

Disclosure Discourse: A Shift in Estonian Public Companies' Interim Report Commentaries during the Turn towards Recession

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Abstract

The paper aims to map a discursive shift in Estonian public companies' interim report commentaries in 2007-2008, which are defined by four qualitative variables. While earlier studies focusing on the role of information use quantitative methods (index studies, thematic content analysis, etc.), the current paper is based on a qualitative approach, using Fairclough's critical discourse analysis. The paper identifies a three-stage shift in the discourse of these commentaries, as the complexity of sentences, keywords, references, and the perceived nature of the environment change. In contrast to earlier studies that find a correlation between complexity of sentences and weaker economic performance, the paper suggests that complexity accompanies perceived uncertainty under changing macroeconomic conditions.

JEL classification codes: **G14, M49**

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1. Introduction

The stock market, like other economic and social processes, is based on human interaction. Thus, information and its mediation via communication plays a vital role. Communication on the stock market can take several forms, including interim report commentaries that are important not only from the viewpoint of the company itself, but of all involved parties; as they influence both the transactions directly associated with the particular company, as well as the informational environment in general, which, in turn, characterises the trustworthiness and efficiency of the market.

One potential means for disclosing information about the company's financial performance are interim reports and their commentaries, which prove to be an interesting research object as they are issued on a regular basis and at specific times, thus providing a set of texts published and perceived in comparable conditions. Public companies' quarterly report commentaries give both numeric and qualitative information about the challenges, risks and opportunities the company faces, allowing one to better estimate the company's future prospects. On the other hand, a company itself can enhance its image through such information, and move towards a situation where its share price on the stock exchange reflects its fair price as accurately as possible. Interpretation is aided by the content of these commentaries and also by the language used; as it is based on shared experience and draws from underlying assumptions. Connections between a text and its surrounding environment that it is a part of can be described by the discourse used in the text – the way meaning is given to experience. This is important because qualitative information is becoming more important on the stock market, viewed from both the standpoint of researchers and market constituents, as the proportion of people interested in the financial performance of public companies rises.

The years analysed in this paper (2007-2008) were of pivotal importance for many of the Estonian public companies; as the economic growth in the country declined and then turned towards a downtrend, bringing significant challenges for public companies. The GDP of the country rose by 6.9% in 2007 and fell by 5.1% in 2008, followed by a staggering 13.9% decrease in 2009¹. The current paper focuses on the downturn, which is why the last year of growth and first year of decline are selected. During the selected years (2007-2008), the OMX Tallinn index fell by 67.9%². Thus, these companies were bound to explain more or less unexpected results in interim report commentaries, as well as other stock market announcements. These circumstances were favourable for employing a qualitative method to quarterly interim report commentaries while stock market announcements are in most cases analysed with quantitative research methods (e.g. Subramanian et al., 1993; Beretta and Bozzolan, 2004; Rutherford, 2005).

This paper employs Fairclough's critical discourse analysis, recognising stock market communication as a type of social communication. The analysis aims at determining how companies use the text of quarterly interim report commentaries in shaping the way their performance is perceived and interpreted.

The paper maps a three-stage discursive shift within the public companies' interim report commentaries, as the economy as a whole turns to a downtrend. Interim report

¹ Eurostat data, as cited by Statistics Estonia on their web page, www.stat.ee

² OMX Tallinn Stock Exchange web page, www.tse.ee

commentaries were chosen for their regularity and relative frequency compared to annual reports, as well as their textual content – these texts need to indicate, on a regular basis, how the company is doing and what it attributes its success or failure to. While many earlier studies have argued that, for example, disclosure of companies that do better also has better readability (e.g. Subramanian et al., 1993), the current paper finds the dynamic to be three-fold – adding a stage of increased uncertainty.

The findings of this paper allow one to better understand the dynamics of financial disclosure choices, which allows one to glimpse into underlying assumptions, the “social conditions of production”, as Fairclough (2001) puts it, that the authors of such texts apply. This in turn, allows one to predict whether, for example, ignoring the environment or emphasising company-originated success might signal overheating. The variables that define the shift (complexity, keywords, views on the environment, and references) can be quantified and used in further research and tested against market reactions, micro- and macro-level data, or quantitative characteristics of the texts.

The paper is divided into three parts: first, it gives an overview of relevant theoretical approaches that influence the analysis of public companies’ interim report commentaries, as well as results of earlier empirical research; then, method is taken into more detailed consideration, and the third part consists of the description and interpretation of the empirical results.

2. Theoretical and Empirical Background

The current paper integrates communication and economic theories, and searches for regularities in stock market communication. Information plays an important role in academic stock market research. Yet, the term “information” in its own is of little use: it remains somewhat abstract, and in order to understand the processes better, the concepts of communication and knowledge need to be included. The latter helps put new information into context and make decisions accordingly.

In the empirical part of this paper, the key concepts in the context of communication are “text”, “discourse”, and “genre.” These provide information about the position of public companies’ comments on quarterly results among other means of communication.

According to Fairclough (1993, as cited in Titscher and Jenner, 2007) “text” is the product of the process of text creation, it is written or spoken language produced in the course of a discursive event. Fairclough is convinced that texts as elements of social events evoke causal effects. Above all, texts change our knowledge (we find out more), beliefs, attitudes and values (Fairclough, 2003). These consequences are not direct, rather they are mediated by the process of meaning attribution. According to Silverstone (1999, as cited in Fairclough, 2003), mediation is the “movement of meanings” from one social practice to another, from one event to another, from one text to another. Thus, mere textual analysis only gives a small part of knowledge necessary for understanding communication.

