Annual Reports of the FT30 Index Members: Deployment of Apologetic Strategies in CEO and Chairman's Statements

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Abstract

The study proves the presence and articulation of apologetic discourse in CEO and Chairman's Statements is closely related to companies' financial performance. In particular, companies engage extensively in apologetic discourse when they are underperforming, and less frequently when they are performing well. A comparison between ACRs issued respectively in 2000, the year before corporate accounting scandals and September 11, and in 2009, a time of crisis in the markets worldwide, is carried out in the article. The foundations for the study are to be found in the findings of Ware and Linkugel (1973) that identified four different strategies in apologetic discourse. In recent years a growing interest for image and reputation management in the corporate domain, coupled with an increasing awareness of its underlying rhetorical nature, has made the study of apologetic discourse particularly interesting for business communication scholars.

***Keywords*:** corporate narrative, image management, rhetorical strategies

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1. Preliminary Remarks

The aim of the study - still in progress - is to detect the presence and analyze the articulation of apologetic discourse in CEO and Chairman's Statements, i.e. those introductory texts which appear in the sections of ACRs that are not mandatory, but rather voluntarily given by companies' top management. The heterogeneity of discourses in company reports – legal, business, environmental, technical – in terms of their content is no impediment to either genre classification or recognition by the members of the discourse community which regularly engages with this type of texts. The nomenclature may sometimes vary, but since "active discourse community members give genre names to classes of communicative events that they recognize as providing recurring rhetorical action" (Swales 2000: 68) this is no impediment for genre recognition (cf. Garzone 2005: 80).

The case studies discussed in the present paper have been carried out on a *corpus* of company reports retrieved from online sources issued by UK companies that are current members of the FT30 index, an index based on the share price of 30 British companies from a wide range of industries. It was established in 1935 and it is the oldest continuous index in the UK and one of the oldest in the world. The reason for choosing the FT30 was that its stability allowed a diachronic perspective. In fact, 17 out of 30 of the listed companies in 2000 were still included in the index in 2009. Thus, the study could rely on substantial data from both years, and compare narratives contained in company reports issued in 2009 with their equivalents issued in 2000, the year before corporate accounting scandals and September 11. Consulting firms call the verbal text of company reports "narratives" contrasting them with "analysis", by which they refer to numerical calculations: CEO and Chairman's Reviews are example of narratives.

Macroeconomic scenario in 2009implied economic and financial crisis hitting the markets. The rationale upon which this comparison is based on is that apologetic discourse is expected to be more evident in textual outcomes in times of financial and economic crisis. However, even in times of plenty, companies have to justify their actions with their key publics and stakeholders. In the present study "apology" will be taken into consideration in its very broad sense of justification of strategic choices or poor results, and exaltation of company image.

As far as *corpus* retrieval is concerned, both Chairman's and CEO's Statements were easily detachable from the rest of the annual report: the widespread practice to publish company reports on corporate websites has further enhanced their hypertext-like structure, and companies seem to capitalize on sub-genre mix in ways that help offset negative information. Despite the convenience of the electronic format, manual processing and traditional qualitative investigation were necessary in order to conduct a proper analysis of the rhetorical strategies apologetic discourse relies on, as they are typically context-dependent, especially at an early stage of this research project, in which potential lexical markers of apologetic discourse are yet to be identified.

Directors' Reports contain details which are mandatory in the UK, while in CEO and Chairman's Reports companies voluntarily provide additional information. The latter are not only the privileged places for conveying new and forward-looking information – which readers should otherwise infer from financial statements – but they may be expected to contain "oriented" information designed to elicit positive evaluation on the part of readers. They are a real arena for negotiating rapport with the intended readership and therefore display – where necessary – strategies to explain, promote and justify company's behavior.

The usefulness of corporate narratives to guide the reader through the meanders of financial information has long been recognized. In 1973 the International Accounting Standards Committee (IASC, renamed International Accounting Standards Board – IASB - in 2001) was established to harmonize accounting standards throughout European companies. It was clear from the very beginning that bottom line figures by themselves couldn't help readers understand companies' performance. Thirty-two years later, in 2005, the International Accounting Standards Board published *Management Commentary*, a discussion paper on this subject and in February 2009 the Financial Crisis Advisory Group was still discussing the topic. Authors of company reports are aware that narration is both a central component in human interaction and one of the most ubiquitous and powerful discourse forms: it is read faster, remembered better, and comprehended more easily (Jameson 2000: 8-12).

