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

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Internal communication of financial information to boards of directors is a key element of corporate governance practice. Cognitive communication factors (CCFs) have the potential to affect or influence, often unconsciously, the judgement of managers preparing internal financial board reports. This study explores the influence of CCFs on the preparation of financial narrative board reports. Qualitative semi-structured interviews were conducted with 24 senior finance executives from a range of industry sectors. The data was analysed using thematic analysis. It was found that communication between management and non-executive directors is facilitated and influenced by a range of CCFs: common ground and shared intentionality; the curse of knowledge and knowledge illusion; intuition; perception; and context. Some of these factors are considered necessary for good communication and have a positive effect; the effect of others can be either positive or negative depending on circumstances. We provide a model illustrating the potential influence web of the identified CCFs. If management are unaware of these factors, or have not considered them, we suggest the result can be an unconscious effect on their judgement regarding what information to provide to directors and how to present it. An enhanced awareness and understanding of these factors, and how they interact, should lead to improvements in practice in the preparation of board reports and the overall communication between management and non-executive directors (NEDs).

1. Introduction

Corporate governance has both internal and external dimensions. Accountability to external stakeholders, the more visible dimension of governance, is focussed on external reporting by the board of directors on behalf of the company. However, management oversight and strategic direction of the company mainly involve internal reporting by management to the board, which is the starting point for both the inward- and outward-facing dimensions of corporate governance practice. Management (usually professionally qualified accountants) prepare discretionary narrative financial reports to supplement the communication of accounting data to boards of directors. Many directors receiving these reports are non-executive (NEDs) and may not have a financial background. The regulation or guidance provided to finance professionals regarding the provision of information

varies considerably depending on the nature of the reporting. External financial reporting is regulated by company law and financial reporting standards. By contrast, internal financial reporting is not formally regulated and is dependent on the professionalism and experience of the preparer as to form and content. We argue preparers of financial narrative board reports are susceptible to the unconscious effects of various cognitive communication factors (CCFs), both positive and negative. The net effect may undermine the effectiveness of the governance processes that the financial narrative board reports are intended to facilitate. In this study, we ask if preparers of financial narrative board reports are influenced by CCFs. We identify, in the context of internal reporting to boards, that a number of factors have the potential to affect or influence, often unconsciously, the judgement of managers preparing internal financial narrative board reports.

2. Financial Communication for Governance

Directors need a clear picture and understanding of the business for all aspects of governance including making decisions, giving direction to management, and external reporting obligations (FRC, 2024b, 2024a). Governance codes require directors to be provided (by management) with information necessary to fulfil their role and responsibilities. Boards require “a timely flow of accurate, high-quality and clear information” (FRC, 2024a, p. 22). To be effective, information should be understandable, reliable, relevant, comprehensive, and concise (Tricker, 2015). Financial reporting acts as an enabler for governance and, in turn, governance acts as a check on financial reporting (Cohen et al., 2004). External financial reporting receives a lot of attention from academics and practitioners and is prescribed and guided by law, governance codes and regulatory bodies. Internal reports are, in effect, unregulated and subject to considerable discretion by the preparer. Internal financial data reports (e.g., management accounts) will ultimately feed into the regulated financial statements, which may influence managers to prepare such reports with regulation in mind. The associated internal financial narrative board reports, however, may not be subject to the same consideration by management involved in their preparation.

A complicating factor in the process of corporate governance is information asymmetry. NEDs do not usually have the same level or quality of information about the operations of the company as management, who are more fully involved. NEDs rely on management to fill this information gap. Information asymmetry is often seen as an impediment to effective corporate governance, causing “blind spots” in understanding (Thomas et al., 2009, p. 71). Others have more positive views of information asymmetry. Roberts et al. (2005, S14) believe “experienced ignorance can be a very valuable resource for a board”, ensuring NEDs ask basic questions and do not necessarily accept information at face value. Brennan et al. (2016, p. 137) argue information asymmetry is “a necessary condition for effective boards”, allowing NEDs to exercise governance by challenging and questioning managers. The challenge is finding the right balance of information to ensure NEDs are not at a

disadvantage (Cadbury, 2002). Management, as preparers of the information, are in effect mediating their own knowledge and exercising judgement as to what and how to communicate. Thus, the information supplied to directors is more than just raw data (Johanson, 2008). Financial communication is a “process of creating and sharing meaning” (Jack et al., 2013, p. 3). Although finance directors, acting as professional advisors, have a duty to use “their own informed judgement” when communicating the company’s financial position to the board (Cadbury, 2002, p. 130), the processing and interpretation of data remains subjective by nature.

3. Factors Influencing Communication

A range of positive and negative factors influence communication, some of which may give rise to unintended or unconscious modification of information. We identify three CCFs from the literature.

3.1 Common Ground and Shared Intentionality (CCF1)

As with all human communication, financial narrative reporting involves the use of language, a linguistic skill unique to humans (Sloman & Fernbach, 2017), which works as an “abstract symbolic code conveying meaning directly” (Tomasello, 2008, p. 57). However, to be successful this code relies on a number of uncoded elements or a “non-linguistic infrastructure” (Tomasello, 2008, p. 57). The key elements required are shared understanding of context (common ground), and the desire to communicate (shared intentionality). These, combined with a common language, form a “co-operation model of human communication” (Tomasello, 2008, p. 71). A crucial step in the process is sharing attention (Sloman & Fernbach, 2017), which allows us to share both common ground and intentionality.

