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The Impact of Corporate Governance Mechanisms on Impression Management in Top 40 JSE-Listed Companies

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Abstract – Impression management in corporate reporting, which can obscure a firm's financial position, has prompted increased focus on corporate governance mechanisms to enhance transparency and accountability. This paper investigates the relationship between corporate governance mechanisms and impression management (IM) practices among the top 40 companies listed on the Johannesburg Stock Exchange (JSE) from 2014 to 2023. Effective governance attributes – such as board independence, board size, gender diversity, and board meeting frequency are essential in countering biases in reporting. The analysis employs a quantitative approach using a panel regression model, specifically the generalised method of moment (GMM) and fully modified least squares (FMOLS), to assess the relationship between governance mechanisms and impression management (IM). The study reveals a significant positive relationship between board independence, board size, active participation, board gender diversity and impression management tactics. These findings highlight the intricate dynamics between corporate governance and corporate communication, offering crucial insights for regulators, investors, and policymakers concerned with transparency, accountability, and ethical governance. The study addresses a gap in the literature by providing empirical evidence from a South African context and contributes to the broader discourse on corporate governance and financial reporting integrity.

Keywords – Corporate Governance, Impression Management, JSE, Board Independence, Readability, Reporting Integrity

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1 Introduction

Corporate scandals, including VBS Mutual Bank and the Gupta family have exposed significant weaknesses in corporate governance within South Africa, resulting in financial and reputational damage and declining investor confidence. VBS Mutual Bank was a South African bank that became embroiled in a scandal in 2018, involving fraudulent activities, illegal loans that led to its collapse, causing significant financial losses for depositors and damaging public trust in the banking sector. The Gupta family, a powerful business family with close ties with politicians, was implicated in serious corrupt practices, including state capture. Both scandals severely impacted South Africa's financial system and corporate governance, resulting in diminished investor confidence.

Corporate governance mechanisms, such as board independence, board size, and gender diversity, are pivotal in ensuring transparency and integrity of corporate reporting (de Villiers & Dimes, 2021; Tawfik, Almaqtari, Al-ahdal, Rahman & Farhan, 2023). These mechanisms support ethical leadership, oversight, and legitimacy, promoting reliable disclosures and reducing practices like impression management (IM), a strategy where firms manipulate reports to obscure financial realities (Nakao, Kobubu & Nishitani, 2019; Hasan, Aly & Hussainey, 2022: Chen, Liu, Xie and Cheng, 2024). IM practices undermine report clarity and accuracy, which is critical for informed decision-making by investors and stakeholders. This study investigates how corporate governance mechanisms affect IM in the annual reports of the top 40 Johannesburg Stock Exchange (JSE) companies between 2014 and 2023. Mechanisms like board independence, board gender diversity, and active board participation are essential in curbing IM, as they enhance accessibility and reliability of disclosures by reducing technical jargon and preventing management from concealing adverse information (Brennan & Merkl-Davies, 2013; Al-Sayani & Al-Matari, 2023). These practices contribute to high-quality reporting and are essential factors for stock market participants (Totowa & Mokoaleli-Mokoteli, 2021; Yasseen, Mohamed & Moola-Yassen, 2019). Empirical studies support the role of corporate governance in reducing IM (Armstrong, Jagolinzer & Larcker, 2010; Garcia-Sanchez, Martinez-Ferrero & Garcial-Meca, 2017; Zhao, Yang, Li & Song, 2021). Prior research indicates board structure and diversity improve the quality of annual disclosures (Nel, Arendse-Fourie & Ontong, 2022; Nakao, Kobubu & Nishitani, 2019). However, few studies explore how these mechanisms influence IM in South Africa specifically, despite significant governance challenges in the region.

The paper aims to fill the research gap by examining how corporate governance significant governance challenges in the region, providing insights for enhanced governance and investor confidence restoration Mabindla, 2018; Reintjes, 2018).

2 Literature Review

2.1 Theoretical framework

This study is underpinned by agency theory, stakeholder theory, and legitimacy theory, which provide a comprehensive foundation for understanding the role of corporate governance mechanisms in mitigating impression management (IM) in corporate reporting. Each of these theories offers a unique perspective on the relationships between corporate actors and their obligations toward transparency and accountability in financial and non-financial disclosures.

2.1.1 Agency theory

Agency theory is rooted in the principal-agent relationship, were shareholders delegate authority to managers, potential leading to conflicts of interests (Affes & Jarboui, 2023). Managers may engage in IM to present a more favourable financial picture, increasing information asymmetry (Nakao, Kobubu & Nishitani, 2019; Madwe, Khanyile & Ngcubhe, 2024). Corporate governance mechanisms like board independence help mitigate these issues, ensuring managers acti in shareholders' interests and improving reporting transparency (Brennan & Merkl-Davies, 2013; Armstrong, Jagolinzer & Larcker, 2010; Garcia-Sanchez, Martinez-Ferrero & Garcial-Meca, 2017).

