

## Analysis of guidance reports in companies investigated by the Federal Police: examination from the perspective of impression management

*Análise do relatório de guidance em empresas investigadas pela Polícia Federal: exame sob a perspectiva do gerenciamento de impressões*

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### Abstract

We analyzed whether investigations of fraud by the Federal Police into three recent operations had any effect on the disclosure of prospective information by the reported companies. The Carne Fraca, Lava Jato, and Zelotes operations could change the impression management in the prospective information reported by the companies. We considered the contents of the so-called guidance reports of the companies investigated in these operations from 2010 to 2017, including financial, operating and investment information. The review took place at the start of the 2010 annual guidance report by companies listed in the Brasil Bolsa Balcão (B3). The results show that the disclosure pattern (more positive or more negative tone) varies among the investigated companies, ranging from a rapid resumption of optimism to discontinuation of the report.

### Resumo

Analisamos se as investigações de fraudes feitas pela Polícia Federal em três operações recentes geraram algum efeito na divulgação de informações prospectivas das empresas denunciadas. As operações Carne Fraca, Lava Jato e Zelotes poderiam alterar o gerenciamento de impressões nas informações prospectivas reportadas pelas empresas. Ponderamos o conteúdo dos chamados relatórios de guidance das empresas investigadas nessas operações entre 2010 a 2017, incluindo informações financeiras, operacionais e de investimentos. O período de análise coincide com o início da divulgação do relatório anual de guidance em 2010 pelas empresas listadas na Brasil Bolsa Balcão (B3). Os resultados mostram que o padrão de divulgação (tom mais positivo ou mais negativo) varia entre as empresas investigadas, indo desde uma rápida retomada do otimismo, até a descontinuidade do relatório.

### Practical implications

It is considered that the regulatory agencies may use the results obtained for the implementation of automated software, capable of capturing the alternation of the disclosure standard. In this way, enforcement mechanisms are created so that penalties are imposed on investigated organizations intentionally seeking to conceal information, while investors and analysts aware of the results may exert pressure for changes to be made.

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## 1 INTRODUCTION

In recent years, the Federal Police launched operations with international repercussions in Brazil that investigated allegations of corruption, money laundering and tax evasion involving both public and private companies, as well as public agents. These investigations won the national and international media, mainly from 2014. Newspapers such as Folha de São Paulo, Estadão, The Guardian, The Economist, The Intercept, dedicated their headlines for investigations, as well as kept an eye out for the phases of these operations. The involvement of the media and the support of the population legitimized the operations, increasing the exposure of the facts to the population and stakeholders.

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Among the different operations launched, this research addresses the operations Lava Jato, Zelotes and Carne Fraca, which together pointed out irregularities in more than 100 public and private companies (Araújo, Rodrigues, Monte-Mor, & Correia, 2018; Partyka, Lana, & Alberton, 2018; Schmidt, Martins, Santos, & Kloeckner, 2018). Operation Lava Jato, launched in 2014, started with allegations of corruption and money laundering at Petrobras S.A. involving contractors and political agents. The Zelotes operation, which began in 2015, analyzed the tax evasion of companies that negotiated exemptions and results of proceedings with the Ministry of Finance's Board of Tax Appeals (CARF). Finally, the Carne Fraca operation in 2017 pointed to the use of chemicals and other forms of altering in expired meat batches, involving health inspection agents and production companies.

These operations resulted in improper gains to organizations, with potential impact on production and sales, investment level and financial result. Such potential effects would be due to money laundering and cartel formation (Lava Jato), tax evasion (Zelotes), or product tampering (Carne Fraca). While we do not expect potential implications and risks of these transactions to be present in the reports prior to the reports, undue gains could be implicit in expectations of results. With the complaints, the content of the reports may have been affected, justifying some actions and correction of strategic conduct. This would be shown by the behavioral change in the disclosure policy of the investigated companies. Such a change could be motivated by the legal and criminal consequences imposed on the organizations and agents involved.

Previous studies have analyzed the relationship between Federal Police operations and the financial statements of these organizations (Araújo et al., 2018; D'Souza, Aragão, & De Luca, 2018; Medeiros & Silveira, 2017; Partyka et al., 2018; Schmidt et al., 2018). However, there is still limited research that shows how actions of corruption, money laundering or tax evasion impact the prospective information prepared by companies. Thus, we analyze whether reports of Federal Police investigations affect the prospective information of investigated companies. To this end, we apply the print management literature and perform a content analysis of the guidance report released by five investigated companies (Petrobras S.A.; Bradesco S.A.; Marcopolo S.A, Santander S.A. and BRF S.A.) in the three operations mentioned. From 2010 to 2017, these companies jointly released 56 guidance reports, including projections and monitoring.

The choice of the report in question and the method of analysis is justified by the content of the report. The guidance report shows the assumptions, the calculation methodology and publishes the follow up of the deviations from the estimates (Instruction No. 480/2009, CVM) previously made by the company. Such content favors qualitative and explanatory information in its composition, and therefore the choice of words, the way text and tables are shown or highlighting certain themes chosen by companies can change the meaning and direct the interpretation of the stakeholders about the accounting report (Brennan, Guillamon-Saorin and Pierce, 2009). The intentional effects of this discretionary business is the essence of what is addressed in the print management literature.