Common ground is “what each participant sees as relevant and, at the same time, knows that the other also sees as relevant” (Tomasello, 2008, p. 74). Parties each side of the communication process must have not only a shared mutual knowledge, but also an awareness that this knowledge is shared (Barr, 2004). Common ground will often be directly personal, where both parties know each other well and therefore know what they both know. Equally, common ground may be indirect and less personal – it may arise due to shared cultural knowledge (Tomasello, 2008). Examples of this include being part of the same professional organisation, having shared similar training, or operating within the same regulatory frameworks.

Common ground should apply in a corporate governance context where NEDs and management are involved together in a company or organisation, albeit with some counterbalancing factors. Information asymmetry, and the requirement for NEDs to be independent of management (FRC, 2024a), may lead to reduced common ground. In the context of financial narrative reporting, the level of common ground is likely to be stronger and more effective where NEDs have professional accounting training. Preparers may feel that reports can be kept short and to the point, as “the stronger the

common ground the less language is needed” (Tomasello, 2008, p. 100). Conversely, this may work against non-financial NEDs, who will then have to rely more on their financially trained colleagues.

3.2 The Curse of Knowledge and the Knowledge Illusion (CCF2)

The positive impact of common ground depends on mutual understanding of what each party in the communication process already knows. Tomasello (2008) explains that there is a complementary relationship between common ground and overt communication. The more you know (or think you know) the other person knows or understands, the less explicit or overt your communication needs to be. This gives rise to communication risk – a lot depends on correctly judging what you know or think the other person knows. If, for example, a financial manager or director is preparing information for NEDs and overestimates the degree of common ground, the result may be insufficient or misunderstood information. Common ground can be adversely affected by the twin unconscious processes of the ‘curse of knowledge’ and the ‘knowledge illusion’.

The curse of knowledge causes individuals to believe their personal expertise or knowledge is more widely shared, and this reduces the apparent need (in their minds) to share their information with others (Camerer et al., 1989). We unconsciously assume the other person knows what we know – “we tend to think what is in our heads is in the heads of others” (Sloman & Fernbach, 2017, p. 128). We all see things through our “own lenses of knowledge, experience, beliefs, attitudes, and intentions” (Epley, 2015, p. 99). Epley (2015, p. 99) argues it is natural to assume others will see the world as you do, because you do not realise “how your own interpretation is being influenced by the lens you view it through”. The curse of knowledge can apply in any domain, including that of the financial reporting professional deciding what to include in financial narrative reports for the board.

The opposite to the curse of knowledge, but equally problematic, is the knowledge illusion (Sloman & Fernbach, 2017). Whilst the curse of knowledge assumes others know what we know, the knowledge illusion is where we assume we know what others know. We are part of what Sloman and Fernbach (2017) describe as a knowledge community, relying on a mixture of what we know and what others know. Often it is not clear where the line is between our own knowledge and the knowledge of others on which we rely; we simply do not know what we do not know. If the financial narrative preparer overestimates their own level of understanding, there is a risk they will make assertions or provide analysis in their reports which is misleading.

3.3 Intuition (CCF3)

Intuition is an unconscious operation of the mind which can affect decision making in any aspect of our lives, including report writing. Wright (1980) seeks to stimulate research in cognitive heuristics and information-processing biases (i.e., intuition) in financial decision making. We propose

intuition is a significant factor influencing the judgement and decision making of management when preparing financial narrative board reports. Intuition can be defined as the ability to understand something instinctively, without the need for conscious reasoning. Our mind, “a machine for jumping to conclusions” (Kahneman, 2011, p. 77), takes shortcuts in decision making – a process which can be useful, saving us a lot of time, and is often quite accurate. However, depending on the level of skill, professional training and experience of the thinker, cognitive shortcuts (heuristics) can be flawed. Heuristics often produce excellent results but can give rise to cognitive bias (or systemic errors) and incorrect results (Tversky & Kahneman, 1974). By contrast to the ‘heuristics and biases’ approach, the ‘naturalistic decision making’ approach focusses on the positive aspects and successes of expert intuition, for example in the case of firefighting commanders, where expertise is built through experience to such a level that it becomes intuitive and very effective (Klein et al., 1986). Kahneman and Klein (2009, p. 515) state it is an “obvious fact that professional intuition is sometimes marvellous and sometimes flawed”.

4. Research Question and Methodology

In this exploratory study, we ask if preparers of financial narrative board reports are influenced by CCFs. The study, aimed at addressing an identified gap in the literature, is initially informed by the literature (see Section 3). Rather than assuming deliberate manipulation or impression management, we focus on CCFs operating at an unconscious level. Our aim is to understand whether unintentional or unconscious modification or distortion may occur in financial narrative communication, and what factors can give rise to it.

The topic of interest is a specific cognitive activity in the work of a particular cohort of professional executives, i.e., qualified accountants working at senior management level preparing discretionary supplementary narrative financial reports for directors. Qualitative semi-structured interviews (Qu & Dumay, 2011) with 24 senior finance executives capture the subjective viewpoints of individuals with direct experience of the activity being explored (Burrell & Morgan, 1979). Purposeful sampling is used to ensure participants selected have knowledge and experience “relevant to the research questions” (Bryman & Bell, 2015, p. 429). Eleven participants were already known to the first named author, 12 were contacted through referrals, and one was a snowball referral. In addition to gender mix (15 male, 9 female), participants are varied on other attributes including: length of experience, mix of industry and accounting practice training, and a broad range of business sector backgrounds (see [Table 1](#)).