“Discourse” denotes the “language in use as an element of social life which is closely interconnected with other elements” (Fairclough, 2003). Discourse is, at the same time, a source of knowledge (one makes generalisations about language based on discourse one is a part of) and its product (one uses present knowledge to create and interpret a new discourse) (Johnstone, 2008). It can also be applied to a wider set of phenomena than “text”: it is the

whole process of social interaction, which text is only a part of (Titscher and Jenner, 2007). Discourse implies how and based on what, one gives meaning to experience. Thus, it is shaped by earlier texts, genre expectations, shared values, etc. For Fairclough, the formal properties of a text are, at the same time, traces of the productive process and cues for interpretation (Fairclough, 2001). Thus, texts incorporate their intrinsic qualities into a wider set of social conditions and practices that influence the way they are both produced and interpreted (*ibid.*).

“Genre” denotes a certain type or mode of text, based on which one can distinctly categorise them. Genres are the specific discursive aspects of action and interaction types that present themselves in the course of social events. In Fairclough’s (1992, as cited in Titscher and Jenner, 2007) approach, genres do not only elicit types of text, but also discursive practices, ways for doing things.

Thus, the research objects of this paper are texts that reflect discourse and belong to the same genre because of their similar characteristics. Discourse analysis helps to understand which convictions the authors of the considered texts rely on, and how the genre rules are formed and followed.

Communication and mechanisms it employs have been an object of scientific research and discussion since the 1940s, in connection with the development and distribution of new media – radio and television. The most influential communication model is known as the Shannon-Weaver model, which focuses on the technical qualities of the communication process, leaving interpretation aside. Yet, Shannon (1948) also notes that “frequently the messages have meaning; that is they refer to or are correlated according to some system with certain physical or conceptual entities.” Bar-Hillel and Carnap (1953) added a semantic level: the receiver attributes value to the sender’s message based on the effect of information on the decision-making process and how much the state of the receiver changes because of it (Bowman and Targowski, 1987).

It is important to note that most influential theories emphasise the importance of meaning and general context, as well as a frame of reference, which is the object of interest in this paper. The paper thus focuses on the first or sender-side part of the communication process: how public companies code their messages and what is specific about the meaning framework that these texts represent.

In stock market context, information is important due to the concept of information asymmetry. Namely, the failure to eliminate information asymmetries may lead to the unravelling of the market (Akerlof, 1970). Therefore, there are several theories that deal with this issue, including signalling theory (Ross, 1977), agency theory (Jensen and Meckling, 1976) and litigation costs theory (Skinner, 1994). These theories form the basis of information economics and state that a firm’s disclosures are made to reduce information asymmetry between investors and managers, to signal the firm’s superior quality compared to competitors, and to reduce agency and litigation costs. The existence of information asymmetries is also related to the efficiency of capital markets (Fama, 1970).

The way information is disclosed on the stock market is, above all, grounded upon rules of the stock exchange, which in turn are based on principles established in the legislation (in the case of Estonia, the Securities Market Act). The law poses general guidelines (e.g. which types of information are subject to disclosure), but one can interpret these guidelines rather freely.

Issues in stock market communication have received remarkable attention during the last decades. Getting information directly from the company is much less costly (Lang and

Lundholm, 1996) than gathering information from other sources. Thus, the stock market information and its research have increased. Still, there is little convincing empirical evidence regarding the importance and applications of information disclosure (Corporate..., 2004). Empirical research has looked into the effects of the informational environment (e.g. D'Mello and Ferris, 2000; McLaughlin et al., 2000), as well as different forms of stock market information and its quality and content (e.g. Subramanian et al., 1993; Beretta and Bozzolan, 2004; Laidroo, 2008). Beattie et al. (2004) emphasise the need for a method that would allow one to evaluate the usefulness of information disclosed by the management for decision-making. So in the last years, more researchers have understood the limits of financial reports and disclosure mechanisms and made numerous attempts to improve the quality of mandatory and voluntary disclosure, thus changing financial reporting (Beattie et al., 2004).

All main communication channels (reports, announcements, general meetings, meetings with analysts and media relations) have rather strict limitations and a control system that consists of business and financial services legislation, self-regulation organisations and also pressure from the stock market and competitors (Holland, 1998). Lately, the need to better respond to the informational market needs has become increasingly popular and thus it is found that to achieve companies' transparency, one should enlarge the business reporting model that emphasises the backward-looking quantified financial information and include more qualitative information (Beattie et al., 2004). According to Carey et al. (1998), this development can be viewed from the technical perspective as an answer to an increasing awareness that traditional systems of accounting and information measuring cannot independently offer more diverse data that would satisfy the publics' information needs – e.g. for the company's goals, business risk and social performance, and they may be misleading, carrying a misperception of accuracy (Rutherford, 2003). This tendency may be viewed from a wider perspective as the “political” response to the decreasing public confidence in accounting numbers that are the output of traditional systems (Mallin, 2002).

Lang and Lundholm (1996) argue that companies that are more accommodating in disclosure attract more analysts, improve the accuracy of market expectations, decrease information asymmetry and limit market surprises. Baiman and Verrecchia (1996) stress that the choice of companies' optimal financial information disclosure policy is affected by the liquidity needs of the capital market, and it is accompanied by an exchange between productive efficiency and capital price. Ryan and Jacobs (2004) argue that in the long run, share prices correlate with companies' long term financial performance, but the formation of short-term price is important in order to keep the cost of capital low and preserve a competitive advantage.

Marston and Shrives (1991) also argue for including qualitative information in research: they find that because of increasing complexity in business strategies, activities and regulations, it is rather difficult for investors to evaluate financial information separately, without explanations to go with them (Beretta and Bozzolan, 2004). Companies whose performance is above average use disclosure to favourably distinguish themselves from other companies (e.g. Gelb and Strawser, 2001). Clark et al. (2004), on the other hand, stress that although costs of information gathering have decreased, the information is less valuable and harder to evaluate: obviously, information does not equal knowledge.