In this sense, companies manage the content of their guidance reports in communicating with the financial market intentionally to influence stakeholders (Brennan & Merkl-Davies, 2013). Investors would be affected by this strategy by using such projection and monitoring reports as a neutral means of communication with the financial market. In addition to alerting users of this report, the research offers a literature analysis of the guidance report as an intentional accounting narrative by organizations, and how such impression management behaves in the face of investigations that gain public repercussion.

## **2 IMPRESSION MANAGEMENT**

The phenomenon of 'impression management' can be analyzed from different perspectives, such as economic, psychological, sociological and critical, leading to different explanations of why it happens and spreads (Brennan and Merkl-Davies, 2013, p. 34). Here, we adopt the economic perspective, in which companies use rationalized tactics to legitimize their actions according to social expectation.

Impression management are communication tactics employed by managers at various levels in organizations to influence stakeholder perceptions in order to protect or enhance the organization's image (Bansal & Kistruck, 2006). Such tactics are especially important when organizations face susceptible social pressures that threaten their social legitimacy (Bansal & Kistruck, 2006; Cho, Michelon, & Patten, 2012), either by agents or situations beyond the control of the organization itself.

Impression management has been studied in a variety of organizational situations and although the source literature adopts the individual level of analysis, this approach is also adopted for organizational analysis (Bolino, Kacmar, Turnley, & Gilstrap, 2008).

At the organizational level, these practices are defined as the dissemination of information that aims to rationalize and legitimize, by different types of arguments, the occurrence of unethical behavior, negative impacts or problems that may harm the image of organizations, managers or employees (Boiral, 2016). Thus, impression management restores the congruence between organizational image and social expectations, and/or provide a moral justification for unethical behavior (Fooks, Gilmore, Collin, Holden, & Lee, 2013; Bansal & Kistruck, 2006; Cho et al., 2012).

Impression management as discretionary disclosure or communication option strategies are classified by Merkl-Davies and Brennan (2007) into five categories of communication choice or manipulation: (i) reading ease and rhetorical manipulation (Tone), (ii) visual and structural effects (Emphasis), (iii) performance comparisons, (iv) earnings disclosure (Selectivity) and (v) attribution of organizational outcomes.

Specifically in financial reporting, impression management strategies encompass attempts to “control and manipulate the impression conveyed to users of accounting information” (Clatworthy & Jones, 2001, p.311), in the form of messages that distort content and presentation of this financial information to stakeholders (Merkl-Davies & Brennan, 2007). In other words, the information brought to the narrative documents of the companies is selected by the managers to emphasize the positive results and/or obfuscate the negative performance, giving an imprecise perspective of the organizational results.

Although the topic is addressed in accounting studies, the focus of analysis in general is on the Management Report (Clatworthy & Jones, 2003) and financial reporting (Aerts, 2005). In this study and in light of the complaints and investigations promoted by Federal Police operations, it is expected that the guidance shown in the Reference Form will be affected in the construction of projections or in the monitoring of the goals launched by the company.

### **3 FEDERAL POLICE OPERATIONS: LAVA-JATO, ZELOTES AND CARNE FRACA**

Operations Lava Jato, Zelotes and Carne Fraca conducted by the Federal Police investigated allegations involving money laundering, CARF corruption for tax benefits and prosecution, and tampering with expired meat. The complaints involved private companies and agents from different spheres and hierarchies of the public power. Transactions, negotiations and spurious relations were widely reported in Brazilian news as the country worsened its position on the International Transparency's Perception of Corruption Index. From 96th position in 2017, Brazil fell to 79th place in 2016, still not able to advance in measures capable of combating the structural causes of corruption in the country.

From the perspective of combating corruption, in its different forms, the Federal Police has acted as an intervening agent. Operation Lava Jato involved Petrobras directly from March 2014. The purpose of the operation was to investigate the role of money changers in the practice of crimes against the National Financial System, based on contractual fraud and bribery payments to public agents. Until 2017, 37 phases of this operation were launched, with Petrobras S.A. as the center of investigations, contractors, money-makers, state officials and political parties appointed as responsible for defrauding bids in the execution of public works. The improper payment is estimated to be 1% to 5% of the total amount in contracts (Federal Police, 2018).

The operation Zelotes, in turn, was launched in March 2015 and investigated the associations for tax evasion with CARF, which judges cases of tax evasion and the resources placed by the assessed companies. Some companies charged with tax evasion worked with CARF to reverse or cancel the fines imposed. It is estimated that R\$ 19.6 billion benefited such companies and are no longer collected from public coffers (SAAD, 2016). The suspected amounts of tampering in the Zelotes operation were compiled by Nery and Vasconcelos (2015), and R\$ 2.75 billion (Bradesco S.A.), R\$ 261.19 million (Marcopolo S.A.) and R\$ 3.34 billion (Santander S.A.), all listed in Brasil Bolsa Balcão, are under suspicion of evasion. Marcopolo was investigated in March 2016, Bradesco and Santander in May of the same year (Nery and Vasconcelos, 2015; House of Representatives, 2016).

