The Influence of Cognitive Communication Factors on the Preparation of Financial Narrative Board Reports

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The paper / presentation

- Context – **financial communication for governance**

  (i.e., executive reports to the board)

- Question – are there influencing (or interfering) factors?

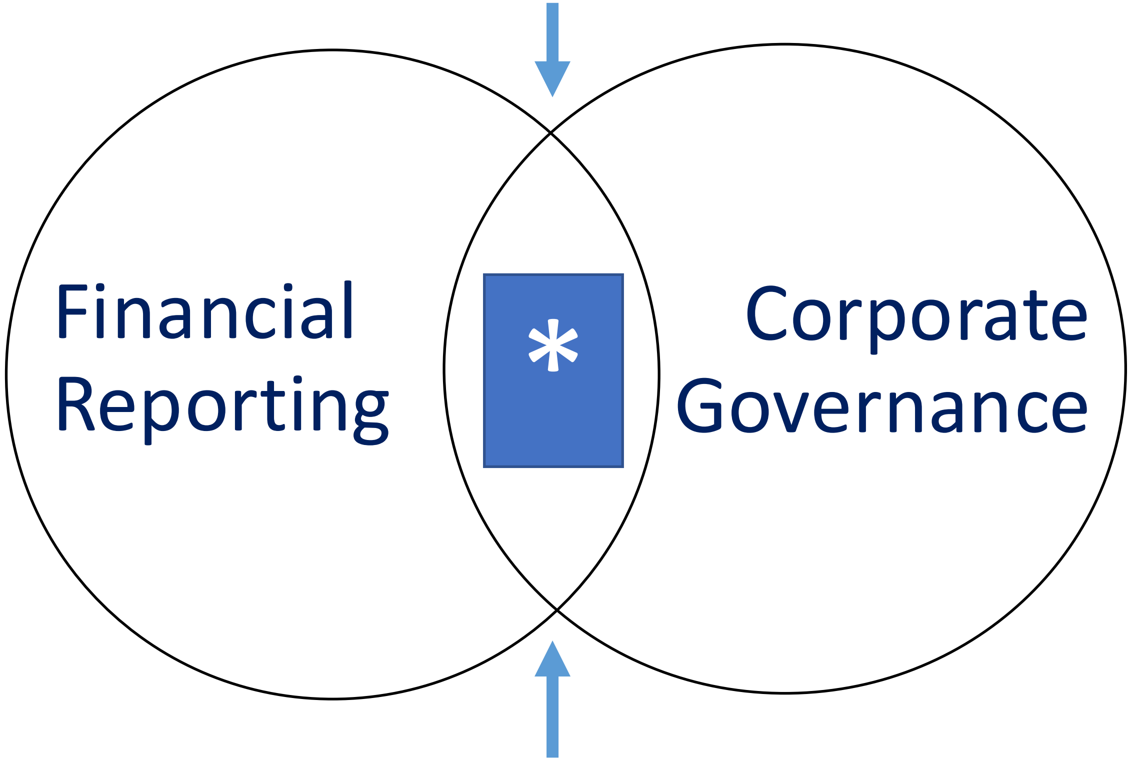
- Literature review – three factors identified

- Research approach – qualitative interviews & thematic analysis

- Findings – a mix of aims and factors – **a web of influence**

Context for the study

Financial reporting for corporate governance



*Executive financial reports to Boards

Professional judgement – optimising communication

Question / research objective

To explore and gain an understanding of

the influence of cognitive communication factors

on the judgement of those preparing

financial narrative board reports

Factors influencing communication

3 x Cognitive Communication Factors (CCFs):

- CCF1 – common ground & shared intentionality
- CCF2 – curse of knowledge & knowledge illusion
- CCF3 – intuition

CCF 1 – Common ground & shared intentionality

Shared understanding of context

+

Desire to communicate

+

Common language

=

Co-operation model of human communication

(Tomasello, 2008)

CCF2 – Curse of knowledge & knowledge illusion

“we all see things

through our own lenses

of knowledge…”

(Epley, 2015)

CCF3 – Intuition

- Our mind is:

  “a machine for jumping to conclusions” (Kahneman, 2011)

- Mental shortcuts (heuristics) – a mixed blessing

- “professional intuition is sometimes marvellous

  and sometimes flawed” (Kahneman and Klein, 2009)

Likely influence?

Positive influence:

CCF1

+ common ground

+ shared intentionality

Negative influence:

- curse of knowledge

- knowledge illusion

CCF2

CCF3 +/- intuition ?

Research approach

- An <u>exploratory</u> study

- The <u>approach</u>:

  - qualitative, interpretive, experiential inquiry from the inside

  - semi-structured interviews with 24 senior finance executives

  - thematic analysis of the interview data (Braun & Clarke, 2006)

Findings (from interview research & analysis)

- <u>Three direct **aims**</u> (of report preparers):

  - Aim 1: being clear

  - Aim 2: adding value

  - Aim 3: managing information

- <u>Two indirect influencing **factors**</u> (additional CCFs):

  - CCF 4: perception

  - CCF 5: context

Aim 1 – being clear

- A continuum from ‘it is clear’ to ‘we need to make it clear’
- “Tell it as it is”
- “Keep it simple”

“The objective is […] to tell as full a story as you can. And, at the same time, to be succinct” (Jack)

Aim 2 – adding value

- Bridging the gap of information asymmetry
- Value to board
- Value to self

"Anything that helps them to understand their role,
and they're not sitting there afraid to ask
what they think might be a silly question" (Frank)

Aim 3 – managing information

- The right balance
- Defensive balance

"It's like porridge, Goldilock's porridge.
What's just that sweet spot?
How much [information] is just right?" (Nora)

CCF4 – perception matters

- Know your audience:

  - their backgrounds and knowledge sets

- Understanding of board role:

  - executive / non-executive

- View of own role:

  - reporting facts / adding value

CCF5 – context matters

- External context:

  - governance / regulatory / environment

- Personal context:

  - professional background / training

  - experience ("the X factor")

More complex than we first thought…

Positive influence:

CCF1

+ common ground
+ shared intentionality

Negative influence:

CCF2

- curse of knowledge
- knowledge illusion

CCF3 +/- intuition ?

