



REPORTING OF GOOD VERSUS BAD NEWS IN THE
PHARMACEUTICAL INDUSTRY

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DECLARATION

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree, or qualification thereof, or for any other university or institute of learning.

I declare that this thesis is my independent work. All sources and literature are cited and included.

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1. INTRODUCTION

Besides reporting the company's financial statements, accompanying those with a corporate or accounting narrative has also become a standard practice. Corporate narratives now play a crucial role in the company's annual reporting, being a good source of information for shareholders to track the company's performance. These narratives, however, are not regulated and are often an opportunity for companies to employ impression management techniques.

The concept of impression management was first introduced by Goffman (1959), who discussed the self-presentation techniques individuals use to manage others' impressions of them. This book was later used as a basis for numerous studies applying the concept to a corporate level. Hooghiemstra (2000) defined impression management as a field of study dealing with the way individuals present themselves to be favorably perceived by others. Companies, just like individuals, use impression management techniques in their narratives in an attempt to manage stakeholders' perceptions of them.

Reporting of good and bad news regarding the companies' performances has also become a subject of interest for various researchers. The aim of such research is to determine whether companies focus mainly on the positive aspects, or address the negative ones as well, and whether they take responsibility for the bad news.

The purpose of this research is, thus, to investigate the different disclosure strategies that organizations undertake, specifically regarding good aspects of their performance versus bad ones. The aim is to answer the research question – “What impression management tactics are companies using when reporting good vs bad news?”. Using a case study approach, the subject of this research is the European pharmaceutical industry, specifically three of the top companies – Bayer, GlaxoSmithKline, and Novartis.

The pharmaceutical industry is often largely scrutinized by the public, its questionable ethicality severely damaging its reputation and leading to stakeholders losing trust in the companies (Parker, 2007). Thus, the industry's bad reputation among stakeholders and close link to human welfare are the main roots of the importance and interest in studying it. The chosen three companies are big and well-known entities,

part of the industry's top, therefore, researching them will shed more light on the impression management tactics used in the industry.

The rest of the thesis is organized as follows: the next section provides a review of existing literature and discusses the value that this research brings. Chapter 3 brings a discussion about the pharmaceutical industry, its reputation, and an overview of the key players. Chapter 4 discusses the collected data, the chosen research methodology, and describes the coding rationale. Chapters 5, 6 and 7 provide the results of the analyses of Bayer, GSK, and Novartis, respectively, including financial, content and impression management analyses. Chapter 8 brings a discussion of the findings, with a comparison of the three analyzed companies, and other impression management tactics that were used. The conclusion, limitations of the research, and future research opportunities are provided in Chapter 9.

2. LITERATURE REVIEW

When introducing the concept of impression management in his book titled "The Presentation of Self in Everyday Life", Goffman (1959) also makes a dramaturgical analogy. He explains that, in a similar manner that characters are portrayed by actors to an audience, so do people present themselves in social interactions, employing different techniques to manage the impressions they make.

While having its roots in literature on social psychology, impression management later expanded into the corporate field. Brennan, Guillamon-Saorin & Pierce (2009) write that, in the corporate context, this concept appears when the stakeholders' perception of the company's performance is twisted due to the manner in which it presents selected information¹. The authors further discuss other studies conducted in this field, stating that most of them name self-attribution of a company's results as the main motivation for managers². The main hypotheses are usually centered around the proposition that management wants to conceal the inadequate results, resorting to obfuscation of the failures and emphasis of the successes³. The most commonly used method when researching impression management techniques is content analysis, the

¹ The authors refer to the works of Neu (1991) and Neu et al. (1998)

² Ibid.

³ The authors refer to Adelberg (1979)

authors also summarizing the main approaches of this method that were used by previous researchers (ibid.).

Wang (2016) provided a literature review of impression management in corporate information disclosure. The author states that companies generally use it as a tool to bridge the gap between their actual status and their desired one (p.727). The research done on financial information mainly concerns itself with the way companies may control the descriptions featured in their financial reports to enhance their image. Studies have also been conducted into the readability of reports, finding that managers may use graphs or different narratives to influence it (ibid.). This tactic is further discussed below, as well as throughout this thesis.

There are numerous researchers that analyzed companies' disclosure strategies in annual reports from the perspective of impression management. The previously mentioned authors, Brennan, Guillamon-Saorin & Pierce (2009), also set out to measure impression management by developing a score system for both qualitative and quantitative data in corporate narratives. The researchers analyzed the use of four impression management tactics – thematic manipulation, selectivity, presentation effects, and performance comparisons, using examples from press releases of UK firms. Findings conclude that such techniques are prevalent in financial communications, with positive news being exaggerated, while negative aspects downplayed.

Seeking to provide a better understanding of impression management in the corporate context, Merkl-Davies & Brennan (2011) designed a conceptual framework using theories from behavioral finance, sociology, and critical accounting. Employing a social psychology approach, another paper by Merkl-Davies, Brennan & McLeay (2011) analyzed UK chairmen's statements. Results suggest that building impressions involves providing an accurate view of the company and its performance, i.e. consistent with the overall tone of the report, but still favorable.

Jones (2011) emphasizes the susceptibility of accounting narratives to impression management, as these are not audited and offer a good opportunity for companies to manage their presentations. Moreover, evaluations of financial performance by managers can be considered inherently subjective (p.98). The author discusses the impression management techniques that companies employ in their reporting, through the use of narratives, graphs, and photographs. The author argues that these are used for 'presentational enhancement'. The paper presents a synthesis of various existing studies, the results of which are used as a basis for discussion of four main impression

management techniques. These include stressing the positive, downplaying the negative; baffling the readers, by using difficult-to-read language; using differential reporting; and using attribution.

The first impression management technique is quite self-explanatory, implying reporting more positive news and omitting the negative ones. This tactic prevails in most of the research done on impression management in annual reports (ibid., p.99). Deegan & Gordon (1996) researched the environmental accounting of Australian companies, finding that their reports are generally abounding in self-praise, with little to no negative remarks. Similarly, Clatworthy & Jones (2003) discovered that even poorly performing companies still report more positive than negative news.

Baffling the readers with technical language is another impression management technique, whereby negative news is reported in a less transparent manner than positive news. Poor performers have been found to report their results in a less readable manner, thus, a strong correlation has been observed between failed performance and more difficult-to-read language⁴ (Jones, 2011, pp.100-101). Another study looking into the readability of reports, revealed that negative performance is generally reported with the use of technical terms, while positive news is disclosed more clearly, in a cause-and-effect manner (Aerts, 1994).

The next tactic is differential reporting, meaning that companies with successful results may report them differently from companies with poor results, focusing on different things. Poor performers tend to focus on the environment and employ more emotion in their reports, as opposed to specific performance indicators⁵ (Jones, 2011, p.101). Moreover, Clatworthy & Jones (2003) revealed that unprofitable companies do not focus on the past, but rather emphasize the future, whereas profitable companies clearly disclose their past results.

Finally, attribution is the last tactic, it implies management taking credit for good news, and blaming the bad news on the environment (p.101). Staw, McKechnie & Puffer (1983) researched 49 reports of US companies and analyzed the attribution of the reported news, classifying those into 'internal credit' and 'external blame'. Clatworthy & Jones (2003), once again, reached the same conclusion, finding that both

⁴ The author specifically refers to Smith & Taffler (1992)

⁵ The author specifically refers to Clarke (1997)

good and bad performers tended to attribute positive news to themselves, and bad news to external factors.

Melloni, Caglio & Perego (2016), drawing on studies of impression management, discuss the disclosure conciseness, completeness, and balance that should be prevalent in integrated reports. Their findings reveal that reports tend to be longer and more optimistic, thus less concise and less balanced, when companies have a poor financial performance. The researchers identified reading ease manipulation and manipulation of the content and verbal tone as impression management tactics that firms may use.

A study on financial reporting of good and bad news was done by Clatworthy & Jones (2003), analyzing the chairman's narratives of top 50 and bottom 50 UK firms. The purpose of the paper was to observe whether companies with improving performances report good/bad news differently from those with a declining performance. The researchers concluded that both types of firms focus on their positive aspects. Moreover, a pattern was revealed, whereby companies blame the external environment for bad news and attribute the good news to themselves.

Other researchers have set a similar research objective, employing different approaches and perspectives. Aly, El-Halaby & Hussainey (2018) researched whether, and to what extent, financial performance determines the tone disclosure in annual reports of Egyptian companies. Performing a content analysis of 105 firms over a three-year period, the researchers found that firms tend to disclose more good news than bad ones, this disclosure being positively associated to financial performance. There are also, however, various factors that affect the relationship between tone disclosure and financial performance, such as profitability, leverage, firm growth, etc.

Beekes, Pope & Young (2004) examined the relationship between earning timeliness and conservatism, and the board of directors' composition in UK firms. Accounting conservatism implies a prompt recognition of negative share returns. Findings revealed that a higher percentage of outside board members leads to a timely recognition of bad news in earnings. The paper, thus, contributes to existing literature by suggesting a correlation between board composition and firms' reporting quality, in terms of timely admittance of bad news.

Another study, by Kothari, Shu & Wysocki (2009), was conducted to determine whether managers tend to delay bad news as compared to good news. The reasoning behind the study was that if bad news is withheld, while good news is immediately disclosed to investors, the reaction of the negative stock price would be of a higher

magnitude than the positive stock price. Findings reveal that, on average, managers do delay releasing the bad news to investors, until the point when it becomes unavoidable.

This paper sets to research good and bad news disclosure in a similar way to Clatworthy & Jones (2003) and Aly, El-Halaby & Hussainey (2018), while combining that with the qualitative analysis of impression management techniques discussed previously by Hooghiemstra (2000), Merkl-Davies & Brennan (2011), Jones (2011), and others. This research is set to contribute to prior literature by providing an insight into the pharmaceutical companies, and the impression management methods that these might use.

The main expectations are that the chosen companies do indeed disclose more of their positive news rather than negative, and that the news are reported using the main impression management techniques discussed above. The main expected difficulty to be encountered during the research process stems from the chosen methodology, and the definition of the rationale behind it. This is further discussed in the Research Method section, in Chapter 4.

3. INDUSTRY OVERVIEW

A. Key Players & Recent News

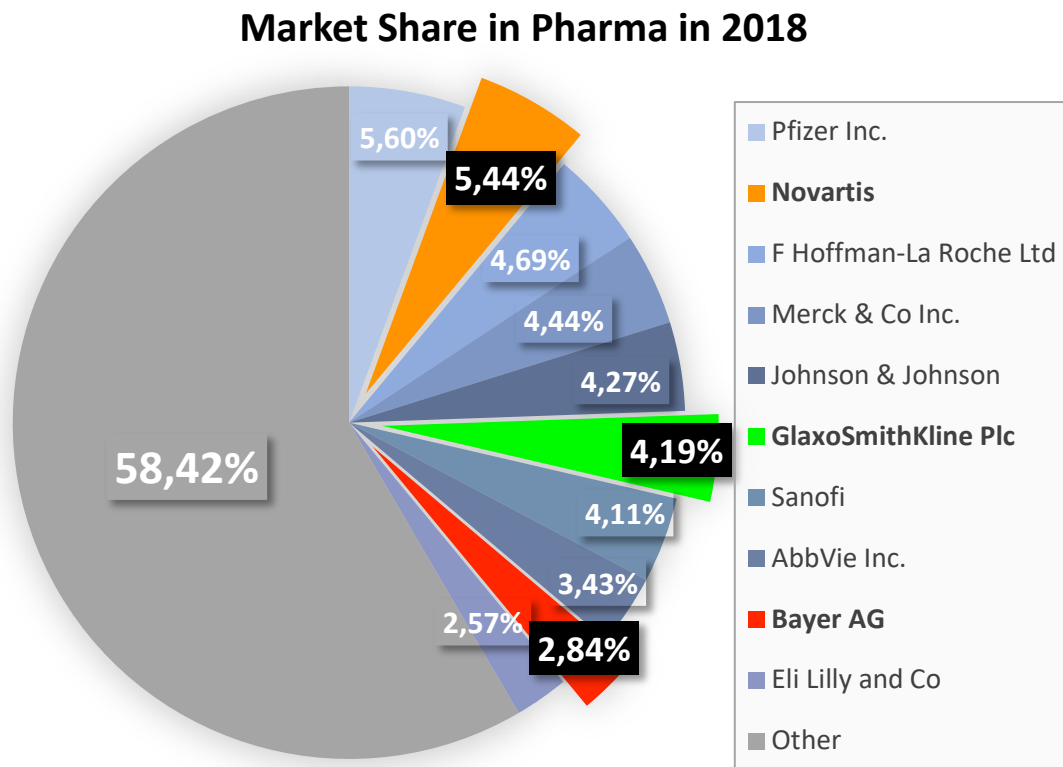
The pharmaceutical industry is large and mature, being heavily bound by government regulations. It started developing at a higher rate in the 1970s, before which the scale of the industry was relatively small. The 1980s brought an increased economic pressure on the companies, along with new regulations, as well as new technologies. The industry became more concentrated by the mid 1980s, when several large companies captured dominant positions globally. Most of the current key players in the industry have been there since the late 19th or early 20th century. The next wave in the pharma sector was the proliferation of mergers and acquisitions, contributing to the further consolidation of the industry (Hashemi, 2012).