Lastly, the operation Carne Fraca deals with operational irregularities in companies in the food sector with adulteration of expired meat. Started in 2017, the operation investigated laboratory fraud in the Ministério da Agricultura, Pecuária e Abastecimento (MAPA) and irregularities committed by companies in offering bribes to obtain adulterated quality certificates. During the first phase of the operation, in March 2017, BRF S.A. was investigated for the use of inappropriate material in food manufacturing.

## 5 METHODOLOGICAL PROCEDURES

The research analyzes the companies object of investigation report in the scope of the operations Lava Jato, Zelotes and Carne Fraca implicating the companies in 2014, 2016 and 2017, respectively. More than 100 companies were reported throughout the investigation, including privately held companies, and companies listed on national and international exchanges.

We analyzed the publicly traded companies listed on the [B]3 (Brasil Bolsa Balcão), investigated in at least one of the three operations and which issued the guidance report for 2010-2017. We selected five organizations: Petrobras S.A.; Bradesco S.A.; Marcopolo S.A., Banco Santander S.A. and BRF S.A., which, between 2010 and 2017, released a total of 56 reports between projections and monitorings that together constitute the guidance report. The analysis was conducted in the guidance report separately, and disregarded the explanatory notes and the management report as complementary to the financial statements and whose information is used for purposes other than those disclosed in the guidance. The start in 2010 coincides with the start of disclosure of these reports by the companies with the Reference Form issued annually. Table 1 shows the companies whose reports were analyzed.

**Table 1.** Research Sample

| Operation   | Starting date | Companies                | Start of investigations | Source  |
|-------------|---------------|--------------------------|-------------------------|---|
| Lava Jato   | March/2014    | Petrobras S. A.          | March/2014              | MPF(2018)   |
| Zelotes     | March/2015    | Santander S. A.          | May/2016                | Nerry and Mascarenhas (2015); House of Representatives (2016) |
|             |               | Bradesco S. A.           | May/2016                |   |
|             |               | Marcopolo S. A.          | March/2016              |   |
| Carne Fraca | March/2017    | Brasil Foods S. A. (BRF) | March/2017              | Federal Police (2018); Salomão (2018)                         |

Source: Prepared by the authors.

Items 11.1 and 11.2 of the Reference Form, entitled 'guidance' report, were analyzed. This report consists of two parts, (i) item 11.1 with the estimates and forecasts drawn by the entities and (ii) item 11.2 with the description of the monitoring of these projections reported by the company itself. As guidance is a voluntary disclosure report, there is no specific format for how information should be shown. Thus, there are variations in the amount, form and type of information disclosed by the company. Finally, there is no periodicity in the disclosure of the guidance, being at the discretion of the organization to adopt, remain or discontinue this practice. It is noteworthy that the analysis of the change in the guidance of the investigated companies is important to alert capital market investors about the information that could affect the future results of these organizations.

As it is a report that aims to expose and explain the operational, financial and investment goals set by the companies, the guidance consists mainly of qualitative information. In order to analyze this information, the theoretical lens of impression management was adopted in order to capture if there was a change in the 'tone' after the beginning of the Federal Police investigations. To measure impression management, the procedure by Brennan, Guillamon-Saorin and Pierce (2009) was adopted, which elaborates a management indicator based on the qualitative information present in the reports, associating this information to a positive or negative tone of the words used, and also to position (visual emphasis), word repetition (structure), and use of enhancers (rhetoric). The procedure was applied to both projections (management indicator in projections) and monitoring (management indicator in monitoring).

To compose the management indicators, a Content Analysis was conducted in the reports with the systematic identification of the text characteristics (Jones & Shoemaker, 1994; Smith, 2003). We follow Bardin's (2008) systematized procedures, including pre-analysis of reports, exploration of material, data processing by inference, and interpretation of information. The words in the text of the reports were categorized with the aid of the Atlas Ti 8.0 software, to organize, segregate the keywords and measure the tone of the report.

After measuring the tone of the report (projections and monitoring), we compared the behavior of these tones (including the emphasis, structure and rhetoric dimensions). As shown in Table 1, the year in which organizations began to be investigated in operations was adopted to segregate the period before and after the actions of the Federal Police. As an integral part of the Reference Form, a guidance report is issued after the end of each fiscal year, so the information contained in the form corresponds to the fiscal year between January and December of each reporting period.

#### 4.1 Report Tone

The tone of the report for both the projection and monitoring reports is the tone of disclosure, visual, structural, and rhetorical emphasis.

In the first aspect analyzed, tone is measured using dictionaries to classify words with positive and negative connotations. The challenge in this question is the selection of the word dictionary and the corresponding tones associated with it. The study by Brennan et al. (2009) brings different dictionaries that associate the tone of English-language keywords with the Portuguese language. In this research we adopted the dictionary proposed by Aguiar (2012), specifically with words applicable to accounting and financial statements in Portuguese. The guidance report texts of the sample companies were inserted into the Atlas Ti 8.0 software, to associate the words with the positive and negative word categories. During the process, an assessment was made of whether each word listed by the dictionary represented that connotation in the context of the report.

Emphasis is analyzed in three ways: visual, structural and rhetorical. Visual emphasis is associated with the placement of keywords in the narrative of the report. Analysis of visual emphasis shows how the reader may be influenced by positive and/or negative words, as word disposition directs the interpretation and assimilation of disseminated content (Brennan et al., 2009). To capture this emphasis, the text can be segmented into the first two paragraphs (extract with most visual emphasis), the 3rd and 4th paragraphs (intermediate visual emphasis), and the rest of the text (least visual emphasis).

