

Less-numerate investors swayed by corporate report presentation effects

October 21 2014, by Phil Ciciora



Less-numerate investors are more susceptible to style and presentation effects in corporate social responsibility reports, according to research from W. Brooke Elliott, the Roedgers Fellow in Accountancy and Professor Ken Perry Faculty Fellow at the College of Business. Credit: University of Illinois College of Business

Publicly traded corporations are increasingly publishing social responsibility reports for investors, who now consider such information alongside traditional financial data before investing in a company.

But according to new research from a University of Illinois expert in financial reporting and financial statement analysis, less-numerate [investors](#) are more susceptible to style and presentation effects of the reports, potentially leading them to make unintended judgments about the company.

W. Brooke Elliott, a professor of accountancy at Illinois, says although most companies use a mix of text and graphics in [social responsibility](#) reports to highlight accomplishments, they tend to emphasize one over the other.

"Corporate social responsibility reports typically frame a business's strategy in local or global efforts, and the style used to depict that strategy can be shaped by favoring either pictures or words," said Elliott, also the Roedgers Fellow in Accountancy and Professor Ken Perry Faculty Fellow at the College of Business.

"Corporations typically use both pictures and words to convey information and shape the narrative, but their decision about what to make more prominent can have a huge effect on less-numerate investors, who are more likely to rely on non-numerical information when making decisions."

Elliott and her co-researchers found that a fit between the style and presentation of corporate social responsibility reports leads less-numerate investors to experience "subjective feelings of processing fluency and positive affect," which serves as a cue that "the positive performance information from the corporate social responsibility reports can be relied upon," according to the paper.

"By extension, that positively influences the willingness of the less-numerate to invest," Elliott said. "Taken together, it suggests that less-numerate investors are more likely to be influenced by the positive

associations generated by the presentation choices in CSR reports than more-numerate investors."

Elliott cautions that "numeracy" – or the way an individual processes numerical information – is not the same as sophistication, investing skill or intelligence.

"Numeracy has been shown to be distinct from general intelligence, and less-numerate investors have been found to be more representative of the general investing population," she said. "The participants in the study were our own graduate students, a very numerate group. But it's the low-end of the numerate group within that sub-sample where these effects occur. So our results are generalizable to groups of investors who actually look at disclosures, process that information and then come up with some sort of investment judgment."

According to Elliott, the key is for corporations to align their strategy and project a uniform approach throughout the report. A cursory review of the corporate social responsibility reports of the Fortune 100 reveals considerable variation in both strategic framing and how corporate social responsibility performance is depicted, Elliott said.

"If you look at the CSR reports for the Fortune 100, more than half have a mismatch in their strategy and presentation style," she said. "So our research has definite implications for how to best design CSR reports that are more appealing to investors, or how to craft ones that would be more helpful in processing information."

According to the paper, companies that wish to project a global focus should emphasize text, which is better suited to depicting abstract, high-level details. On the other hand, companies that wish to project a more community-based appeal should emphasize pictures, which do a better job of depicting concrete, low-level details.

So if a company wants to project that it's saving the world, "which is a high-level and somewhat abstract concept," then the depiction should be similarly high-level, too, Elliott said.

"It's not that they shouldn't use pictures at all, it just means that words should receive higher priority," she said. "How you depict your corporate social responsibility on the front end – whether it's favoring a local or global focus, or an abstract or concrete, high- or low-level detail – should match the way it presents its performance information."

The research has implications for both [corporate social responsibility](#) reports as well as other types of investor reports and disclosures, Elliott said.

"If you look at other types of disclosures in annual reports or other corporate filings, you'll see that they employ a mix of text, pictures and graphics to depict performance," she said. "So the takeaways can definitely extend beyond CSR reports. We looked at CSR reports for our study simply because the use of pictures in them is so prevalent."

The findings have implications for investors, too.

"Investors should be aware that features of CSR reports can subconsciously influence their judgments, and that the style and presentation features can interact together to influence how they evaluate a company," Elliott said. "Corporations could likewise develop reports that could cause investors to feel more processing fluency when they study disclosures and thereby be more willing to invest in the firm. Investors should be aware of this and make their resource allocations accordingly."

More information: The paper, "How Disclosure Features of Corporate Social Responsibility Reports Interact with Investor

Numeracy to Influence Investor Judgments," is available online:
papers.ssrn.com/sol3/papers.cfm?abstract_id=2425731

Provided by University of Illinois at Urbana-Champaign

Citation: Less-numerate investors swayed by corporate report presentation effects (2014, October 21) retrieved 19 April 2024 from <https://phys.org/news/2014-10-less-numerate-investors-swayed-corporate-effects.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.