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SYNOPSIS: This paper synthesizes the existing literature on disclosure credibility and identifies four factors that investors consider when assessing the credibility of a management disclosure: (1) situational incentives at the time of the disclosure, (2) management's credibility (i.e., competence and trustworthiness), (3) the levels of external and internal assurance, and (4) characteristics of the disclosure itself. Disclosure credibility tends to be higher when management has few incentives to mislead investors and/or is perceived to be competent and trustworthy. Validation by external or internal sources also can enhance a disclosure's credibility. Moreover, disclosure credibility is influenced by various characteristics of the disclosure itself, such as its precision, venue, timing, inherent plausibility, and amount of supporting information.

INTRODUCTION

Management disclosures are a potentially valuable source of information for investors, but must be perceived as credible to be used. Jennings (1987) notes that investor reactions to a management disclosure are a function of both the new information ("surprise") contained in the disclosure and the credibility ("believability") of the disclosure. He concludes that a disclosure's credibility may be as important as the amount of new information in explaining investors' reactions. Popular press articles corroborate the importance of disclosure credibility. The *Wall Street Journal* contains many articles that discuss firms' credibility troubles or efforts to boost credibility (Carrns 2002; Peers 2002). Indeed, investors' concerns about disclosure credibility appear to be increasing, as high-profile financial scandals such as Enron and WorldCom have shaken investor confidence in the trustworthiness of financial disclosures (Barrett 2002).

Given the importance of disclosure credibility, academic research investigates a number of factors that influence the perceived credibility of management's disclosures. This paper synthesizes the literature on disclosure credibility, drawing on prior accounting studies and related evidence from disciplines such as public policy, political science, and social psychology. The synthesis suggests four factors that influence a disclosure's credibility—situational incentives, management's credibility, the degree of external and internal assurance, and characteristics of the disclosure.

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The prior literature on disclosure credibility is expansive and diverse; although many of the existing studies appear unrelated on the surface, they address similar theoretical questions. For example, several academic studies find that negative news disclosures tend to be more credible than positive news disclosures (Williams 1996; Hutton et al. 2003), and others report that the disclosures of financially sound firms are more credible than the disclosures of financially distressed firms (Frost 1997; Koch 1999). These apparently disparate findings actually address a common theme—how management's incentives to mislead influence the credibility of its firm's disclosures. In other words, the lower credibility of both positive news disclosures and disclosures from financially distressed firms arises from the greater incentives managers have to mislead in those circumstances. By classifying prior research on a basic thematic, rather than an operational, level, the paper ties together a number of seemingly unrelated studies. This approach also highlights knowledge clusters and gaps and thus helps identify several potentially profitable areas for future research. Finally, the framework should be useful to firm managers, as it lays out the factors that influence disclosure credibility and offers a number of mechanisms that managers can use to increase the credibility of their disclosures.

WHAT IS DISCLOSURE CREDIBILITY?

Disclosure credibility is defined as *investors' perceptions of the believability of a particular disclosure*. Two elements of this definition should be highlighted. First, disclosure credibility refers to a *perception* held by investors, not an objective condition of a disclosure. When investors initially receive a disclosure from management, they are likely unaware of the disclosure's actual reliability or quality and will base their reactions on its perceived credibility (Jennings 1987). This paper focuses on these *ex ante* perceptions. Second, the definition presumes that investors appraise the credibility of *particular* management disclosures. Although credibility may vary across firms at an aggregate level, studies suggest that investors are sensitive to variations in the credibility of a firm's individual disclosures (Williams 1996; Hutton et al. 2003).

Much of the accounting literature treats "disclosure credibility" as synonymous with "management credibility," but there are important differences between these concepts. *Disclosure credibility* is appraised separately for each disclosure and may vary within a firm across different disclosures. *Management credibility* is a more enduring trait of a firm's managers, referring to investors' perceptions of managers' competence and trustworthiness (cf., Hovland et al. 1953, 21). The credibility of any message is, in part, a function of its source (Birnbaum and Stegner 1979). However, other variables also have significant effects on message credibility (Petty and Wegener 1998), suggesting that management credibility is one factor—but not the only factor—that affects a disclosure's credibility.