A web of influence

- Aims (being clear, adding value, managing information)

- influenced & cross-influenced by CCFs:
  - CCF1(common ground / shared intentionality) – positive
  - CCF2 (curse of knowledge / illusion) – negative
  - CCF3 (intuition) – mixed
  - CCF4 (perception) – mixed
  - CCF5 (context) – mixed

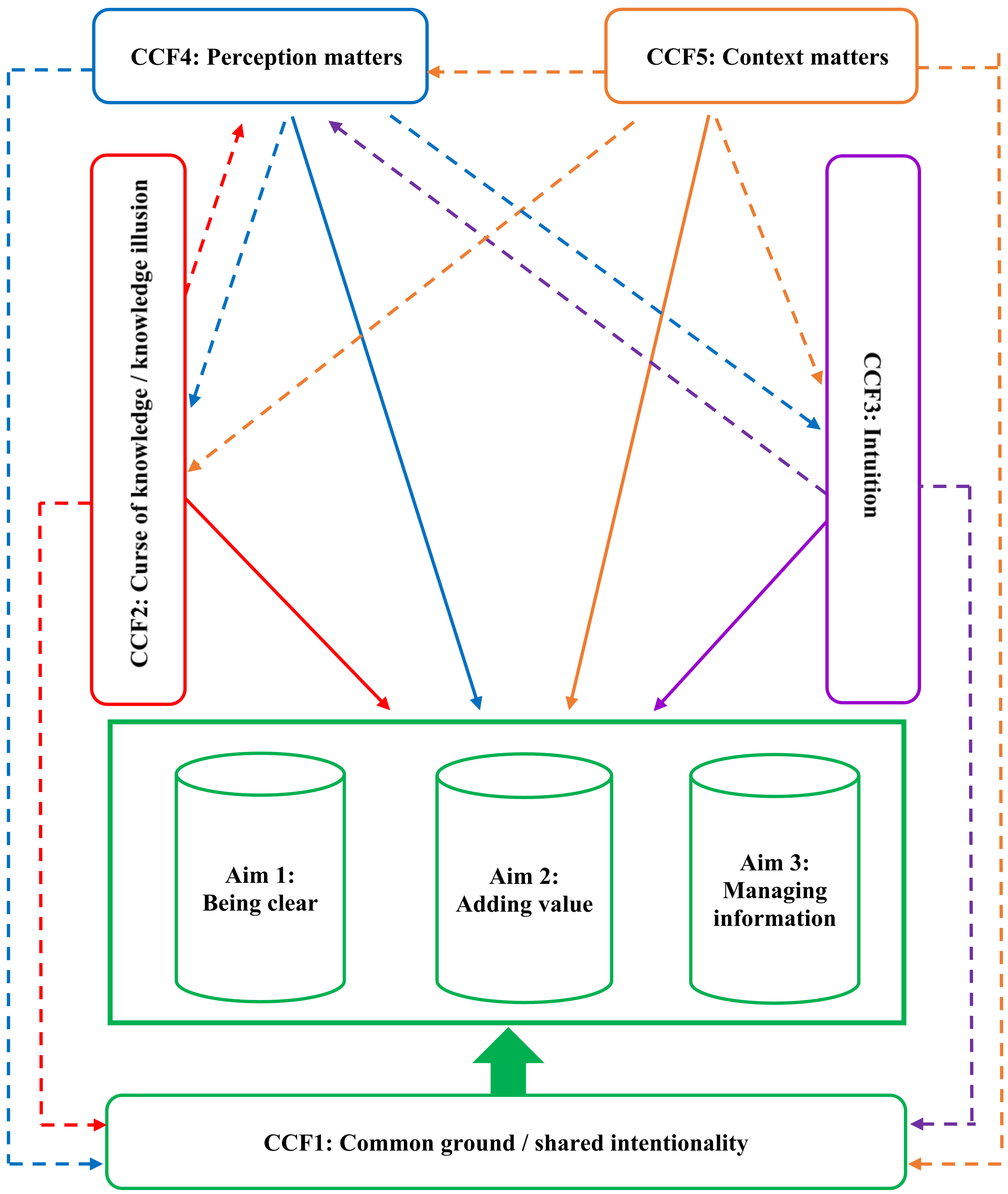
- Forming an interconnected web of influence

A model: the influence web of cognitive communication factors

Aims
(being clear, adding value, managing information)

influenced & cross-influenced by CCFs:

- CCF1(common ground) – positive
- CCF2 (curse of knowledge/illusion) – negative
- CCF3 (intuition) – mixed
- CCF4 (perception) – mixed
- CCF5 (context) – mixed



In conclusion….

- Internal board reports are a key governance mechanism
- There is a risk from cognitive communication factors (CCFs)
- Raising / improving awareness should benefit both sides of the communication equation:

  - preparers might be more likely to guard against the effects

  - users might read reports with a keener degree of skepticism

Raising awareness

A three-pronged approach?

- Academic journal articles
  - board reports / behavioural / accounting
- Accountancy profession publications
- CPD seminars

Thank you!

Contact details

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