The literature agrees that a shift in emphasis towards qualitative information is apparent in financial reporting and in the wider context of public disclosure, one needs to develop research and evaluation methods for studying public companies' communication. The

amount of qualitative information has already significantly increased and thus, research into the text of financial information applying different methods is necessary.

Discourse analysis has mostly reached the area of finance through three types of research: (1) environmental disclosure (e.g. Yusoff et al., 2006; Spence, 2007; Laine, 2005, 2009; Milne et al., 2009); (2) social responsibility (e.g. Kallio, 2007; Reynolds and Yuthas, 2008); and (3) the study of economics and finance textbooks and ideologies within them (e.g. Ferguson et al., 2009). As discourse analysis cannot be applied on a large corpus of texts, it is most useful as a preliminary study into regularities reflected in certain types of texts that can later be codified and compared with different (financial) variables on a larger scale. Yet, such research can give relevant insight into how changes in disclosure content appear. On the other hand, e.g. Henry (2008) argues that the tone of earnings' releases (as another form of stock market communication), even controlling for financial performance, influences investors, as indicated by market reactions. Thus, knowledge about the way different releases are phrased allows us to better understand factors affecting the irrationality of investors.

Research has so far been mostly quantitative and taken an interest in the complexity of sentences, vocabulary etc. (e.g. Subramanian et al., 1993; Rutherford, 2005). On the other hand, there is less knowledge regarding textual structures, hidden assumptions and other means through which these texts relate to the general understanding of "how things work". This paper attempts to decrease this lack of qualitative disclosure research. The quarterly interim reports commentaries are well suited for qualitative analysis because of their greater freedom of expression and textual content in comparison with other stock market announcements, as well as their regularity and relative frequency. Also, Bebczuk (2003) argues that financial crises are in connection with asymmetric information and finds that in the conditions of asymmetric information, negative developments amplify and thus, the informational environment affects the scope of the crisis. Thus, information asymmetry is especially important in times of change. In 2007-2008, Estonia's economic growth slowed down and turned towards recession, due to which public companies needed to explain and justify economic results that remained below expectations. In such conditions, it is difficult to do quantitative analysis where characteristics of texts are compared to fluctuations in share prices on the stock market, as transaction volumes and prices differ strongly and there is a downward trend in expectations. For qualitative analysis, on the other hand, the chosen period suits very well. Therefore, this paper aims to map a shift in the discourse of quarterly report commentaries as the external conditions change.

3. The Method of Critical Discourse Analysis

There are several methods for textual analysis, originating from different scientific and philosophical traditions. The current paper employs Fairclough's critical discourse analysis. Critical discourse analysis researches into relations and changes between texts and convictions that surround them. The theoretical framework for discourse analysis is derived from Louis Althusser's ideology theories, Mikhail Bakhtin's genre theory, and philosophical traditions of Antonio Gramsci and the Frankfurt school. Fairclough's discourse analysis method has been strongly influenced by Michel Foucault's approach on ideology and Michael Halliday's systemic-functional linguistics (Titscher and Jenner, 2007).

Critical discourse analysis is critical in two senses: it is based on the ideas of the Frankfurt

school (especially the works of Jürgen Habermas), and secondly, it has a common tradition with so-called critical linguistics. According to Habermas, critical science has to reflect itself, meaning that it has to reflect the interests that it is based on, and take into account the historic context of interactions (Titscher and Jenner, 2007).

Fairclough's critical discourse analysis deals with continuity and change in both the abstract and structural level, and in specific texts. It is not just linguistic analysis: it also includes "interdiscursive analysis", as Fairclough puts it, meaning that texts are seen from the viewpoint of different discourses, genres and styles (Fairclough, 2003).

The advantage of critical discourse analysis is the focus on connections between text and its surrounding environment, and interdisciplinarity. Discourse analysis allows one to accentuate business philosophies and views on the environment. Also, this method fits well for areas where usually linguistic research methods are not used. Also, it does not require a significant amount of prior knowledge (Fairclough, 2001). Fairclough's critical discourse analysis has been used rather successfully in finance (e.g. Ferguson, 2007; Mataira and Van Peursem, 2004; Shapiro, 2005).

Yet, critical discourse analysis has several constraints. It is labour-intensive and should be applied on examples rather than large aggregates of texts. Any textual analysis is inevitably partial: it is impossible to analyse a text completely and finally. Also, textual analysis is selective: what we analyse depends on the decision of what to look at and which questions to ask (Fairclough, 2001).

The process of empirical data analysis in this study was divided into three stages: first, a choice was made: paragraphs that had more potential for meaning creation were found and coded; then, systematisation took place: text examples were systematised according to the three subsections of analysis dependent upon whether its meaning value is mostly connected with the vocabulary, grammar or textual structures, which may signal a dynamic; then, analysis and interpretation were conducted.

The analysis was made, combining a traditional cut-and-paste technique on paper, and codification in MS Excel, which allowed better systematisation. After describing the texts, they were collated and interpreted in comparison with earlier research. The paper focuses mostly on synthesising the results of the analysis: it concentrates on the research stage where new knowledge arises – while first, texts were analysed one by one, the paper pays most attention to the three phases of change that are defined by four changing characteristics of the texts, illustrated with examples drawn from various commentaries.

Thus, in the context of this paper, discourse analysis allows one to understand and describe the convictions, values and beliefs that are present in the society and the business environment. Discourse analysis allows for a study in dynamic frames of reference, based on which decisions are made and development can occur.