Structural emphasis includes repetition of keywords that can both increase understanding of financial reporting as well as add noise to the communication process (Brennan & Merkl-Davies, 2013). It was captured by how many keywords were repeated in the same report. For example, in the 2011 Petrobras guidance report, the positive keyword “expansion” was repeated twice, referring to the increase in biodiesel and ethanol accommodation units, as highlighted in “Delays in implementation of new units or capacity expansion in existing plants.” While the word “development” was used, in the same report, six times to show how the development of oil and natural gas production may influence projections. For structural emphasis, two repetitions that correspond to the two repeated words were considered.

While the rhetorical emphasis is on the use of meaning enhancers that emphasize keywords, they may also alter the meaning of a text. For example, both Petrobras and Marcopolo use this form of emphasis in their guidance reports. In the 2011 projections report, Petrobras states that “The long-term goal has shown significant growth [...]”. While Marcopolo uses the textual construction “Until mid-September 2008, the expressive growth of the Brazilian industry [...]”, in the monitoring report presented in 2011, to justify the changes in previous projections. In both reports, the positive keyword “growth” was identified, which was intensified due to the use of the terms “significant” and “expressive”. The recurrence of terms such as 'significant', 'expressive', 'major' or 'minor' when associated with positive (like growth) or negative (like drop or delay) keywords.

The tone of the report ranges from -1 (lowest level) to +1 (highest level) and its form of measurement is shown in Table 2, which considers the weights for the different emphases, as proposed by Brennan, Guillamon-Saorin, and Pierce. (2009). For example, Petrobras reached a score of -0.70 for the tone of the 2017 guidance report.

**Table 2.** Report tone measurement

| Measurement                              | Weights | Positive        | Negative | Total |
|--|---------|-----------------|----------|-------|
| 1. Tone (positive or negative)           | 1.0     |                 |          |       |
| 2.1 Visual Emphasis (text localization): |         |                 |          |       |
| Most visual emphasis                     | 1.0     |                 |          |       |
| Intermediate visual emphasis             | 0.5     |                 |          |       |
| Least visual emphasis                    | 0.0     |                 |          |       |
| 2.2 Structural Emphasis (repetition)     | 0.5     |                 |          |       |
| 2.3 Rhetorical Emphasis (reinforcement)  | 0.5     |                 |          |       |
| Score Composition                        |         | A               | B        | C     |
| Print Management Level Measurement       |         | $A - B = X / C$ |          |       |

Source: Prepared by the authors.

As the visual, structural and rhetorical emphasis intensify the tone (positive or negative) of the report, when we refer to the tone, we refer to the overall tone, arising from all combined elements (emphasis, structural and rhetorical) affecting the perception of reader.

#### 4.2 Analysis of the content of guidance reports

The number of pages in the projection and monitoring reports varies between companies, from 11 pages in the 2011 Petrobras projection report to 1 page in 2015, one year after the Lava Jato investigations began (Table 3). In 2015, Petrobras disclosed only one of the six oil and natural gas production indicators disclosed in previous years. This reduction in the presentation of the indicators encouraged the largest standard deviation for this report (3.27) among the sample of analyzed companies.

**Table 3.** Descriptive statistics of number of pages of guidance reports

| Operation   | Companies | Projection |      |      |      | Monitoring |      |      |      |
|-------------|-----------|------------|------|------|------|------------|------|------|------|
|             |           | Min.       | Max. | Mean | SD   | Min.       | Max. | Mean | SD   |
| Lava Jato   | Petrobras | 1**        | 11*  | 6    | 3.27 | 1          | 3    | 2    | 0.76 |
|             | Bradesco  | 2          | 3    | 2    | 0.46 | 2          | 5    | 4    | 1.19 |
| Zelotes     | Marcopolo | 1          | 2    | 1    | 0.52 | 1          | 3    | 2    | 0.71 |
|             | Santander | 1          | 2    | 1    | 0.46 | 1          | 1    | 1    | 0.00 |
| Carne Fraca | BRF       | 1          | 4    | 2    | 1.04 | 1          | 7    | 4    | 2.85 |

Source: Prepared by the authors.

Note: \*In 2011. \*\*In 2015, after the scandal, denoting exposure reduction.

Among the companies investigated in the Zelotes operation, the highest level of information disclosed was from Bradesco in 2010 and 2011 to show its targets, and in 2011 and 2012 to follow up on previous estimates. Marcopolo dedicated about one page of forward-looking information on the level of investments and bus production in Brazil and abroad, and two pages reviewing and justifying non-compliance with the targets. Santander, in spite of the size limitation of the report, in 2011 focused on estimates of total revenues, expenses, net income and credit portfolio, and in 2016 began to address delinquency, efficiency, commissions, customer base and ROE.

Santander showed the monitoring report, but did not disclose comparative guidance information issued in previous periods. Thus, it is not possible to infer what promoted the change in the presentation of the indicators. It is noteworthy that, in the periods in which no prospective or monitoring information was shown, all companies made this notification in their reports, and therefore showed at least one page.