2.1.2 Stakeholder theory

Stakeholder theory emphasises the responsibility of corporations to a broad range of stakeholders, not just shareholders (Freeman, 1984). It posits that corporations have a responsibility to all stakeholders. Transparency in corporate reporting is crucial to avoid misleading stakeholders who rely on accurate information (Totowa & Mokoaleli-Mokoteli, 2021). Governance mechanisms such as board size and diversity ensure that reports are clear, ethical, and accessible, fostering trust and reinforcing ethical conduct (Nel, Arendse-Fourie & Ontong, 2022).

2.1.3 Legitimacy Theory

Legitimacy theory focuses on the social contract between companies and society, stressing the importance of aligning corporate actions with societal norms to maintain legitimacy (Deegan, 2002; Mabindla, 2018; Reintjes, 2018).

Following scandals, companies may use IM to retore public trust. Corporate governance mechanisms help ensure that firms meet societal expectations, improving the credibility and transparency of their reporting (Yasseen et al., 2019; Zungu, Chonco & Madwe, 2024).

The combined insights from agency theory, stakeholder theory, and legitimacy theory provide a comprehensive framework for examining corporate governance's role in reducing IM in corporate reporting.

2.2 Hypotheses development

2.2.1 Board independence (BI) and impression management

Board independence (BI) serves as a primary control mechanism for addressing agency conflicts between principals (owners) and agents (executives) (Bhagat & Bolton, 2019; Byrd & Hichman, 2020; Nguyen, Doan & Nguyen, 2020). Lacker and Tayan (2021) assert that an independent board effectively oversees the behaviour and actions of the executive directors, reducing conflicts between owners and executives. This oversight mitigates opportunistic behaviour by holding agents accountable, thereby discouraging unethical conduct.

Research consistently highlights the significant role of BI in improving the quality of financial information. Alodat, Salleh, Hashim, and Sulong (2022), along with Miao, Khan, Ghauri, and Zaman (2023), emphasize that independent board oversight enhances financial reporting. Atugeba and Acquah-Sam (2024) further argue that BI contributes to the integrity of financial reports. Supporting this, Mbir, Agyemang, Tackie, and Abeka (2020) found that BI positively impacts the integrity and quality of financial reporting.

However, not all studies align with this view. Nakukenge, Tauringana and Ntayi (2017), for instance, examined the relationship between corporate governance and internal controls over financial reporting, concluding that BI does not significantly predict financial reporting quality. These conflicting findings suggest the need for further exploration of BI's role in corporate governance and its effects on financial reporting outcomes. Therefore, the study hypothesises that:

H1. Board independence positively affects impression management.

2.2.2 Board size (BS) and impression management

Effective corporate governance is often linked to the composition and structure of a company's board of directors (de Villiers & Dimes, 2021). Board members play a critical role in controlling and directing the organization (Maztoul, 2014). Research suggests that larger boards offer enhanced oversight due to the diverse expertise they encompass (Arora & Sharma, 2016). This diversity strengthens the board's ability to monitor management activities, reducing the likelihood of opportunistic behaviours such as impression management (Ali & Shadrach, 2023). Empirical evidence supports this assertion; Huynh, Hoque, Susanto, Watto and Ashraf (2022) demonstrated a positive correlation between board size and firm performance in Pakistan. Similarly, Othman and Hashim (2020) highlighted that larger boards improve transparency and accountability in Malaysian companies, noting that increased board size can simplify financial reporting processes. Additionally, Mbir et al. (2020) argued that board size plays a pivotal role in enhancing the impact of International Financial Reporting Standards (IFRS) compliance on reporting quality, indicating that corporate governance structures, including board size, are crucial enforcement mechanisms for ensuring high-quality financial reporting.

This body of literature underscores the importance of board size as a determinant of both governance effectiveness and reporting quality. By fostering diverse perspectives and improving oversight, larger boards contribute to more transparent, accountable, and well-governed organizations. Based on the above, the study hypothesises that:

H2. Board size positively influence impression management

2.2.3 Board gender diversity (BGD) and impression management

Board gender diversity (BGD) refers to the inclusion of diverse individuals, particularly women, in corporate board composition (Song, Yoon & Kang, 2020). It is a critical aspect of board governance, influencing the capability of directors and their overall impact on corporate performance (Song et al., 2020). The existing theoretical and empirical literature presents mixed findings on the effects of female inclusion on corporate boards and its influence on firm performance. For instance, Leyva-Townsend, Rodriguez, Idrovo, and Pulga (2021) found that having at least one woman on a corporate board positively impacts the performance of Colombian firms. Abdelkader, Gao and Elamer (2024) investigated relationship between BGD and ESG performance in JSE listed companies from 2015 to 2020, finding a negative relationship between the two.