Since development, production, and marketing of medicines is the pharmaceutical industry's responsibility, its great significance for the global sector is undoubtable. The industry's worldwide revenue has surpassed one trillion U.S. dollars for the first time in 2014. Due to the U.S. leading the pharma sector, the biggest contributor to the revenues is North America. The Chinese sector has been showing promising growth over the previous years, the highest rate out of all other countries, in fact. But, U.S. and European companies remain to be the key players of the industry ("Global Pharmaceutical Industry - Statistics & Facts", 2019).

In 2018, the biggest pharmaceutical company by revenue was Johnson & Johnson, generating almost \$63 billion, followed by Pfizer, both of which are U.S. companies. Novartis was the third biggest, generating around \$49 billion, trailed by a Chinese company, Sinopharm, and the European companies – Hoffman-La Roche and Sanofi. Seventh in place was GlaxoSmithKline, having a revenue of almost \$41 billion, followed by the American Merck & Co. Finally, Bayer produced \$29 billion, being in ninth place, trailed by another U.S. company – Gilead Sciences ("The world's biggest pharmaceutical companies by revenue in 2018", 2019).

Figure 1 illustrates the 2018 market shares of the top players in the industry, with some new companies now appearing. Out of the three chosen companies, Novartis captured the most market share, 5.4%, followed by GSK with 4.2%, and Bayer with 2.8%.

Figure 1: Market Share in the Pharmaceutical Industry



Source: Researcher's own work using data from "The top ten ..." (2019)

In 2013, the average net profit margin in the pharmaceutical sector was around 18%, with the highest figure being 42%, made by Pfizer. Four other companies, one of which was GSK, also achieved a profit margin of over 20% (Anderson, 2014). However, a more recent report by Ernst & Young states that the margins of the world's 21 largest pharma companies are declining. The companies are still able to grow due to their blockbuster and cancer drugs, this, however, also shows their high dependency on them. EY states that for the companies to increase their margins, new approaches must be taken, such as more innovations and development of new ecosystems (Ernst & Young, 2018).

Other main news related to the companies chosen for this research include GSK's acquisition of its joint venture with Novartis. The consumer health joint venture between GSK and Novartis was created in 2015, but, in 2018, Novartis received an attractive offer of \$13 billion for its 36.5% stake in the venture ("Novartis sells stake in joint venture...", 2018).

Another major event was Bayer's acquisition of Monsanto in 2016. The deal spurred a lot of controversy, becoming a detrimental case for Bayer, who lost the confidence vote of shareholders. The main controversy stemmed from Monsanto's glyphosate scandal, an allegedly carcinogenic substance of which the farmers were not warned, resulting in legal cases. After the acquisition, Bayer now needs to deal with the several thousands of legal claims regarding the chemical ("Bayer's merger failure...", 2019).

B. Industry's Bad Reputation

As previously mentioned, the pharmaceutical industry is characterized by a very tarnished reputation and lack of trust from the stakeholders. In an attempt to determine the reasons behind a once respected industry losing its prestige, Kessel (2014) discusses the several factors that have contributed to it. First of all, one of the reasons was the need to adjust the business model of the pharmaceutical companies, many of which are multinational corporations. The adjustment was necessary due to the decrease in price margins, resulting from price and cost pressures, public policies, and expiration of patents which significantly increased generic competition. The author states that this, along with the pressure for companies to monitor their stock performances, shifted the importance away from customers' needs to increasing returns on investment (p.984).

Questionable marketing practices are another contributor to the industry's bad reputation. The promotional activities that were used spurred a lot of controversy, due to them impacting the prescription practices of doctors. One of the main ones was promoting the drugs during face-to-face meetings with the doctors, usually in restaurants, while also providing them with promotional gifts. Other activities included advertisements emphasizing a drug's benefits, but omitting its risks; biased promotional mailings again pointing out the benefits discovered during company-sponsored drug trials; and many more (ibid., p.986).

The prices of drugs and their accessibility represent another problem. The industry has been massively criticized for its excessive pricing, with the high drug costs being ultimately passed from the healthcare systems on to the consumers. Low accessibility of the drugs, especially among the poorer nations, has also caused censure among the public. Finally, the numerous counts of malpractice in the industry is another

contributing factor to its damaged reputation, with many consumers believing that the industry is not regulated enough (pp.997-988).

A recent poll conducted by an analytics company on the public's view of the main U.S. business sectors ranked the pharmaceutical industry as the second-worst sector, only above the federal government ("Business and Industry Sector Ratings", 2018). Another study of the industry's trustworthiness revealed that consumers are becoming more mistrustful of its intentions and commitment to human welfare (Kim & Ball, 2013).

A UK-based research and consultancy group, PatientView, conducts annual surveys on the corporate reputation of the pharmaceutical industry from the patients' perspectives. The study is international in scope, the 2018-2019 survey involving 1,500 respondent patient groups, from 78 countries. The findings revealed that 41% of the participants believed that pharma had an "excellent" or "good" reputation, slightly lower from 2017's result of 43%. 53% believed it was "excellent" or "good" at producing high-quality products, again lower than 2017's result of 57%, but, only 9% of respondents stated that the pricing policies are fair in the industry as a whole (PatientView, 2019).

4. DATA AND RESEARCH METHODOLOGY

A. Data Collected

The data chosen to answer the stated research question are the companies' annual reports. Releasing an annual report is a legal requirement for any public company, its content being governed by legislation, accounting principles, and regulations of a stock exchange (Stittle, 2003). However, Stittle believes that these reports are more than a formality for companies, and should be used as a tool for portraying the corporate identity and transmitting the main corporate message. A crucial part of any annual report is the company's financial statements, but it also includes a narrative part, reporting on all the trading activities performed during the previous one-year period (p.3).

The importance of annual reports for investment decisions has long been confirmed by various studies. Chang, Most & Brain (1983) conducted a survey among individual and institutional investors, and financial analysts, the findings revealing a strong belief in the usefulness of the financial statements for making investment decisions. A more recent study has also reached the same conclusion, the results of its survey naming the balance sheet, the auditor's report, and the income statement, among others, as the most important sections (Alattar & Al-Khater, 2008). However, annual reports are not important merely because they disclose a company's financials, they also provide the stakeholders with a crucial source of more in-depth information about these figures (Stittle, 2003, p.4).

The ten latest annual reports of each of the three pharmaceutical companies were chosen for this research, from the years 2009 to 2018⁶. These reports include sections discussing some fundamental information about the organizations, such as strategies, culture, values, etc., corporate governance, the remuneration report, and financial statements, among others. Containing such a variety of information about the company's business activities, these reports are quite lengthy, ranging from around 200 to 350 pages. Due to the excess information provided in these reports, only one specific section of them was chosen for the purpose of this thesis – the letters to shareholders.

According to Jones (2011), accounting narratives have become increasingly more important over the last two decades, with the Chairman's statements and President's

⁶ The links to all the companies' annual reports are listed in the Bibliography

letters being very influential. These allow managers to tell the company's yearly story to the shareholders, and have been known to shape investors' decisions (pp.97-98).

The chairman's statement typically discloses important information regarding the company's future financial position (Smith & Taffler, 2000). In fact, Bartlett & Chandler (1997) found that the narrative sections of the annual reports have a larger readership, the most thoroughly read part by private investors being the chairman's statement. The authors' findings suggest that shareholders would rather read an overview of the company's performance than just plain financial data. Hooghiemstra (2010) states that, since the letters to shareholders are unregulated, they may be used by the CEOs to manage shareholders' impressions of the company.

Thus, because of their crucial importance and susceptibility to impression management, the main focus areas for this research will be the Chairman's and CEO's letters to shareholders. These usually discuss the company's performance in the previous year, substantiate its achievements and failures, disclose any major changes in the firm, and talk about the future outlook.

The Annual Reports of Bayer only have letters from the Chairman and no CEO's statements. GlaxoSmithKline has both statements from the Chairman and the CEO, but in the years 2009-2010 these are combined into one letter. For Novartis, letters to shareholders from the CEO were introduced in 2013, before which there were only letters from the Chairman. The reports from the years 2010-2012 have sections dedicated to interviews with the CEO, but these lack the typical structure of the letters to shareholders, and, thus, were not considered for this research. These bring the total number of collected letters or statements to 44. Even though there is a different number of statements for each company, the content analysis results are provided in percentages to ensure comparability.

B. Research Methodology

For the purpose of this research, both quantitative and qualitative methods were chosen. Before analyzing the actual corporate statements, however, the companies' income statements and balance sheets were evaluated to ascertain their financial situation. The aim was to observe whether the company experienced a growth or decline in performance. The chosen indicators were the ones most likely to be addressed by the Chairmen and/or CEOs in their statements: revenue, profit after tax, and earnings per share.

The percentage change from previous years was calculated in order to establish a preliminary set of expectations regarding what the Chairmen / CEOs' statements might include. In case the financial analysis showed a negative percentage change, i.e. a decline in performance, the goal was then to observe whether, and in what light, this was addressed in the accounting narratives. This, of course, does not represent a complete picture of what the letters to shareholders may include, seeing as there are various other aspects of a company's performance. But, it provides a basic idea of whether the businesses had an overall successful year, or not, in terms of financial performance.

In order to assess whether a company had a good or a poor year, both relative and absolute values of the mentioned indicators were considered. The percentages represent relative changes, showing the year-on-year dynamics, which helped reveal the extent of the growth or decline in results. But, these were sometimes quite volatile, and a sharp increase in an indicator in one year (above 100%) was, most likely, followed by a negative percentage change in the next year. This, however, did not necessarily mean that the company had a poor performance, the negative percentages just reflecting the comparison with the unusually high figures of the previous year. Thus, an analysis of the absolute values of figures was necessary for a more accurate assessment of the companies' performance.

To answer the posed research question, manual content analysis was chosen as the research method. Content analysis is a "research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use" (Krippendorff, 2018, p.24). While having journalistic roots, this technique has expanded into an array of other fields, such as sociology, psychology, politics, communication studies, and many others. Content analysis has developed into a wide

range of possible methods that can be employed to draw inferences from a variety of data. The use of this technique has skyrocketed since its first mention, and still continues to increase rapidly, especially due to the large amount of data available electronically and the extensive use of computers for text analysis and processing (ibid., pp.23-24).

It is a scientific tool that can be used to gain insights and a better understanding of certain phenomena. It involves a specific process, also called the research design, and its steps are guided by the design's logic. The two qualities that this logic should possess are efficiency and impartiality, so that the researchers can justify how the analysis was conducted. Essentially, the description of this logic should also represent a set of clear instructions, which can make the research replicable (ibid., p.87).

Krippendorff (2018) also describes the process of content analysis with its six components: unitizing, sampling, coding, reducing, inferring, and narrating. The first step implies establishing a unit of analysis, while sampling involves selecting a manageable but representative set of units (data) to be analyzed. Representing these units, such as text or images, in an analyzable form is known as coding. Reducing the data means aggregating the findings into efficient representations that omit redundancies. The two final steps involve making inferences from the findings and narrating these in a manner that is understandable to others (pp.88-89).

Brennan, Guillamon-Saorin & Pierce (2009) discuss various methods or approaches of content analysis that are used for researching accounting narratives in terms of impression management. Studies on syntactical manipulation focus on analyzing the language used in these narratives. These mainly aim at measuring the readability of the text and how this relates to the company's performance. A similar approach is analyzing rhetorical manipulation, which focuses on the linguistic choices that managers make with the aim of influencing the meaning of the narratives. Different from the syntactical approach is thematic research, divided into meaning-oriented and form-oriented. The former examines how the companies attribute their outcomes, whether it is to internal or external factors. The latter is directed towards observing the positive and negative themes used by the management, measuring the frequency of words and sentences (pp.794-796). This thesis is mainly based on thematic research, both meaning and form-oriented, with certain references to the rhetorical manipulation approach. The logic behind the coding process that was used for this research is described below.

Mimicking the research conducted by Clatworthy and Jones (2003), the accounting narratives were analyzed for specific statements of good or bad news regarding the company's financial performance. Sentences were coded as positive or negative when their connotations implied good or bad news for the company or its environment (p. 175). One coding represents one such statement, and a sentence can have multiple codings, if it includes more than one good or bad news, or both good and bad ones. Examples of good and bad codings are given below:

Good news: "Sales grew 5% in constant currencies (cc) to USD 49.4 billion, in our continuing operations" (Novartis, 2016, p.4).

Bad news: "However, 2017 was still a difficult year operationally" (Bayer, 2018, p.4)

Good and bad news: "Performance in our Consumer Healthcare business was impacted ... with sales for the year falling 1%, but increasing 2% in the last quarter following progress in remediation of these issues (GlaxoSmithKline, 2015, p.4).