Involved in Operation Carne Fraca, the most extensive BRF monitoring reports (seven pages) were for 2010 and 2012. During this period, the company showed what it classified as “highlights” of the company's performance in the three fiscal years prior to the publication of the monitoring. The information includes aspects of the internal, external market, operational and financial management, and is associated with the achievement of goals in previous periods.

Sorting words by tone (positive or negative) is an essential component of measuring report tone. The construction of the BRF monitoring report, for example, focused on the positive aspects of operating and financial performance, such as the 2012 report that reads “A significant portion of our success depends on our approach to customers and consumers”, or when it shows the highlights of 2011 as follows “A year [2010] to be celebrated for being very intense, challenging and with many important achievements”.

Table 4 shows the distribution of words in positive and negative tones for each company in both types of guidance reports. In the monitoring report, about 71% of words have a positive tone, while in projections this ratio is 66%. With the exception of Petrobras (60% negative words) and Santander (50%), the reports of the other companies have a predominance of positive tone. The difference in positive and negative tone is smaller in monitoring reports, it seems to be more realistic, however the positive pattern holds for Bradesco, Marcopolo and BRF.

**Table 4.** Number of words companies use in guidance reports

| Guidance          | Petrobras |     | Bradesco |     | Marcopolo |     | Santander |     | BRF |     | Total |    |
|-------------------|-----------|-----|----------|-----|-----------|-----|-----------|-----|-----|-----|-------|----|
|                   | Nº        | %   | Nº       | %   | Nº        | %   | Nº        | %   | Nº  | %   | Nº    | %  |
| <b>Projection</b> |           |     |          |     |           |     |           |     |     |     |       |    |
| Positive          | 38        | 44  | 94       | 62  | 47        | 89  | 17        | 50  | 124 | 79  | 320   | 66 |
| Negative          | 48        | 56  | 58       | 38  | 6         | 11  | 17        | 50  | 33  | 21  | 162   | 34 |
| Total             | 86        | 100 | 152      | 100 | 53        | 100 | 34        | 100 | 157 | 100 | 482   |    |
| <b>Monitoring</b> |           |     |          |     |           |     |           |     |     |     |       |    |
| Positive          | 12        | 31  | 75       | 54  | 151       | 72  |           |     | 415 | 78  | 653   | 71 |
| Negative          | 27        | 69  | 63       | 46  | 59        | 28  |           |     | 114 | 22  | 263   | 29 |
| Total             | 39        | 100 | 138      | 100 | 210       | 100 |           |     | 529 | 100 | 916   |    |

Source: Prepared by the authors

## 5 ANALYSIS OF THE TONE OF REPORTS OVER THE PERIOD

'Impression management' is seen as a tactic to preserve the image of the organization (Bansal & Kistruck, 2006) when under social pressure that threatens the social legitimacy of companies (Bansal & Kistruck, 2006; Cho, Michelon, & Patten, 2012). The events of these organizations led them to showcase, involved in corruption scandals at a time when the country was developing a highly critical environment for these events. Capital markets were sensitive to all similar occurrences. With regard to unethical behavior of employees and directors, the earnings management literature points out that the organization will seek alignment between its image and societal expectations (Bansal & Kistruck, 2006; Fooks, Cho et al., 2012; Gilmore, Collin, Holden, & Lee, 2013; Boiral, 2016). This would not only be performed in information transmitted to users of accounting information (Clatworthy & Jones, 2001, p.311), but in various messages to stakeholders (Merkl-Davies & Brennan, 2007).

For Tables 5 and 6 below, Panel A shows the behavior of the report tone for the guidance projection and monitoring reports for the period 2010-2017. Panel B compares the periods before and after the year in which that company's involvement in investigations became public. Table 5 analyzes Petrobras before and after investigations started in 2014.

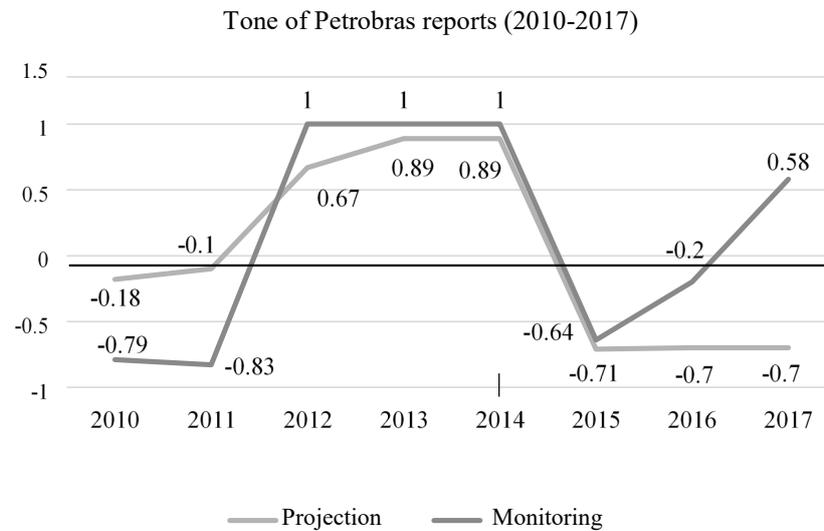
Petrobras has been involved in embezzlement of public funds through association with contractors, moneymakers, state officials and political parties. The complaint pointed out that the structure of this scheme began ten years before the investigations, and involved government agents from various political parties. By investigations by the Federal Police (2018), billions of Reais were withdrawn from the State by cartel between the contractors for public works, where bribes reached 1% to 5% of the total amount in overpriced contracts.