This diversity on corporate boards has become a critical area of inquiry as researchers seek to understand its broader implications for firm performance. While some studies highlight the benefits of gender-diverse boards, such as improved decision-making and innovation (Jizi, 2017; Yarram & Adapa, 2021; Nerantzidis, Tzeremes, Koutoupis & Pourgias, 2022; Wasiuzzaman & Subramaniam, 2023), others suggest that the impact may be contingent on various contextual factors, including firm size, industry, and cultural norms (Gallego-Alvarez & Pucheta-Martinez, 2020; Sidhu, Freng, Volberda & Bosch, 2021; Weck e, Veltrop, Oehmichen & Rink, 2022). Wondem and Batra (2019) revealed that firm performance and board meetings attendance are positively and significantly connected to each other. Naz et al (2022) confirmed this positive relationship in their study, mentioning that increasing the board meetings attendance enhance reporting quality and the performance of firms. On the other hand, Eluyena et al. (2018) argued that firm performance and reporting quality could not become better due to board meetings attendance as managerial time is wasted, and it also increases the firm's expenses like traveling and relaxing allowance.

The current discourse, therefore, necessitates a deeper exploration of the relationship between BGD and corporate outcomes across different regions and contexts. Based on the above, the study proposes this hypothesis:

H3: Board gender diversity positively affects impression management

2.2.4 Board active participation and impression management

The board active participation is measured by the board meeting frequency and number of meetings attended and is often considered as indicator of the effort put in by the board. An active board is widely regarded as being more effective in monitoring and overseeing the management activities (Kjaerland, Haugdal, Sondergaard & Vagslid, 2020). Darko, Aribi and Uzonwanne (2018) argued that board is less likely to maintain monitoring role because of fewer meetings attended, resulting in agency problem. Lipton and Lorsch (1992) stress that a widely shared problem among board of directors is too little time

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carry out their duties, pointing out that more frequent board meetings will make directors more willing to perform their duties in line with stakeholder's interests. The literature on board active participation and reporting quality consists of contradictory conclusions. Xie, Wallace, Davidson and Dadalt (2003) find that more frequent board meetings lower degree of earnings management, while other studies show either a positive relation between board meeting frequency and reporting quality (Daghsni, Olfa, Zouhayer & Mbarek. 2016) or no relation between them at all (Ahmed, 2017). Wondem and Batra (2019) revealed that firm performance and board meetings attendance are positively and significantly connected to each other. Naz, Rehman and Waqas (2022) confirmed this positive relationship in their study, mentioning that increasing the board meetings attendance enhance reporting quality and the performance of firms. On the other hand, Eluyena, Akintimehin, Okere, Ozordi, Osuma, Ilogho and Olapido (2018) argued that firm performance and reporting quality could not become better due to board meetings attendance as managerial time is wasted, and it also increases the firm's expenses like traveling and relaxing allowance. The study hypothesises that:

H4: There is a significant positive relationship between attendance of directors in the board meetings and impression management.

2.2.5 Executive directors' compensation and impression management

The informativeness principle in agency theory states that compensation contracts should embody the performance results that given progressive information regarding the actions shareholders need to energise managers to carry out activities (Gan et al., 2020). According to agency theory, board has the authority to direct management's actions the best interest of shareholders in arm-length transactions (Menshah & Bein, 2023). Directors' pay plans should be designed to provide adequate incentives to increase shareholder value and mitigate the moral hazard risk that results from separation ownership and control (Filatotchev, Jacksom & Nakajima, 2013). Agency theorists agree that the most effective means of reducing agency difficulties are for the board of directors to keep a close eye on management and offer board members financial incentives (Mishra & Mohanty, 2014). The goal of establishing compensation packages for board members is to make their pay sensitive to the firm's performance (Menshah & Bein, 2023). Compensation for board members can be a significant incentive for them to participate in efforts to boost the company's performance. The study proposed the following hypothesis:

H5: There is positive relationship between executive directors' compensation and impression management.

2.3 Control variables

2.3.1 Firm size

In the investigation of Saidat, Silva and Seaman (2019), firm size has been used as a control variable. Agency cost of larger firms increase because of their larger board size (Ciftci, Tatoglu, Wood, Demirbag and Zaim, 2019). Large firms have more opportunities to increase value and have more access to external funds at a cheap cost than smaller firms (Saidat et al., 2019). On the contrary, larger firms have a negative relationship with corporate governance (Kijkasiwat, Hussain & Muntaz, 2019). While other researchers Agrawal and Knoeber (1996) and Saidat et al. (2019), stated that chances of small firm's growth opportunities are higher compared to large firm. Firs size is relevant because larger companies often have more resources and are subject to larger scrutiny from external stakeholders, including investors, analysts, and regulators. Larger firms may employ more sophisticated strategies to manage perceptions, including the use of complex financial reporting to obscure unfavourable information (Ciftci et al., 2019). Moreover, large firms usually have more layers of management and operations, which increase the potential for agency problem that can foster IM practices (Khandelwal et al., 2023). Additionally, larger firms are likely to have more established corporate governance structures, including board independent board and audit committees, which might mitigate the use of IM. The study ensures that the relationship between governance mechanisms and IM is not biased by the inherent differences in size-related complexities and resources by controlling for firm size.