The first example represents one good news coding, the second one is one bad news coding, while the last one was coded as one good and one bad statement.

General statements praising the company, its competences and abilities, or discussing its business model, strategy, plans (etc.) were not coded, since the focus of this research is limited to news regarding the company's performance. The statements that were considered, for the purpose of this research, were specific and explicit, relating to performance in a given year or within a certain period. Statements reporting news or certain financial figures without providing substantiation or any context (e.g. percentage change, or a comment about the figures) were considered to be neutral statements and, therefore, not coded. Similarly, any estimations, potential future sales, and any other outlooks for the future were disregarded, since these are not really representative of the company's actual performance, and also fall outside the purpose of this paper.

Several letters to shareholders included general narratives about the state of the environment in which the company operates, especially on the macroeconomic level. Such statements were not considered, as these are out of the companies' control. However, the statements about the environment that are related to specific performance aspects of the companies were indeed coded. An example of such a statement would be: "net sales were down 2% cc due to fierce price competition in the US" (Novartis,

2018, p.4). These statements were also further analyzed to determine the attribution of the good / bad news, e.g. whether the companies took credit for the good news, and blamed the environment for the bad news.

To introduce a quantitative representation of the good and bad news in the corporate statements, the number of words was counted for each of the codings. To put it into perspective and allow comparison between the companies and over the selected period of time, the number of words in the codings was also calculated as percentage of the total word count in the letters to shareholders. In an attempt to have more accurate results, the word count was taken from the actual statement / coding, as opposed to the sentence as a whole, seeing as some sentences are much longer, while others are concise and straight to the point. This meant that, occasionally, information that was not relevant to the point made in the good / bad news (e.g. description of the pharmaceutical products or product line) was not counted.

For the second part of the research, the codings were carefully read and analyzed to determine whether any impression management techniques were present. The main focus was on the tactics discussed by Jones (2011) – stressing the positive, downplaying the negative; baffling the readers; differential reporting; and attribution. However, other impression management strategies were also sought for, to provide a bigger picture of the tactics that were most prevalent and make conclusions on the potential reasoning behind companies using them.

5. ANALYSIS OF BAYER

A. Company Overview

Bayer AG is a multinational pharmaceutical company headquartered in Leverkusen, Germany. It is a Life Science company managing three separate divisions, Pharmaceuticals, Consumer Health, and Crop Science, and a business unit – Animal Health. The Pharmaceuticals division is concerned with prescription drugs, while the Consumer Health division mainly focuses on nonprescription products. Crop Science is an agriculture enterprise operating in crop protection, and the Animal Health unit markets products for treating diseases in farm animals. In 2018, Bayer was comprised of 420 consolidated companies across 90 countries, employing approximately 117,000 people ("Names, Facts & Figures about Bayer", 2019).

The previously mentioned study on Corporate Reputation of Pharma, conducted by PatientView, also researched performance of 46 companies. In 2018, Bayer was ranked 18th among patient groups that were familiar with the company, an improvement from the previous year's 19th rank. Among the three analyzed companies, Bayer is scored the lowest in terms of reputation (PatientView, 2019). The next sections provide the results of Bayer's analyses.

B. Financial Analysis

Table 1: Financial Analysis of Bayer

Financial Indicators	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	-5.3%	12.6%	4.1%	8.8%	1.0%	5.2%	9.7%	1.0%	-25.1%	13.1%
Profit after tax	-21.2%	-3.6%	88.7%	1.0%	27.6%	8.1%	19.0%	17.8%	67.7%	-78.9%
Profit after tax (cont. op.)	-21.2%	-3.6%	88.7%	1.0%	27.6%	8.1%	16.7%	13.4%	-28.7%	-47.3%
Earnings per share	-23.4%	-7.6%	90.4%	-1.0%	30.4%	7.3%	20.0%	9.5%	54.6%	-78.6%

Source: Researcher's own calculations with data from company's Annual Reports

Table 1 illustrates the results for Bayer, the actual financial figures of Bayer can be found in *Table 11, Appendix A*. For a better representation of the company's profitability, an extra row is dedicated to profit after tax just from continuing operations. In 2009, a drop in all indicators can be seen. This was the year after the global financial crisis, so it is understandable that the company was experiencing difficulties financially. In 2010, revenue increased, but there still was a decrease in profit, albeit a smaller one than in the previous year. The year of 2011 seems to be quite successful, Bayer finally experiencing a significant boost in its financial figures, seemingly recovering from the crisis. In 2012, the boost continues in revenue and profit, with an insignificant drop in earnings per share. Overall, the results are better than the first two post-crisis years.

In the period of 2013 to 2016, all percentage changes are positive, some more significant than others, but, generally, Bayer was witnessing successful results. In 2017, however, it seems that the company encountered difficulties, with a considerable decline in two of the indicators. Profit after tax and earnings per share increased significantly, but this was due to the company profiting from a discontinued operation. The other figures dropped to a level lower than the previous two years. The troubles seem to continue in 2018, as well, with a slight increase in revenue, but the figure still being lower than the previous four years. The high negative percentage of the profit after tax reflects the asset disposal from the previous year. Nevertheless, the figure still dropped to a 10-year low, even below the 2008 crisis figure. Evidently, after five years of overall successful results, Bayer has been experiencing a downturn in the past two years.

These ten years can be divided into three specific periods, according to the company's financial performance: the years of 2009 and 2010, which were overall challenging, the 2011-2016 period, with seemingly positive results, and the years of 2017 and 2018, described by a rather poor performance. Therefore, it can be expected that the number of bad news reported in the unsuccessful periods will be higher than those during the successful period, vice versa with good news.

C. Content Analysis

Table 2: Number of good & bad codings for Bayer

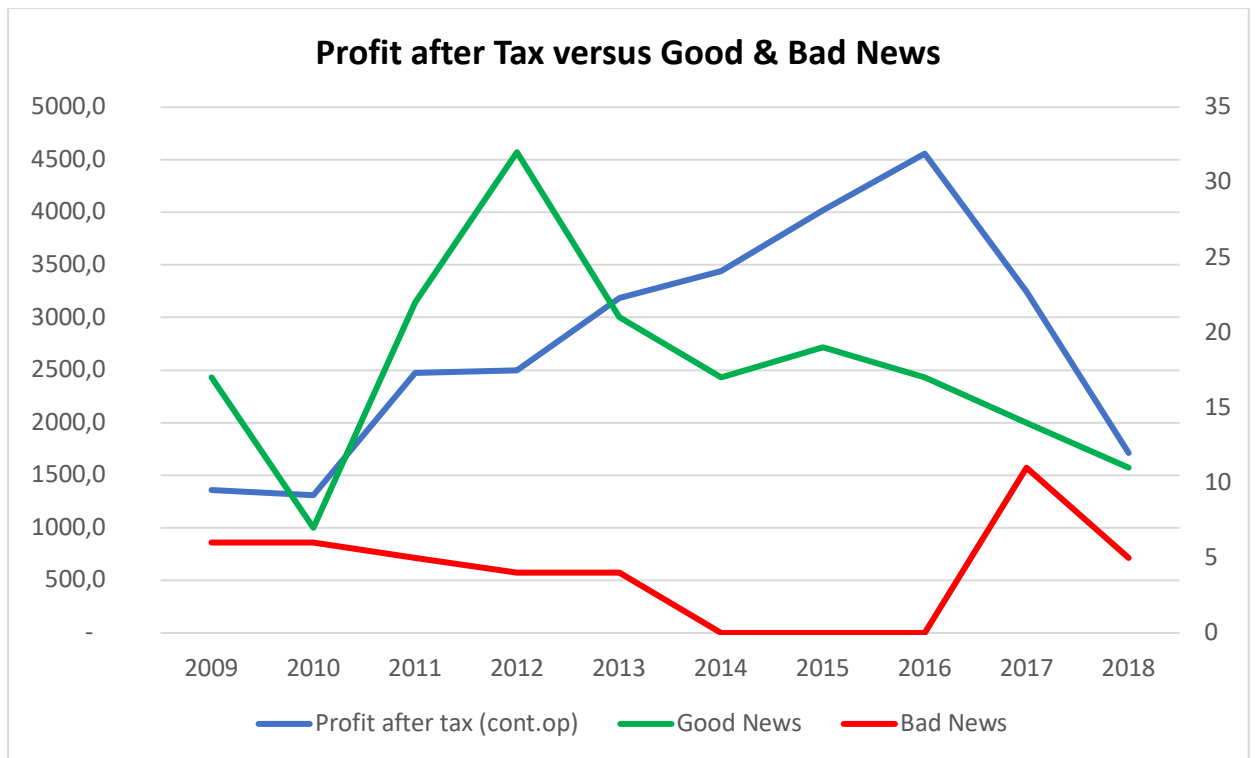
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	17	7	22	32	21	17	19	17	14	11
Bad	6	6	5	4	4	0	0	0	11	5
Year	poor	poor	good	good	good	good	good	good	poor	poor

Source: Researcher's own findings from company's Annual Reports

Table 2 illustrates the number of good and bad codings found in 10 letters from Bayer's Chairmen. The last row of the table labels the years as either good or poor, reflecting the results of the Financial Analysis. The first observation is that the predictions made at the end of the previous section came true for the most part. It seems that there are indeed more codings for bad news in the unsuccessful periods, as compared to the successful years. The opposite is true for good codings, except for the first year, where the value is on par with some of the years in the successful period. A possible explanation for that could be that the company wanted to draw the shareholders' attention to more positive aspects, in the context of the recent crisis. A significant drop in good news can be seen in 2010, as the company was still struggling to recover from the economic depression. The 2011-2016 period, described as more successful, has more positive and less negative news, with the last three years having no bad news whatsoever. The number of codings for bad news skyrocketed in 2017, which wasn't a great year for the company, financially. The good news decreased in 2017, and dropped further in 2018.

In order to observe the relationship between Bayer's financial performance and reporting of good versus bad news, the results were depicted in a graph, presented in *Figure 2*. The financial indicator chosen was profit after tax from continuing operations, since it is the best representative of the company's profitability. The other two data sets plotted on the graph are the codings for good and bad news from *Table 2*.

Figure 2: Profit after Tax vs. Good & Bad News in Bayer



Looking closely at the ‘profit’ and ‘good news’ curves, it can be noted that, at certain times, these are trailing each other, revealing a positive relationship. It is, however, quite weak, and especially not evident for the 2013-2014 period. But, in the first and last four years, there is a level of association between the two. An increase in profit is accompanied by an increase in good news and a drop in one is followed by a drop in the other. Observing the ‘profit’ and ‘bad news’ curves, a more evident negative relationship can be noted, especially in the first nine years. The bad codings start to drop in 2010, as the profit is continuously rising, and significantly increase in 2017, as the profit plummets.

Table 3 displays the word count analysis of the Chairmen’s statements, including the percentage of the total number of words that each coding represents. This table will be referred to in the further in-depth discussion of each letter to shareholders. An overview of all of the content analysis results for Bayer can be found in Table 14, Appendix B.

Table 3: Word count analysis of Bayer's statements

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	# of words	241	134	346	564	282	243	305	255	237	165
	% of Total	19.8%	10.2%	22.8%	34.4%	20.4%	19.6%	22.8%	18.0%	12.9%	12.7%
Bad	# of words	64	88	74	74	49	0	0	0	183	83
	% of Total	5.3%	6.7%	4.9%	4.5%	3.5%	0.0%	0.0%	0.0%	9.9%	6.4%
Total # of words		1,215	1,316	1,520	1,641	1,384	1,240	1,339	1,418	1,843	1,300
Year		poor	poor	good	good	good	good	good	good	poor	poor

Source: Researcher's own findings from company's Annual Reports

In 2009, Bayer was struggling with the effects of the crisis, the Chairman addressing that in his letter, and, in fact, even starting his narrative with the bad news:

“2009 was an especially challenging year. Despite our best efforts, we too were unable to prevent a decline in sales and earnings” (Bayer, 2010, p.4).

The overall tone of the letter, however, is rather optimistic, having a relatively high amount of good news, representing 20% of the total text. As previously mentioned, this could be explained by the Chairman wanting to spotlight more of the company's positive aspects to reassure the stockholders of its competence. Another interesting observation made was the way in which some of the news is framed:

“we limited the drop in earnings to 6.6 percent”

“The subgroup initiated a rapid, broad response to the sharp drop in demand with measures such as temporary plant shutdowns, production cutbacks ...” (Bayer, 2010, p. 4).

These negative aspects are portrayed in a positive light. Admittedly, under those critical circumstances, a decrease in earnings that is not too significant does sound like good news. But, the word choice in those statements – “limited the drop”, “rapid, broad response to the sharp drop” – still is aimed at emphasizing Bayer's good problem-solving capabilities.