**Table 5.** Management before and after Operation Lava Jato

| <b>Panel A</b> |            |        |       |       |       |        |       |        |       |
|----------------|------------|--------|-------|-------|-------|--------|-------|--------|-------|
|                | Report     | Before |       |       |       |        | After |        |       |
|                |            | 2010   | 2011  | 2012  | 2013  | 2014   | 2015  | 2016   | 2017  |
| Petrobras      | Projection | -0.18  | -0.10 | 0.67  | 0.89  | 0.89   | -0.71 | -0.70  | -0.70 |
|                | Monitoring | -0.79  | -0.83 | 1.00  | 1.00  | 1.00   | -0.64 | -0.20  | 0.58  |
| <b>Panel B</b> |            |        |       |       |       |        |       |        |       |
|                | Report     | Before |       |       |       | After  |       |        |       |
|                |            | Min    | Max   | Mean  | SD    | Min    | Max   | Mean   | SD    |
| Petrobras      | Projection | -0.180 | 0.890 | 0.320 | 0.540 | -0.710 | 0.890 | -0.305 | 0.797 |
|                | Monitoring | -0.830 | 1.000 | 0.095 | 1.045 | -0.640 | 1.000 | 0.185  | 0.741 |

Source: Prepared by the authors.

Prior to the start of investigations, the positive tone in the projection and monitoring reports grew until 2013. Graph 1 shows the tone behavior of Petrobras reports.



**Graph 1.** Tone of Petrobras reports (2010-2017)

Source: Prepared by the authors.

The company seemed far less optimistic in the 2010 and 2011 monitoring reports, but the positive tone grew from 2012 to 2013. From 2014, when it began to be investigated by Lava Jato, Petrobras strongly revised the tone of its projection and monitoring reports. Only in 2017 did the company resume a more optimistic tone in the monitoring report.

Despite changes in the tone of the reports, the company did not say how Lava Jato could have changed or could have been changing the projections or targets set in previous years. In 2014, the company accounted for losses arising from the operation on its financial statements, with a loss of R\$ 21,587 million, and accounting for R\$ 44,636 million due to impairment of assets. This record had an effect on the return on investment rate, which reached -3.40% in 2014 compared to 0.79% in the previous year (Bastos, Rosa, & Pimenta, 2016). Despite presenting such information in the financial report, the company did not disclose information about Lava Jato's investigation in the guidance report.

Petrobras estimated a loss of R\$ 6.1 billion in contracts with companies under investigation (Medeiros & Silveira, 2017). The revision of contracts, the provisioned loss and the development of investigations would affect the preparation and monitoring of guidance information, considering that they include the company's operating and investment level indicators.

In 2015, Brazilian media reported reducing investments and slowing down the pace of some Petrobras projects, as well as the sale of business units, due to losses related to corruption schemes investigated by Lava Jato (Quaino, 2015). This information was not reported by the company in the guidance reports.

In the projection report released in 2015, the positive tone gave way to a negative tone. The number of negative words went from zero between 2012 and 2014 to three and nine between 2015 and 2017. The report was shortened as to the explanations of the projections. Until 2014, the company showed the projection object, the assumptions and the estimated values for six indicators: i) Oil and NGL Production; ii) Oil and Natural Gas Production; iii) Derivatives Production; iv) Supply of Natural Gas; v) Oil Production; and vi) Natural Gas Abroad. From 2015, the company has chosen to describe only the indicator for oil and NGL production in Brazil in millions of barrels per day. This has reduced the positive tone of the report as fewer positive and negative words are exposed, which affects the enhancers of visual emphasis, structure, and rhetoric on positive or negative words.

As for the monitoring report, Petrobras resumed its positive tone only in 2017, after the investigations. In the 2012-2014 reports, the company did not use any negative words, leading to the maximum value in the indicator. It denotes that the company makes a good assessment of its own corrective actions and strategy and conduct adjustment.

In Operation Zelotes, investigations launched in 2016 (Table 6) focused on tax evasion schemes with CARF. The tone of Bradesco's projection reports ranged from 0.59 in 2013 to 0.03 in 2017. Greater visual emphasis was given to words with a positive tone (in paragraphs 1 and 2), with the balance of positive and negative tone in these portions of the reports from the investigations (8 words for each tone). Specifically, Bradesco did not use negative words in the forward-looking information in 2014, which is different from other years (from 10 to 6 negative words). The negative words in the other years were the ones that counterbalanced a larger number of positive words, keeping the index reasonably stable until 2014.

