

FACTORS INFLUENCING THE USE OF CEO LETTERS AS A STRATEGY FOR IMPRESSION MANAGEMENT

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ABSTRACT

This study aimed to investigate the factors influencing the use of CEO letters as a tool for Impression Management in the Brazilian capital market. Based on the Voluntary Disclosure Theory, a sample of 1,274 letters published between 2010 and 2022 by 217 listed companies that released at least one letter during this period was analyzed. The chosen time frame is justified by its occurrence after the adoption of International Financial Reporting Standards (IFRS) in Brazil, which enhanced the comparability of financial information. Panel data models were employed, with two dependent variables: tone (the proportion of positive and negative terms) and readability (total number of words), both serving as proxies for impression management. The main explanatory variables were changes in financial performance and the presence of market analysts. The results indicate that declines in performance did not significantly influence tone or readability, suggesting that in Brazil, CEO letters are not used to conceal poor results. In contrast, positive performance increased the use of positive terms, signaling reinforcement of the institutional image. The presence of analysts had a significant effect, acting as an external governance mechanism that inhibits opportunistic practices. Finally, leverage and economic crises showed a negative relationship with the impression management proxies, suggesting more objective communication in adverse scenarios. The study contributes by demonstrating that, in the Brazilian context, CEO letters tend to serve a legitimate informative role, especially during periods of favorable performance.

Keywords: CEO Letters. Impression Management. Tone. Readability.

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1 INTRODUCTION

The Disclosure Theory emerges as a theoretical framework, discussed since the 1980s regarding the dichotomy between whether or not to highlight certain corporate information (Almeida & França, 2021). Given the reporting requirements imposed by regulatory bodies, organizations disclose information to assist decision-making, thereby reducing informational asymmetry between internal and external users of the organization.

Beyond mandatory disclosures, companies may choose to release voluntary information, thereby enhancing the quality of their reports so that stakeholders can meet their informational expectations and make economically, financially, and socially reliable assessments of the entities (Souza & Silva, 2020). Among these additional reports, some are frequently issued by publicly listed Brazilian companies, such as press releases, CEO teleconferences, CEO letters, sustainability reports, and others (Salotti & Yamamoto, 2005).

In this sense, the disclosure of such information can play a relevant role in the effectiveness of the Brazilian capital market, ensuring transparency and information quality (Bushman et al., 2004). Within voluntarily reported information, the CEO letter aims to demonstrate the efficiency of the activities carried out during the period from the perspective of the organizational director (Beyer et al., 2010).

The way information is presented in CEO letters may involve impression management techniques, where texts are reported through strategies that influence the perceptions of their users, including their behaviors, intentions, ethics, and personal characteristics such as trust, intelligence, and future expectations (Rosenfeld, 1997). In another definition, impression management refers to the process through which individuals seek to control the image others have of them (Robbins, 1999).

The CEO letter is a relevant document for investor and user decision-making as it highlights the information that managers consider important for various stakeholders. As it constitutes incremental and non-mandatory information, managers may use syntactic manipulation through more complex texts, thus influencing the readability of such communications (Brennan et al., 2009).

Another impression management technique incorporated in CEO letters is the preference for using optimistic vocabulary rather than pessimistic terms, substantially influencing how the information is perceived and processed by users (Davis & Tama-Sweet, 2012). The literature identifies factors that may drive or mitigate the use of CEO letters as an impression management strategy. Among the motivations is performance variation (O'Keefe, 2019), while as a mitigating factor, the presence of market analysts is cited by some as a corporate governance mechanism (Isidro & Marques, 2015).

Given the importance of CEO letters for investors and other users, associated with the level of discretion in how information is presented to the market, this study aims to investigate the factors influencing the use of CEO letters as a tool for impression management in the Brazilian capital market.

Internationally, several studies have explored impression management from different perspectives: Guillamon-Saorin et al. (2012) investigated the use of these techniques in press release headlines; Melloni et al. (2016) evaluated evidence of impression management in the disclosure of business models in integrated reports; Hadro et al. (2021) examined tactics in letters to shareholders. All of these studies assessed the effects of corporate performance and corporate governance metrics on the use of impression management in these voluntary reports.

However, the examination of CEO letters still presents several opportunities for investigation, as few studies, such as Jonall and Rimmel (2010), Patelli and Pedrini (2014), Yan et al. (2019), and Im et al. (2021), have analyzed the content and narratives contained in these letters. In the national context, impression management can be observed through the analysis of

narratives in annual reports (Andrade & Lucena, 2020; Cadorin & Theiss, 2022), as well as the textual structure in material fact disclosures during crisis scenarios (Oliveira et al., 2023) or in the readability structure of mandatory documents, such as explanatory notes (Telles & Salotti, 2024).

