm Performance	1.06	0.304
Effect of Capital Market Pressure given Negative Firm Performance	1.75	0.188

Table 2, Panel A presents descriptive statistics on the tabulation measure in our experiment, in which 147 IROs are provided financial information presented in a table format and in a paragraph format, and must choose which format to use in the earnings announcement of a hypothetical firm. Participants are asked to decide whether they prefer a table summary or a narrative summary of firm performance, and then are asked to indicate the strength of their preference on a 7-point scale (1 = weakly prefer; 7 = strongly prefer). The summary choice and scale are combined to create a 14-point scale that represents our dependent measure capturing tabulation preference (-7 = strongly prefer the narrative summary; 7 = strongly prefer the table summary; 0 is missing). **Panel B** presents ANOVA results investigating whether firm performance (positive vs. negative) and capital market pressure (low vs. high) affect the choice to tabulate firm performance. **Panel C** presents follow-up simple effects tests of firm performance and capital market pressure.

† one-tailed equivalent, given directional predictions.

Table 3

Primary experiment descriptive statistics and analysis of variance: net emphasis measure – positive *less* negative events bulleted

Panel A. Descriptive statistics – number of participants, mean (standard deviation), t-test of mean (p-value)

Condition						**Net Emphasis**	**Net Emphasis > 0**
Firm Performance	Capital Market Pressure	Number of Participants	Total Events Bulleted	Positive Events Bulleted	Negative Events Bulleted	Positive – Negative Events Bulleted	t-test (p-value)
Positive	Low	36	2.34 (1.26)	2.06 (0.86)	0.28 (0.78)	1.78 (1.05)	10.21 (< 0.001)
Positive	High	36	2.08 (1.11)	1.89 (0.95)	0.19 (0.40)	1.70 (0.95)	10.69 (< 0.001)
Negative	Low	36	2.59 (1.18)	2.17 (0.88)	0.42 (0.65)	1.75 (1.00)	10.54 (< 0.001)
Negative	High	39	2.33 (1.01)	2.00 (0.92)	0.33 (0.53)	1.67 (1.11)	9.39 (< 0.001)
Total		147	2.34 (1.14)	2.03 (0.90)	0.31 (0.60)	1.72 (1.02)	20.48 (< 0.001)

Panel B. Results of analysis of variance (ANOVA)

Source	S.S.	d.f.	M.S.	F-statistic	p-value
Firm Performance	0.03	1	0.03	0.03	0.870
Capital Market Pressure	0.26	1	0.26	0.24	0.624
Firm Performance * Capital Market Pressure	0.00	1	0.00	0.00	1.000

Table 3, Panel A presents descriptive statistics for the bulleting measures in our experiment, in which 147 IROs are presented with three positive and three negative events related to current period firm performance, and must choose which events, if any, to emphasize with bullet points in the earnings announcement of a hypothetical firm. We measure the total number of events bulleted, the number of positive events bulleted, the number of negative events bulleted, and the net emphasis. We take the difference between positive events bulleted and negative events bulleted to determine the net emphasis measure. The table also presents tests of means for each experimental condition and overall to test whether IROs' net emphasis is statistically greater than zero (i.e., the balance of net emphasis is positive). **Panel B** presents ANOVA results investigating whether firm performance (positive vs. negative) and capital market pressure (low vs. high) affect net emphasis.

Table 4

Primary experiment descriptive statistics and analysis of variance: headline rankings

Panel A. Descriptive statistics – number of participants, mean (standard deviation)

Condition								
Firm Performance	Capital Market Pressure	Number of Participants	Net Earnings Headline	EPS Headline	Revenue Headline	Neutral Headline	Avg. Rank (Earnings & EPS)	Avg. Rank (Revenue & Neutral)
Positive	Low	36	2.33 (0.99)	2.25 (1.08)	2.83 (0.94)	2.58 (1.38)	2.29 (0.78)	2.71 (0.78)
Positive	High	36	2.25 (0.91)	1.97 (1.06)	3.00 (0.72)	2.78 (1.42)	2.11 (0.77)	2.89 (0.77)
Negative	Low	36	3.25 (0.73)	3.44 (0.65)	1.92 (0.69)	1.39 (0.77)	3.35 (0.41)	1.65 (0.41)
Negative	High	39	3.33 (0.62)	3.38 (0.63)	1.92 (0.87)	1.36 (0.63)	3.36 (0.34)	1.64 (0.34)
Total		147	2.80 (0.96)	2.78 (1.09)	2.41 (0.95)	2.01 (1.27)	2.79 (0.83)	2.21 (0.83)

Panel B. Results of analysis of variance (ANOVA)

Source	S.S.	d.f.	M.S.	F-statistic	p-value
Firm Performance	48.69	1	48.69	133.57	< 0.001
Capital Market Pressure	0.26	1	0.26	0.72	0.398
Firm Performance * Capital Market Pressure	0.34	1	0.34	0.93	0.336

Panel C. Tests of means

Firm Performance Condition	Earnings and EPS Mean Rank (standard deviation)	Revenue & Neutral Mean Rank (standard deviation)	t-statistic	p-value
Positive Firm Performance	2.20 (0.77)	2.80 (0.77)	4.64	< 0.001
Negative Firm Performance	3.35 (0.38)	1.65 (0.38)	27.90	< 0.001

Table 4 (continued)

Table 4, Panel A presents descriptive statistics for the ranking of each headline in our experiment, in which 147 IROs rank four different headline options for an earnings announcement of a hypothetical firm. We provide participants with four different headline options: a neutral headline with no metric emphasized and three different headlines emphasizing revenue, net earnings, or EPS. We ask participants to rank the four headline options from 1 (most likely headline choice) to 4 (least likely headline choice) and to explain their rankings. We also provide descriptive statistics for the average ranking of the net earnings and EPS headlines combined and the average ranking of the neutral and revenue headlines combined. We interpret higher average rankings (i.e., rank closer to 1) for the net earnings and EPS headlines as an indication of transparent reporting. Because the neutral and revenue headlines do not change across conditions, we interpret a shift towards these headlines and lower rankings for net earnings and EPS (i.e., rank closer to 4) as an indication of strategic reporting. **Panel B** presents ANOVA results investigating whether firm performance (positive vs. negative) and capital market pressure (low vs. high) affect the choice of headline for the earnings announcement. **Panel C** presents tests of means between the average headline ranking for the net earnings and EPS headline options and the average headline ranking for the neutral and revenue headline options, given either positive or negative firm performance.