4. Results

The empirical part of this paper is divided into five parts. First, the sample is described and choices explained. Then, general and genre-specific characteristics of the texts are considered. In the third part, texts are divided into three periods which reflect a discursive shift, based on four criteria. Results are then followed by a discussion that compares the results of the current paper with theoretical and empirical starting points and interprets the outcomes. The empirical part ends with conclusions.

4.1. Sample

This paper studies the quarterly result commentaries from 2007 and 2008 that were disclosed by Estonian companies listed in the Tallinn Stock Exchange main list. The chosen period is connected with rapidly changing conditions that make it an interesting time frame for qualitative research: these years are the last year of GDP growth and the first year of decline. On the other hand, a rather short period attempts to avoid individual differences between sources of messages, e.g. in case of a change in reporting personnel that may give inaccurate signals in discourse analysis. Estonian companies are chosen, first, because they are the home market of the author, but also due to the small size of the market, which allowed for a wide-scale sample that reflects the whole market rather well. Also, Estonia is considered an exemplary emerging post-soviet market as it is a small and open economy – a “test market” for the whole Eastern Europe.

The paper considers companies that were in the main list of the Tallinn Stock Exchange as of 1 April 2009; including companies that went public during the selected time period (AS Arco Vara). Also, in case of division, both companies remain under consideration (AS Viisnurk and AS Trigon Capital Development, AS Merko Ehitus and AS Järvevana). Since the following analysis marks similar traits in the vocabulary, grammar and textual structures in interim report commentaries and maps a discursive shift, all companies in the Tallinn Stock Exchange main list are considered, if their accounting year coincides with the calendar year. This guarantees better comparability: since these texts are prepared and published at roughly the same time, similar environmental factors may influence their content. Thus, the paper analyses texts from 13 companies: AS Arco Vara (ARC), AS Baltika (BLT), AS Ekspress Grupp (EEG), AS Eesti Telekom (ETL), AS Harju Elekter (HAE), AS Järvevana (JRV), AS Merko Ehitus (MKO), AS Norma (NRM), Olympic Entertainment Group AS (OEG), Tallinna Kaubamaja AS (TKM), AS Trigon Property Development (TPD), AS Tallinna Vesi (TVE) and AS Viisnurk (VNU). The companies vary from retail (AS Baltika, Tallinna Kaubamaja AS) to utilities sector (AS Tallinna Vesi), and provide a good cross-section of the market.

Altogether, 96 commentaries were analysed. Less than 8 texts are considered in the case of AS Arco Vara (7), AS Trigon Capital Development (6) and AS Järvevana (3).

The commentaries disclosed on the stock exchange during the selected period differ strongly in terms of volume, thoroughness, and structure. Using a diversified sample allows one to give a more substantiated overview of the discourses and association systems circulating on the market. The period – 2007-2008 – is the time when economic conditions as well as companies' economic performance and the stock index started to fall. The paper looks into a change in the discourse of Estonian public companies' interim report commentaries that needs to be tested further against the whole economic cycle on a quantitative basis.

When drawing examples, three first letters of the company's signifier on the stock exchange are used, to which the year and quarter of the period discussed in the commentary are added (e.g. BLT 2007-I – Baltika, first quarter of 2007). Here, it is necessary to remember that public companies' commentaries on interim results are only a part of stock market communication in addition to annual reports, other announcements, general meetings etc. Also, only a part of texts available in this genre are considered, as there has been a choice of the time frame as well as the sample of companies. Thus, the paper studies a clearly limited and small portion of public companies' communication that is a part of a larger field of texts.

4.2. The Text of Quarterly Interim Reports Commentaries

Interim report commentaries form a specific genre with its own expectations and norms. While the main contribution of this paper is describing the shift towards a different discourse, the genre characteristics are brought out in some detail, structure-wise stemming from the applied method. Thus, the genre characterisation starts by naming patterns in the vocabulary of the texts, then moves on to grammar issues, and ends with a view on evident textual structures.

Stock market announcements employ nominalisation and office-style vocabulary rather excessively, as seen in examples in the next subsections. This is, in no doubt, connected with the general understanding of the genre and its norms. Yet, it is possible to bring attention to details that refer to the sources' view of the surrounding environment and the company's business activities.

It is remarkable that in the case of growth, quite consistent expressions are used, emphasising growth or rise, while the repertoire of expressions used in less favourable circumstances is much more diverse and adjectives tend to be weaker (e.g. "modest", "relatively"). This refers to the aim of showing decline as something temporary and extraordinary and diminishing its relevance.

In terms of vocabulary, public companies' interim report commentaries can be characterised by positive words being stronger; excessive use of modal verbs (which can convey value attribution); emphasis on success and growth; absence of consumers; and a significant amount of over-wording and rephrasing, especially in the case of negative developments.

Grammar-wise, the texts are mainly declarative, expressing the way the author sees the world and the company's position therein. This is, above all, related to the perceived formality of these texts, the way one is "supposed" to write, as well as the nature of information given.

A notable proportion of texts have been written in impersonal form, which allows one to avoid mentioning the actor. This way, the company can distance itself from the events and remotely refer to similar developments in the whole sector. A similar effect can be achieved by using nominalisation, so that companies can avoid questions like "who" or "when". Still, both phenomena are characteristic of official (though not necessarily well styled) writing and their use may refer to a wish to appear official and thus trustworthy.

Therefore, these texts can be described by abundant nominalisation; impersonality (the actor is often unclear); complex sentence structures; adding positive notions to negative for balance; and little identification of actors.

Public companies' quarterly reports are mandatory due to the stock exchange rules. They are clearly a channel for one-way information, disseminating comments by the company regarding economic performance within the previous three months.