Moreover, research employing narrative analyses highlights a theoretical gap, as most studies on textual analysis of corporate communications are conducted in English or in Anglophone countries. Therefore, analyzing communications written in Portuguese and published in Brazil represents a significant research opportunity (Telles & Salotti, 2024). Consequently, this study contributes to the national literature by examining the factors influencing the use of CEO letters as an impression management tool, given the scarcity of empirical evidence on the strategic use of CEO letters in Brazilian companies.

Thus, the study demonstrates the relevance of research on impression management today, helping to identify factors associated with period performance, corporate governance mechanisms, company characteristics, and the macroeconomic context in the use of CEO letters by Brazilian companies as an instrument of impression management.

2 THEORETICAL FRAMEWORK

2.1 Disclosure Theory

The disclosure theory aims to explain which factors motivate managers to provide reliable and relevant information, as well as to analyze how such disclosure impacts the internal value and external perception of organizations (Almeida & França, 2021). In this context, Romito and Vurro (2021) examined the effects of information disclosure, particularly non-financial information, highlighting that reporting such information is essential to reduce informational asymmetry by mitigating opacity among stakeholders, thereby assisting them in decision-making.

Disclosure Theory, based on the premise that transparency can reduce informational asymmetry and improve decision-making by investors and other information users, seeks to explain how companies decide between disclosing or withholding information, taking into account the costs involved in disclosure (Verrecchia, 1983).

In this regard, Verrecchia (1983), in his seminal study, identified that these costs are associated with the preparation of information and the potential exposure of proprietary data that could harm the organization. From this perspective, the author argues that disclosure occurs when the benefits outweigh the costs, creating a balance influenced by investors' expectations. Accordingly, agents choose an information level that maximizes the perceived value of assets, based on stakeholders' anticipated reactions.

In his classic work, Dye (2001) addresses the nuances of Disclosure Theory, also known as Voluntary Disclosure Theory, analyzing strategic communication between informed entities and less-informed stakeholders. According to the author, managers selectively disclose information to maximize their own interests, as a special case of game theory, suggesting that entities share favorable information while withholding unfavorable information. This strategic behavior must be considered when interpreting disclosures.

Almeida and França (2021) highlight that, beyond the external benefits generated by information disclosure, this practice contributes to reducing informational asymmetry, improving analysts' forecast quality, increasing stock liquidity, lowering the cost of capital, and consequently enhancing the firm's value.

2.2 Voluntary Disclosure and CEO Letters

As required by the Brazilian Corporate Law, publicly listed entities must disclose financial statements that clearly and comprehensibly reflect the company's financial position, providing internal and external users with useful information for performance analysis and decision-making.

Accordingly, Law 6.404 (1976) defines the minimum set of mandatory information, covering guidelines for the preparation and disclosure of explanatory notes and management reports.

With updates from the Accounting Pronouncements Committee – CPC 26 (R1) (2001), the mandatory statements include: Balance Sheet, Income Statement, Comprehensive Income Statement, Statement of Changes in Equity, Cash Flow Statement, Statement of Value Added for publicly listed companies, and Explanatory Notes, which may be reported alongside supplementary information such as Management Reports.

Beyond quantitative information, analyzing non-financial reports becomes relevant, as they aim to reduce informational asymmetry between internal and external users. In this context, managers may provide additional voluntary disclosures to investors regarding the entity's performance, ensuring that these communications offer an enhanced view of the entity's economic and financial situation (Souza & Silva, 2020).

In this regard, voluntary disclosure goes beyond legally required information. Almeida and França (2021) highlight two reasons for reporting additional information: obtaining incentives or minimizing pressure. Similarly, Bandeira et al. (2022) note that besides meeting stakeholders' needs, these reports serve as a means to achieve social legitimacy and foster a positive perception among users.

Although optional, these disclosures entail costs for their preparation and reporting. According to the premises of voluntary disclosure theory, firms are expected to incur these additional costs only when the benefits of disclosure outweigh the associated costs (Almeida & França, 2021). The authors also emphasize that a firm's legitimacy before society depends directly on the alignment between social demands and corporate behavior.

Thus, voluntary information is not entirely optional, as it is shaped by pressure from competitors, users, and regulators, encouraging entities to provide reports that add positive value. Almeida and França (2021) confirm that corporations tend to disclose information favorable to them, through which managers use reports to influence users' perceptions of the organization.

Among the various voluntary disclosures are press releases, management letters, managerial forecasts, and others. Brennan et al. (2009), in their seminal study on impression management tactics, highlight that while disclosing data allows interpretation of financial results, voluntary reports being unregulated offer significant scope for manipulating content, potentially masking unfavorable data. Such disclosures become a powerful tool for managing impressions, thereby influencing user perceptions.

According to Beyer et al. (2010), a frequently reported form of voluntary disclosure is the CEO letter, which is an integral part of the annual report. It may address the entity's performance and activities over the year from the executive director's perspective. These communications aim to present the CEO's focus, strategy, and vision in relation to the entity's opportunities and threats (Patelli & Pedrini, 2015). Through a narrative structure, the CEO letter reflects corporate reality and the company's strategic positioning (Jonall, & Rimmel, 2010).