Empirical studies on disclosure credibility tend to use either archival or experimental data.[1] Most archival studies use stock market reactions and/or analyst forecast revisions to assess a disclosure's credibility. Experimental studies measure disclosure credibility either by directly asking experimental participants to rate a disclosure's credibility on a numerical scale or by inferring credibility effects from participants' use of management disclosures in other tasks such as earnings forecasts or stock valuations.

There are advantages and disadvantages to each methodology. By capturing actual market and/or analyst responses to a disclosure, archival studies are better at assessing the economic significance of the various factors that influence a disclosure's credibility. However, because market/analyst reactions to a disclosure depend on both the new information contained in the disclosure and the disclosure's credibility, archival studies often cannot isolate the credibility portion of the reaction. Experimental methods enable the researcher to provide all participants with the same information,

[1] "Archival data" refers to historical data, such as analyst reports, company disclosures, or stock prices, and "experimental data" refers to data created by an experimenter who expressly manipulates one or more variables.

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varying only the disclosure's credibility. These methods tend to be good at isolating causal influences, but are less useful for estimating the *magnitude* of such influences. For example, when experimental participants rate disclosure credibility on a seven-point scale, the researcher cannot confidently ascertain how a one-point difference on this scale translates into a real-world setting. These respective strengths and weaknesses influence our ability to draw inferences from the archival and experimental studies examined in this paper.

FACTORS THAT INFLUENCE DISCLOSURE CREDIBILITY

Why are some management disclosures more credible than others? Figure 1 indicates that a disclosure's credibility is influenced by:

- Situational incentives at the time of the disclosure
- Management's credibility
- The degree of external and internal assurance
- Various characteristics of the disclosure, including its precision, venue, timing, amount of supporting information, and inherent plausibility.

I first discuss the simple effects of each of these factors on disclosure credibility and then consider potential interactive effects.

Situational Incentives

Persuasion models suggest that the perceived incentives of the message source influence message credibility. For example, Kelley (1972) argues that people attribute messages *consistent* with the source's incentives to those incentives, rather than the source's true beliefs. Conversely, people tend to infer that messages *inconsistent* with the source's incentives reflect the source's underlying beliefs. These differences suggest that people are less likely to believe messages that are consistent with the source's incentives. In one study providing support for this idea, Eagly et al. (1978) conduct an experiment where they ask participants to read a political speech, telling some participants that the politician's speech is consistent with audience beliefs and others that the speech is inconsistent with audience beliefs. Participants rate the politician's speech as less credible when the speech is consistent with audience beliefs. This result suggests that audiences find political speeches that are consistent with politicians' incentives to "play to the crowd" to be less credible.

Applying these findings to financial disclosures, investors should be less likely to believe management disclosures when management has high incentives to be misleading or untruthful. Several studies examine the effects of incentives to mislead by comparing the credibility of good and bad news disclosures. Managers tend to have greater incentives to provide overly positive disclosures than overly negative disclosures (McNichols 1989). Thus, bad news disclosures are expected to be more credible than good news disclosures, *ceteris paribus*. Several archival studies support this claim; management disclosures containing bad news result in larger analyst forecast revisions (Hassell et al. 1988; Williams 1996) and larger stock price reactions (Cairney and Richardson 1999; Hutton et al. 2003) than management disclosures containing good news.