Stock market announcements use a relatively official style and bureaucratic jargon. Often, the structure of the text is dictated by the financial reporting system: quarterly results are presented based on notes from the balance sheet as well as profit and cash flow reports. Texts about each company are usually constructed with the same structure, but among different companies, build-ups, as well as the thoroughness and interpretability differ to a great extent.

Quarterly interim report commentaries are a separate genre that is closely connected to the language use in annual reports and in official documents in general. Another discourse

is added only in the cases of a few companies (e.g. EEG, ARC) which have decided to use direct quotes from top management; where a somewhat larger freedom of expression is seen.

In terms of textual structures, the quarterly interim reports in general can be described by the large difference in thoroughness and interpretability; three types of spokespeople (from within the company, from the outside and impersonal; from the outside and specific); and the view on the economic environment as a common shared experience.

4.3. Discursive Three-Step Shift

The period under consideration can be divided into three parts. The first quarters of 2007 are characterised by optimism: the main objective is growth and when the external environment is considered, its conditions are regarded as favourable. Starting mid-2007, the external environment is mentioned more often: on the one hand, “bronze night” which brought along tensions with Russia is remembered, on the other, one cannot not mention the decrease in economic growth rate. Still, the effect of these factors is considered rather unimportant. In the third phase, in the second half of 2008 for most of the companies under consideration, the external environment becomes central among factors that have been mentioned in stock market announcements and that are considered to affect the company’s well-being. This change is gradual and constant, and thus temporal bounds are relative, meaning that the shift does not take place at once for all companies.

The division is mainly based on changes in four elements: (1) complexity of sentences and bridging between phrases; (2) keywords; (3) references and quotations, and (4) the importance of the external business environment. Overview of the shift dynamics is shown in Figure 1, which marks the beginning of the appearance of criteria for different stages. These stages are given a closer look below.

Figure 1. Discursive Shift in Estonian Public Companies’ Quarterly Report Commentaries 2007–2008

	2007-I				2007-II				2007-III				2007-IV				2008-I				2008-II				2008-III				2008-IV				
	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	complexity	keywords	references	environment	
HAE	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B	B	A	A	B	B	B	A	B	B	B	A	B	
TVE	A	A	A	A	A	A	A	A	B	B	A	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	
ETL	A	A	A	A	A	A	A	A	A	A	A	A	B	B	A	B	B	B	A	B	B	B	A	B	B	B	A	B	B	B	C	B	
BLT	A	A	A	A	B	B	A	B	B	B	A	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	C	C	
VNU	A	A	A	A	A	A	A	A	B	A	A	B	B	A	A	B	B	B	A	B	B	B	A	B	B	B	A	B	C	C	A	C	
TKM	A	A	A	A	A	A	A	A	B	A	A	A	B	B	A	B	B	B	A	B	B	B	A	B	B	B	A	B	C	C	B	C	
NRM	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B	A	A	A	B	B	B	C	B	C	C	C	C	C	
JRV																					B	B	A	B	B	B	C	B	B	B	C	B	
TPD									A	A	A	A	A	A	A	A	A	A	A	A	B	C	A	B	B	C	A	B	B	C	A	B	
EEG	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	B	B	C	C	C	B	B	C	C	C	B	C	C	C	C	B	C
OEG	A	A	A	A	A	A	A	B	B	A	A	B	B	A	A	B	B	A	B	B	B	A	B	C	C	B	C	C	C	C	C	C	
ARC					A	A	A	B	B	B	A	B	B	B	B	B	C	C	B	C	C	C	B	C	C	C	B	C	C	C	C	B	C
MKO	A	A	A	A	B	A	A	B	B	C	A	B	B	C	C	B	B	C	C	B	B	B	C	B	B	C	C	B	C	C	C	C	C

A Phase 1

B Phase 2

C Phase 3

Source: Author’s analysis

4.3.1. Phase 1: Independent Optimism

The first phase can be called the stage of independent optimism, as companies were rather positively minded towards their future and saw competitive advantages that emerge from within the company itself as the main source of success.

./.../ The upsurge in sales and profit was achieved thanks to the opening of the Olympic Voodoo Casino, the largest Baltic casino, in May 2006 and strong revenue growth at most of the established casinos. ./.../ (OEG 2007-I)

This phase can be characterised by the ample use of simple sentences, and there are fewer references to dangers that may be caused by the external environment than in the next stages. This can be explained by favourable circumstances and earlier experiences that make one hope for the continuation of growth. On the other hand, little emphasis on the environment may signal a dissonance which can lead to overheating and slow reaction. These, in turn, make negative changes in economic conditions more fatal. Also, it can be argued that reliance on internal sources and absence of consumers and/or markets (other than geographic) marks flawed communication and feedback.

./.../ The outlook of the nearest future of the sector is good. ./.../ (MKO 2007-II)

./.../ Management forecasts 30% sales growth in the upcoming years. ./.../ (EEG 2007-III)

Important keywords in this phase have a strongly positive connotation (e.g. “success” and “growth”) or attempt to decrease the perceived negativity of unexpected costs (e.g. “one-time” and “extraordinary”). Both pairs of keywords refer to a risk-friendly attitude, thus relating to the rather often mentioned “aggressiveness”. This refers to the economy being perceived as ever-growing, so that markets are demand-driven, as demand rises rapidly. Also, “success”, measured by numbers, is an important part of the official discourse in the country in general, stemming from the ideologies of a liberal market economy.

In the announcements of this phase, there are rather few references. Even if someone’s words are referred to, it is mostly motivational talk from the top management. In cases like these, top manager’s words are clearly distinguished from the rest of the text and act as an introduction to the commentary.

