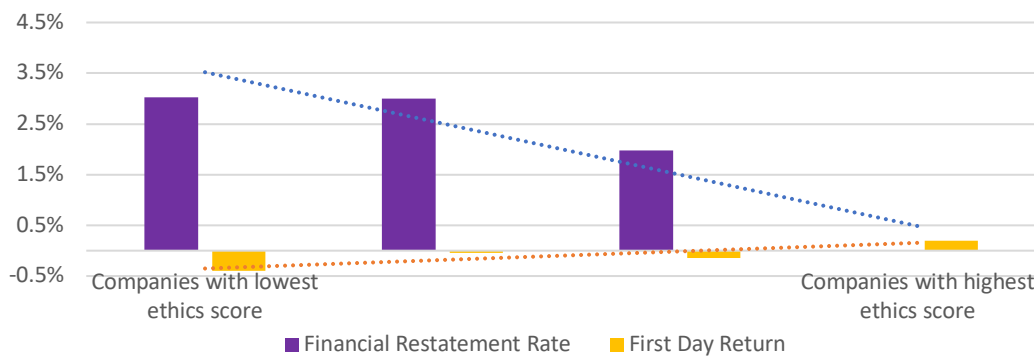


## Impact of Ethical Culture on Financial Reporting Quality and Investor Reaction

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### Ethical Culture Makes a Difference

- Firms with **better ethics scores have higher financial reporting quality**. For every one-point increase in a company's ethics score, the likelihood of their financial statements being restated reduces by 36 per cent.
- **Investors' reactions to the financial statements of firms with better ethics scores are stronger**. For every one-point increase in a company's ethics score, the stock returns on the day of financial restatement release are 0.2 per cent higher.



#### What we considered

- Developing an **innovative measure of the level of ethics at the corporate reporting function** using reviews posted on social media
  - Examining the relationship between **the level of ethics at organisations' corporate reporting functions (using the developed measure) and the financial reporting quality** of the organisation
  - Examining the **relationship between the level of ethics at the organisations' corporate reporting functions and the investors' reaction** to the financial information released by the firm
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- **3,609 reviews from current and former employees** were assessed
  - **For ASX 100 companies in the period 2008-2022**

#### What we did

- **3,609 reviews on [glassdoor.com](https://www.glassdoor.com) from current and former employees** collected.
- A sample of 300 random reviews were manually **assigned scores based on the ethics level inferred** from the review (from -10 for lowest ethics to 10 for highest ethics)
- An **innovative AI tool was used** to analyse the natural language and to interpret the messages conveyed about the ethics of an organisation
- After confirming the accuracy of the algorithm (93 per cent of actual ethics score) used in the sample, **all reviews were assessed and assigned ethics scores**
- **Using ethics scores as a proxy for ethical culture quality of corporate reporting functions, correlations between the scores and reporting quality were determined.**

### Significance

- The **ethical culture of corporate reporting functions**, as assessed by those working in that function, **appears to matter when it comes to reporting quality**.
- Firms and regulators have a **potential new means by which to assess ethical culture** to further consider and explore.