In 2010, an overall challenging year for Bayer, the number of codings for good news substantially drops. These now make up only 10% of the total text, while the bad news codings increase to 7%. This was also the year when a new Chairman was

assigned, which might have contributed to the change in disclosed news, due to a different style of reporting. In light of the unimproved performance, the new Chairman discusses the list of difficulties encountered by the company, and is no longer putting too much emphasis on the positive aspects of performance. A bigger portion of the letter focuses on the company's plans and future prospects. This seems to be an attempt to restore shareholders' confidence in the company.

As the company saw major improvement in 2011, this was also reflected in the amount of good news being reported, the Chairman himself calling it "a very successful year for [the] company" (Bayer, 2012, p.1). Good news accounts for 23% of the total, and bad news drops to 5%. With further success in 2012, there is another spike in good news, and no major change in bad news. Among the few negative aspects addressed were stagnant earnings resulting from legal disputes, and unfavorable effects of the external environment:

"For Bayer HealthCare, the situation in Europe remained difficult, particularly in view of the health system reforms in a number of countries" (Bayer, 2013, p.2).

While the level of bad news generally matched the previous year's, it was largely overshadowed by the amount of good news reported. The 2012 statement is by far the most positive one, with good news representing 34% of the total. The whole letter is also a bit longer than the previous ones, perhaps on account of the Chairman wanting to fit in more of the company's successes for that year.

In the next four years, there is a steady increase across all financial indicators, as discussed in the Financial Analysis. The good news in 2013 accounts for 20% of the overall statement, less than in 2012, but still rather positive. There is also a drop in the bad news, to 3.5%. The 2014 to 2016 statements lack bad news altogether, as the company continues to improve its financial performance. There is another slight decline in the good news coded for 2014. This could be explained by the Chairman taking more time to discuss Bayer's decision to demerge one of its divisions, thus, not reporting too in-depth on all of the company's financial performance aspects. In 2015, however, there is a noticeable spike in the word count for good news, as the Chairman gives a more detailed overview of each segment and the overall financial figures.

In 2016, Bayer's profit from continuing operations reached its peak. Bad news is still null, and good news is at around 18% of the total statement. This year also saw another change in the Chairman/CEO position. A bigger part of the letter is dedicated

to discussing the planned acquisition of Monsanto, and some other investments and joint ventures of Bayer. Thus, the good news reported is slightly less than in the previous year.

Bayer encountered a significant decline in 2017, profit after tax from continuing operations dropping by almost 30%. The codings for bad news skyrocket to 11, representing 10% of the whole text, the highest level across all years. The letter to shareholders itself is also the longest compared to other years. The Chairman revealed a list of difficulties the company was faced with, including weak development of several business divisions, poor stock performance, and decrease in sales and EBITDA, among others:

“Sales declined by a currency- and portfolio-adjusted 1.7 percent, while clean EBITDA decreased significantly by 12.8 percent” (Bayer, 2018, p.4).

Despite the poor performance, the number of codings for good news does not differ too much from other successful years, although the number of words does represent a lower percentage of the total – 13%. This seems to balance out the negative aspects that were reported, reminding the shareholders of the company’s strengths:

“In February, a Phase III clinical trial involving rivaroxaban, ... was ended ahead of schedule due to its outstanding efficacy” (Bayer, 2018, p.3).

The year of 2018 was, unfortunately, no better than the previous one, with the profit figures plunging further. The company’s performance was significantly worse, profit after tax, in fact, dropping to a 7-year low. Thus, codings for good news drop noticeably, but due to the letter being much shorter, still account for 13% of the text. Since Bayer’s financial figures are unsatisfactory, the reported good news mostly discusses the progress made on the Monsanto acquisition, and successful development of certain products. As for the negative aspects, 5 bad news were coded, making up 6% of the whole statement. This is actually quite surprising, seeing as it is not much different from some of the years when the company showed a substantially better performance. Moreover, the reported bad news barely addresses any declines in financial figures, and mostly focus on the unfavorable market conditions:

“Operationally, we experienced a difficult market environment in 2018, with significant negative currency effects and growing uncertainty caused by global trade disputes” (Bayer, 2019, p.7).

D. Impression Management Analysis

As can be seen from the Content Analysis, the tactic of stressing the positive and downplaying the negative is certainly present in Bayer's reports. This can be noticed right from the first year analyzed, where the Chairman's statement reports quite a high number of good news, despite the financial performance being rather unsatisfactory. Bayer does report a decrease in sales, but does not address the decline in all of the other chosen financial indicators, mostly emphasizing increase in cash flow, growth in its specific divisions, and progress in other performance aspects. Moreover, as discussed in the previous chapter, some of Bayer's negative news was framed as positive, making the tone of the letter more optimistic.

In the rest of the years, there is always more good news than bad news, with three years even lacking bad news altogether. Although, in some of those years, the company had a successful performance, which explains the positive tone. In 2018, however, there is a significant decline in financials, but bad news remains on par with some years that saw a better performance. Moreover, the bad news does not address the decrease in financial indicators, thus downplaying the negative aspects again.

The tactic of baffling readers is actually not prevalent in Bayer's reports. Some technical language is indeed present, but it is used when reporting both good and bad news. But, even when technical terms are present, e.g. EBITDA, the overall message of those negative aspects is rather clear. Overall, it seems that the language used to report bad news is not different from that used with good news. An example of both is displayed below:

“Sales declined by a currency- and portfolio-adjusted 1.7 percent, while clean EBITDA decreased significantly by 12.8 percent” (Bayer, 2018, p.4).

“Operationally, sales of Pharmaceuticals increased by a currency- and portfolio-adjusted 4.3 percent in 2017. Clean EBITDA rose by 8.8 percent” (ibid., p.3).

This actually ties into the next impression management tactic – differential reporting. One example of this tactic could be companies using more ‘hard numbers’ to back up their positive performance and not the negative one. The example above actually shows the opposite. It seems that, in the 2017 report, several of Bayer's bad performance aspects are also reported with the use of clear numbers and percentage changes, even though it is unfavorable for the company. However, this is only the case for the 2017

report, while the other statements have either just one or no numbers substantiating the negative aspects, mostly focusing on the environment. An example is the 2010 Chairman's statement, where the entire paragraph discussing good news includes numerous figures and percentage changes, while the next paragraph that discusses bad news has no numbers whatsoever:

“Adjusted for currency and portfolio effects, sales advanced by 8.0 percent. EBITDA before special items came in at €7.1 billion, which means we improved our operating performance by 9.7 percent” (Bayer, 2011, p. 4).

“However, the performance of the CropScience and HealthCare subgroups did not meet our expectations. In HealthCare, generic competition had a very noticeable effect. A particularly negative factor is the pressure on Yaz® / Yasmin®, ...” (ibid., p. 5).

Another characteristic of this impression management technique is placing emphasis on the future or the environment, in case of unsuccessful performance. This can again be noticed in the 2010 letter, the year that Bayer saw a further decrease in profit, with less good news reported. As discussed in the Content Analysis, a big part of that letter is devoted to discussing the company's future plans and prospects, rather than talking about its past performance.

The last impression management tactic under question is attribution. Instances with internal credit and external blame can indeed be noticed in Bayer's letters to shareholders. There are, however, quite a lot of cases when the company is merely reporting its results, either good or bad, without explicitly attributing these to internal or external factors (as can be seen in the example above, from Bayer, 2018).

There are also quite a few instances of external credit, the company naming the environment as one of the reasons behind successful results. On more rare occasions, the company may also take responsibility for the negative news – internal blame:

“Sales advanced substantially, helped by positive market conditions” (Bayer, 2014, p.4).

“...we were unable to fully exploit our growth potential because of production bottlenecks in the Pharmaceuticals Division and structural problems at Consumer Health” (Bayer, 2019, p.7).

These, however, are not as common, there being more cases of attribution. When discussing negative aspects, the statements tend to blame external factors for them, thus focusing mostly on the environment. This is also a sign of differential reporting,

discussed earlier. When disclosing good news, the Chairmen do attribute these to the company's efforts. Interestingly, with good news, the Chairmen also tend to use more of the personal pronoun "we", thus emphasizing the company's competence in delivering the successful results. Examples of internal credit and external blame are provided below:

Internal Credit:

"Yet thanks to our strategic alignment, we navigated the economic downturn with comparative success" (Bayer, 2010, p.4).

"Our refocused sales and marketing activities as well as our streamlined product range were key to our success" (Bayer, 2013, p.4).

External Blame:

"In terms of earnings, CropScience was unable to match the record level of 2008 due to higher raw material costs and negative currency effects" (Bayer, 2010, p.4).

"... difficult situation in Brazil, where several factors led to unexpectedly high inventories of crop protection products" (Bayer, 2018, p.4)

6. ANALYSIS OF GLAXOSMITHKLINE

A. Company Overview

GlaxoSmithKline plc (GSK) is a multinational pharmaceutical company headquartered in Brentford, United Kingdom. There are three global businesses under the GSK umbrella – Pharmaceuticals, Vaccines, and Consumer Healthcare. From the wide range of products brought by the Pharmaceuticals business, medicines for respiratory diseases and HIV are the commercial leaders. Through its Vaccines business, GSK provides vaccines to people of all ages across 160 countries. Pain relief, Respiratory, Digestive, Oral, and Skin Health are some of the categories of medicine provided through its Consumer Healthcare business ("About us | GSK", 2019). In 2018, the number of employees of GSK was around 95,500 (GSK, 2019, p.28).

The survey by PatientView ranked GSK 13th in terms of corporate reputation among patient groups familiar with the company. This is a decline from its previous 11th position, but still higher than Bayer (PatientView, 2019).

B. Financial Analysis

Table 4: Financial Analysis of GlaxoSmithKline

Financial Indicators	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	16.5%	0.1%	-3.5%	-3.5%	0.3%	-13.2%	4.0%	16.6%	8.2%	2.1%
Profit after tax	20.3%	-67.3%	194.5%	-13.1%	18.6%	-49.7%	195.7%	-87.3%	104.2%	86.5%
Profit after tax (w/o other inc.)	8.7%	-70.0%	258.2%	-28.4%	29.1%	-21.6%	-81.4%	579.9%	-7.5%	36.3%
Earnings per share	23.1%	-70.6%	225.9%	-11.2%	21.1%	-49.1%	204.2%	-89.2%	67.0%	134.7%

Source: Researcher's own calculations with data from company's Annual Reports

Table 4 showcases the percentage change in the figures of GlaxoSmithKline, while its financial figures are depicted in *Table 12, Appendix A*. The company seems to have recovered from the 2008 crisis, there is an increase in all indicators in 2009. The year of 2010, however, reflects a rather poor performance, with a decline in all indicators, except revenue, which had barely any growth. While revenue had a slight decline in the next year, all other indicators show a significant improvement, offsetting the decrease in 2010. In 2012, there is another decrease in all figures. Granted, the percentage changes are negative mostly due to comparison with the significant increase of 2011, although the figures still dropped below the 2009 ones, indicating a not so successful performance. The next year witnesses a recovery from this downturn, but, in 2014, GSK again experiences a decline in all indicators.

The percentage changes for 2015 are quite high, seemingly pointing towards an improvement in performance. However, the significant increase in profit is mostly due to a disposal of an asset, without which GSK actually saw another decline. Thus, the serious drop in the 2016 figures reflects the contrast with the unusually high figures of 2015. Similarly, the massive increase in the ‘profit without other income’ figure reflects the comparison with the unusually low profit from previous year. Overall, the profit figure of 2016 is still lower than in the previous year. The figures for 2017 seem to be promising, with profit after tax slightly dropping, due to the comparison with the spike in 2016. Lastly, 2018 appears to be a successful year for GSK financially.

The percentage changes of GSK’s financial indicators are quite erratic, it is, thus, not as easy to divide the years into just a few periods according to performance, as done with Bayer. Other income / loss, such as the asset disposal in 2015, was excluded in an attempt to get more stable results, but these remain just as volatile, with every other year showing a decline in performance. The good and bad codings for GSK can, thus, be expected to show similar erratic change year-on-year.

In order to accurately label the years as either good or bad, the actual financial figures of the company had to be observed and compared to previous years. Overall, the years 2009, 2011, 2013, and 2018 can certainly be labeled as good, while 2010, 2012, and 2014 – bad. The years 2015 and 2016 were labeled as mixed, due to the ambiguous percentage changes, while the year of 2017 was labeled as good, since the decrease in profit after tax (without other income) was insignificant, with the other indicators seeing a significant improvement.

C. Content Analysis

Table 5: Number of good & bad codings for GlaxoSmithKline

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	6	6	13	12	23	15	11	14	12	19
Bad	0	3	2	6	1	6	2	2	1	0
Year	good	poor	good	poor	good	poor	mixed	mixed	good	good

Source: Researcher's own findings from company's Annual Reports

As expected, the number of good and bad news reported each year is quite erratic. 2009, being an overall successful year for GSK, has no bad news, and with the performance deteriorating in 2010, the bad news increase, while good news seems to be on par with last year. In 2011, the company recovered from the downturn, and a spike in good news can be seen. In the next years, GSK's performance has again followed that pattern, worsening in one year and improving in the next one. Thus, in 2012, codings for bad news significantly increased, with no major change in good news. Perhaps, this was again done in order to keep the report more balanced. A substantial change can be seen in both numbers for the year of 2013, with quite a high number of reported good news, and barely any bad ones. The situation has reversed again in 2014, after which the bad news seems to have plateaued for the next three years, while good news changed slightly. Finally, with an improved performance in 2018, bad news is again null and good news increased. The word count analysis and discussion provided later in this section will help bring more context to these numbers.