An interview guide was designed to explore the possible influence of the three CCFs identified from the literature. The guide also framed the interview to explore whether (and in what way) preparers are aware of this potential influence; if preparers actively take account of such influence; and

Table 1. Participants' Profile – Professional Attributes

Professional attributes	Number of participants
Accounting qualification ^a	
Association of Chartered Certified Accountants (ACCA)	8
Chartered Accountant (CA)	14
Chartered Institute of Management Accountants (CIMA)	5
Training background ^b	
Accounting practice	14
Industry	11
Corporate governance qualification ^c	5
Experience as NED on other boards	11

^a Three participants hold dual professional accounting qualifications. ^b One participant trained in both practice and industry. ^c For example, Diploma in Corporate Governance (UCD); Diploma in Company Direction (Institute of Directors).

if there are other cognitive factors (in addition to those identified from literature) influencing the preparers of financial narrative board reports (consciously or unconsciously).

A six-phase thematic analysis approach (Braun & Clarke, 2006, 2018) was used as a guiding framework for data analysis. The initial coding process, using NVivo, was informed by the framework of the interview guide. This was followed by thorough and recursive reviews of the transcripts and the initial topic code lists, rationalising the codes and engaging with analytical coding.

5. Findings

This study finds a number of overlapping factors influence the preparation of internal financial narrative board reports. In addition to the three CCFs identified in the literature (i.e., common ground and shared intentionality (CCF1); the curse of knowledge and knowledge illusion (CCF2); and intuition (CCF3)), the study also identifies, from the data, five additional factors that may influence the preparation of financial narrative board reports. The combined factors (three identified from literature and five emerging from the data) are classified into two broad categories: (a) the three aims or objectives of report preparers, which have a direct influence, and (b) five CCFs affecting how preparers think about or approach the aims. The 'aims' ('being clear', 'adding value', 'managing information'), discussed in Sections 5.1 to 5.3, are seen by the researchers as key pillars of the report preparation process, which the preparer is actively conscious of and directly influence their work. The CCFs (i.e., the three CCFs identified in the literature and two CCFs emerging from the data, 'perception matters' (CCF4) and 'context matters' (CCF5), as discussed in Section 5.4), interweave the aims, acting at a more subconscious level on the report preparation process.

5.1 Aim 1 – Being Clear

In discussing with participants¹ what their aims or objectives are for their reports, it is clear that, for the majority, preparing reports for boards is not merely a mechanical tick-box compliance exercise. Those interviewed come across as both reflective in their approach and having clear aims for what they are trying to achieve in their communications, albeit the emphasis on what they see as important varies. The aim of ‘being clear’ comes through in most interviews, ranging on a continuum of perspectives from ‘it is clear’ to ‘we need to make it clear’. Being clear, as interpreted from the data available, means: ‘tell it as it is’ and ‘keep it simple’.

5.1.1 *Tell it as it is*

In a useful analogy, one participant says: “I see myself as a journalist” (Mark). He looks to understand what message needs to be told, to tell it straight and not hide anything. A common message from most of the participants is you have to “work to the no surprises principle” (Paul).

We’re better off telling them as it is. But explaining that there’s a plan. Or there’s a reason, good reason, why that’s happening. Our job is to report the facts. And give them comfort and assurance. (Frank)

Telling it ‘as it is’ applies in particular to bad news, as Dan makes clear:

I’d be a big believer in transparency. And even if it’s hard stuff, and ... doesn’t reflect well ... we’re better off getting it out there. Blood, guts and all. (Dan)

The idea that presenting bad news may not be pleasant, or indeed welcomed by recipients, is echoed by another participant when he says:

I think presenting the bad news may not be palatable ... you don’t get a good buzz out of it, but presenting the bad news is absolutely critical. (Clayton)

One finance director working in the charity sector went so far as to say that in the current climate “it’s almost seen as a badge of honour to report the bad things” (Paul).

There is also a recognition that raw accounts data may need additional explanatory narrative to tell the story:

It’s just a little bit bald with the numbers. It’s kind of like the golf scorecard. You got a par, but you don’t realise I hit into trees, hit a fantastic shot out. (Denis)

¹ Any participant names used in this paper are pseudonyms assigned during coding of the data.

In this case, Denis seems to be aware of the curse of knowledge (CCF2) and the need to avoid it. The additional reporting narrative is, for the most part, however, written without embellishment:

I kind of tell it as it is. So, the numbers are the numbers. I give context, but I will let people come to their own conclusions as regards what it means. (Marie)

The aim ‘being clear’ complements ‘telling it as it is’ with the need to ‘keep it simple’, illustrated by this comment from Jack:

The objective is to give clarity to the leaders. And, yeah, I think that’s it, so tell as full a story as you can. And at the same time to be succinct. (Jack)

5.1.2 *Keep it Simple*

There are contradictions in the ‘keep it simple’ idea as many participants believe the information is already quite simple. They believe the financial aspects of their business (as laid out in the accounts) are easy to understand and require little explanation.