Other studies examine the effects of situational incentives on disclosure credibility by comparing the disclosure credibility of financially distressed and non-distressed firms. Koch (1999) argues that management has greater incentives to provide misleading disclosures when a firm is financially distressed because financially distressed firms have lower costs and greater benefits associated with inaccurate disclosures. He predicts and finds that analysts rely less on management earnings forecasts as a firm's financial distress increases. Frost (1997) reports that stock market reactions also reflect the lower disclosure credibility of distressed firms. She finds that disclosures issued by financially distressed U.K. firms result in smaller stock price reactions than disclosures issued by non-distressed U.K. firms. The results of Koch (1999) and Frost (1997) suggest that investors are sensitive to the incentives of management when assessing a disclosure's credibility.

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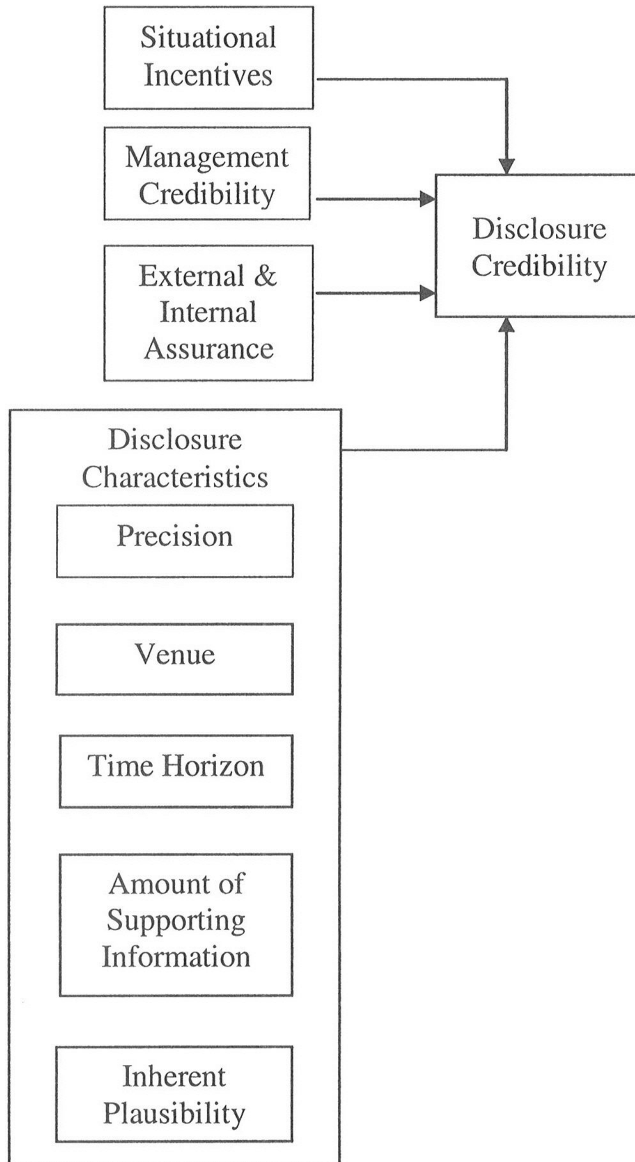
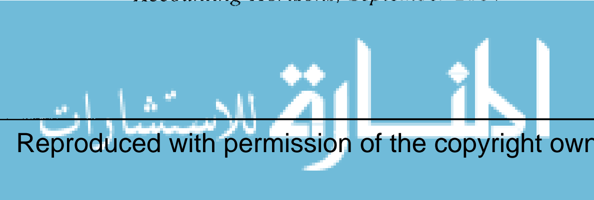
FIGURE 1
Factors that Influence Disclosure Credibility



To summarize, the credibility of a management disclosure depends, in part, on situational incentives that exist at the time of the disclosure. Existing empirical studies focus on management's incentives to mislead and the subsequent reduction in disclosure credibility for positive news disclosures and the disclosures of financially distressed firms. Additional factors that may influence management's incentives to mislead remain unexplored. For example, the risk of legal liability is greater for some management disclosures, and greater potential legal liability decreases management's



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incentives to mislead. If investors recognize that management is concerned about the potential legal liability associated with a particular disclosure, then this factor also could affect the disclosure's credibility.