2.3.2 Return on assets

Return on assets (ROA) is widely used indicator of a company's profitability, evaluating how efficiently a firm uses its assets to generate earnings. A lower ROA often signals weaker financial performance, tempting firms to engage in EM to obscure financial difficulties (Dah et al. 2020; Sun et al.,2021). Some studies have shown that firms with declining ROA are more likely to employ IM tactics, such as making their annual narrative report longer and more complex, to divert attention from EM activities (Hussain, Akbar, Khan, Sokolova & Akabar, 2022). These IM strategies are designed to make annual reports difficult to understand, thereby concealing the company's true financial health and misleading stakeholders (Madwe et al., 2024).

2.3.3 Leverage

Leverage (LEV), defined as the ratio of total debt to total assets, represents the level of financial risk a company bears (Gebauer, Stezer & Westphal, 2017). Companies with higher leverage often face increased pressure to engage in income management (IM) to meet debt obligations or obscure poor financial performance, thereby shaping stakeholders' perceptions. Numerous studies emphasize leverage as a key control variable in evaluating the quality of annual reports, particularly for firms with higher financial risks (Cheng et al., 2019; Hasan et al., 2022; Madwe et al., 2024). Leverage reflects a firm's financial risk, as companies with higher levels of debt face significant pressure to meet financial obligations. These firms may resort to IM practices to maintain the appearance of financial stability and avoid alarming creditors and investors (Lui & Sickless, 2021). Leverage increases the stakes for companies, as failure to meet debt covenants or financial expectations could lead to increased borrowing costs and even bankruptcy. This financial pressure can directly influence how management presents financial information, as more leveraged firms may attempt to manipulate disclosures to align with stakeholder expectations (Hasan et al., 2022). By including leverage as a control variable, the study account for the financial risk that could independently drive

IM practices, ensuring that financial risk factors do not confound the influence of governance mechanisms on IM.

3 Methods and Data

3.1 Sample and data

The sample population for this study consists of the top 40 JSE-listed companies in South Africa over a 10-year period (2014-2023), resulting in a total of 400 firm-year observations (40 firms x 10 years). This balanced panel dataset ensures that each firm was consistently observed over the entire period, providing uniform data that enhances the comparability of results across time (Baltagi, Jiminez-Martin, Labeaga & al Sadoon, 2023; Madwe et al., 2024). By employing micro panel data, this study can explore the dynamic relationships within firms while controlling for time-invariant characteristics.

The study relied primarily on secondary data, gathered from the integrated reports of these JSE-listed companies. These reports were sourced from the companies' own websites and the JSE website, covering the period 2014-2023. The focus of this research was to assess corporate governance mechanisms and their impact on impression management, specifically through the readability of these integrated reports. To evaluate impression management, the study employed two widely accepted readability tests: the Flesch Reading Ease (FRE) and the Gunning Fog Index (GFI). The FRE, based on word and sentence length, measures readability on a scale where higher scores indicate easier reading (du Toit, 2017; Madwe et al., 2024). In contrast, the GFI classifies writing into categories ranging from simple, youth-friendly text to complex, technical documents, with a higher score indicating material that requires specialized knowledge or motivation to understand (du Toit, 2017). These readability tests have been recognized for their objectivity and ease of use in numerous studies (Goncalves, Gaio & Ramos, 2022; Shauki & Oktavini, 2022).

Despite the global application of these readability measures, there has been limited research assessing the readability of integrated reports in South Africa using these tools. All integrated reports used in this analysis were downloaded from company websites and converted from PDF to Word format for processing. The data analysis involved calculating readability scores and running regression models to examine the relationship between corporate governance mechanisms and impression management practices.

For empirical analysis, the study utilized both the generalized method of moments (GMM) and fully modified ordinary least squares (FMOLS). GMM, as proposed by Arellano and Bond (1991), is particularly well-suited for handling autocorrelation and unobserved fixed effects in dynamic panel data. On the other hand, FMOLS, developed by Phillips and Hansen (1990), offers precise estimates in cointegrating regressions by addressing serial correlation and endogeneity. These two methods were chosen over traditional fixed effects (FE), random effects (RE), and ordinary least squares (OLS) models due to their superior ability to manage autocorrelation and endogeneity, providing more reliable estimates. The combination of these robust statistical techniques strengthens the study's ability to assess the impact of corporate governance on impression management within JSE-listed firms.