CEO letters comprise narratives through which managers communicate corporate performance to the market. These letters are generally included at the beginning of organizational reports and distributed to shareholders via the company's website (Liu & Nguyen, 2020). Although authors note that CEO narratives reflect personal viewpoints, signaling directors' perceptions of the organization (Im et al., 2021), the literature agrees that stakeholders perceive CEO statements as the organization's overall perspective on the issues highlighted in the letter (Caliskan, Esen, & Barkemeyer, 2021).

The informational content of CEO letters has been evolving, with issues related to Corporate Social Responsibility increasingly present, particularly those linked to business ethics (Che et al., 2020). Currently, the placement and choice of words in CEO letters are being analyzed in studies using narratological methodologies in financial reporting, aiming to estimate the

positive, negative, or neutral sentiment of the terms highlighted by the executive. Such analyses may even allow predictions of a company's financial performance based on the sentiment expressed in the CEO letter (Boudt, & Thewissen, 2019; Che et al., 2020).

2.3. Impression Management

According to seminal literature, impression management can be classified as a technique used by company management to emphasize certain corporate information, aiming at legitimization and attracting investors (Merkl-Davies & Brennan, 2007). Thus, impression management involves a set of strategies and tactics aimed at constructing both favorable and unfavorable images that require validation by the primary users (Theiss & Bauren, 2018). In this way, managers may be motivated to obscure the actual condition of the entity through impression management techniques or to further highlight information considered positive (Bushee et al., 2018).

The manner in which managers employ impression management can influence decision-making aligned with shareholders' interests, contributing to the reduction of informational asymmetry through more detailed information and more comprehensive explanations in financial reports. Similarly, impression management can be used as a vehicle to communicate negative information using argumentative techniques that do not accurately reflect the company's results (Merkl-Davies & Brennan, 2007).

Such practices can lead to misinterpretations regarding past performance and future prospects of the company, as accounting narratives, by blending financial and non-financial information under impression management tactics, have the potential to create distorted representations of organizational reality. This may occur by directing attention to irrelevant issues, minimizing more important matters, concealing negative information, or even attributing unfavorable results to third parties or macroeconomic factors (Rolim, 2024).

In this context, minority investors are susceptible to making decisions based on impression management, which may not represent the true financial situation of the entity. Baginski et al. (2011) note that sophisticated investors and market analysts are less likely to be influenced by impression management compared to unsophisticated investors. Although market analysts and specialized investors have greater technical capacity to evaluate corporate reports, they can still be affected by the way information is presented (Caglio et al., 2020).

Therefore, the linguistic tone of financial disclosure, when excessively positive, can elicit different reactions among sophisticated and unsophisticated investors. According to Loughran (2018), the language used in corporate reports directly influences small investors' decision-making, who may be susceptible to the illusion of an ideal investment, while more sophisticated investors and market analysts may detect the impression management tone and penalize the company by reducing its market value.

From the agency theory perspective, impression management highlights the preparer's (manager's) opportunistic behavior regarding corporate narratives, as they can obscure accurate financial information for personal benefit (Bowen et al., 2005). In this context, disclosing negative results may intensify principal-agent conflicts, as management may choose to present information in a way that mitigates failures, softening investors' perceptions to gain advantages, such as higher compensation.

Consequently, preparers are assumed to adopt two types of behaviors: Concealment or Attribution. Concealment involves obscuring unfavorable results and emphasizing positive outcomes, whereas Attribution may be used during periods of poor performance, when the entity tends to attribute negative results to external events, such as economic crises (Bushee et al., 2018; Merkl-Davies & Brennan, 2007).

From a social psychology perspective, seminal studies conceptualize attribution as a self-serving impression management strategy, emphasizing successes rather than failures regarding

explanations and perceptions that contributed to specific organizational outcomes (Merkl-Davies & Brennan, 2007). In other words, failures are treated as resulting from external factors, thereby absolving the managers of responsibility.

In high-risk scenarios, such as potential bankruptcy, information concealment may be more frequent, as entities seek to reduce potential managerial liabilities, omitting financial report details rather than using textual resources for impression management (Moreno & Camacho-Miñano, 2024).

Based on previous studies, impression management in corporate reports can be categorized into two domains: agency theory perspectives and alternative theoretical perspectives. Regarding agency theory, the analysis focuses on direct communication with investors, such as analyst meetings, press releases, teleconference transcripts, and CEO letters; thus, investor focus and perceptions of company performance are presented through managerial manipulation of expected and unexpected outcomes.

Impression management from alternative perspectives considers the influence of different factors, such as financial, environmental, and social aspects, from an external viewpoint of the company, using corporate communication channels as metrics regarding reputation and financial performance (Merkl-Davies & Brennan, 2007).