Management Credibility

Research from social psychology suggests that an important factor in a message's credibility is the credibility of the messenger (Birnbaum and Stegner 1979). This relation also appears to hold true in financial settings. Williams (1996) hypothesizes that managers are able to form reputations for credible disclosure that increase the believability of their subsequent disclosures. To test this hypothesis, she identifies more and less reputable managers based on the closeness of their earnings forecasts to actual reported earnings. Williams (1996) finds that the size of analysts' forecast revisions for subsequent management earnings forecasts are a function of management's prior forecast accuracy.

Hirst et al. (1999) provide corroborating experimental evidence. They vary management's credibility by informing investors that management's prior disclosures were either very accurate or very inaccurate. Like Williams (1996), they find that investors rely more on management disclosures when management provided accurate forecasts in earlier time periods. Hodge et al. (2000) report similar results in a different experimental setting. They find that investors are more likely to agree with management's decision to classify a hybrid security in the equity section of the balance sheet when analysts believe management is more reputable. Taken together, these studies suggest that management credibility is an important factor in disclosure credibility.

Levels of External and Internal Assurance

The levels of external and internal assurance provided for a management disclosure also affect the disclosure's credibility.[2] Such assurance can be provided by external sources such as auditors, financial analysts, and journalists, or from internal sources, such as the firm's board of directors, audit committee, and internal auditors.

External Assurance

Several experimental studies examine the effects of auditing on disclosure credibility, and find that, *ceteris paribus*, audited disclosures are more credible than unaudited disclosures. In these studies, participants receive management disclosures either with or without an auditor's attestation. The studies find that both bankers (Libby 1979) and financial analysts (Hodge 2001) rate audited disclosures as more credible than unaudited disclosures. Leftwich (1983) and Blackwell et al. (1998) provide archival evidence that external assurance from auditors increases disclosure credibility. Leftwich (1983) finds that banks require private companies to provide audited financial statements, and Blackwell et al. (1998) report that bankers charge lower interest rates to private companies that provide audited financial statements. These archival studies suggest that bankers believe audits enhance the credibility of financial statements, corroborating the experimental findings.

Information intermediaries such as business journalists and financial analysts are another potential source of external assurance for management disclosures.[3] Voluminous anecdotal evidence indicates that the opinions of business journalists affect investors' perceptions of disclosure credibility. For example, the day after an article in *The New York Times* criticized IBM's method of reporting

[2] Kinney (2000) notes that "An independent party with a reputation for competence in measurement and trustworthiness in reporting can improve an outsider's perception of information reliability by investigating the assertions, and attesting to the care and lack of bias in information display. *The information assurer can add credibility* by increasing the perceived reliability of management's information claims and assertions" (emphasis added).

[3] Much of the existing literature focuses on the role of intermediaries in *decreasing* the credibility of management disclosures. It is still unclear whether an intermediary's support can *increase* a management disclosure's credibility.

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a gain on the sale of one of its businesses, IBM's stock price fell by 5 percent (Barrett 2002). Two studies by Foster (1979, 1987) confirm these types of effects. He investigates investor reactions to magazine articles written by Abraham Briloff, who critiqued firms' accounting and disclosure practices in various business periodicals. Foster (1979) finds that the stock prices of firms Briloff criticized fell an average of 8 percent on the day the Briloff article was published.

Financial analysts' reactions to a management disclosure also can affect the disclosure's credibility with investors. When analyst David Tice published a newsletter in October 1999 accusing Tyco of providing misleading disclosures about its acquisitions, investors questioned the credibility of Tyco's disclosures and the stock price fell precipitously (Gogoi 2001). And when JP Morgan analyst Thomas Lee recently criticized Nextel's bad debt and customer turnover disclosures, Nextel's stock price fell 5 percent on the day the report was released (Li 2002). However, evidence that analysts' reactions to management disclosures affect investors' reactions to those disclosures is, as yet, largely anecdotal.