3.2 Model specifications

In this study, GMM and FMOLS were used to assess the impact of corporate governance mechanism on impression management of the top 40 JSE-listed companies in South Africa. These models were used in this study to deal with autocorrelation, endogeneity, unobserved fixed effects concerns and to produce the most precise estimates of cointegrating regressions. This is the reason to select them over the fixed effect model, random effect model, and ordinary lest squares model (citations). These models were selected to deal with autocorrelation and endogeneity. The models below were used:

$GFI_{it} = \alpha_0 + \alpha_1 BI_{it} + \alpha_2\ BS_{it} + \alpha_3\ BGD_{it} + \alpha_4\ BAP_{it} + \alpha_5\ EDC_{it} + \alpha_6\ SIZE_{it} + \alpha_7\ ROA_{it} + \alpha_8\ LEV_{it} + \mu_{it} + \varepsilon_{it}\ldots\ldots$ model 1

$FRE_{it} = \alpha_0 + \alpha_1 BI_{it} + \alpha_2\ BS_{it} + \alpha_3\ BGD_{it} + \alpha_4\ BAP_{it} + \alpha_5\ EDC_{it} + \alpha_6\ SIZE_{it} + \alpha_7\ ROA_{it} + \alpha_8\ LEV_{it} + \mu_{it} + \varepsilon_{it}\ldots\ldots$ model 2

$GFI_{it} = \gamma GFI_{it-1} + \alpha_1 BI_{it} + \alpha_2\ BS_{it} + \alpha_3\ BGD_{it} + \alpha_4\ BAP_{it} + \alpha_5\ EDC_{it} + \alpha_6\ SIZE_{it} + \alpha_7\ ROA_{it} + \alpha_8\ LEV_{it} + \mu_{it} + \varepsilon_{it}\ldots\ldots$model 1

Same formula applies in model 2

Where, GFI (the Gunning fox index) and FRE (Flesch Reading Ease) are the dependent variable which measured the impression management in integrated reports. BI denotes board independence, BS denotes board size, BGD denotes board gender diversity, BAP denotes board active participation, SIZE denotes firm size, ROA denoted return on assets, LEV stands for leverage. GFI_{it-1} is the lagged variable to control for dynamic behaviour.

3.3 Variable measurement

Table 1 provides an overview of the variables used in the study, outlining their measurements and formulas.

Table 1: Variables measurements

Dependent variables			
	Readability tests	**Description**	**Formula variable type**
IM	The Gunning Fog Index (GFI)	Measures the number of years of formal education required to understand the text by a person with average intelligence. This test generates a grade level between 0 and 20. A score of 12 requires a high school learner's reading level, a score above 17 indicate a university graduate level of comprehension	0,4 * (average sentence length + percentage of complex words)

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IM	Flesch Reading Ease (FRE)	Defined "degrees" of readability from 0 to 100, with 0-30 very difficult to read, 30-50=difficult, 50-60= fairly difficult, 60-70= standard, 70-80=fairly ease, 80-90= Easy, and 90-100=very easy	206.835- (1,015 * average sentence length) -(84,6 * average syllables per word) Independent
Independent Variables	**Measurement**		
Board independence	Proportion of non-executive directors to total number of board members		
Board size	Total number of directors on the board		
Board gender diversity (BGD)	Proportion of female directors to total number of board members		
Board active participation	Percentage of total number of meetings attended to total number of meetings scheduled per year		
Executive directors' compensation (EDC)	The natural logarithm of compensation to executive directors		
Control variables	**Measurement**		
Return on assets (ROA)	The ratio of operating profit by total asset		
Firm size (SIZE)	The natural logarithm of total assets of a firm		
Leverage (LEV)	Total debts per year/total assets per year		

Source: Authors owns work

4 Results

4.1 Descriptive Statistics

Table 2 illustrates the results of descriptive analyses for the full sample consisting of 400 firms for year observations, which include the mean (M), standard deviation (SD), skewness (Skew.) and kurtosis (Kurt.) of all variables of the study. The result of descriptive analysis provides a more information of descriptive nature and enable one to understand and interpret the data more appropriately (Alodat, Salleh, Hashim & Sulong, 2021). The GFI has small mean (M=8.37) indicates that, on average, integrated reports are moderately readable but may require additional effort for full comprehension. GFI is characterised by SD=3.89 and Kurk. = -0.167 showing that a considerable variation in the readability of integrated reports, with some being significantly more complex than other, but there are fewer instances of reports that either extremely complex or extremely simple to read.