2.4 Impression Management Techniques

Impression management strategies are applied through various techniques. Brennan et al. (2009), in their seminal study, summarize seven main perspectives: Syntactic Manipulation, Rhetorical Manipulation, Applied Analysis Method, Thematic Manipulation, Selectivity, Visual Effects, and Performance Comparison.

The Syntactic Manipulation method in accounting narratives involves using complex language in reports to obscure the corporate situation, particularly during periods of negative performance. Textual complexity, whether through difficult terminology or excessive information, may hinder stakeholders' processing of the information by making it harder to understand (Ben-Amar & Belgacem, 2018). This technique can be implemented in multiple ways, such as text length, number of syllables, and inclusion of excessive information.

Rhetorical Manipulation in accounting narratives involves disguising the company's performance, where management carefully chooses more technical language and theoretical resources to obscure the organization's development (Brennan et al., 2009). This entails strategic linguistic choices aimed at persuading or impressing readers while simultaneously concealing negative performance (Stoltzemburg, 2020). Managers frequently use complex terms and rhetorical devices to mask weaknesses in reports. The main goal of this technique is to influence stakeholders through sophisticated language choices, shaping the meaning of words and persuading readers (Monteiro, 2021).

Another manipulation tactic is the Management Attribution of Organizational Results, which is divided into two groups: meaning-oriented and form-oriented studies. Meaning-oriented studies employ thematic analysis to identify causal reasoning patterns and attributions used to explain organizational progress (Brennan et al., 2009). Management tends to attribute favorable results to internal competencies and organizational practices, whereas unfavorable outcomes are often linked to external factors beyond the entity's control (Rolim, 2024).

Thematic Manipulation, representing form-oriented studies, focuses on managing positive and negative themes by analyzing word and phrase recurrence to draw implications (Brennan et al., 2009). Longer reports tend to adopt a neutral tone due to a balance of positive and negative terms, while shorter reports usually display a more positive bias (Malaquias & Borges Júnior, 2021). For this technique to be reliable, it is essential to include specifications of accurate measurements.

Selectivity involves choosing which performance figures to disclose, typically favoring positive numbers over negative ones to present the organization in the best possible light. Rolim (2024) explains that executives decide which numbers and events to highlight or omit in narratives according to their objectives. The figures reported may be based on generally accepted accounting principles (GAAP) or non-GAAP measures (Brennan et al., 2009).

Visual Effects, or presentation emphasis, aims to make information more noticeable to readers (O’Keefe, 2019). Examples include bold text, bullet points, strategic placement of disclosures, and repetition of information to create visual emphasis.

Finally, Performance Comparison involves presenting the company’s best possible scenario by comparing current performance with past results to portray the company’s financial performance favorably. Managers may influence investors by selectively presenting incomplete past data to benefit the current period (Brennan et al., 2009). By choosing biased comparison parameters, managers may select specific internal or external benchmarks, such as past results or industry averages, to further reinforce a favorable image (Rolim, 2024).

In their classic study, Mendonça and Amantino-de-Andrade (2003) emphasize that impression management within organizations can be understood as a means of controlling others’ impressions, intending to produce a desired perception of the entity in society. Corporate disclosures, aligned with management narratives, allow information to be communicated effectively for decision-making purposes.

Davis and Tama-Sweet (2012) note that managers increase the use of positive language when they perceive opportunities to gain advantage in a given situation. They also found that certain words are intrinsically associated with market conditions, trading volume, and unexpected gains or stock returns.

In this study, the chosen impression management technique involved the use of tone (positive or negative), which can also be interpreted as optimistic or pessimistic in corporate communications (Baginski et al., 2011; Davis & Tama-Sweet, 2012). Managers may employ this technique to mask results through positive or negative wording—for instance, when a company reports losses yet applies high levels of impression management to obscure the data and make the language more challenging for readers, as discussed by Guillamon-Saorin et al. (2017).

2.5 Previous Studies

In recent years, there has been an increase in studies analyzing the strategic use of textual narratives in the disclosure of mandatory or voluntary reports. Within this context, notable national findings include Andrade and Lucena (2020), Cadorin and Theiss (2022), and Oliveira et al. (2023), who applied impression management techniques in communications published in Portuguese; as well as studies by Yan et al. (2019), Im et al. (2021), and Pande et al. (2024), which analytically examined CEO letters. It is important to note that most studies on narratives have been conducted in reports written in English or in Anglophone countries (Telles & Salotti, 2024).

In the Brazilian context, Andrade and Lucena (2020) investigated the influence of corporate performance on impression management techniques in publicly listed Brazilian energy companies. The study concluded that during periods of low performance, energy companies exhibited a higher proportion of positive words, indicating a possible impression management tactic. Regarding visual elements, it was observed that during low-performance periods, entities included a greater number of images and figures, representing management tactics to mitigate the impact of negative results. However, the research was limited to companies in the electric sector.