**Table 6.** Management for Operation Zelotes

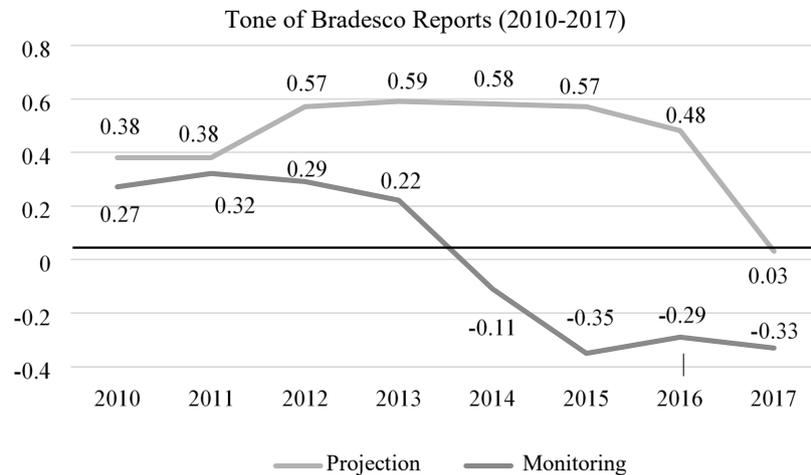
| <b>Panel A</b> |            |        |      |      |      |       |       |       |       |
|----------------|------------|--------|------|------|------|-------|-------|-------|-------|
|                | Report     | Before |      |      |      |       | After |       |       |
|                |            | 2010   | 2011 | 2012 | 2013 | 2014  | 2015  | 2016  | 2017  |
| Bradesco       | Projection | 0.38   | 0.38 | 0.57 | 0.59 | 0.58  | 0.57  | 0.48  | 0.03  |
|                | Monitoring | 0.27   | 0.32 | 0.29 | 0.22 | -0.11 | -0.35 | -0.29 | -0.33 |
| Marcopolo      | Projection | 0.72   | 0.73 | 0.86 | 0.88 | 0.61  | -     | -     | -     |
|                | Monitoring | 0.30   | 0.39 | 0.70 | 0.77 | 0.69  | 0.22  | 0.26  | 0.08  |

| <b>Panel B</b> |            |        |       |       |       |        |        |        |       |
|----------------|------------|--------|-------|-------|-------|--------|--------|--------|-------|
|                | Report     | Before |       |       |       | After  |        |        |       |
|                |            | Min    | Max   | Mean  | SD    | Min    | Max    | Mean   | SD    |
| Petrobras      | Projection | 0.380  | 0.590 | 0.512 | 0.102 | 0.030  | 0.480  | 0.255  | 0.318 |
|                | Monitoring | -0.350 | 0.320 | 0.107 | 0.274 | -0.330 | -0.290 | -0.310 | 0.028 |
| Marcopolo      | Projection | 0.610  | 0.880 | 0.760 | 0.111 | -      | -      | -      | -     |
|                | Monitoring | 0.220  | 0.770 | 0.512 | 0.236 | 0.080  | 0.260  | 0.170  | 0.127 |

Source: Prepared by the authors.

The same reduction in report tone was observed in the monitoring report, with greater use of negative-tone words to justify unrealized estimates. For example, it uses justifications such as “downturn in market by credit demand” by pointing to lower than expected growth in the individual loan portfolio in the 2015 report. Graph 2 shows the tone behavior of Bradesco reports.

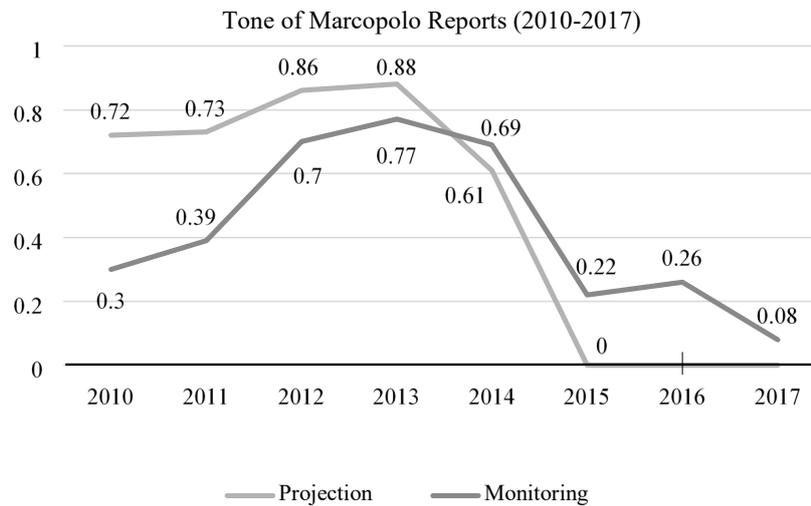


**Graph 2.** Tone of Bradesco Reports (2010-2017)

Source: Prepared by the authors.

Similarly to Petrobras, no notes were identified in the estimates of the investigation allegations in the corresponding Federal Police operation. The 2017 report discloses forward-looking information on loan portfolio indicators, net interest income, service rendering, operating expenses and insurance premiums. External factors that could influence estimates include “changes in the world scenario” and “macroeconomic policy”.

Marcopolo, in turn, stopped making projections from 2015, when the company informed that the postponement of the prospective disclosure would result from “economic indefiniteness and uncertainties related to the Company's sector of activity” (Marcopolo, 2015). However, a similar justification was not adopted by other listed companies following the same guidance, which also issued a guidance report in the period, such as Frans-Le SA, Randon S.A. Implementos e Participações. Graph 3 shows the tone behavior of Marcopolo reports.