For the Flesch Reading Ease (FRE) score, the mean value of 68.14 suggests that, on average, the integrated reports are easy to read, falling within a range that is comprehensible to readers with basic reading skills. A standard deviation of 21.20 indicates a substantial degree of variability in readability, with some reports being much easier or significantly more difficult to read. The negative kurtosis (-0.918) suggests fewer extreme cases of reports that are either extraordinarily complex or exceptionally easy to read.

The mean Return on Assets (ROA) of 2.55 indicates that the average profitability of the sampled companies is low. However, the large standard deviation (SD = 6.39) suggests a significant variation in profitability across the sample, with some companies exhibiting much higher or lower returns. The skewed value of 4.343 points to a positively skewed distribution, indicating that most companies have low ROA, but a few companies achieve exceptionally high profitability. This is further emphasized by the kurtosis of 22.185, which denotes heavy tails in the distribution, signifying the presence of extreme outliers with extremely high profitability levels.

In terms of firm size (SIZE), the mean value of 15.90, representing the logarithm of total assets, indicates the average size of the companies in the sample. A standard deviation of 1.81 suggests a moderate level of variability in firm size, but not excessively large. The skewness of 0.032 indicates a symmetrical distribution of firm sizes, while the negative kurtosis value (-0.577) suggests a flatter distribution, meaning there are fewer extreme cases of exceptionally large or small firms in the sample.

Table 2: Descriptive statistics

Variable	Obs	M	SD	Skew.	Kurt
GFI	400	8.37	3.89	0,364	0.785
FRE	400	68.14	21,20	-0.998	-0.167
BI	400	69,212	0.13	-0.35	0.272
BS	400	5.778	2.35	0.626	0.457
BGD	400	75, 223	9.195	2.35	0.688
BAP	400	5.43	1,221	0.451	0.501
EDC	400	603,396	0.243	0.334	1.101
ROA	400	2.55	6.39	4.343	22.185
SIZE	400	15.90	1.81	0.032	-0.577
LEV	400	3.23	6,.767	-1.98	0.543

Source: Results from R. Version 4.4.1

4.2 Regression results

Table 3 presents the correlation matrix highlighting the relationship between corporate governance mechanisms (BI, bs, BGD, BAP, EDC) and impression management (GFI and FRE). Table 3 The provides compelling evidence of significant relationships between corporate governance mechanisms and impression management, as measured by GFI and FRE. Notably, board independence and gender diversity are linked to enhanced readability (lowering impression management). The observed correlations emphasize the importance of governance structures in shaping how firms communicate with stakeholders. However, the potential for multicollinearity among certain variables, particularly between GFI and BAP, warrants further investigation in subsequent analyses to ensure robust model specific.

Table 3: Correlation matrix

		GFI	FRE	BI	BS	BGD	BAP	EDC	ROA	SIZE	LEV
GFI	Pearson Correlation	1									
	Sig.(2-tailed)	-									
FRE	Pearson Correlation	0.545**	1								
	Sig.(2-tailed)	<,001	-								
BI	Pearson Correlation	-0.567*	0.345*	1							
	Sig.(2-tailed)	0.031	0.037	-							
BS	Pearson Correlation	-0.337*	0.552	0.452	1						
	Sig.(2-tailed)	0.034	0.057	0.762	-						
BGD	Pearson Correlation	0.557**	0.987*	0.023	0.023	1					
	Sig.(2-tailed)	0.003	0.032	0.876	0.876	-	1				
BAP	Pearson Correlation	0.967	-0.642**	-0.085*	0.174	0.211*	-				
	Sig.(2-tailed)	0.06	0.004	0.023	0.076	0.013					
EDC	Pearson Correlation	0.873**	0.152	0.075	0.195	0.573	0.923	1			
	Sig.(2-tailed)	0.034	0.075	0.887	0.784	0.871	0.843	-			
ROA	Pearson Correlation	0.164	0.771*	0.534*	0.721*	0.889*	0.771*	0.287	1		
	Sig.(2-tailed)	0.311	0.031	0.043	0.023	0.022	0.041	0.067	-		
SIZE	Pearson Correlation	0.170	0.235	0.973	0.721*	0.237	0.124	0.032	-0,023*	1	
	Sig.(2-tailed)	0.295	0.087	0.091	0.023	0.312	0.343	0,393	0.043	-	

LEV	Pearson Correlation	0.558*	0.552*	-0.541*	0.441	0.022	0.723	0.532	0.175	-0,234*	1
	Sig.(2-tailed)	0.021	0.041	0.033	0.423	0.312	0.452	0.387	0,873	0.040	-

Source: Results from R. Version 4.4.1

4.3 Variance inflation analysis

Table 4 presents the variance inflation factors (VIF) for the independent variables, which in this study are the corporate governance mechanisms. The VIF is a critical measure used to identify multicollinearity among the independent variables. Multicollinearity arises when independent variables are highly correlated, potentially skewing the results of regression analyses.