To depict the relationship between the company's profitability and the reporting of good and bad news more clearly, the figures were plotted on a graph presented in *Figure 3*, the profit figure again not accounting for other income.

The relationship between the three data sets is a lot more prominent than in the case of Bayer. The 'good news' curve trails the 'profit after tax' curve, an increase in one corresponding to an increase in the other. A negative relationship between profit and bad news is also evident, but more so in the first six years. Overall, however, it does seem that the company's financial situation impacts the type of news that are reported in a more predictable way.

Figure 3: Profit after Tax vs. Good & Bad News in GlaxoSmithKline

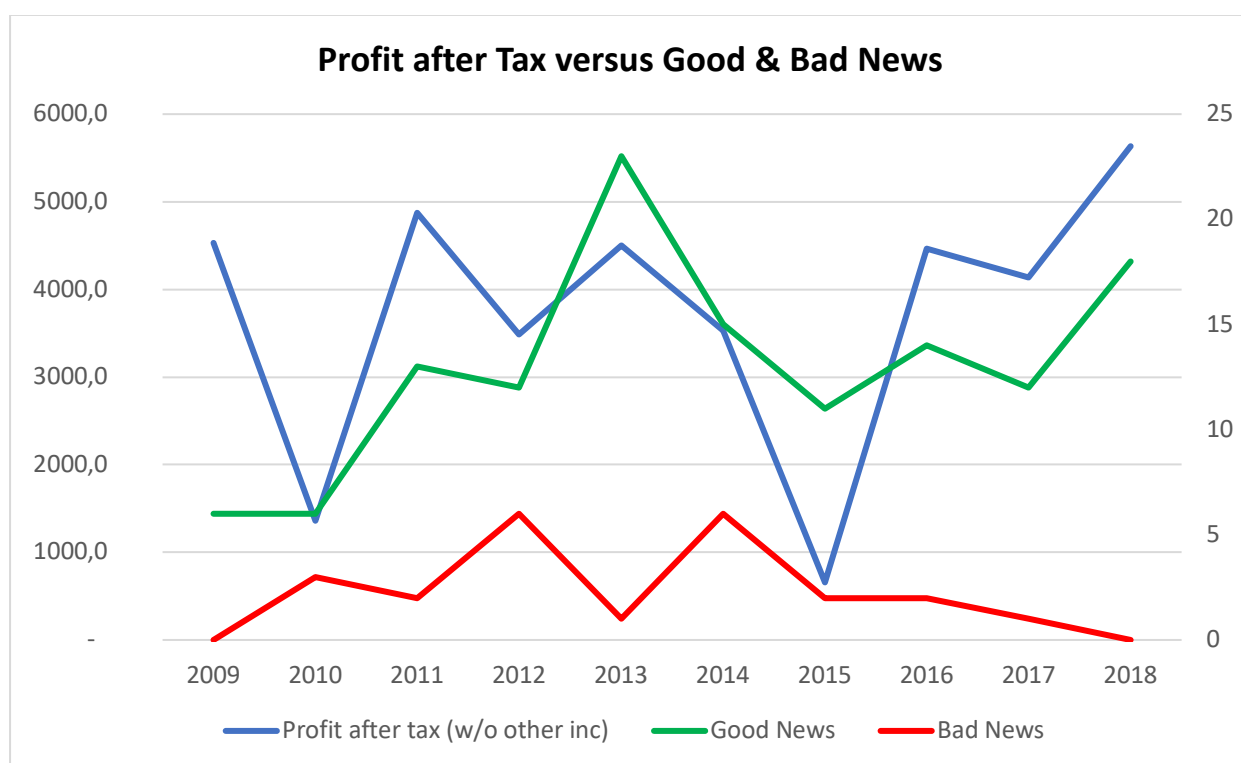


Table 6 displays the word count analysis Chairmen’s and CEO’s statements of GSK, including the percentage of the total number of words that each coding represents. Table 15 in Appendix B presents more detailed results of GSK’s content analysis.

Table 6: Word count analysis of GlaxoSmithKline's statements

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	# of words	87	77	156	161	399	281	164	207	203	274
	% of Total	11.9%	6.0%	8.5%	8.3%	17.3%	10.1%	12.8%	15.2%	10.5%	15.1%
Bad	# of words	0	73	23	99	8	106	21	45	16	0
	% of Total	0.0%	5.7%	1.2%	5.1%	0.3%	3.8%	1.6%	3.3%	0.8%	0.0%
Total # of words		733	1,276	1,843	1,940	2,309	2,771	1,284	1,365	1,931	1,813
Year		good	poor	good	poor	good	poor	mixed	mixed	good	good

Source: Researcher’s own findings from company’s Annual Reports

In 2009, the Chairman's and CEO's statements were combined into one, which was rather short, the shortest out of all statements, in fact. The company had a rather good financial performance, the good news reported, thus, making up 12% of the text, with negative news omitted altogether. 2010 saw a substantial decrease in profit, above 65% in both figures, which is reflected in the news disclosed in the statement. Some bad news now appears, and while codings for good news remain at 6, their percentage of the whole text decreased. Bad news represents 6% of the text, the highest percentage out of all of the years, mostly on account of the letter being one of the shortest. Despite that, there are only 3 codings, which barely address the company's financial performance. The statement mentions the decline in sales and earnings, but focuses mostly on the external environment:

“Reported sales, for example, were impacted by generic competition to Valtrex, and reduced sales from Avarda and pandemic related products” (GlaxoSmithKline, 2011, p.4).

A spike in profit in 2011 was followed by a spike in good news – 13 codings, making up around 8% of the text. Bad news significantly drops, there being only two codings, accounting for just 1% of the statement. But, even those bad codings are immediately followed by good aspects, thus, both statements are overall very positive:

“Reported sales were down 3% in the year – down 6% in the first half but up 1% in the second half” (GlaxoSmithKline, 2012, p.11).

2012 saw another decline in financials, although not as severe as in 2010. Despite that, there isn't much difference in the reporting of good news, which still makes up around 8% of the two letters. The CEO does disclose more negative aspects than in the previous year, now at 5% of the whole. However, half of the bad codings are again followed by good news, and the other half addresses the challenging European market, which generated unsatisfactory sales. The company states “government austerity measures” as the main reason behind that (GlaxoSmithKline, 2013, p.3).

The slight recovery from this downturn resulted in another optimistic narrative from the Chairman and the CEO, in 2013. Both of the statements are also lengthier than the previous ones, and have the most amount of good news – 17% of the whole text. There is barely any bad news in either of the letters, the only negative aspect is addressed in passing when mentioning a successful result achieved by GSK:

“We achieved this trading result despite some unexpected challenges, including significantly reduced sales in our Chinese business” (GlaxoSmithKline, 2014, p.4)

In 2014, the company experienced yet another decline in performance, the profits decreasing substantially. Bad news noticeably increases, but still only making up 4% of the text. Good news does not decrease significantly, representing 10% of the whole, which is still higher than other unsuccessful years. Most of the positive aspects of performance include progress made in areas other than financials, such as R&D or specific product lines.

The percentage changes in GSK’s financial indicators for 2015 seem to show growth in the figures. However, that is mostly due to a disposal of an asset, which skyrocketed the company’s profits. Not counting other income into the profit figures, a drastic drop can be noted. This is not addressed in the statements, the 2 bad news codings making up barely 2%. Good news decreases in terms of codings, but since the letters are much shorter than the few previous ones, these almost reach 13% of the whole. There also now seems to be a pattern for how the company reports bad news, as both of the codings are again accompanied by positive comments:

“New product sales are now more than offsetting the declines in Seretide/Advair; sales of which are now around 30% below their peak in 2013” (GlaxoSmithKline, 2015, p.7).

In 2016, revenue improved, but profit plummeted, mostly due to the comparison with 2015 figures that include the sale of an asset. Excluding that, profit after tax actually significantly improved, and an increase in good news can also be noted, now at 15% of the whole. Bad news remains at 2 codings, although a slightly bigger percentage – 3%. One of the bad news addressed the substantial decline in financial performance and, as expected, attributed it to the asset disposal:

“Total earnings per share was 18.8p (down 89% at actual rates, 99% CER), primarily reflecting comparisons with the £9.2 billion profit in 2015 from the disposal of the marketed Oncology assets” (GlaxoSmithKline, 2017, p.5).

In 2017, the overall performance improved, the company slowly recovering. The statements only have one bad news coding, making up barely 1%, stating that the company’s dividends exceed its cash flow generation, this news is also present in 2016. Other than that, the narratives are positive, especially the CEO’s statement, which, despite being almost twice as long as the 2016 one, does not explicitly state any

negative performance aspects for the year. This is the first year that the CEO's statement has no bad news, since 2009, when the Chairman and CEO letters were combined into one. This could be explained by the fact that a new CEO was appointed, who may have wanted to stress all of the positive aspects of the company in her first statement as the CEO, and not shed light on the negative ones. The only thing acknowledged in that statement was that "there are several areas of the company that need to be strengthened" (GlaxoSmithKline, 2018, p.5).

GSK experienced continued improvement in 2018, with an increase across all financial indicators. Bad news is again null, making it the second year in a row that the CEO letter contains only good news. While in both of the years GSK did witness an overall positive financial performance, it still seems that the new CEO has an overly positive reporting style. There is another spike in good news, the 19 codings representing 15% of the whole, one of the highest percentages of the 10-year period. The opening sentence of the Chairman's statement provides a summary of the company's success:

"I am pleased to report that 2018 was a year of good financial performance for GSK with improvements in sales, earnings and, particularly, cash flow generation" (GlaxoSmithKline, 2019, p.2).

A nice contrast can be seen between the last part of the good news stated above and the bad news present in the previous two years. The company has finally, for the first time in a while, generated enough cash flow to cover the dividend payments (ibid.).

D. Impression Management Analysis

The tactic of emphasizing the positive and minimizing the negative is also evident in GlaxoSmithKline. The company has a couple of letters to shareholders that do not report any bad news. But, similar to Bayer, in those years the company had successful results, which might justify the optimism. However, there are some statements that have very little bad news, barely addressing the company's financials, despite it witnessing a decline in performance. The 2010 Chairman and CEO summary, for example, does not address the almost 70% drop in profit. Moreover, while there is a decrease in all financial indicators, the managers still state that "GSK remains financially very strong" (GlaxoSmithKline, 2011, p.4).

During the content analysis of GSK's statements, a clear pattern was detected regarding the company's reporting of bad news. In the majority of the letters to shareholders that do have negative news, some are immediately followed (or sometimes preceded) by good news, usually in the same sentence. It seems that the managers prefer to always finish on an optimistic note when disclosing negative results, thus emphasizing the positive aspects:

“reflecting the impact of the Cervarix vaccine sales for the catch up programme in the prior year. Excluding Cervarix, sales grew 5%” (GlaxoSmithKline, 2013, p.3).

The tactic of confusing the readers with technical language seems to be, again, not prevalent in GSK's statements. There is, of course, some technical terms and corporate legalese present, but these are used with both good and bad news. It, thus, does not seem that the negative news is buried under difficult-to-read language.

As for differential reporting, GSK's letters to shareholders do seem to include 'hard numbers' when disclosing bad news, as well as good news. The majority of the bad codings actually have clear numbers and percentage changes, which might be a bit surprising since it is not advantageous for the company:

“Reported sales were down 3% in the year” (GlaxoSmithKline, 2012, p.11).

“... sales for the year declining 3% CER* to £23 billion and core earnings per share down 1% CER to 95.4p” (GlaxoSmithKline, 2015, p.4)

However, this does not mean that GSK's reports are really transparent, seeing as a lot of the statements have barely any negative news even when the company's performance has been poor. Seven out of the ten analyzed letters only have between 0 and 2 bad codings, which is a lot less than in Bayer's case. Moreover, in the so-called unsuccessful years, when addressing the negative aspects, the company does focus mainly on the environment, which is another characteristic of differential reporting. One such year is 2014, with a decline in all financial indicators. The Chairman and the CEO both preface the bad news with statements about the challenging environment:

“we also recognise the fundamental changes in the trading environment ... and how that has impacted performance in 2014” (GlaxoSmithKline, 2015, p.2).

The tactic of attribution was not used as predominantly in GSK when disclosing good news. It seems that quite a few of them are reported in a more impartial manner, simply stating the results. However, in some of the letters to shareholders, the internal

attribution seems to be more implicit than explicit. The managers do not always explicitly state that the positive performance is due to a company's specific capability. But, similarly to Bayer, some positive aspects are presented using the pronoun "we" and active verbs, such as "we were able to" or "we grew". This again emphasizes the company's abilities and competence to deliver successful results. There are also no good news statements that attribute the success, at least partially, to the external factors at play.