From another perspective, Cadorin and Theiss (2022) investigated, within the context of impression management, the annual report publications of Vale S.A. in 2018 and 2019, a period close to the Brumadinho dam collapse. Using readability measures, they found that the reference forms exhibited low readability, whereas sustainability and management reports were more

readable, likely to ensure accessibility for various stakeholders. Additionally, the company included emotive and social terms, emphasizing positive news, probably with the intention of mitigating the impact of negative information.

Oliveira et al. (2023) examined abnormal tone in material fact disclosures of retail companies listed on B3 during periods before and during the COVID-19 pandemic. Interestingly, they found a correlation between the duration of economic activity shutdowns and the use of abnormal tones. Furthermore, the study observed that larger companies tend to employ higher levels of impression management.

Internationally, in the context of CEO letters as tools for impression management, Yan et al. (2019) analyzed whether the rhetorical patterns in CEO letters influenced market analysts' forecasting behavior for publicly listed U.S. companies. By examining rhetorical communication styles assertive acclaim, cautious framing, and logical rationalization—the study found that although impression management is generally associated with negative bias, considering multiple perspectives simultaneously can reduce forecast errors, thereby improving analysts' profit forecast accuracy.

Im et al. (2021) analyzed CEO letters from companies in the hospitality sector during the COVID-19 pandemic, finding that these firms employed language reflecting a defensive response aimed at demonstrating responsibility and credibility to the market, while also using assertive tactics to reinforce their social responsibility and reputation. Finally, Pande et al. (2024) highlighted that CEO letters can serve as an excellent tool for enhancing a company's reputational image, particularly regarding corporate sustainability.

3 METHODOLOGY

3.1 Sample Composition

This study aimed to investigate the factors influencing the use of CEO letters as a strategy for impression management in the Brazilian capital market. To achieve the desired results, non-financial companies listed on the Brazilian Stock Exchange, Brasil, Bolsa e Balcão (B3), at the end of 2022, were considered. Financial companies were excluded due to their specific characteristics, which could have caused issues in estimating the independent and control variables.

Within this framework, CEO letters issued at the end of fiscal years from 2010 to 2022 were analyzed, as this period follows the adoption of International Financial Reporting Standards (IFRS) by Brazilian companies and extends to the most recent fiscal year with available data. Data used to measure the level of impression management in CEO letters were collected from the Investor Relations channels provided by the respective entities, representing primary data.

In this context, the assessment of impression management levels in CEO letters was conducted based on the reports presented by the companies at the end of each year. Organizations that did not release a CEO letter in any of the analyzed years were excluded from the sample. Due to the voluntary nature of CEO letter reporting, the study employed an unbalanced dataset, focusing exclusively on entities that disclosed the document. Details regarding the sample composition are presented in Table 1.

Table 1
Sample Composition

Non-financial companies with active trading as of 12/31/2022	242
(-) Companies that did not report CEO letters in any year	(25)
(=) Companies that disclosed CEO letters in at least one fiscal year	217

Source: Research Data (2024).

Thus, of the 242 non-financial companies with active trading at the end of 2022, 25 did not report any CEO letters, resulting in a final sample of 217 companies, representing a total of 1,274 observations.

3.2 Variable Definitions

3.2.1 Impression Management through Readability

Syntactic Manipulation, also understood as textual complexity, exerts a significant influence on the readability of CEO letters. This technique, frequently employed in the corporate context, aims to obscure negative results through the use of complex and difficult-to-understand language. Managers implement this strategy using tools such as adjusting sentence length, controlling the number of syllables, and other linguistic resources to shape readers' perceptions of adverse outcomes (Brennan et al., 2009).

Accordingly, this study analyzed readability tactics using the natural logarithm of the total number of words contained in the respective CEO letters. The choice of the logarithm is justified by the high variation in letter length, which could otherwise result in potential outliers.

3.2.2. Impression Management through Tone

Another key aspect of impression management is the manipulation of tone in strategic reports prepared by managers. As highlighted by Davis and Tama-Sweet (2012), tone refers to the use of positive and negative words inherently embedded in the entity's information disclosures. These strategic reports have the potential to obscure pessimistic results or overstate optimistic ones.

Another definition of tone is provided by Guillamon-Saorin et al. (2017), who describe it as the use of optimistic language to create a positive impression of corporate results, which would not be achieved as effectively if the statements were made using more neutral terminology.

The words in CEO letters were categorized as optimistic or pessimistic based on a textual sentiment dictionary in Portuguese, developed by Silva (2018). This study provides a dictionary derived from finance-related news to classify words as positive or negative; however, the lack of contextual analysis of the words represents a limitation. In this case, the level of impression management was measured using the ratio of terms classified as positive to negative, calculated according to the following equation:

$$\frac{\text{positive words} - \text{negative words}}{\text{positive words} + \text{negative words}}$$

3.2.3 Independent and Control Variables

The examination of factors influencing the use of impression management techniques in CEO letters was conducted using two independent variables. The first, Profit Variation, is represented by a dummy variable, coded as 1 when the company's profit increased and 0 when it decreased. The second independent variable is Analyst Coverage, also a dummy variable, coded as 1 when the company had market analyst coverage and 0 when it did not.