This is not a difficult organisation from a finance perspective. Like, it’s money in, money out. It’s quite simple. (Sheelagh)

This assumed knowledge base signals the potential existence of the curse of knowledge (CCF2) which could result in an inadequate level of information being provided to the board (Tomasello, 2008). The same participant also stresses the need to keep reports simple and not too long.

I try and keep it really brief. I think they glaze over if you give too much information.... So stop talking about EBITDA², people glaze over. (Sheelagh)

The challenges in this area are captured succinctly by Mary when she explains:

My aim is that a non-financial person can look at this report and understand what it means. Bottom line, I don’t want to present a report and have 20 questions come back to me. (Mary)

Specialised terminology, “accounting speak” (Marie), was mentioned by many participants as an issue to consider when trying to keep reports simple. In particular, the use of acronyms can be a problem where “you can lose

² Earnings before interest, tax, depreciation and amortisation.

people in alphabet soup” (Shay). Indicating an understanding of the need for common ground (CCF1) (Barr, 2004), Simon says: “I never put in acronyms without explaining them”.

5.2 Aim 2 – Adding Value

Adding value comes across as an aim in the majority of interviews, with participants aware of the concept of information asymmetry and the need to bridge the information gap. The emphasis for most is on adding value for the board of directors, although some participants also talk about getting value for themselves from the reporting process. Thus, ‘adding value’ incorporates both ‘value to board’ and ‘value to self’.

5.2.1 Value to Board

Reporting to the board should be about more than just providing raw accounting numbers, with analysis more than stating the obvious. Reporting accountants vary in their personal preferences for reporting basic figures or doing analysis and adding value.

The commentary! It’s about painting the big picture; what are the five things the board need to know and looking for a more forward-looking focus. (Abby)

This comment from Abby suggests shared intentionality, which, along with common ground (CCF1), is essential for good communication.

The idea that reporting is more than just a compliance exercise is explained well by Mark:

So to me, there is the compliance piece about presenting a set of management accounts. But if you want to be really useful to the board, eh, you got to make sense of all this. I give them some key takeaways. (Mark)

As one participant puts it: “You want to make it live, to make it real” (Senator).

Although not all participants are familiar with the term ‘information asymmetry’, most are aware of the information gap between executive management and NEDs. Their views on this range from “I don’t think they need to know everything” (Clara) to actually seeing a benefit in not knowing everything as it can facilitate good discussion and challenge.

I often thought to be honest, a lad who’s prepared to ask a very stupid question at a board can be helpful, because it can encourage better questioning by some of the others. (Shay)

The reporting challenge of information asymmetry is to ensure sufficient information is provided to bridge the gap to enable a properly functioning board and ensure the gap does not widen too far and become a problem.

Anything that helps them to understand their role, and they're not maybe sitting there afraid to ask what they might think is a silly question. There will always be gaps. But I think management's job is to bridge that gap to help them fulfil their role. (Frank)

The question of what information to provide to directors comes up regularly in interviews, as does a recognition that what accountants find interesting may not interest the board (Epley, 2015). This in turn leads to judgement calls, which may well involve intuition (CCF3) and are open to the risks of both the curse of knowledge and knowledge illusion (CCF2).

The judgement call is around how much do we describe what's going on behind those numbers. And that's where the judgement call is made, how much do they need to know. (Frank)

Thus, adding value to the board requires an ongoing review of what is being provided. "There's a lot of opportunity to make small changes to help the board understand it a bit better" (Mary). Most participants indicate they regularly look for ways to improve, often asking directors for their input. Although "there's only so much you can change or amend" (Senator), there is a desire amongst many of the participants to regularly seek improvements. Such improvements are considered positive in terms of maintaining the value of reports and preventing the reporting accountants getting too complacent.

5.2.2 *Value to Self*

Quite a few participants see value for themselves (in addition to value for the board) in the reporting process and the associated preparatory analysis. As Sheelagh says: "it's actually in my interests. The more I know about what's going on, the better I could do my job".

Presenting at board meetings and feedback from directors, a key part of the reporting process, feature strongly in the interviews. Challenge from directors keeps reporting accountants on their toes and helps to mitigate the curse of knowledge (CCF2).

I'm two and a half years in the job, you don't see stuff anymore. Because either you're used to seeing it, or you think you looked into it two years ago and got an understanding of it. So, I don't think [challenge is] necessarily a bad thing. I think that's why you have non-execs. (Marie)

Job satisfaction features as part of this sub-theme and acts as a positive reinforcement to reporting. Like most people, accountants are not immune to praise: "yeah, it's kind of rare you get those sorts of moments, I suppose, but it's nice" (Bernard).

5.3 Aim 3 – Managing Information

We find that both ‘being clear’ (Aim 1) and ‘adding value’ (Aim 2) are mainly positive in their effect on reports. However, ‘managing information’ (Aim 3) is more mixed. Responses from most participants suggest they are managing information for mainly positive reasons but there are potential negative impacts also, depending on the motivation of the report writer.

In general, directors are expected to read reports provided to them prior to board meetings. Therefore, it is important that management preparing those reports carefully consider what is required and relevant. If reports are too detailed, directors “can get lost in the weeds” (Anthony). On the other hand, there are times when more detail may be needed to address a particular issue or decision and those preparing the reports may need to lower their usual reporting threshold.