Internal Assurance

Assurance also may come from sources within the firm. For example, a firm's board of directors oversees and monitors the firm's activities, including its financial disclosures. Investors may feel more confidence in the veracity of a firm's disclosures when the firm has a high-quality board of directors. Several studies find that firms with more independent boards and audit committees, as measured by the number of outside members, experience less earnings management and fraud (Beasley 1996; Klein 1999). Less earnings management is also found in firms whose boards and audit committees meet more frequently and have greater financial expertise (Xie et al. 2003). This evidence implies that firms whose boards and audit committees are independent, diligent, and expert provide higher quality disclosures.

There is less evidence on whether investors consider these factors when assessing disclosure credibility, but preliminary research suggests that they do. Black et al. (2003) find that firms with a large percentage of outside directors and/or an audit committee command higher market valuations, and argue that these effects occur because investors value the same earnings stream more highly for such firms. Wild (1996) finds that the formation of an audit committee leads to greater reliance on the firm's earnings disclosures. Thus, the existing evidence suggests that investors consider the composition of a firm's board of directors and audit committee when assessing disclosure credibility. The heightened scrutiny on boards of directors due to recent accounting scandals may result in boards of directors playing an even greater role in disclosure credibility in the future.

Another potential within-firm source of assurance is the firm's internal audit department. Internal auditors often serve as the first line of defense against disclosure errors, ferreting out unintentional errors caused by weaknesses in a company's internal controls and intentional errors due to fraud. Consequently, if investors can assess internal audit quality, then firms with a strong internal audit department may have higher disclosure credibility. There is little existing research on the relation between internal audit department strength and disclosure credibility. One likely reason for the dearth of studies is that it is difficult for both investors and researchers to determine whether a firm has high-quality internal auditors.

In sum, the level of assurance can affect a disclosure's credibility. This assurance may come from external parties such as auditors, business journalists, and financial analysts, or from internal parties such as the board of directors, audit committee, and internal auditors.

Disclosure Characteristics

Additional factors influencing disclosure credibility relate to characteristics of the disclosure itself. These characteristics include the disclosure's *precision*, *venue*, and *horizon*, whether *supporting information* accompanies the disclosure, and the *inherent plausibility* of the information disclosed.

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Precision

Management disclosures vary in their degree of precision. For example, management's earnings forecasts appear as precise point estimates, less precise range estimates, or even vaguer one-sided maximum or minimum estimates. Several authors argue that imprecise disclosures signal management's uncertainty and will be viewed as less credible than more precise disclosures (Hassell et al. 1988; King et al. 1990). Empirical studies support this supposition, finding that investors perceive precise forecasts to be more credible than imprecise forecasts. Hirst et al. (1999) conduct an experiment where they vary the precision of management forecasts and find that investors are more confident relying on point forecasts than range forecasts. Baginski et al. (1993) report confirming results based on archival data, finding that more precise forecasts result in a stronger relation between unexpected earnings and unexpected returns. Taken together, these results imply that managers can boost a disclosure's credibility by increasing its precision. However, precise forecasts are not risk-free—managers who fail to deliver on their forecasts will be perceived as inaccurate and suffer reduced credibility with investors.[4]

Venue

Managers disclose information in numerous venues, including audited financial statements, meetings with reporters, conference calls with analysts, annual shareholders' meetings, and special press releases.[5] No existing accounting studies directly compare the credibility consequences of these different disclosure venues.[6] However, research in psychology suggests that the venue through which a message is received—in combination with the characteristics of the message and the messenger—can affect the perceived credibility of that message.