To control the model, four control variables were selected: company size, measured by the natural logarithm of total assets; growth, represented by the entity's Market-to-Book ratio; leverage, defined as the ratio of debt to equity; and economic crisis, a dummy variable coded as 1 for periods of GDP decline and for years following the COVID-19 pandemic (2014, 2015, 2016, 2020, 2021, and 2022), and 0 for all other periods.

Thus, the independent and control variables were collected from the Refinitiv Eikon secondary database, with details provided in Table 2:

Table 2
Study Variables

Dependent Variables				
Variable	Name	Estimation	Expected Sign	Reference
LEG	Readability	Natural logarithm of the total number of words		Brennan et al. (2009)
TOM	Tone	Ratio of positive to negative words		Davis e Tama-Sweet (2012); Guillamon-Saorin, et al. (2017)
Independent Variables				
VAR	Profit Variation	Dummy variable, coded as 1 when the company's net profit increased and 0 when it decreased	-	O'Keefe (2019)
ANALIST	Analyst	Dummy variable, coded as 1 when the company has market analysts and 0 when it does not	-	Isidro e Marques (2015)
Control Variables				
TAM	Size	Natural logarithm of the company's total assets	+	O'Keefe (2019); Zaini et al. (2018)
ALAV	Leverage	Debt-to-Equity Ratio	+	Charitou et al. (2018)
MTB	Market To Book	Market-to-Book Ratio	+	Guillamon-Saorin et al. (2012)
CRISE	Economic Crisis	Dummy variable, coded as 1 for fiscal years in which GDP declined and 0 for years in which it did not	-	Jones et al. (2020)

Source: Author's elaboration (2024).

3.3 Data Analysis Procedures

The collected data were processed using the statistical software RStudio, in which the regression models presented in Equation 1 (readability) and Equation 2 (tone) were executed:

$$LEG_{i,t} = \beta_0 + \beta_1 VARLUCRO_{i,t} + \beta_2 ANALIST_{i,t} + \beta_3 TAM_{i,t} + \beta_4 ALAV_{i,t} + \beta_5 MTB_{i,t} + \beta_6 CRISE_{i,t} + \varepsilon_{i,t}$$

(Equação 1)

$$TOM_{i,t} = \beta_0 + \beta_1 VARLUCRO_{i,t} + \beta_2 ANALIST_{i,t} + \beta_3 TAM_{i,t} + \beta_4 ALAV_{i,t} + \beta_5 MTB_{i,t} + \beta_6 CRISE_{i,t} + \varepsilon_{i,t}$$

(Equação 2)

LEG: Natural logarithm of the total number of words in company i’s CEO letter in period t
 TOM: Ratio of positive to negative words in company i’s CEO letter in period t; VarLucro: Dummy variable, coded as 1 when net profit increased and 0 when it decreased for company i in year t; Analyst: Dummy variable, coded as 1 when company i had market analyst coverage in year t and 0 when it did not; TAM: Natural logarithm of total assets of company i in period t; Alavanc: Leverage of company i in period t; MTB: Market-to-book ratio of company i in period t; CRISE: Dummy variable, coded as 1 during periods of economic crisis and 0 when there was no indication of a crisis for company i in year t.

4 ANALYSIS AND DISCUSSION OF RESULTS

Table 3 presents the descriptive statistics, showing the mean, median, quartiles, and standard deviations of the variables used in this study. The analyzed sample encountered challenges related to heteroscedasticity and residual normality; however, it is important to emphasize that such issues are common in academic studies, as they often involve the inherent complexity of analyzing large datasets, which does not compromise the integrity of the results obtained. The descriptive statistics data are presented in Table 3:

Table 3
Descriptive Statistics

Var	Mean	Median	1st Quartile	3rd Quartile	Deviation
Readability	2.839	2.831	2.671	3.009	0.273
Tone	0.469	0.504	0.300	0.681	0.292
Profit Variation	0.586	1.000	-	-	-
Analyst Coverage	0.593	1.000	-	-	-
Size	6.600	6.566	6.167	7.029	0.776
Leverage	2.123	1.385	0.705	2.594	4.448
Market to Book	3.595	1.143	12.010	0.395	2.528
Crisis	0.576	1.000	-	-	-

Source: Research Data(2024).

During the analysis of the Leverage and Market-to-Book variables, dispersion issues were identified due to the presence of outliers. To mitigate potential adverse effects on the results, a 1% winsorization technique was applied to reduce standard deviations.

The average length of CEO letters was 690 words, corresponding to 2.839 in the natural logarithm of the readability variable. Regarding tone, on average, companies did not display an excessive tendency toward impression management, as the statistical result remained below 50%. This scenario justifies a more conservative approach, avoiding exaggerated expressions of positivity, since investors, particularly sophisticated ones, could interpret excessive optimism as manipulative behavior and, consequently, penalize the company (Guillamon-Saorin et al., 2017).