It’s like porridge, Goldilocks’ porridge. What’s just that sweet spot? How much is just right? And you do need, I do like to say to myself when I’m writing these reports, to just lift my head a bit because you know, you can very get very caught in your own world. (Nora)

Getting caught in your own world, as Nora puts it, is similar to the curse of knowledge (CCF2) and may result in sub-optimum reports. One organisation in the study deals with this quite effectively through a two-step process. The first step is a form of peer review:

I think that we address that, by me presenting to the Director [CEO] who’s not a financial person. If she doesn’t understand it, well she’s very clear to say ‘that doesn’t make sense’. (Mary)

Then, in an unusual second step, the financial reports are not circulated in advance and are presented to the board by the CEO rather than the Head of Finance.

We feel that if you send a financial report to board members, there’s a chance that it could be forwarded on to somebody outside the organisation, so that breaks the confidentiality of it. But also, I think it’s easier to answer questions when people are in the room and give them time to look at the figures and ask questions there, rather than come up with their own answers in their own head when they’re not in the room. (Mary)

This seems to be an attempt by this management team to avoid the risk of knowledge illusion (CCF2) on the part of board members.

Delivering bad news is a topic quite a number of participants focussed on in terms of achieving the right balance. Individual approaches to this topic vary from being very open, e.g., “we’re not spinning anything” (Frank), to being very defensive. Participants believe that, where bad news has to be told,

it can be delivered with a balance of positivity. However, there is recognition among many participants that it is counterproductive to go too far along the continuum of expectation management or impression management.

Because we all know you can present figures, and you can be a little bit fluffy over the explanation as to what they are, if you really want to be, but I don't think that benefits anybody.
(Mary)

Not all participants, however, have such a constructive approach to reporting bad news or indeed to leaving themselves open to challenge from directors. Defensive approaches range from "I don't like to be caught out" (Shivonne) to "postpone it and shield it" (Denis).

It's almost like a game. You're trying to provide enough information so they don't ask questions or don't ask too many questions. Give them just enough information. But don't bury them in information. Because they don't like that either.
(Senator)

It would seem getting the balance right (even if being defensive) requires a judgement call as to how much the audience already know or how much to tell them, which again will be open to the risks of the curse of knowledge and knowledge illusion (CCF2) and are likely to involve at least some intuition.

The three aims are interrelated. Aim 1 'being clear' helps with Aim 2 'adding value'. In turn, achieving each of these aims requires an element of Aim 3 'managing information'. Participants are proactive in addressing these aims and consciously put a lot of thought into achieving them.

5.4 Cognitive Communication Factors (CCFs)

Interacting with the three aims, and also influencing the preparation of board reports, albeit at a more subconscious level, are the three CCFs identified in the literature and observable in the data (i.e., common ground and shared intentionality (CCF1); the curse of knowledge and knowledge illusion (CCF2); and intuition (CCF3)), and two further CCFs emerging from the data. These additional CCFs are 'perception matters' (CCF4) and 'context matters' (CCF5).

5.4.1 Perception Matters (CCF4)

When preparing board reports, executive financial management are engaged not only in a compliance exercise but also in 'managing information' (Aim 3) to achieve the aims of 'being clear' (Aim 1) and 'adding value' (Aim 2). How each individual approaches these aims is affected by their perceptions across a number of areas including: to what extent they consider or know their audience, their understanding of the role of the board, and their understanding of their own role.

Know your Audience. The first perception matter influencing the preparation of board reports is how preparers think of their audience, i.e., the board of directors. There is good evidence in the data that most participants want to understand their audience better so they can ensure their reports to them are as effective as possible. Boards are often quite diverse, “like one of the guys is a [craft-based occupation], he’s probably never seen a balance sheet in his life” (Clayton). And, as Dan says: “different people absorb information in different ways”. Participants suggest that reporting may often be ineffective due to lack of understanding on both sides, which Mark describes as:

the inability of finance people to understand the audience and the [inadequate] capability of the audience to deal with finance issues. (Mark)

Reports for boards are generally pitched at a higher (i.e., less detailed) level than reports for executive management. The fact the board’s “perspective is more penthouse based” (Shivonne) can also be of benefit to the preparers, as one participant explains:

The interesting thing about dealing with board levels is they’re coming at it from a different high level with a certain thought in mind and a lot of the times they’ll see stuff that you just can’t see, when you can’t see the wood for the trees when you’re preparing it. (Bernard)

Most participants accept directors will not have the same level of understanding as the reporting accountants, “you’ve got to understand these people are all very smart people, but they’re not financial people” (Jack). Some responses, however, suggest the curse of knowledge (CCF2) may be having an impact:

I don’t think about what might be going through their head when they read it either, you know, that’s a good point. And maybe it’s a naive assumption that board members generally know financial statements. (Shivonne)

By contrast, knowledge illusion (CCF2) is also evident as some participants find they underestimate the directors’ level of understanding: “I’m shocked at how much they understand” (Sheelagh).