In one experiment, Chaiken and Eagly (1976) expose participants to either an easy- or difficult-to-understand persuasive message about a legal dispute. The message is conveyed in either written, audiotape, or videotape form. The authors find that difficult-to-understand messages are most persuasive when they are written, whereas easy-to-understand messages are most persuasive when they are conveyed via videotape. Chaiken and Eagly (1983) use a similar experiment to explore how characteristics of the messenger influence venue effects. They find that videotape and audiotape messages are more persuasive than written messages when a communicator is likable, but written messages are more persuasive when a communicator is dislikable. In a similar vein, Andreoli and Worchel (1978) report that television messages are more persuasive for trustworthy sources such as newscasters, and written messages are more persuasive for untrustworthy sources such as political candidates.

Despite the paucity of accounting research on the effects of disclosure venue, research in psychology suggests that disclosure venue matters and will interact with other variables to affect a disclosure's credibility. For example, face-to-face disclosures such as conference calls may be more credible for managers who are already perceived as trustworthy, whereas written disclosures such as press releases are more credible for managers who are less obviously trustworthy.

Time Horizon

The time horizon covered by forward-looking disclosures also could affect their credibility. Managers presumably have better information about more immediate outcomes. Consequently, short-

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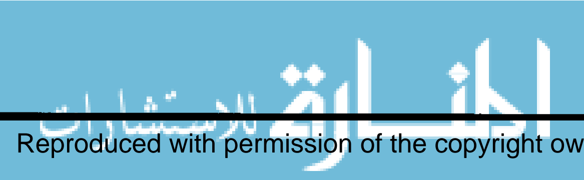
[4] Managers of firms that operate in unusually uncertain environments may be able to gain credibility simply by conceding these uncertainties and providing less precise forecasts.

[5] Although Regulation FD (Fair Disclosure) restricts venue choices, managers still have a variety of viable venue options, such as press releases, SEC filings, and annual financial statements. Firms may also continue to disclose information in private meetings with analysts, as long as the information is simultaneously disclosed in a more public medium.

[6] Bamber and Cheon (1998) report that financial analysts rate a firm's investor relations department more highly when the firm issues earnings forecasts in meetings with reporters and analysts rather than other venues such press releases. However, they do not examine whether the disclosures from these different venues vary in credibility.



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horizon disclosures such as interim earnings forecasts generally should be perceived as more credible than longer-horizon disclosures such as annual earnings forecasts. Pownall et al. (1993) find support for this idea, demonstrating that interim management earnings forecasts generate larger stock price reactions than annual management earnings forecasts, even after controlling for the amount of new information contained in the forecast.

Amount of Supporting Information

Firms often provide explanations to support their disclosures. For example, a firm that issues an unexpectedly positive earnings forecast also may note that the company expects an increase in sales or a decrease in administrative costs. Such supplementary statements should increase the credibility of the earnings forecast for several reasons. First, many supporting statements contain proprietary information. Gigler (1994) notes that disclosure decisions often reflect a tension between providing investors with share-relevant information and providing competitors with proprietary information. If investors realize that disclosing proprietary information is costly, then they should perceive disclosures that contain proprietary information to be more credible. In support, Cairney and Richardson (1999) find that the credibility of management earnings forecasts increase when the firm has high proprietary information costs.[7]

A second reason that supplementary statements should increase disclosure credibility is that these statements increase the *ex post* verifiability of the disclosure (Hutton et al. 2003). By making specific statements about forecast components, managers reduce their ability to take subsequent opportunistic actions to realize forecasts or to rationalize unexpected results. This extra commitment from managers may increase the disclosure's credibility. Studies by Hutton et al. (2003) and Baginski et al. (2004) support this argument, as they find greater stock price reactions to management earnings forecasts when the forecasts are accompanied by explanations.[8]

Inherent Plausibility

A final factor influencing a management disclosure's credibility is the inherent plausibility of the information it contains. Research in other areas suggests that people are more skeptical of information that deviates from their expectations or prior beliefs. Koehler (1993) finds that even scientists' judgments are influenced by their prior beliefs—when a research paper's conclusions disagree with a scientist's prior beliefs, s/he rates the study's methodology to be relatively lower in quality.[9] Applying this idea to financial disclosures, a disclosure that deviates significantly from investors' expectations will be less credible than one that does not. For example, an earnings growth forecast of 10 percent is probably less credible coming from a firm that reported three consecutive years of negative earnings growth than one that reported three consecutive years of positive earnings growth.