./.../ we are going to continue surprising our customers with new product groups and will penetrate the Czech market. ./.../ (BLT 2007-II)

Also, these texts sometimes employ evaluations from the company itself about the external environment, e.g. in the case of potential growth numbers for the next period(s). In the following example, a top manager of the company is presented as an expert without mentioning his connection to the firm.

./.../ According to the opinion of media analyst Toomas Leito, advertising revenue growth is expected to be somewhat more modest in the 4th quarter; however, the year 2007 as a whole is expected to show excellent growth. ./.../ (EEG 2007-III)

Management comments are the least official part of the commentaries; as they are attributed to specific person(s) who may express their own (optimistic) opinions. While the texts in general attempt to appear as “objective” as possible, applying methods similar to bureaucratic texts, direct quotes can be in a more personalised form. The matter of “objectiveness” is of importance in the context of discourse, as choices in vocabulary and grammar (as well as numeric references) may convey a misleading impression of unbiased accuracy.

Business activities in relation with the surrounding environment are referred to relatively seldom; one is rather limited to the notion that the environment allows one to hope for

significant growth while the source of growth is the company itself.

.../ The performance in the 1st quarter of 2007 can be summed up as solid operational performance strongly supplemented by several one-time improvements initiated and delivered by the Company. .../ (TVE 2007-I)

Thus, the company's external environment is considered favourable, based on historical observations. The environment is mostly referred to as the market in general, without considering more specific effectors. Still, sometimes the complex situation on the labour market is mentioned, as well as the need to offer competitive salaries. When setting expectations for the next periods, the texts are optimistic, mostly keeping to numeric prognoses. As a rule, the prognoses are based on the shared experience regarding the developments so far.

The first stage of "independent optimism" can thus be characterised by relatively simpler sentence structures, keywords that have a strong positive connotation, and basing arguments on sources from within the company itself.

4.3.2. Phase 2: Opposing Optimism

The second phase can be described as the phase of opposing optimism. The texts show how the general conditions in the economic environment do not significantly affect the companies under consideration. Above all, the texts refer to the positive effect of expansion in business activities: since one is active on several markets, the conditions are different and companies are in different phases of the economic cycle.

.../ Problems in the US housing market and related negative background for the real estate and financial sector and negative outlooks, attributable to the economies of the Baltic States, have had little impact on the main building market indices of the region. .../ (MKO 2007-IV)

Often, positive events in the context of a declining market are expressed starting with a subordinate clause and moving on to a strong and positive clause about the company's activities.

.../ "Despite the cooling of the Baltic real estate market, we succeeded in attaining the best ever half-yearly net profit," said Arakas. .../ (ARC 2007-II)

Thus, although unfavourable developments are mentioned, they are being approached as something short-term and of low impact, which is then backed by numbers (in most cases, the most "positive" results available).

Keywords tend to reflect the environment and the company's ability to deal with changes, like "strategic direction" and "measures". This refers to the need to pay more attention to the environment, as well as the conviction that if one acts ably, one can if not win then at least not lose because of the changed circumstances. The time frame, thus, becomes longer – while at the moment, there are certain difficulties, in the long run, things are going up. And, unlike in the previous stage, the latest numbers are not the most important factor to influence the way companies' perspectives should be evaluated. As for keywords, there seems to be an ongoing adaption process – "success" is measured not only numbers now, but also with the company's ability to cope.

.../ This provides AS Norma with a backbone to continue to develop the company and pursue it's longer term strategic direction through this severe downturn in the industry. .../ (NRM 2008-IV)

Quotations become more frequent, compared to the previous period. Mostly, anonymous analysts or statistics are quoted, or speculations referred to. This reflects the relative lack of

knowledge in the current conditions, which is why one attempts to understand the state of the economy by combining and synthesising different views. Connections are sought and speculations appear not only in places where e.g. media speculations are mentioned, but also in an attempt to understand what will happen next and reassure investors that the management can anticipate new developments and act accordingly.

.../ Speculations on the devaluation of Latvian currency have created a fair economical stagnation in all the Baltic states and this in turn causes people to wait for a while before purchasing a new apartment. .../ (ARC 2007-III)

The environment and estimations for changes in the business environment become more important in this phase: above all, companies try to describe what it is dealing with, and explain the chosen direction, based on changing conditions. This adds future scenarios to the texts. Yet, there tends to be only one course of action – while uncertainty rises, there appears to be only one possible scenario that makes the future somewhat more certain again.

When results differ from expectations, it is mostly explained by changed economic circumstances. Yet, the texts mostly argue that the company is doing better than the market in general. Possible negative developments gain little attention; they are shown as unimportant while the company searches for signs that what they are dealing with is a one-time and temporary fallback.

.../ Sales in the domestic market of Estonia has decreased, but the tendency in the II quarter shows the upturn in sales once again .../ (VNU 2008-II)

The reflection of the external environment becomes remarkably more negative, but its effect from the position of the company is regarded as relatively small.

.../ Although the value of Arco's assets have not increased in Q3, and the situation favours big and well capitalised developers, the focus of the group is in the Balkan region, where we already started the construction of a 112 apartment project called "Madrid". (CEO Viljar Arakas) .../ (ARC 2007-III)

When setting expectations for the next period, companies are somewhat more careful than in the previous phase, but expectations are still positive because of planned changes. In rising uncertainty, the company's own measures and strategy become the source of certainty and optimism.

In conclusion, in the second phase, business and environment are somewhat opposite to each other. This is supported by keywords such as "strategy" that will help accommodate to the new conditions. There are more external references, but specific spokespeople are still referred to rather seldom. Thus, the phase can be characterised by "opposing optimism".