"We have made good progress..."; "... we were able to maintain core earnings per share..." (GlaxoSmithKline, 2013, p.3)

"We grew sales and earnings in line with guidance ..." (GlaxoSmithKline, 2014, p.4)

As for the bad news, some of the statements were reported neutrally, but the majority were, in fact, attributed to the external environment. This is especially evident in the three reports that have more than just one or two bad codings. In the 2010 letter, negative performance was blamed on generic competition; in 2012, the company mentioned the adverse impact of government measures; and in 2014, as mentioned above, the letters again blame the challenging environment. There seems to be only one instance of a negative aspect being attributed to an internal problem. But, staying true to the previously discussed pattern of reporting bad news, the CEO again ends it with good news:

"Performance in our Consumer Healthcare business was impacted by some supply issues with sales for the year falling 1%, but increasing 2% in the last quarter following progress in remediation of these issues" (GlaxoSmithKline, 2015, p.4).

An interesting contrast can be observed in some of the letters to shareholders. As illustrated above with examples from the 2012 and 2013 reports, some good news is disclosed using the plural first person pronoun, as opposed to the more common "sales grew" or "earnings increased", for example. The opposite can be noticed with bad news attributed to the environment, which is disclosed in a cause-and-effect manner, thus making a clear link between the external factors and the unsuccessful performance. Examples of this are displayed below, along with a couple more instances of self-serving attribution:

Internal Credit:

“a focus on cost and financial efficiencies has allowed the Board to set a dividend of 80p per share for 2014, an increase of 3%” (GlaxoSmithKline, 2015, p.2).

“Group Adjusted operating margin improved, reflecting effective management of costs ...” (GlaxoSmithKline, 2018, p.5)

External Blame:

“Trading conditions continue to be challenging, particularly in the US primary care market. This led to sales for the year declining 3% ...” (GlaxoSmithKline, 2015, p.3).

“Here, government austerity measures adversely impacted growth by approximately 6 percentage points during the year” (GlaxoSmithKline, 2013, p.3).

7. ANALYSIS OF NOVARTIS

A. Company Overview

Novartis International AG is a multinational pharmaceutical company headquartered in Basel, Switzerland. It operates through its two core divisions – Innovative Medicine and Sandoz. Innovative Medicine is comprised of two business units, Novartis Pharmaceuticals and Novartis Oncology, commercializing patented medicines for Respiratory, Neuroscience, Immunology, and others. Sandoz is the company’s division delivering generic pharmaceutical and biosimilar products. Novartis also has an Institute for BioMedical Research, with a few campuses across the world, dedicated to discovering new drugs (“Our Company | Novartis”, 2019). In 2018, Novartis employed around 125,150 people (Novartis, 2019a, p.201).

As part of the PatientView survey, among the patient groups familiar with the company, Novartis ranked 4th, same position as in the previous year (PatientView, 2019). Novartis seems to have the best reputation out of the three analyzed companies.

B. Financial Analysis

Table 7: Financial Analysis of Novartis

Financial Indicators	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	6.8%	14.4%	15.7%	-3.2%	2.2%	-9.5%	-5.7%	-1.9%	1.2%	5.7%
Profit after tax	2.7%	17.9%	-7.3%	4.0%	-3.4%	10.6%	73.1%	-62.4%	15.0%	63.8%
Profit after tax (cont. op.)	3.6%	17.9%	-7.3%	4.0%	-3.4%	15.4%	-34.5%	-4.7%	15.0%	63.8%
Earnings per share	2.2%	15.7%	-10.5%	2.6%	-4.3%	16.8%	-33.5%	-3.4%	16.3%	65.9%

Source: Researcher’s own calculations with data from company’s Annual Reports

The results for Novartis are presented in *Table 7*, and its financial figures in *Table 13, Appendix A*. There is a modest increase in all indicators after the crisis, signaling a promising recovery. The year of 2010 shows growth in all figures, as well. With revenue continuing to increase in 2011, profit and earnings per share, unfortunately, dropped. In 2012, these figures recover, but revenue decreased very slightly. In 2013, there is another modest decrease in profit and earnings per share, and a modest recovery in revenue.

The company witnessed a more improved performance in 2014, with increase in the profit figures, although revenue again decreased. In this year, profit after tax have actually reached a 6-year high (within the period chosen for analysis). 2015 does not show the same promising results, the percentage change being negative for all figures, except profit after tax, which includes profit from discontinued operations. Profit from continuing operations decreased by almost 35%. The financial figures further decline in 2016, profit after tax dropping even below the 2008 level. Novartis finally experienced growth in 2017, which further intensified in 2018, the indicators demonstrating significant improvement. The profit figure (excluding discontinued operations), in fact, reached its 10-year peak.

The results of this financial analysis reveal a lot of ambiguous years, with percentages being positive for one indicator and negative for the others, and vice versa. To avoid having most years defined as 'mixed', the labeling is done based on the profit from continuing operations, since also the changes in these ambiguous years are not that significant. Thus, the years 2009, 2010, 2012, 2014, 2017 and 2018 are considered to be overall successful for the company, while the others being labeled as having a poor performance. It can be expected that the bad news will intensify in the unsuccessful years.

C. Content Analysis

Table 8: Number of good & bad codings for Novartis

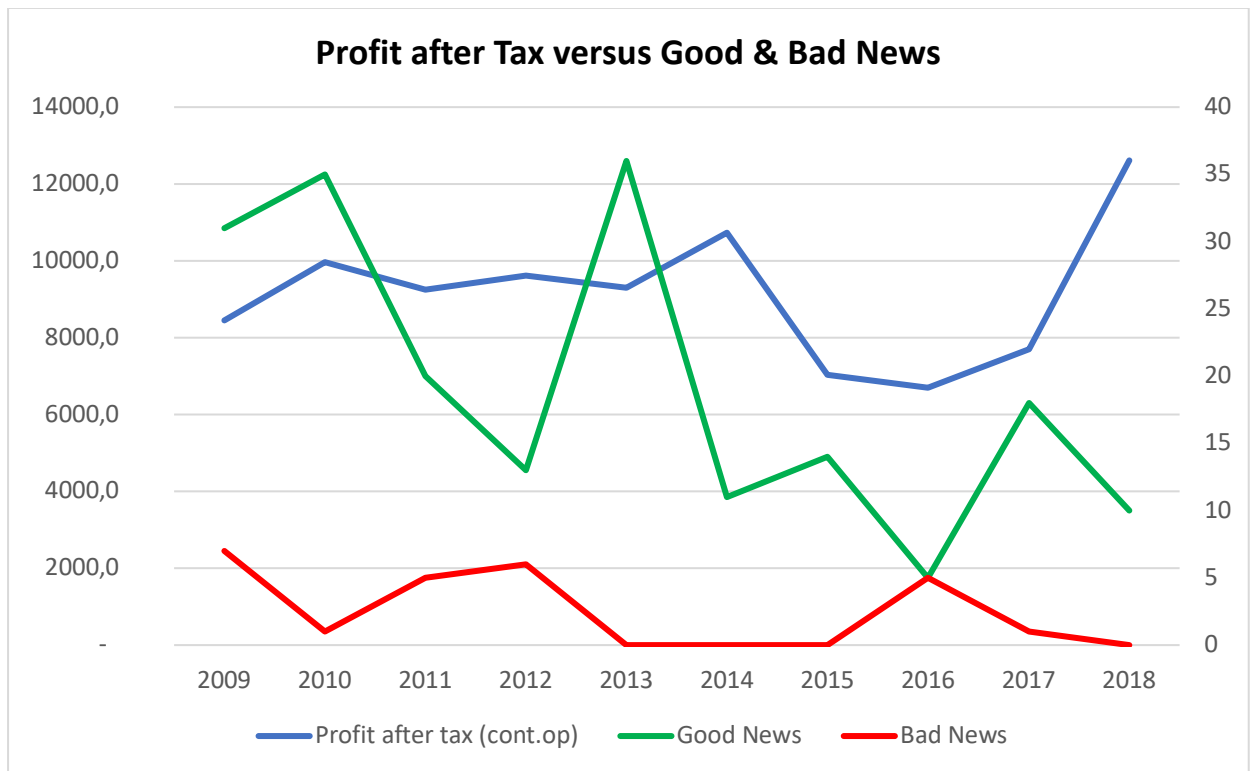
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	31	35	20	13	36	11	14	5	18	10
Bad	7	1	5	6	0	0	0	5	1	0
Year	good	good	poor	good	poor	good	poor	poor	good	good

Source: Researcher's own findings from company's Annual Reports

The number of codings for Novartis is even more erratic than for GSK. The change in numbers for good news codings is quite drastic, ranging from 5 to 36. In the financial analysis section, it was concluded that the years 2011, 2013, 2015, and 2016 were overall unsatisfactory for Novartis, in terms of financial performance. However, only in two out of those years an increase in bad news can be seen. There are quite a few years with no bad codings, although this is not dissimilar to Bayer and GSK. After two successful years, 2009 and 2010, with high numbers of good news, a decrease can be seen in 2011. However, a further decrease in good news can be noted in 2012, even though it was an overall good year for the company. Moreover, in 2013, the good news skyrocketed, despite some figures slightly dropping. In 2014, another good year for the company, good news again decreases counterintuitively, but increases in 2015, an unsuccessful year for Novartis. Thus, there doesn't seem to be a pattern with reporting of good news, as was, more or less, visible in the other companies. Even though there are other factors that may contribute to the disclosure of good and bad news, besides just financial performance, it is still evident that Novartis has a different approach to reporting, especially compared to the other two companies.

Figure 4 illustrates the relationship between the company's profitability and the good and bad news reported in its statements. The profit after tax figure plotted on the graph excludes discontinued operations.

Figure 4: Profit after Tax vs. Good & Bad News in Novartis



As would be expected from the initial analysis of *Table 8* earlier, the good news curve does not trail the profit after tax curve. Good news seems to be quite unpredictable, with no direct relationship to the company's profitability for the year. A further analysis of the content of the Chairmen's and CEO's statements will help shed some light on the possible reasons behind that. As for the bad news, a weak negative relationship can be noted with the profit after tax curve, more prominent in the first and last three years. Similarly, in the first five and last three years, good and bad news have a weak negative relationship, a decrease in one corresponding to an increase in the other. *Table 9* provides the word count analysis of the company's statements, followed by a more in-depth analysis of their content. All of Novartis' content analysis results are presented in *Table 16, Appendix B*.

Table 9: Word count analysis of Novartis' statements

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Good	# of words	495	589	290	212	483	139	183	75	219	121
	% of Total	11.9%	18.5%	20.5%	9.1%	21.4%	14.2%	17.5%	5.6%	16.6%	11.2%
Bad	# of words	96	16	58	109	0	0	0	76	16	0
	% of Total	2.3%	0.5%	4.1%	4.5%	0.0%	0.0%	0.0%	5.7%	1.2%	0.0%
Total # of words		4,155	3,186	1,415	2,338	2,252	982	1,045	1,330	1,318	1,082
Year		good	good	poor	good	poor	good	poor	poor	good	good

Source: Researcher's own findings from company's Annual Reports

A slight increase in all indicators, in 2009, signaled a promising recovery for Novartis after the global crisis. The number of codings for good news is among the highest, and, similarly, bad news is at its highest as well. This year's annual report only includes the Chairman's letter to shareholders, which is very lengthy, by far the longest out of all of the analyzed companies' statements. Thus, even though the number of good and bad news codings is quite high, these only make up 12% and 2%, respectively. Besides reporting the positive and negative aspects of Novartis' performance, the rest of the letter provides a general overview of the company's success thus far, its future plans, mergers, and acquisitions, as well as an extensive review of the external environment, its challenges, and how the company plans to overcome them. The statement also addresses in more detail corporate social responsibility, and how the company aims to adapt to the changing environment, by adjusting its strategy and other organizational processes. Overall, the letter seems to be a bit too tedious, offering excess information, especially compared to Bayer and GSK, or even to its more recent annual reports. The tone of the statement is very positive, since the vast majority of it is either good news, or positive narrative about other general areas of performance, overshadowing the already low percentage of negative news.

2010 saw a further improvement in the company's financials, even higher than in 2009. The good news codings are again in the 30's, but already representing 18% of the whole text, on account of the statement being shorter than the previous one. However, despite being almost 1000 words shorter, it is still longer than any of the

statements of the other companies. The Chairman continues his narrative about the industry, the external environment with its challenges, and other topics. Among positive aspects, the letter reports increase in net sales, operating income, net income, and free cash flow, as well as advances in various separate divisions. There is only one bad news coding, which is rather general, and relating more to the external than the internal environment:

“The past year was shaped by repercussions from the global financial crisis and considerable currency turbulence” (Novartis, 2011, p.7).