The accounting literature confirms the importance of a disclosure's inherent plausibility. Several studies find that analyst forecast revisions subsequent to management forecasts are positively related to the difference between the management earnings forecasts and analysts' expectations at the time of the disclosure (Jennings 1987; Williams 1996). These results suggest that the greater the gap

[7] Cairney and Richardson (1999) measure proprietary information costs based on industry concentration, assuming that firms in more highly concentrated industries have higher proprietary information costs. The authors find that stock market reactions to management earnings forecasts increase as the firm's proprietary information costs increase.

[8] Hutton et al. (2003) also examine which types of management explanations are most effective at increasing credibility. They report that "soft talk" explanations, such as management's discussion of the reasons behind a forecast, do not increase credibility, while "verifiable forward-looking statements," such as forecasts of sales, gross margin, or cash flows, do increase credibility. In contrast, Baginski et al. (2004) find that "soft talk" explanations influence market reactions to management's earnings forecasts, but only if they point to verifiable factors outside the organization.

[9] This result is consistent with Bayesian updating. Bayes seems to require that prior beliefs not influence a scientist's assessments of the value of new data, because such an influence violates the usual Bayesian presumption that prior probabilities and likelihoods are assessed independently. However, Koehler (1993) demonstrates that prior probabilities *should* affect likelihoods when there is uncertainty about the value of the likelihood data.

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between analysts' expectations and a management disclosure, the less plausible the disclosure seems, and the less likely analysts are to believe it.

Hansen and Noe (1998) provide further evidence on how information-plausibility affects disclosure credibility. They report that management earnings forecasts that conflict with previous management disclosures result in smaller analyst forecast revisions than forecasts that are consistent with previous disclosures. These results suggest that the content of management's prior disclosures affects the inherent plausibility of its subsequent disclosures. Similarly, Koch (1999) finds that good news management forecasts result in larger analyst forecast revisions for financially sound firms, for whom good news is more likely, whereas bad news management forecasts result in larger forecast revisions for financially distressed firms, for whom bad news is more likely. Although academic studies operationalize "inherent plausibility" in different ways, regardless of operationalization, a disclosure's inherent plausibility appears to affect its credibility.

Interactive Effects

The previous sections describe how situational incentives, management credibility, assurance, and disclosure characteristics individually affect disclosure credibility. However, these factors also may produce interactive effects on disclosure credibility. Several studies investigate how *situational incentives* interact with other factors to influence disclosure credibility. For example, Williams (1996) reports that management credibility has a greater effect on a disclosure's credibility when the disclosure is consistent with management's incentives. Specifically, she finds that management's credibility is a stronger predictor of analysts' responses to management's good news disclosures, which are typically consistent with the managers' incentives, than management's bad news disclosures, which are not. These results suggest that because investors are more skeptical of management disclosures that are consistent with situational incentives, they use additional cues such as management credibility when assessing disclosure credibility.

Hutton et al. (2003) report that supporting information is more likely to increase credibility when management has greater incentives to mislead. They find that good news management earnings forecasts are more likely to result in stock price movements when the forecasts are accompanied by supporting information such as forecasts of sales, margins, and long-term growth rates. In contrast, bad news forecasts result in stock price movements regardless of whether they are accompanied by supporting information. Hutton et al. (2003) indicate that a likely reason for this interaction is that bad news forecasts are more inherently credible to capital market participants than good news forecasts. Thus, bad news forecasts do not require supporting information to increase their credibility. Overall, the existing research suggests that management credibility and supporting information matter most when management has incentives to mislead. When incentives to mislead are low, disclosures are so inherently believable that management credibility and other credibility-enhancing mechanisms do not provide much incremental benefit.