According to Kim (2019), a VIF value greater than 10 indicates a significant multicollinearity issue. However, the results in Table 4 demonstrate that the highest VIF for any of the corporate governance mechanisms is 3.218, with a mean VIF of 2.040. These values suggest that multicollinearity is not a concern within this model, as all VIF values are well below the critical threshold.

Table 4: Variance inflation factor

Independent variables	VIF	1/VIF
BI	1.842	0.543
BS	1.327	0.754
BGD	3.218	0.311
BAP	2.764	0.362
EDC	1.051	0.951
Mean VIF	2.040	

Source: Results from R. Version 4.4.1

The results presented in Tables 5 and 6 detail the findings from both the Generalized Method of Moments (GMM) and Fully Modified Ordinary Least Squares (FMOLS) analyses. In Model 1 (GFI), the GMM coefficient is 0.255, and the FMOLS coefficient is 0.415, indicating moderate persistence in impression management tactics, particularly in the complexity or obfuscation of annual reports among the top 40 companies listed on the Johannesburg Stock Exchange (JSE). Model 2 (FRE), however, reflects lower persistence, with GMM and FMOLS coefficients of 0.182 and 0.250, respectively, suggesting that efforts to enhance the readability of reports exhibit a weaker enduring effect.

Board independence emerges as a critical factor, showing a significant negative correlation with impression management in both GMM and FMOLS. In GMM, Model 1 (GFI) shows a coefficient of -0.520, while Model 2 (FRE) reports -0.400, implying that increased board independence mitigates impression management and promotes transparency in corporate reporting. FMOLS results corroborate this, with similarly negative coefficients for board independence (-0.460 for GFI and -0.400 for FRE), reinforcing the notion that independent boards play a role in reducing obfuscation in financial disclosures.

Regarding board size, the GMM results in both models (GFI and FRE) reveal negative effects (-0.870 and -0.350, respectively), suggesting that larger boards contribute to reduced levels of impression management. The FMOLS findings align with this, with negative coefficients for board size (-0.750 and -0.410), further supporting the argument that larger boards encourage more straightforward and less complex reporting practices.

Board gender diversity shows a consistent, albeit weaker, negative relationship with impression management in both models under FMOLS, with statistical significance emerging only in Model 2 (FRE) (-0.120). This suggests that gender-diverse boards, particularly in the context of FRE, contribute to clearer and more transparent reporting. Similarly, in GMM, while both models display negative coefficients for gender diversity, statistical significance is found solely in Model 2 (FRE), reinforcing its role in fostering transparency.

The role of active board participation is another significant finding. Both GMM and FMOLS results indicate that increased board engagement has a negative impact on impression management, enhancing the clarity of financial disclosures and reducing complexity.

Lastly, executive directors' compensation demonstrates a significant positive relationship with transparency in Model 2 (FRE), with a GMM coefficient of 0.800. This suggests that higher compensation incentivizes executives to produce clearer and more transparent reports. In Model 1 (GFI), although the coefficient is positive, it is not statistically significant, indicating that the relationship between compensation and impression management may vary based on context. FMOLS results similarly show that higher executive compensation correlates with more readable financial reports.

Table 5: GMM results

Variable	**Model 1 (GFI)**	**Model 2 (FRE)**
Lagged dependent variable	0.255***(0.350)	0.182**(0.090)
Board independent (BI)	-0.520**(0.185)	-0.480**(0.220)
Board size (BS)	-0.870**(0.435)	-0.350***(0.107)
Board gender diversity (BGD)	-0.045(0.085)	-0.140***(0.056)
Board active participation (BAP)	-0.700*(0.510)	-0.611*(0.320)
Executive directors' compensation (EDC)	0.110(0.083)	0.800***(0.260)
Number of observations	400	400
Year Dummies	Yes	Yes
AR (1)	0.000	0.000
AR (2)	0.640	0.610
Sargan Test	0.340	0.470

***p < 0.01, ** p < 0.05, * p < 0.1

Table 6: FMOLS results

Variable	Model 1(GFI)	Model 2(FRE)
Lagged dependent variable	0.415**8(0,290)	0.250***(0.110)
Board independence (BI)	-0.460**(0.210)	-0.400*(0.120)
Board size (BS)	-0.750**(0.370)	-0.410***(0.120)
Board gender diversity (BGD)	-0.085(0.090)	-0.120**(0.065)
Board active participation (BAP)	-0.620*(0,490)	-0.540**(0.310)
Executive directors' compensation (EDC)	0.200**(0.095)	0.770**(0.280)
Number of observations	400	400
Year dummies	Yes	Yes
R- squared	0.720	0.630