Most participants like to have some level of interaction from directors, as it helps them to know if their reports are being understood. There is a level of frustration among some participants where they perceive board members are not actually reading their reports, with one participant saying, “I sometimes think of throwing in a clanger” (Delia) to see will any of the readers notice. This tends to arise when participants perceive the level of questioning or scrutiny by board members as low or absent. However, a lack of questioning may not indicate lack of interest. As Mary explains, it can be due to a lack of understanding by the director(s) combined with reluctance to admit it:

Sometimes people will get embarrassed because they think it's their lack of understanding. So they might say, Oh, that's grand. But you don't know if that's grand. (Mary)

Understanding of Board Role. In addition to their appreciation of the level of board members' financial literacy (or otherwise), preparers of reports are also influenced by their perception of the role of the board. It is generally accepted the board are responsible for governing the company, including financial aspects.

A key aspect discussed in many of the interviews is the distinction between executive and non-executive roles. The general understanding of how this distinction should work is captured by Shay:

Our chairman and some of the non-execs are effectively of the view: "we'll leave the executives to manage the business, we'll just, you know, dip in to see how it's going at that level of granularity". (Shay)

A common issue encountered by participants is that the executive/non-executive distinction often becomes blurred.

So that's important, you gotta be very careful of the boundaries between a non-exec stepping into an executive role. They don't need to know the day-to-day stuff, and, you know, the mundane or things are ticking along and stuff. (Nala)

Some participants are very clear that, in their view, NEDs should be kept firmly at arm's length.

The non-execs are there to sit there and say very little, as far as I'm concerned, until they need to say something. And that's perfect. You don't want a non-executive who's interfering in the day-to-day. (Simon)

View of own Role. The third area of perception seen to influence preparers of reports is how they view their own role as head of finance. At its most basic, "our job is to report the facts" (Frank). It is probably the more value-adding aspect of the role that influences reporting. Most participants see themselves as a filter between the data providers and the board, and this filtering often needs to be applied equally to their own work.

So, I'm kind of halfway between them and the board and I'm trying to think I can see the details and I can see what the board would (I think) want. I'm trying to translate that. So, I typically review it almost from the board of directors' mind, as to what are the things they like. (Bernard)

Some participants are aware of the effects of the curse of knowledge (CCF2), even if they may not use that term. Frank, discussing the benefits of using a template format for reporting, explains:

There is always that risk then that, eh ... “well sure this is bleedin’ obvious to everybody. Why would I even tell you?” So, I think that’s one of the things that I have to sort of constantly remind myself of, you know, this might be obvious to me, but the board still need to be told about it. And I suppose that’s why the template has worked pretty well. (Frank)

5.4.2 Context Matters (CCF5)

The interview data suggests that context, both external (relating to the company and its environment) and personal (relating to the individual preparer), is an important influence in the preparation of board reports.

External Context. Aspects of external context discussed by participants in relation to their work preparing reports include regulatory regimes (sector specific, as well as corporate governance in general) and business life cycle.

It is so important that you don’t, in my view, especially in this role, you don’t lose sight of the governance, the framework, the platform, to allow you to provide the information to the board to make their decisions. (Nala)

Governance frameworks are seen by some as being too onerous. The influence of the highly regulated regime applicable to the financial services sector, in particular, can be seen to affect how preparers approach their report writing. For listed companies, changes to the Corporate Governance Code are also seen as adding to the burden on directors and driving a higher level of detail in internal board reporting. Anthony says: “the code of corporate governance is now a big part of what guides the way we work”, and he is concerned that the increasing burden “has resulted in board members becoming quasi executive almost in the level of detail that they move into”.

Changes to reporting also arise as the company moves through its life cycle, requiring a change in emphasis of matter in reports.

We’ve been a fast-growing company for many years. And we’ve topped out in the last three or four years. So, the pressure ... and I think it’s a normal situation in maturing companies that control over your business becomes more and more important. (Jack)

Personal Context. The circumstances of the individual preparing the reports, their professional background and experience and their personal disposition, have an influence on the preparation of financial narrative board reports. One important factor appears to be the level of experience of the participant, which influences their level of personal confidence.

Information is information. Presenting it can only come from experience, really. And it's not just the experience of presenting information, because your audience is always different. It's the experience of dealing with the people on the other side of the table, and kind of thinking about what they're looking for. (Bernard)

Some participants describe experience in terms of common sense or instinct (CCF3, intuition). Neil asks: "Is it professional experience or is it personal instinct?" Nala described her ability to intuitively see problems in financial reports from her staff as "common sense", but qualified her remarks by saying:

I describe it as the X-factor. But that's from years of interrogating the figures myself. And we use the word instinct, but it's experience. Everything, all your life experiences. You're constantly learning. (Nala)

A number of participants have contrasted their experience with that of their less experienced staff, and how that would affect financial reporting to boards:

If I let my financial controller write to the board, it'd be a disaster, we'd all be fired. Because he'd have focused on the negative. Come on, a bit of positivity wouldn't go astray here. (Denis)

When asked about the role professional experience plays in her reporting work, Nora ties age, experience and instinct together:

Huge! And honestly, I would say as I get older, working longer and doing more of these things, I would say that instinct is more informative. But you see the irony is actually it's not the gut, it's just that experience is informing the gut. So, it's actually experience ... giving you the confidence to go with your gut. (Nora)

Enthusiasm for the job, a positive disposition (even a sense of humour), often enhanced by experience-based confidence, help the report preparer have an open mind when it comes to being challenged by the board. Shay's perspective on questions from the board suggests he has all these qualities and quite a reflective approach to his reporting.