Recent research also examines the interactive effects of management credibility and disclosure precision. Hirst et al. (1999) report that the effect of forecast precision on disclosure credibility increases as management credibility increases, as they observe larger credibility differences between point-estimate earnings forecasts and range earnings forecasts when management has a reputation for accurate reporting. However, interactions between management credibility and other disclosure characteristics remain unexplored, as do interactions between the level of assurance and other credibility factors.

SUMMARY AND SUGGESTIONS FOR FUTURE RESEARCH

Both researchers and managers are interested in what makes a management disclosure credible to investors. This paper synthesizes the existing literature on disclosure credibility and provides a

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simple framework for thinking about when investors will rely on management disclosures. The framework suggests four factors that influence disclosure credibility:

- *Situational incentives*: When management has greater incentives to mislead, disclosures are less credible.
- *Management credibility*: Investors are more likely to rely on the disclosures of more reputable managers.
- *External and internal assurance*: Assurance from external sources such as auditors or analysts and internal sources such as the firm's board of directors or audit committee can increase a disclosure's credibility.
- *Disclosure Characteristics*: Various features of the disclosure itself—including its precision, venue, time horizon, amount of supporting information, and inherent plausibility—affect its credibility.

Some of these factors also have interactive effects on disclosure credibility, but these interactions are less well understood.

Although research on disclosure credibility is in its infancy, the studies reviewed here are important both for what they teach us about the factors influencing disclosure credibility and for their clues about the work that remains to be done. Some studies examine the effects of situational incentives on disclosure credibility by comparing investors' reactions to good and bad news disclosures. These studies report that bad news disclosures are more credible than good news disclosures, presumably because reporting bad news is usually less consistent with managers' personal incentives. However, managers sometimes have greater incentives to report *negative* news. One example is managers' attempts to lower the strike price of their employee stock options by advancing negative news disclosures or delaying positive news disclosures near stock option award dates (Aboody and Kasznik 2000). Research that examines whether the disclosure credibility of positive news is greater than that of negative news in such settings will provide a more complete picture of the impact of situational incentives on disclosure credibility.

Further study is also needed on the role that external and internal parties play in the credibility of management disclosures. Although prior research indicates that auditors can increase or decrease the credibility of management disclosures, less is known about whether analysts and journalists exert similar influence. Important questions for future study are (1) the extent to which analysts' and journalists' beliefs about a disclosure's credibility influence how the investing community perceives the disclosure, (2) whether these parties can increase, as well as decrease, a disclosure's credibility, (3) whether the influence of these parties' views has eroded after the recent spate of financial accounting scandals,[10] and (4) how and when internal sources of assurance—such as a firm's board of directors, audit committee, and internal auditors—affect disclosure credibility.

Perhaps the most important future research on disclosure credibility will consider interactions *among* the various disclosure characteristics, as well as interactions *between* these disclosure characteristics and the other three factors that affect disclosure credibility. Understanding these interactions is especially important because firms can control or adjust disclosure characteristics more easily than the other factors. For example, firms may be able to offset any negative credibility consequences caused by high incentives to mislead by altering the form of their disclosures. Researchers already identified one disclosure characteristic—presence of supporting information—as an increasingly important predictor of disclosure credibility as management's incentives to mislead increase. It remains to be seen whether other disclosure characteristics, such as precision and venue, also interact with situational incentives to influence disclosure credibility. Although research that seeks to identify interactive relationships among variables is not always easy to conduct, data from these studies are needed to deepen our understanding of what makes a disclosure credible.

[10] If the accounting scandals damaged the perceived trustworthiness of auditors and financial analysts, investors may rely less on these parties' conclusions about the credibility of management disclosures.

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