The proximity between the median and mean regarding the tone of words used in CEO letters suggests uniformity in the use of both positive and negative terms in the communications. The remaining variables followed a consistent behavioral pattern, without impacting the regression

analysis results. Examining the data, the tone variable in the third percentile quartile remains below 70%, indicating no excessive manifestation in impression management.

These results suggest that companies adopt a cautious approach, likely in response to market sanctions, thereby avoiding potential penalties such as short-term reductions in the company's market value. It is worth noting that dispersion metrics (1st quartile, 2nd quartile, and standard deviation) were not included for dichotomous variables, such as Profit Variation, Analyst Coverage, and Economic Crisis.

Subsequently, the data presented in Table 4 depict the statistical regressions. Hausman and Breusch-Pagan LM tests indicated that the Random Effects model could provide the best statistical explanation. Accordingly, the results showed the influence of independent and control variables on the level of impression management in CEO letters. The relationship between the study variables and CEO letter length, used as a proxy for readability, is presented in Table 4:

Table 4
Readability

Variables	Coefficient	p-value
Variation	-0.012	0.288
Analyst	0.083	0.000***
Size	0.034	0.004**
Leverage	0.000	0.867
Market-to-Book	0.000	0.537
Economic Crisis	0.037	0.002***
Model Validation	F(6.1.052)	13.36
	Prob > Chi ²	0.000***
R ²	0.703	
Statistical Tests	VIF	1.109
	Jarque-bera	0.000
	Durbin-Watson	0.854

Where: *** denotes statistical significance at the 1% level; ** denotes statistical significance at the 5% level; * denotes statistical significance at the 10% level.

Source: Research Data (2024).

In this context, the first independent variable evaluated was profit variation. It was observed that profit variation and letter length exhibit an inverse relationship; that is, companies with declining results tend to issue CEO letters containing a greater number of terms. This finding partially aligns with the arguments of Brennan et al. (2009) and O'Keefe (2019), who associated negative corporate performance with the preparation of more detailed documents, as this could obscure the company's weak performance during the respective period.

However, the present result aligns in direction but lacks statistical significance (p-value < 0.05) to fully explain this relationship, and therefore cannot be entirely associated with the theoretical frameworks and subsequent studies cited. In fact, it partially contrasts with the findings of the Brazilian study by Andrade and Lucena (2020), which, analyzing a sample of 18 companies in the electricity sector, concluded that a decline in performance would lead to a statistically significant reduction in readability.

The negative relationship, lacking statistical significance, between letter length and profit variation may be contextualized by the second independent variable: market analyst coverage. It was observed that companies with analyst coverage tend to issue CEO letters with a greater volume of content. This relationship suggests that the presence of these professionals prompts companies to provide additional information as a means of legitimizing their actions.

By associating the variables of profit variation and analyst coverage, it is possible to observe that the disclosure of CEO letters with a greater volume of information occurs when companies report positive results, thereby mitigating the costs associated with potentially opportunistic disclosure. This finding aligns with the results of Isidro and Marques (2015), who classified the presence of analysts as a mitigating variable in the use of impression management techniques as a manipulation tactic.

Regarding the control variables, company size exhibited a positive and statistically significant relationship, indicating that larger companies tend to issue CEO letters with a greater word count. This result supports the findings of O’Keefe (2019) and Zaini et al. (2018), as larger companies have more information to disclose. This outcome also corroborates Oliveira et al. (2023), who highlighted a direct relationship between corporate size and the use of impression management tactics.

On the other hand, the metrics “leverage” and Market-to-Book did not show statistical significance in explaining the length of CEO letters. The final control variable considered was the economic crisis, which included periods of GDP decline as well as periods influenced by the COVID-19 pandemic. According to the literature, in times of economic downturn, companies tend to issue more verbose communications, potentially using corporate reports to justify or attribute unfavorable results to macroeconomic factors (Merkl-Davies & Brennan, 2007).

In this context, it was observed that during economic crises, companies tend to issue longer letters, which may serve as a strategy to reduce readability and obscure unfavorable results amidst a large volume of information, aligning with the findings of Jones et al. (2020).

In summary, only the variables “analyst coverage,” “size,” and “economic crisis” showed a positive and statistically significant coefficient (p -value < 0.05) in explaining CEO letter readability. Analyst coverage reflects a higher level of explanations provided to stakeholders, size corresponds to a greater amount of information, and economic crisis reflects the inclusion of justifications explaining the impacts on the company.

In the present study, the regression for tone was conducted using fixed-effects models, thereby satisfying the assumptions indicated by the Hausman and Breusch-Pagan LM tests.