If you're there for an hour and a half getting questioned, there's a sense of [*holy cow!*] I thought I'd never get out. You know, I took a grillin'! So, there is probably a curve of the level of

questioning you would like. Where none is “that was a bit of a waste of time, really, wasn’t it?” Where you like a few questions. (Shay)

Whilst Shay appears open to a level of questioning, his thoughts on answering questions suggest a certain element of expectation management or even impression management.

And you know, it’s good to plead the Fifth every now and again, because it shows you’re not winging it. But if you’re pleading the Fifth on everything, Houston, we have a problem! (Shay)

6. The Web of Influence – A Model

This study finds the report preparation process may be influenced by a web of interacting factors in which the three key aims of report preparers are influenced by five CCFs. The influence of these CCFs ranges from positive to negative, as summarised in [Table 2](#).

The five CCFs (three initially from literature and two from data) interact with each other and with the aims of preparers (from the data) in influencing the reporting process. To illustrate this interaction, we propose a model showing what we see as a web of influence created by the CCFs on the process of preparing reports.

In this model (see [Figure 1](#)), there are three interconnected aims which we see as pillars of the financial reporting process (‘being clear’, ‘adding value’ and ‘managing information’) and which describe the main aims of those preparing board reports. Financial management executives are proactive in addressing these aims and consciously put a lot of thought into achieving them. Surrounding and interacting with these aims are the CCFs which affect

Table 2. Summary of Likely Effects of CCFs on Communication (i.e., whether +/-)

Cognitive communication factors		Likely effect
CCF1 Common ground and shared intentionality	Where communication is based on mutual knowledge and awareness of that mutual knowledge, and a mutual desire to communicate.	Generally positive, as CCF1 provides a foundation for good communication (Tomasello, 2008).
CCF2 Curse of knowledge and knowledge illusion	Where it does not occur to you that others do not know what you know (the curse); and/or where you think you know what they know (the illusion).	Generally negative, given CCF2 can result in poor communication (Camerer et al., 1989; Sloman & Fernbach, 2017).
CCF3 Intuition	Heuristics, and cognitive information-processing biases; where your mind jumps to conclusions.	Can be positive or negative depending on level of experience (Kahneman & Klein, 2009).
CCF4 Perception matters	How the preparer perceives their audience, the role of the board and their own role.	The influence of CCF4 and CCF5 can be a mix of positive or negative depending on each individual preparer.
CCF5 Context matters	Both external and personal context influence how people think, with experience playing a big role.	

Note. CCF1, CCF2 and CCF3 were identified from literature and observed in the data; CCF4 and CCF5 emerged from the data.