The 2011 letter to shareholders is, finally, much shorter, less than half of the size of the previous one. The Chairman abandons the usual thorough description of the environment, mostly focusing on the company’s performance. While revenue increased in 2011, all the other profit figures slightly dropped. Good news decreased to 20 codings, but since the letter is shorter, these represent 20% of the whole text, the second-highest percentage across all years. There are 5 bad news codings, making up 4%, although none of them address the decrease in profits. These mostly talk about other performance aspects, such as delays of product approvals, site closures, and others.

Interestingly, the 2012 statement again includes the Chairman’s descriptive narrative of the external circumstances, albeit not as long-winded as the previous ones. This year, an opposite result to the one in 2011 can be seen, revenue decreasing, while other figures slightly increasing. Good news decreased to 13 codings, representing 9% of the text. Among the positive aspects is progress in specific divisions, as well as product approvals. Although bad news only increased from 5 to 6 codings, there is a spike in terms of word count (around 100 words), but these still make up around 4% of the whole. The bad news finally addresses the decline in growth, reporting some specific figures, rather than just general statements regarding the environment:

“Production bottlenecks also affected Vaccines and Diagnostics (USD 1.9 billion, –4% in constant currencies)” (Novartis, 2013, p.6).

In 2013, there is a change in the Chairman position, and an official letter to shareholders from the CEO is introduced. The CEO letter is now longer than the Chairman’s, although the two of them combined are still shorter than some of the previous Chairman’s letters. The number of good news codings is the highest of all years, and

makes up 21%. Neither of the statements includes any negative news, despite there being a slight decrease in profit.

Further changes in the company's reporting can be noted in 2014. Starting with this year, all of the statements are a lot more concise, especially compared to the previous years. The 2014 ones, in fact, being the shortest out of them all. In terms of financial performance, Novartis saw a slight growth in its profit. Bad news is non-existent, while good news understandably dropped to 11 codings, due to the shorter size of the letters, representing 14% of the whole. Besides addressing the financial progress, other positive performance aspects were also reported:

“We gained 13 major approvals in key markets in 2014 and advanced our pipeline” (Novartis, 2015, p.4).

In 2015, the company experienced another decline, more substantial than in the previous years, profit after tax from continuing operations decreasing by 34%. Surprisingly, neither of the statements reports this, bad news again being null, while good news even slightly increasing. Even though Novartis considerably profited from its discontinued operations, making the overall profit figure the highest across all years, all other indicators declined. It is, thus, quite unexpected to read such overly positive statements from the Chairman and CEO.

2016 was another rough year for Novartis, with a downturn in its financials. Good news notably drops to only 5 codings, representing 5% of the text, the lowest number across all years. Bad news increases to 5 codings, making up 5%, which is quite the contrast against the previous years with no negative news whatsoever. This year's statements have a more prominent negative undertone than others, although still outweighed by the optimistic narrative about the company's plans and competences in general.

Novartis witnessed growth in its figures in 2017, good news escalating to 18 codings, accounting for 17% of the text, and bad news dropping again to 1%. The only negative aspect of performance is related to the Sandoz division, whose sales declined by 2%. Good news mostly includes strong financial results, specifically related to the company's divisions. A nice parallel can be noted in this year's letters to shareholders compared to the previous ones. One of the negative aspects, in 2016, was related to the Alcon division, which was not yielding a positive growth rate. In 2017, the narratives now reveal progress in that division:

“One area where we fell short in 2016 was Alcon” (Novartis, 2017, p.5).

“Alcon made significant progress on its turnaround, returning to growth and building momentum toward the end of the year” (Novartis, 2018, p.4).

Finally, in 2018, Novartis experienced substantial growth in its profit indicators, with a 64% increase in profit after tax. There is a slight decline in good news, now at 11% of the statements, and, unsurprisingly, again no bad news is reported. However, this year saw a change in the CEO position, there thus being a change in the reporting style as well. The new CEO’s letter does not report a lot of the company’s positive financial performance, mostly focusing on describing the cultural transformation that has started in Novartis, the changes undertaken to improve efficiency, and any other future plans. Among the good news was the company’s progress in making their medicine more accessible:

“Our systematic approach helped us rise to No. 2 in the 2018 Access to Medicine Index” (Novartis, 2019b, p.3).

D. Impression Management Analysis

Novartis is not an exception when it comes to employing the tactic of stressing the positive and downplaying the negative. More than half of the annual reports have either just one bad news coding, or none at all. While most of those years saw some financial growth, there are a couple during which Novartis witnessed decline in performance. In 2013, for example, despite a slight decrease in profit figures, both letters to shareholders only report positive results. Even more unexpected are the 2015 statements, which again do not mention any bad news despite the even more considerable decrease in figures. The reports that have more than just one bad news coding, however, are still overshadowed by the good news. Thus, there definitely is an emphasis on the positive, especially in the first half of the analyzed letters.

Just as the other two companies, Novartis does not seem to use difficult-to-read language in order to baffle the readers when disclosing negative news. Technical terms are again present throughout all reports, with both good and bad news. Overall, the company does not appear to be using a different language when talking about poor performance. However, this is again not a sign of transparency, seeing as the company

barely discloses bad news, especially in some statements where there is merely one sentence or none at all.

Instances of differential reporting can be detected in the letters to shareholders. Indeed, when addressing positive aspects, the company often uses hard numbers to illustrate the extent of its growth, while the few negative statements do not report as many percentage changes. This is especially noticeable in the first three Chairman's statements. In the 2009 and 2010 letters, the company's main financial results are presented in bullet point form, illustrating the positive change in several figures. Below are excerpts of two out of the five bullet points from both years:

“– Net sales rose by 11% ...”;

“– Operating income grew 11% ...” (Novartis, 2010, p.7)

“– Net sales grew 14% ...”;

“– Operating income rose by 15% ...” (Novartis, 2011, p.4)

However, in 2011, the first year with a decrease in profit, the usual bullet points are now absent. Granted, this is also the year when the letter to shareholders is significantly shorter than the previous ones, so it might be due to a change in the reporting style. But, the letter still does not address any of the negative percentage changes in the profit figures. Out of all of the bad news codings, there are only a couple that discuss the declines in figures, depicting those in percentages. But, these are all attributed to the environment, which is further discussed in the next impression management tactic.

An interesting observation can be made for the 2012 Chairman's statement. While some of the bad news do technically disclose unfavorable numbers for the company, these are only included in parentheses, avoiding the use of words 'decrease', 'decline', etc. There are also a couple of good codings that just include the percentage change in brackets, but these are followed by further positive news, and other good codings use words like 'increase' and 'growth'.

“The Group's net sales reached USD 56.7 billion (–3% ...), while net income increased by 4% ...”

“Sandoz (USD 8.7 billion, -4%, ...) succeeded in compensating for the competition-driven price decline of enoxaparin, ...” (Novartis, 2013, p.5).

In the first example, despite net sales decreasing by 3%, the Chairman uses the word ‘reached’, which has a positive connotation. Thus, even the bad news is delivered with a generally positive tone, and is immediately followed by optimistic statements, similarly to GSK:

“Production bottlenecks also affected Vaccines and Diagnostics (USD 1.9 billion, –4% in constant currencies). On an encouraging note, the division received EU approval ...” (ibid., p.6).

Several instances of attribution can be encountered in the letters to shareholders. When it comes to good news, however, there aren’t as many explicit ones, with most of them not directly attributed to the company’s competence. Some are disclosed neutrally, while some do appear to include implicit internal attribution. This is done in a similar way to GSK, using phrases like “we increase”, “we delivered”, “we were able to”, etc. Overall, most of the good news were just presented in a self-laudatory manner:

“In 2013, we increased net sales by 4% in constant currencies to USD 57.9 billion” (Novartis, 2014, p.8).

“In 2013, we delivered a total shareholder return of 32.3%, outpacing the average return in the pharmaceuticals industry” (ibid., p.9).

On very rare occasions, the positive statements give credit to some external factors that benefitted the company:

“Sandoz benefited from strong growth in generics and biosimilars in Europe and emerging markets” (ibid., p.8).

Equally rare are also statements where the company is taking responsibility for poor results. An example of internal blame is depicted below. There are also several bad news codings that seemingly point towards an internal problem, e.g. quality issues or production bottlenecks. However, these are not formulated in a way that portrays a clear link between the internal problems and the negative results, and thus, do not really present a case of attribution:

“One area where we fell short in 2016 was Alcon” (Novartis, 2017, p.5).

“The performance of OTC and Animal Health ... was hurt by quality issues at a US production site ...” (Novartis, 2013, p.6).

Most of the bad news in the letters to shareholders, however, still focus on the environment. Not all of them explicitly blame the external factors for the negative

results, but a couple of the examples that were detected are presented below, along with an example of internal credit:

Internal Credit:

“The generics division Sandoz achieved solid underlying growth ... in key markets thanks to new product launches and increased marketing initiatives” (Novartis, 2010, p.7).

External Blame:

“However, Sandoz net sales were down 2% cc due to fierce price competition in the US” (Novartis, 2018, p.4).

“Our core operating income of USD 13.0 billion declined 2% (cc), as we expected, reflecting generic competition and growth investments” (Novartis, 2017, p.5).

8. DISCUSSION

A. Comparison of the Three Companies

All three companies reported more good news than bad, all of them also having several reports that lacked bad news altogether. This is not surprising and is consistent with the findings of various studies on corporate reporting, some of which were mentioned in the Literature Review. In terms of the relationship between the profit and the number of good news reported, there is some level of association present in Bayer and GSK, but not evident in the case of Novartis. The reason behind that might be the frequent changes in the reporting style of Novartis' statements. But, some association between profit and bad news could be observed in all three companies. These relationships were not detected in all years and are, of course, not precise, since the positive and negative news also included aspects beyond just the financial performance.

Each company had a different number of statements or letters to shareholders in the chosen 10-year period, but *Table 10* presents their word count analysis using percentages to ensure comparability. Since Bayer's reports only include a letter from the Chairman, the number of words is lower than the other two companies', although not as significant as might be expected. Despite the shorter statements, however, the reported good news represents 19.5% of all of Bayer's statements, the highest number out of the companies. But, equally, the reported bad news also represents the highest percentage – 4.3%, while the other companies' figures are around 2%. It appears that the gap between the positive and negative codings is the smallest in Bayer's case, and the biggest in Novartis. It, thus, seems that Bayer has slightly more balanced reports. However, this does not necessarily mean that it is more transparent, since the way in which the negative news is presented is important.

Table 10: Word count comparison of all three companies

	Total # of Words	# of words in good news	% of Total	# of words in bad news	% of Total
Bayer	14,216	2,772	19.5%	615	4.3%
GSK	17,265	2,009	11.6%	391	2.3%
Novartis	19,103	2,806	14.7%	368	1.9%

Source: Researcher's own findings from company's Annual Reports

Overall, however, the statements of GSK and Novartis did seem more positive. More than half of their letters, 7 out of 10 for GSK, and 6 out of 10 for Novartis, had 0 to 2 bad news codings, while only 3 out of 10 Bayer's letters had 0 negative news reported, the others having at least over 4 codings. But, the tactic of stressing the positive and downplaying the negative was still observed in all three companies, to a lesser degree in Bayer though. It was especially evident in those years with a relatively poor performance that had barely any bad news reported, or none at all.

This ties with the impression management tactic of differential reporting, which was again present in all companies. In the case of Novartis, the company often used clear numbers when reporting good news, but not when reporting bad news. The few codings that did include some figures were still more focused on the environment. In GSK's case, majority of the bad news were actually reported using clear numbers, but these were often attributed to the environment. As for Bayer, only one of its reports included clear financial figures when discussing poor performance, the other letters having more generalized bad statements or, again, ones focused on the environment. Thus, even though Bayer's statements have more bad news than the other two companies, it does not indicate an increased level of transparency.

Overall, the tactic of attribution was not used as blatantly as might be expected. A good portion of the news was disclosed in an impartial manner, merely stating the results. Moreover, there were some cases of internal blame, the company conceding its responsibility for bad news, and external credit, giving credit to the environmental factors for positive results. These, however, were not as common, and could be observed more in Bayer's statements, but not as much in Novartis, and not at all in GSK.

But, some instances of attribution could still be observed in all companies. An interesting remark was made regarding the self-attribution of good news, which was often more implicit rather than explicit, especially in GSK and Novartis. This was done with the frequent use of the pronoun "we", which helped emphasize that it was the companies' own merits for achieving the good results. In the cases with external blame for the negative results, a clear link between the environment and the bad news was often made, using cause-and-effect terminology.

The technique of baffling the readers with difficult-to-read language when reporting bad news could not be detected in the analyzed reports. While some technical terms and corporate language were indeed present, these were used when discussing

both good and bad news. Overall, it did not seem that any of the companies were burying the negative results under complicated language. However, a lot of the reports had barely any bad statements, so it could be that the companies prefer to omit them altogether rather than confuse the readers when disclosing them. Although it is a subjective interpretation, the language used in the reports seemed to be fitting to their intended audience, which is at least somewhat familiar with the field. But, further research, especially with the help of tools for assessing the readability of the text, can shed some more light on this matter.