4.3.3. Phase 3: Non-Committing Dependency

In the third stage, texts reach a phase of non-committing dependency. Remarks about the business environment become more important and companies admit the dependency of their performance on external variables. The language in which the surrounding environment is described is much stronger and more pessimistic than in the earlier periods. Thus, the performance of the company is strongly tied to wider economic processes and the role of the specific company in determining its financial performance decreases. Still, "decency" of results is emphasised, in comparison with the general performance of the market.

.../ In light of the panic following the crash of the financial markets in the third quarter and the overall economic depression, it may be considered as a decent result. .../ (EEG 2008-III)

“Cost-cutting program/strategy”, and above all, “overall” become the key terms. On the one hand, measures are emphasised that the company uses to secure and enhance its position (mainly, in cost-saving), on the other hand, the companies attribute importance to the generality and absoluteness of external circumstances, which decreases the company’s own perceived responsibility. Worsening conditions are something that “we all know and face”, as the public discourse in the media also moves to a pessimistic mode.

/.../ We have recognised that the overall economic situation and the heat on the real estate market have also had a negative effect on the Company’s commercial sales. /.../ (TVE 2007-IV)

Euphemisms remain mostly in the second phase of opposing optimism. A more official and verbose style refers to the attempt to emphasise external forces more, to show that the external environment pushes one (similarly to legal acts, for example) to make tough decisions. In the third phase, however, expressions become more straightforward (e.g. “overall economic depression” in EEG 2008-III) and sentences become not necessarily shorter, but perhaps easier to read. Or, put illustratively, “circumstances are not good, but we will do fine because ...” is replaced by “circumstances are not good and our performance is affected and...”

Also, quotations change remarkably: more external sources are referred to, and in this phase, mostly large and reputable organisations are quoted (Bank of Estonia, industry organisations, etc.), whose estimations are a basis for forecasts for the companies themselves. This directly refers to the company’s uncertainty regarding the future, as well as its wish to share responsibility for their decisions.

/.../ In a situation in which the economic growth in the first quarter of 2008 was only 0.1% and with great probability, it was close to zero in the second quarter and will be close to zero in the following quarters, the Group has prepared a plan for additional cost cutting. /.../ (EEG 2008-II)

The third phase often poses the task of pre-explaining financial results that fall below the expected. Here, one largely focuses on traits characteristic of the environment as a whole, while developments are considered general and affecting all market constituents. When in the previous periods negatively connoted words were avoided, now in this period they are used more boldly.

/.../ The main focus in the service division is on adjusting the business model and the cost structure in line with the 50% fall of the market volumes. /.../ (ARC 2008-IV)

While in the previous periods, key terms have been “profit” and “income”, accordingly, then in this phase, “cost-saving” becomes most important.

The view on the external environment is rather pessimistic. Thus, it is characterised by the “fall”, “overall slump” etc. Also, connections between different phenomena and factors are expressed more often than in the previous phases.

/.../ The decrease in the period’s revenue was the result of the low activity in the building sector, caused by the overall economic slump. /.../ (JRV 2008-II)

When setting expectations for the next periods companies are rather careful. The unsettled nature of the environment and approximate measures of forecasts are emphasised.

/.../ Although in the summer of 2008 Baltika began preparing for its next four-year strategy cycle (2009-2012), in the present economic environment it is more reasonable to continue on a year-at-a-time basis. /.../ (BLT 2008-IV)

In conclusion, the third phase is characterised by an emphasised dependency on the environment, as well as usage of different specific external information sources and the estimated generality of processes. Sentences are complex and tie the company to its environment.

5. Discussion

Public companies' quarterly report commentaries form a distinctive genre that is characterised by similar target groups and similar language use expectations. They are closely related to other texts on the stock market (annual reports, other public announcements, etc.), as well as other forms of stock market communication (meetings with analysts, general meetings, media relations, etc.). The publication of these commentaries is regular and mandatory and thus, each text is both a part of the company's communication, and a constituent of a larger field of texts that all public companies' quarterly report commentaries form.

Language choices are also affected by the channel that mediates the texts. Since texts under consideration are, above all, meant for reading on the web or on paper, it is written in plain text that should be characterised by understandability, accuracy and truth value. However, since stock market rules are not very explicit about how such texts should be written, there is room for interpretation.

Stock market announcements mostly deal with the mediation of knowledge: the reader gains some insight about the company. Factual propositions, forecasts and opinions are presented, hypothetical claims avoided. This refers to the perceived formality that allows one to forecast, but not discuss different scenarios; as that would show the company's future as something uncertain. Yet, uncertainty is the central term in information economics; where information becomes a commodity that has not been divided equally between different groups in the society and is rather concentrated on certain groups and individuals (Arrow, 1963). Thus, sending out a false impression of certainty and accuracy may lead to market overheating and irrational behaviour.

The amount of information and interpretations is very different for different companies. This refers to rather loose interpretation guidelines for stock exchange rules. In that case, interim report commentaries can be used for marketing purposes while sending out a message of objectivity (see e.g. Henry, 2008).

During the selected time frame (2007-2008), significant changes occurred in both the economy as a whole, as well as in the discourse of the public companies' interim report commentaries. The interim report commentaries rely more on external sources of information when describing their business environment, use more complex language when the uncertainty is higher, and describe the dynamics as "general", tying the company's performance strongly to its environment. This is in line with earlier quantitative research (e.g. Tetlock et al., 2008; Rutherford, 2005) that connects better financial performance with positively connoted words like "growth", etc. Also, the increase in the importance of the external environment supports the relation between news views and linguistic structures in the context of economic regression: the more negative the results are, the more they are connected with external, "objective" circumstances that the company itself cannot affect. Yet, compared to earlier studies, this paper adds a third option – the phase where there is increased uncertainty between "good" and "bad" times.