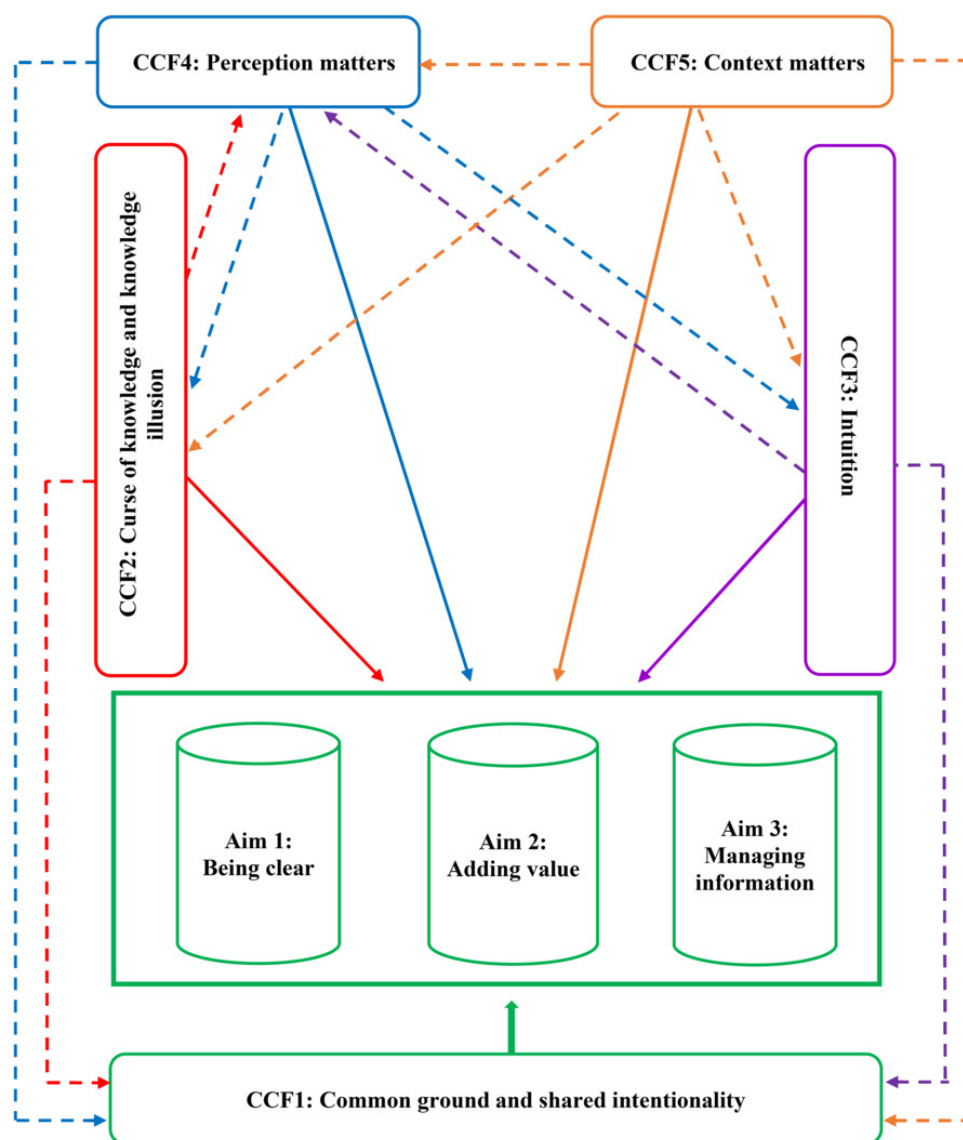


Figure 1. The Influence Web of Cognitive Communication Factors – A Model

Note. Arrow lines indicate direction of influence based on interpretation of the interview data. Solid arrow lines represent direct influence or impact of CCFs on the aims of preparers, with dashed arrow lines representing the indirect influence of CCFs on other CCFs.

the preparers in different ways (mostly unconsciously). The CCFs directly influence the aims of preparers, but also indirectly influence the aims by cross-influencing other CCFs.

The ‘aims’ of the financial reporting process are underpinned by the foundations of good communication, ‘common ground and shared intentionality’ (CCF1), which provide a positive influence on the preparation of reports. However, this positive or well-intentioned mix can then be adversely affected to a greater or lesser extent by the influence of each of the other CCFs. Both CCF2 (the curse of knowledge and knowledge illusion) and CCF3 (intuition) can have an influence on the aims of preparers and on CCF1 (common ground). CCF2 and CCF3 can also cross-influence CCF4 (perception matters). CCF4 (perception matters) can influence the aims and CCF1 (common ground) and is likely to cross-influence each of CCF2 (the

curse of knowledge and knowledge illusion) and CCF3 (intuition). Finally, CCF5 (context matters) influences the aims of preparers and CCF1 (common ground) and can have a further effect or cross-influence through each of CCF2, CCF3 and CCF4.

7. Discussion and Contributions

The preparation of financial reports for boards is a key component of the information provided to NEDs and an important building block of corporate governance practice. It is more than just a mechanical exercise carried out by professionally trained and experienced accounting executives looking to communicate the output of their accounts using logic and reason. It involves the complexities and psychology of human behaviour, including the influence of what we have termed CCFs. In this study, we explore the influence of CCFs on the judgement of those preparing financial narrative board reports.

We find most of the financial reporting executives who contributed to this study are well intentioned and reflective in their approach to preparing reports for boards, aiming to be clear with their information and to add value for boards. However, these aims can be impacted (often unconsciously) by the CCFs identified in this study. Misjudging how much the NEDs already know or understand about the business (e.g., due to the curse of knowledge and/or the knowledge illusion) may result in inadequate or misleading information being provided in reports to the board. The reporting environment and the personal background of the financial executive, together with how they perceive their own role and that of the board, all play a part in the process and have the potential to adversely affect the information provided.

The CCFs which affect report preparation often operate at an unconscious level. Raising or improving awareness of CCFs and their influence should benefit both sides of the communication equation: preparers might be more likely to guard against the effects; and users might read reports with a keener degree of healthy scepticism. This may lead, in turn, to all stakeholders benefitting through improvements in the quality of financial reports and in the overall corporate governance process which places reliance on those reports. This study was confined to exploring the views of report preparers. The findings from this study and our review of prior literature suggest that CCFs may have an adverse impact on the preparation of board reports and consequently may have an adverse impact on the information communicated to/received by NEDs. However, having not garnered the views of NEDs, this study is limited in the claims it can make regarding the potential influence (adverse or otherwise) that CCFs have on the preparation of non-financial board reports. To address this limitation, we suggest that future research exploring the topic from the perspective of report users (NEDs) and to gather empirical evidence on any adverse effects of CCFs would be of value.

This study contributes to both academic knowledge and professional practice. To our knowledge, this is the first study to focus on internal unregulated financial reporting by executive management to boards (a

cornerstone of corporate governance) and the cognitive factors influencing the judgement of preparers. Except for Wright (1980) and Parker (2013), little if anything has been written with regard to the potential influence of CCFs, and how they might influence the preparation of board reports. Through an exploration of prior literature and interviews with report preparers, we identify that a number of factors have the potential to affect or influence, often unconsciously, the judgement of managers preparing internal financial narrative board reports.

Three interconnected aims of preparers are identified as pillars of internal financial reporting: being clear, adding value and managing information. Interacting with the aims are five CCFs: common ground and shared intentionality (Tomasello, 2008), the curse of knowledge (Camerer et al., 1989) and knowledge illusion (Sloman & Fernbach, 2017), intuition (Kahneman & Klein, 2009), perception matters, and context matters. To illustrate the combined effect and interconnectedness of the three aims and five identified CCFs, we present a new model which we describe as ‘the influence web of cognitive communication factors’. This model illustrates how the five CCFs interact with the aims of preparers of internal financial board reports. The model we present, whilst focussing on financial reporting, may also have relevance for other reporting processes.

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