The results of the regression associating the study variables with tone are presented in Table 5:

Table 5

Tone

Variables	Coefficient	<i>p</i> -value
Variation	0.073	0.000***
Analyst	0.065	0.086*
Size	0.019	0.285
Leverage	-0.003	0.081*
Market-to-Book	0.002	0.000***
Economic Crisis	-0.083	0.000***
Model Validation	Wald	8,10
	Prob > F	0.000***
R ²	0.0708	
Statistical Tests	VIF	1.109
	Jarque-bera	0.000
	Durbin-Watson	1.267

Where: *** indicates statistical significance at the 1% level; ** indicates statistical significance at the 5% level; * indicates statistical significance at the 10% level

Source: Research Data (2024).

As shown in Table 5, it was observed that positive profit variation directly influences the positive tone of CEO letters. In other words, the greater the increase in results, the higher the number of positive words in the CEO letter. This relationship is statistically significant (p -value < 0.05), indicating that, for the present sample, an increase in performance corresponds to the use of positive language.

This finding diverges from O’Keefe (2019), who suggested that declining results could influence the use of voluntary disclosures as an opportunistic strategy. It also contrasts with Andrade and Lucena (2020), who identified performance decline as a factor influencing the use of impression management tactics.

However, the results of this study indicate that corporations may use CEO letters to provide investors with incremental information. This finding is supported by the presence of market analysts covering the entity, as companies monitored by these professionals and reporting positive results can use voluntary disclosures to legitimize themselves before their investors.

Supporting the idea that CEO letters are used to provide incremental information rather than to manipulate investor perceptions, the leverage variable shows a negative and statistically significant influence on the tone of the communication. Therefore, indebted companies, which might otherwise use voluntary disclosures to manage stakeholder impressions, utilize these communications to provide the market with information aligned with their actual economic and financial situation.

These findings align with Charitou et al. (2018), who identified leverage as one of the factors used for opportunistic impression management. Furthermore, tone and Market-to-Book exhibit a positive and statistically significant relationship, suggesting that companies with higher market value use a greater volume of positive words, indicating that the company is meeting investor expectations, consistent with Guillamon-Saorin et al. (2012). On the other hand, economic crisis has a negative effect on tone, which is expected, as previously observed with leverage variation, since an economic downturn directly impacts corporate performance (Jones et al., 2020).

5 FINAL CONSIDERATIONS

This study aimed to investigate the factors influencing the use of CEO letters as a strategy for impression management in the Brazilian capital market. In this context, the primary independent variables observed were profit variation and market analyst coverage, which were controlled by the following variables: company size, measured by the natural logarithm of total assets; growth, represented by the entity’s Market-to-Book ratio; leverage, defined as the ratio of debt to equity; and economic crisis.

Regarding impression management strategies, the metrics analyzed were tone, measured by the ratio of positive to negative words, and readability, assessed based on the length of CEO letters. Descriptive statistics indicated that Brazilian companies did not excessively employ these impression management tactics, suggesting a cautious and conservative approach in light of disclosure costs and potential market penalties.

From the readability perspective, analyst coverage, company size, and economic crisis showed a direct and statistically significant relationship, indicating that CEOs of Brazilian companies that are monitored by market professionals, are larger, or operate during economic crises, use voluntary disclosure to provide more information to the market. However, issuing letters with greater content volume does not indicate opportunistic behavior, as variables associated with profit reduction and leverage—situations that could reflect opportunism—did not show statistical significance.

Regarding tone, profit variation, analyst coverage, and Market-to-Book positively and significantly influenced the use of positive terms in CEO letters. Conversely, leverage and

economic crisis, representing adverse situations, negatively affected the tone of the communications, reflecting the informational context of these disclosures.

The absence of evidence indicating opportunistic disclosure in CEO letters aligns with the concepts of disclosure costs, since investors and market analysts can detect these practices and penalize companies. Therefore, the use of positive terms and the issuance of longer letters occurs when companies report positive results, reflecting the informative nature of these communications.

Accordingly, the study concludes that, considering disclosure costs, Brazilian publicly listed companies avoid opportunistic practices and issue longer letters with a positive tone when they have sufficient basis to present this information.

It is worth noting that this research has some limitations, such as the use of only two proxies for impression management, the use of a static sentiment dictionary that does not account for the direct context of words to measure tone, and readability analysis based solely on letter length. However, these limitations do not undermine the results, which remain relevant for explaining the behavior of the analyzed sample.

In this regard, the study encourages future research to investigate CEO letters and other voluntary disclosures using additional impression management tactics, such as the use of complex words and attribution of results.

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AUTHOR CONTRIBUTIONS

Roles	1st author	2nd author	3rd author	4th author
Conceptualization	♦	♦	♦	♦
Data Curation	♦	♦	♦	♦
Formal Analysis	♦			
Funding Acquisition				
Investigation	♦	♦	♦	
Methodology				♦
Project Administration				♦
Resources		♦		♦
Software			♦	♦
Supervision	♦			♦
Validation				♦
Visualization	♦			♦
Writing – Original Draft	♦	♦	♦	
Writing – Review and Editing	♦			

CONFLICT OF INTERESTS

The authors declare that there is no conflict of interest regarding this submitted work.