B. Other Impression Management Techniques

Besides the four impression management tactics from Jones (2011), there are other techniques that were pervasive in the companies' annual reports. One of them involves the companies immediately accompanying the good news with bad news, thus creating a contrast that highlights their accomplishments.

Stratulat (2019) analyzed the annual reports of Volkswagen, also detecting this technique of juxtaposing the company's progress against challenging external factors, thus enhancing its corporate image. This could be put under the umbrella of an impression management tactic discussed by Tierney and Webb (1995), called competence enhancement, which was used by Exxon during the oil spill crisis. The authors explained this tactic as highlighting a company's fitness to overcome an emergency.

Even though crisis events are outside the scope of this research, this technique could also be observed when the companies were reporting their good and bad news. Previously in the Content and Impression Management Analyses of GSK, its pattern of stating the good news right after disclosing some negative aspects was discussed. The tactic of competence enhancement, however, is a bit different. In GSK's case, it almost seemed as if the managers always wanted to finish on an optimistic note, bringing a positive aspect to any statement. But, competence enhancement involves disclosing the adverse effects of certain factors with the aim of emphasizing the company's ability to overcome them:

“Despite navigating the final year of the Gleevec/Glivec patent expiration, we grew Group net sales by 2% in constant currencies” (Novartis, 2018, p.4).

“Group sales rose 17% at actual rates, 6% CER (5% pro-forma) to £27.9 billion, despite the uncertainty and volatility experienced globally in 2016” (GlaxoSmithKline, 2017, p.5)

The examples above show the presence of this tactic within a single sentence. This is quite common in some of the reports, several good news statements being preceded or followed by short remarks of some bad news. In other cases, this technique can be noticed within bigger sections of the letters. Sometimes, the managers describe the bad news over several sentences, following that with a comment on how remarkable it is for the company to achieve its positive results given the circumstances. In some of Novartis’ first letters to shareholders, the Chairman even starts his narrative with a few paragraphs of describing the challenging environment, and then starts discussing the company’s achievements. Again, this contrast helps illustrate the company’s competence to perform successfully even during difficult times:

“As in the previous year, the Pharmaceuticals segment was hampered by the efforts of many countries to reduce health system costs. Intense competition from generic products also presented an ongoing challenge. That makes it all the more positive that our cost management was successful and that our Consumer Health segment outperformed the market” (Bayer, 2012, p.2).

“The economic and debt crisis has cast a shadow over Europe and the United States for more than four years, and it significantly affected 2012, as well. Despite major concerted efforts, the end of this troubling period is not yet in sight. [...] Despite this ominous backdrop, Novartis once again posted strong results in 2012” (Novartis, 2013, p.5).

Another tactic present in the analyzed reports was ingratiation, described by Allen & Caillouet (1994) as companies trying to persuade stakeholders of their legitimacy. It involves organizations portraying an image of compliance to the environment’s rules, so to speak, expressing their values, beliefs, positive qualities and intentions, all in an attempt to gain likeability and approval from the audience. In the case of the three analyzed companies, this was evident in the discussion about their stance on corporate social responsibility, as well as their overall corporate values:

“It is also important to us that economic growth be achieved in harmony with environmental and social responsibility. We adhere to the fundamentals of sustainable development and the ten principles of the Global Compact of the United Nations” (Bayer, 2016 p.6).

“Our ambition is to drive a high-performance culture, putting science at the heart of GSK, remaining true to our values and our purpose: to help people do more, feel better, live longer” (GlaxoSmithKline, 2018, p.6).

“Innovation, performance and quality are values embedded in the DNA of our company, and we are renewing emphasis on the values of courage, collaboration and integrity” (Novartis, 2015, p.4).

The other tactic observed was the use of emotion in the letters to shareholders. It is understandable for pharmaceutical companies to evoke emotion, due to the industry’s link with human welfare, especially when it comes to biggest societal challenges in terms of healthcare or terminal illnesses. In several of the analyzed reports, emotional narratives, however, were used with a self-laudatory aim, the companies enhancing their importance for the industry and society.

In the case of Novartis, the best example of this tactic can be observed in the 2016 and 2017 reports. The CEO starts his statements with stories about seriously-ill patients, only to then express his pride in the company and its great success in changing people’s lives. In some of Bayer’s statements, it was evident during the discussions of the many plans that the company aims to achieve, put into perspective by mentioning the benefits these bring or will bring to society. In a much similar fashion, so does the CEO of GSK emphasize the company’s ability to fight some of the biggest global health challenges, stressing its value-based culture:

“Emily Whitehead was once a little girl close to death. [...] Our ability to deliver new breakthrough treatments like Kymriah is one of the many reasons I am proud of our company ...” (Novartis, 2018, p.4)

“All of these questions are part of a challenge for humankind that farmers around the world will have to tackle in the years ahead. As a partner to farmers – both large companies as well as smallholders – Bayer wants to contribute to the solution for this challenge” (Bayer, 2018, p.4).

While the tactics of ingratiation and use of emotion do not necessarily pertain to the reporting of good and bad news, their discussion contributes to the understanding of the overall tone of the companies’ disclosures. The tone of the letters is largely positive, and sometimes overly-positive when negative aspects are omitted. But, even when these are reported, they are often overshadowed by the discussion of the positive aspects, and the narratives praising the companies.

9. CONCLUSION

As expected, the findings reveal that companies do focus more on reporting their good news in the Chairmen's and CEO's statements. On average, the good news represented around 15% of all statements taken together, while bad news around 3%. The reported bad news was especially scarce in GSK and Novartis, with majority of their statements having either a couple of codings, which is barely anything, or no codings at all.

When observing the relationship between the companies' profitability and reporting of good and bad news, some level of association could be observed. This was, however, more evident in the cases of Bayer and GSK, the companies' financial situation impacting the type of news reported in a more predictable way than in Novartis' case.

The main impression management tactics detected when the companies reported their good and bad news were stressing the positive and downplaying the negative, differential reporting, attribution, and competence enhancement. Baffling the readers was the one technique that could not be observed in the chosen companies, but further research into the readability of the statements might reveal a different conclusion. The additional impression management tactics that were identified include ingratiation and the use of emotion. Although not pertaining to the good and bad news reporting, their discussion helps provide more insight into the rhetorical manipulation used in the letters to shareholders.

This thesis contributes to the existing research on impression management techniques used in corporate statements. It brings value through its study of the letters to shareholders, one of the most important sections of the annual report, and sheds light on the impression management tactics used in the pharmaceutical industry. The implications drawn from this research are that the shareholders, and stakeholders in general, need to be vigilant when reading the corporate narratives, to discern when the meaning of text is somehow manipulated to manage their impressions of the companies.

The main limitation of this research stems from the chosen methodology, as the findings might be contingent upon the researcher's subjective interpretations. Areas for potential future research could be: finding ways to further eliminate possible subjectivity, looking into the companies during scandals or crisis events to observe the changes in reporting, or extending the sample of companies to include more of the industry's top players.

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APPENDICES

Appendix A: Financial Figures of the Companies

Table 11: Financial figures of Bayer

Bayer	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	32,918	31,168	35,088	36,528	39,760	40,157	42,239	46,324	46,769	35,015	39,586
Profit after tax	1,724	1,359	1,310	2,472	2,496	3,186	3,443	4,098	4,826	8,094	1,711
Profit after tax (continuing operations)	1,720	1,359	1,310	2,472	2,496	3,186	3,443	4,018	4,558	3,248	1,711
Earnings per share	2.22	1.70	1.57	2.99	2.96	3.86	4.14	4.97	5.44	8.41	1.80

Source: Figures taken from company's Annual Reports

Table 12: Financial figures of GlaxoSmithKline

GlaxoSmithKline	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	24,352	28,368	28,392	27,387	26,431	26,505	23,006	23,923	27,889	30,186	30,821
Profit after tax	4,712	5,669	1,853	5,458	4,744	5,628	2,831	8,372	1,062	2,169	4,046
Profit after tax (without other income)	4,171	4,534	1,360	4,871	3,488	4,504	3,531	657	4,467	4,134	5,634
Earnings per share	88.60	109.10	32.10	104.60	92.90	112.50	57.30	174.30	18.80	31.40	73.70

Source: Figures taken from company's Annual Reports

Table 13: Financial figures of Novartis

Novartis	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	41,459	44,267	50,624	58,566	56,673	57,920	52,429	49,440	48,518	49,109	51,900
Profit after tax	8,233	8,454	9,969	9,245	9,618	9,292	10,280	17,794	6,698	7,703	12,614
Profit after tax (continuing operations)	8,163	8,454	9,969	9,245	9,618	9,292	10,727	7,028	6,698	7,703	12,614
Earnings per share	3.62	3.70	4.28	3.83	3.93	3.76	4.39	2.92	2.82	3.28	5.44

Source: Figures taken from company's Annual Reports

Appendix B: Detailed Results of the Content Analyses

Table 14: Results of analysis of Bayer's statements

Bayer	TOTAL	Good News			Bad News		
	Total # of words	# of words	% of Total	# of codings	# of words	% of Total	# of codings
2009	1,215	241	19.8%	17	64	5.3%	6
2010	1,316	134	10.2%	7	88	6.7%	6
2011	1,520	346	22.8%	22	74	4.9%	5
2012	1,641	564	34.4%	32	74	4.5%	4
2013	1,384	282	20.4%	21	49	3.5%	4
2014	1,240	243	19.6%	17	0	0.0%	0
2015	1,339	305	22.8%	19	0	0.0%	0
2016	1,418	255	18.0%	17	0	0.0%	0
2017	1,843	237	12.9%	14	183	9.9%	11
2018	1,300	165	12.7%	11	83	6.4%	5
	14,216	2,772	19.5%		615	4.3%	

Source: Researcher's own findings from company's Annual Reports

Table 15: Results of analysis of GlaxoSmithKline's statements

GSK	TOTAL			Good News							Bad News						
	# of words			# of words				# of codings			# of words				# of codings		
	Chair	CEO	Total	Chair	CEO	Total	% of Total	Chair	CEO	Total	Chair	CEO	Total	% of Total	Chair	CEO	Total
2009	733		733	87		87	11.9%	6		6	0		0	0.0%	0		0
2010	1,276		1,276	77		77	6.0%	6		6	73		73	5.7%	3		3
2011	628	1,215	1,843	49	107	156	8.5%	3	10	13	0	23	23	1.2%	0	2	2
2012	614	1,326	1,940	36	125	161	8.3%	2	10	12	0	99	99	5.1%	0	6	6
2013	856	1,453	2,309	60	339	399	17.3%	3	20	23	0	8	8	0.3%	0	1	1
2014	1,163	1,608	2,771	56	225	281	10.1%	3	12	15	29	77	106	3.8%	1	5	6
2015	669	615	1,284	30	134	164	12.8%	2	9	11	0	21	21	1.6%	0	2	2
2016	728	637	1,365	60	147	207	15.2%	5	9	14	14	31	45	3.3%	1	1	2
2017	833	1,098	1,931	42	161	203	10.5%	2	10	12	16	0	16	0.8%	1	0	1
2018	807	1,006	1,813	69	205	274	15.1%	4	14	18	0	0	0	0.0%	0	0	0
			17,265			2,009	11.6%						391	2.3%			

Source: Researcher's own findings from company's Annual Reports

Table 16: Results of analysis of Novartis' statements

Novartis	TOTAL			Good News							Bad News						
	# of words			# of words				# of codings			# of words				# of codings		
	Chair	CEO	Total	Chair	CEO	Total	% of Total	Chair	CEO	Total	Chair	CEO	Total	% of Total	Chair	CEO	Total
2009	4,155	--	4,155	495	--	495	11.9%	31	--	31	96	--	96	2.3%	7	--	7
2010	3,186	--	3,186	589	--	589	18.5%	35	--	35	16	--	16	0.5%	1	--	1
2011	1,415	--	1,415	290	--	290	20.5%	20	--	20	58	--	58	4.1%	5	--	5
2012	2,338	--	2,338	212	--	212	9.1%	13	--	13	106	--	106	4.5%	6	--	6
2013	839	1,413	2,252	156	327	483	21.4%	10	26	36	0	0	0	0.0%	0	0	0
2014	515	467	982	22	117	139	14.2%	1	10	11	0	0	0	0.0%	0	0	0
2015	477	568	1,045	69	114	183	17.5%	5	9	14	0	0	0	0.0%	0	0	0
2016	508	822	1,330	49	26	75	5.6%	3	2	5	26	50	76	5.7%	2	3	5
2017	564	754	1,318	120	99	219	16.6%	11	7	18	0	16	16	1.2%	0	1	1
2018	428	654	1,082	42	79	121	11.2%	2	8	10	0	0	0	0.0%	0	0	0
			19,103			2,806	14.7%						368	1.9%			

Source: Researcher's own findings from company's Annual Reports