Source: results from R. Version 4.4.1

5 Discussion of results

This study explored the influence of corporate governance mechanisms on impression management (IM) within the top 40 companies listed on the Johannesburg Stock Exchange (JSE). The analysis employed Generalized Method of Moments (GMM) and Fully Modified Ordinary Least Squares (FMOLS) to examine the relationship between governance mechanisms and impression management practices. The regression analysis revealed a significant negative correlation between board independence (BI) and IM, indicating that the presence of an independent board contributes to higher-quality reporting and limits IM practices. Consequently, hypothesis H1 was rejected. The strong negative association between BI and IM supports agency theory, which posits that independent boards act as effective oversight mechanisms, mitigating agency problems by ensuring managers align with shareholders' interests. Stakeholder theory complements this by emphasizing that board independence also promotes accountability to a broader range of stakeholders, including employees, customers, and the community. Additionally, legitimacy theory suggests that independent boards help align corporate governance with societal expectations, thereby reinforcing a company's legitimacy. These findings align with prior literature (Al-Absy & Ntim, 2020; Hasan, Aly & Hussainey, 2022; Al-Sayani et al., 2023).

The study also found that board size (BS) has a negative relationship with IM, suggesting that larger boards reduce IM practices and improve annual reporting quality. Consequently, hypothesis H2 was rejected. This outcome is consistent with the findings of Garcia, Barbadillo & Perez (2012) and Akram & Ul Haq (2022), who observed a similar pattern where larger boards decreased earnings management. However, these results contrast with Al-Absy and Ntim (2020), who argued that independent boards may still face challenges in defending shareholders' interests due to the influence of executive directors with substantial shares, potentially swaying board decisions.

Board gender diversity (BGD) was also found to have a negative and statistically significant impact on IM practices. This suggests that a higher representation of women on boards reduces poor annual reporting, leading to the rejection of H3. This finding reinforces both stakeholder theory and legitimacy theory, which assert that increased female representation enhances focus on stakeholders' interests and aligns corporate reporting with societal expectations. As a result, companies can restore stakeholders' confidence and legitimize themselves in broader societal contexts. The results are consistent with previous studies by Gavious, Segev, and Yosef (2012), which demonstrated a negative relationship between board gender diversity and earnings management.

Furthermore, the analysis indicated a negative and statistically significant effect of board active participation (BAP), measured by the number of board meetings, on IM. This finding suggests that frequent board meetings are associated with decreased IM practices, contradicting earlier studies (Eluyena et al., 2018) but aligning with Naz et al. (2022), who found that increased board participation enhances both reporting quality and firm performance.

Finally, executive directors' compensation (EDC) exhibited a positive and statistically significant relationship with IM, implying that executive remuneration is not an effective deterrent for IM. This result supports the acceptance of H5 and contradicts findings from Miao et al. (2023), who reported that executive compensation improved firm performance.

6 Conclusion

This study aimed to assess the impact of corporate governance mechanisms on impression management within the top 40 JSE-listed companies. The findings revealed a substantial and statistically significant negative correlation between board independence (BI), board size (BS), board gender diversity (BGD), and board active participation (BAP) with IM. However, executive directors' compensation (EDC) was found to have a positive and statistically significant association with IM practices. The analysis highlights the critical role of governance mechanisms, such as BI, BS, BGD, and BAP, in mitigating IM practices within the South African corporate environment.

The findings contribute uniquely to the literature on corporate governance and impression management by integrating agency theory, stakeholder theory, and legitimacy theory. These theories collectively suggest that robust governance mechanisms can address agency problems, reduce poor reporting practices, and align corporate behaviour with societal expectations. The study also contributes to the South African context by identifying key governance factors that influence annual reporting quality, reinforcing the principles of the South African Code of Corporate Governance.

Despite its contributions, this study has certain limitations. First, the sample was restricted to the top 40 JSE-listed companies in South Africa, and the findings may not be generalizable to other African countries implementing corporate governance. A comparative analysis of corporate governance across different countries would provide a more comprehensive understanding of how governance mechanisms influence IM practices. Second, the study focused on five corporate governance measures, omitting other potentially relevant factors such as board chairperson tenure, board education, and board financial expertise.

Based on the findings of the study, the following practical implications emerge:

- Companies can use the insights from this study to strengthen their governance structures by focusing on improving board independence, increasing board diversity, and encouraging active participation. This can help mitigate IM practices and improves the quality and transparency of corporate reporting
- Regulators and policymakers can use the study's findings to refine corporate governance codes, particularly with regards to board diversity and independence.
- Given the positive correlation between executive directors' compensation and IM, companies may need to reassess compensations structures to ensure they do not inadvertently incentivize deceptive or misleading reporting practices. Adjusting executive pay packages to align with long-term performance metrics can mitigate such risks.

Future research should explore the influence of corporate governance mechanisms on impression management across African countries to provide a broader understanding of how these mechanisms operate in diverse contexts. Additionally, future studies should incorporate factors such as board tenure, education, and financial expertise to further investigate their impact on annual reporting quality.

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