

Signaling Firm Performance through Narrative Tone: Evidence from Kuwaiti Companies

Bader Alibrahim

University of Reading, United Kingdom

Abstract

Purpose: This study aims to provide evidence on whether the Chairman statements in listed Kuwaiti companies are used more for impression management or informational purposes through signaling. The study also attempts to better understand how shareholders react to the tone used in Chairman statements by analyzing Total Shareholder returns. **Design/methodology/approach:** The study uses a quantitative content analysis approach to collect and measure tone from chairman statements in listed Kuwaiti companies. The tone scores are then analyzed using panel regression models to examine their association with firm financial performance and market-based outcomes. **Findings:** The results for the main tone model show that Tone is highly significantly associated with Net income growth. This could suggest that managers utilize positive tone when company income is rising in the Kuwaiti listed company context and gives support to the signaling theory. However, the alternate tone formula showed that there was a negative and significant relationship with return on assets- leading to support for the impression management theory with regards to this variable. It also demonstrated a significant positive correlation with ROE and net income growth. The evidence suggests that impression management techniques are more closely associated with internal efficiency metrics such as ROA, whereas signaling behavior is used more for external efficiency metrics such as ROE and Net income growth. The Total return model found no relationship of significance between total shareholder returns and tone, this could lead to the conclusion that Chairman statements in this context are used more for ceremonial purposes.

Keywords: Tone; Signaling theory; Impression Management Theory; Profitability; Annual Reports