**Graph 3.** Tone of Marcopolo reports (2010-2017)

Source: Prepared by the authors.

For the period prior to the investigations, the projection reports released by Marcopolo used positive terms opposed only to a negative term: “inflation”, related to the macroeconomic context, external environmental factor. For the monitoring report, Marcopolo adopted more negative terms from 2015 to justify non-compliance with the targets set in 2013, such as the justification for the reduction in net revenues due to the change in vehicles ordered by the Rio de Janeiro state government. It also highlights the drop in production at the company's units abroad, such as Australia, South Africa and Mexico.

In analyzing the tone of the Petrobras, Bradesco and Marcopolo reports, the operations have an effect on tone reduction, both in the case of projections and monitoring, as can be seen in the graphs. But the behavior of the 3 companies is different. While Marcopolo discontinues the projection report in 2015, and the tone of the monitoring report is decreasing, the positive tone in the Petrobras projection report remains and the monitoring tone increases in the years following the complaint.

The tone at Petrobras was highly positive for both reports. These are not just good economic or productive scenarios, as the indicator on the tone of the report captures the use of positive words. Considering that, in the competitive and complex environment these companies are subjected to, it is expected that challenging news and perspectives will also be present in the scenario of these companies. However, the choice of disclosure focuses on the positives.

Looking at the changing tone over the years for different companies, all involved in scandals, the behavior of the indicators shows the most optimistic (and less realistic) news choices or perspectives on the challenges facing the organization, and therefore projections can be unrealistic or tactically managed.

Two companies involved in the scandals, BRF (Operation Carne Frava) and Santander (Operation Zelotes) had a low level of disclosure. While BRF, since 2014, had already ceased to report prospective or monitoring information (Table 7). Santander showed forward-looking information in 2011 and 2016, when it showed a more negative tone, with high repetition of these negative terms (structural emphasis). The information disclosed in 2011 addressed financial growth more (total revenue, expenses, net income and credit portfolio), while in 2016 the focus was on efficiency, paid commissions, customer base and ROE. Similarly, the company did not mention any data associated with Operation Zelotes. The company did not release a monitoring report in the period.

**Table 7.** Report discontinuity by BRF

| Report | Before      |      |      |      |      |       | After |      |
|--------|-------------|------|------|------|------|-------|-------|------|
|        | 2010        | 2011 | 2012 | 2013 | 2014 | 2015  | 2016  | 2017 |
| BRF    | Projections | 0.68 | 0.46 | 0.61 | 0.61 | -0.33 | -     | -    |
|        | Monitoring  | 0.37 | 0.45 | 0.56 | 0.57 | 0.67  | -     | -    |

Source: Prepared by the authors.

Santander showed forward-looking information (Table 8) in 2011 and 2016, when it showed a more negative tone, with high repetition of these negative terms (structural emphasis). The information disclosed in 2011 addressed financial growth more (total revenue, expenses, net income and credit portfolio), while in 2016 the focus was on efficiency, paid commissions, customer base and ROE. Similarly, the company did not mention any data associated with Operation Zelotes. The company did not release a monitoring report in the period.

**Table 8.** Reporting discontinuity by Santander

| Report    | Before      |      |      |      |      |      | After |      |
|-----------|-------------|------|------|------|------|------|-------|------|
|           | 2010        | 2011 | 2012 | 2013 | 2014 | 2015 | 2016  | 2017 |
| Santander | Projections | -    | 0.26 | -    | -    | -    | -0.33 | 0    |
|           | Monitoring  | -    | -    | -    | -    | -    | -     | -    |

Source: Prepared by the authors.

## 6 CONCLUSIONS

This study investigated the level of impression management by the tone of forward-looking information in the guidance reports of five companies investigated by the Federal Police. With the theoretical lens of impression management, the analysis verified if the investigations were reflected in the information disclosed between 2010 and 2017 by Petrobras, Bradesco, Marcopolo, Santander and BRF.

Organizations had a more positive tone in their projection and monitoring reports before the scandals became public, even while the facts were already being practiced. In the analyzed reports, the distribution of positive words for the report containing the projections and estimates is concentrated between the regions of greatest emphasis (45%) and or least emphasis (43.75%) on the body of the report text. As for the monitoring report, it justifies the reasons for non-compliance with the projections and highlights the moments of uncertainty of the respective economic sectors. In this report, 64.17% of the words with positive tone are used in the region of least emphasis, i.e. not at the beginning of the report. We suggest that these are signs of impression management, considering that organizations favored the spread of good news and restricted the disclosure of bad news (Brennan et al., 2009).

In all cases, companies have adjusted the tone of their disclosures, but in none of them have the events leading up to the investigations been dealt with openly in the monitoring reports, just as the post-scandal projection reports did not mention how the financial and operational consequences arising from these facts would impact the projections. In the case of Petrobras, for example, the losses recorded in the 2014 financial statements related to corruption and money laundering practices were not addressed. In the case of BRF, the report had already been discontinued.

Business discretion is high in disclosing prospective information, both in choosing which information to disclose and how to disclose it. This is associated with the voluntary nature and without a structured disclosure of guidance reports. Companies have the autonomy to select, classify and show information according to their interests, which also leads to the distorted interpretation of the shown data.

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