Sentence formation becomes remarkably more complex in the second phase when environmental changes become more important, while companies try to oppose themselves to these developments and seek for a solution. Thus, the results are in accordance with the idea that complex sentences may be a means to hide negative results (in e.g. Rutherford, 2005; Subramanian et al. 1993). This appears to hold more in circumstances where difficulties

are considered temporary. Thus, it may be argued that increased uncertainty affects the language use more than underperformance.

Texts reach directly and strongly negative used words in phase 3, where the importance of external constraints becomes evident. On the one hand, solidarity arises: all companies have problems and “we all understand”; on the other hand, the perceived responsibility of the company itself for its performance decreases and thus, more daring assessments are presented. When earlier it has been concluded that in the financial press vocabulary negative words predict lower earnings; then here negative words accompany lower results, not precede them.

Characteristically to the texts analysed here, nominalisation is used rather extensively. This decreases the amount of information present in the text: it allows one to avoid determination of a specific time scale; also, such sentences lack modality, which shows the source’s relationship with what is expressed in the text, and the relationship between what is expressed and the reality. Also, such texts lack agents; it remains unclear who acts and what is done to whom. This is in accordance with earlier studies (e.g. Thomas, 1997, as cited in Henry, 2008) that characterise company-side financial texts as using a passive voice, which “serves to distance the messenger from the message”, and adds the use of non-human agents and references to factual situations caused by circumstances that are not attributable to anyone who might otherwise appear responsible.

In earlier studies, textual structures have gained little attention, but references to the environment, hidden assumptions and quotations can also be useful when analysing stock market information. There can be no doubt that the writer’s personal understanding of genre expectations, as well as his/her writing skills and company policy play an important role (see Courtis, 1986; Rutherford, 2003). Yet, it can be assumed that the text is connected with the company’s results, while language use also changes – e.g. becomes more complex if results are more negative than expected. Thus change does not necessarily reflect the direct wish to manipulate the reader, rather showing uncertainty regarding the future.

Current analysis shows that more interpretations are added when results do not meet the company’s expectations. This refers, on the one hand, to the company’s wish to justify its decisions; and on the other hand, it reflects the company’s self-analysis that encourages the reader to hope that expectations will reflect the reality somewhat better in the future. Yet, the complexity of sentences in interpretations tends to lessen its effect, as it makes the message less clear.

The increase in the importance of the environment as one of the factors that determine the company’s performance plays a significant role. The information required of the text producer increases during the conditions of perceived uncertainty and thus, answers are sought from external sources. Thus, in the second half of the considered period, companies often quote forecasts made by reputable organisations.

6. Conclusion

Communication plays an important role on the stock market, allowing one to give out information and knowledge. An important form of communication on the stock market is publishing interim report commentaries. The current paper focuses on the language of public companies’ quarterly report commentaries that signal connections and assumptions

through which companies define themselves and their positions. Such information is important to both the company itself and to other market constituents, and it affects both transactions connected with the specific company, as well as the informational environment more widely, while the credibility and efficiency of the stock market depends on the informational quality of the environment.

The current paper aims to show how companies use text in helping receivers interpret their performance. The paper derives from both communication and economic theories and the outcomes of earlier empirical research. It presents a three-step model of a discursive shift that appeared in Estonian public companies' interim report commentaries during the downturn towards recession in 2007-2008, which is characterised by four indicators. First, keywords change with the overall change in discourse in the economy as a whole (best described by vocabulary choices in the media): from "success" and "growth" without "markets" or "consumers" in the first period to "measures" and "strategies" in the second and "overall" in the third phase. Also, prevalent structure of sentences changes from simpler to more complex, as the environment becomes more important. The most complex sentences are employed in the second phase; where uncertainty is strongest. Views on the environment also change: while in the first phase, environment is considered favourable if at all, and references to its impact grow step by step as the arriving decline becomes more apparent. When quoting spokespeople and sources, management gives way to statistics and then reputable organisations, as the general economic climate cools down.

Results of the empirical analysis presented in this paper suggest that there are more interpretations and explanations in public companies' quarterly report commentaries when the performance is below expected or when the economic environment becomes significantly less favourable. When describing poorer performance, one uses euphemisms relatively more often, and the developments are shown as one-time and extraordinary, as well as necessary for profit earning in future periods.

When unfavourable circumstances persist, the language use becomes bolder, but mostly when describing the environment, not analysing the company's performance. When analysing interpretations of results, one might expect all companies under consideration to operate above the market average. Unfavourable developments are attributed to external factors and do not appear to affect the specific company more than the market in general. Here, it is worth emphasising that the connection between poorer results and an unfavourable external environment appears to be stronger than between good performance and internal factors: in case of the latter, one tends to write in rather general terms and results are said to be caused by the results themselves.

The paper is in accordance with the results of earlier quantitative empirical research. Since earlier research has mostly focused on vocabulary and grammar, the current paper gives additional information about assumptions and references in the texts. Also, the paper argues that an important factor in determining the textual properties of texts containing stock market information relies in the perceived uncertainty in the environment as a whole; so that the discourse changes not only with the decrease in earnings, but also with increased uncertainty.

These results should be verified, using quantitative research methods. Also, this paper focuses on encoding, leaving decoding and receiver-related problems aside. Nor does it research into the intentions of the authors that would help understand the level of deliberateness. Thus, future research could also focus on receiving stock market information

on a cognitive level, as well as changes in the volume and number of market transactions in the vicinity of the publication of such announcements or the companies' actual performance in comparison with the texts' properties.

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