It can also be more convincing than numbers: *In Charisma We Trust*(Fanelli, Misangyi, Tosi2009: 1011-1033) is the title of a study carried out by an international association for practitioners in the fields of operations research and management science that seems to confirm that the way financial news is delivered can mislead even analysts' ratings. On the one hand accountants actually make their own choices when dealing with row data, on the other hand the company's management also make their own choices and inevitably put a positive spin to the story they present to the readers. In fact, impression management studies are founded precisely upon the idea that narrative disclosures are not used to overcome information asymmetries but they rather give management the opportunity to present the company in the best possible light thus to engage in apology in the boarder sense we have assumed in this paper.

The potentiality of corporate narratives to influence readers' opinions has been widely comprehended by authors of company reports who, in fact, have extended and made narrative disclosures more sophisticated throughout the years. According to a survey by Arthur Andersen (2001) of 100 listed UK companies carried out in 2000, narrative materials occupied 57% of the annual report in 2000 as compared with 45% in 1996, just 4 years before. A few years before, Lee (1994) found clear trends in company reports and claimed voluntarily material increased faster than regulatory. The *corpus* selected for the present study is no exception. "Previous communication tools have been put on steroids" (Distaso 2008: 4) said one of the financial communicators from a focus group with 13 communicators responsible for financial communication for banking and financial institutions in the US.

Why are companies spending so much time, and money, on narratives and on company reports in general? Because company reports are the most important moment in corporate communication and if a company wants to engage in apology, that's the right moment to do it. Companies want to tell a happy ending story regardless of financial results. We never read about serious, unsolvable situations because if the situation is really serious, companies simply cease telling the story. When a company is involved in bankruptcy proceedings, for example, it stops issuing reports since they are not mandatory any more. Readers are therefore aware of the overall positive message companies intend to give in annual reports and of the tendency to emphasize good news over bad news, and will expect corporate information to be provided in a manner which sheds the best possible light on the company.

2.Prior Research and Methodology

Countless studies of apologetic discourse in general have been published over the past 35 yearsbut scholars have begun to extend the categories of apologetic analysis to specific domains only in the last decade.

Some studies have been focusing on corporate apology in a context where corporate practices have come under greater public scrutiny and companies function as apologetic rhetors, as pointed out by James Jasinski (2001: 20-23) in his *Sourcebook on Rhetoric*. However, literature devoted to corporate apology has tended to concentrate on crisis communication (Benoit 1995; Hearit 2006) rather than on communication during economic and financial crisis.

The findings by Ware and Linkugel, back in 1973, laid the foundations for the present study. They identified four tactics or common strategies in apologetic discourse*:* Denial, bolstering, differentiation, transcendence. Other scholars have proposed alternative conceptualizations of the types of strategies, William Benoit (1995, 2000) among them. He identified five major strategies that overlap slightly with Ware and Linkugel's tactics. He included 'denial'as well, but the other strategies he recognized (such as 'mortification') are much more in line with image repair theory (Benoit 2000: 40) than with the broader meaning of apology which has been adopted in this research. From this perspective, apology does not occur as a particular discursive response to a specific rhetorical attack, it is a recurrent discourse in a recurrent text, the annual company report.

The research questions addressedin the present paper therefore are:

●Do the four strategies identified by Ware and Linkugel occur regularly in company reports issued in times of economic crisis (market-related or company-related)?

●What are the discursive realizations of these strategies when companies perform successfully (as it might be the case with most of them in 2000, a period of prosperity)?

The definitions of the strategies the study is based on are illustrated here below. They are adapted from Ware and Linkugel's definitions.

(a) Transcendence: It is the srategy that tries to reframe the situation in a broader context.

(b) Denial: Ware & Linkugel distinguished among various forms of denial (denial of substance, of intent, of extent of consequences) and forms of indirect denial: those are the forms of denial considered in our study. By indirect denial we mean the response to charges in such a way that the charges are never explicitly acknowledged.

(c)Differentiation: This strategy seeks to create necessary distinctions that somehow redefine the questionable situation.

(d)Bolstering: It is the process of enhancing the image of an institution (companies in our study) by linking it to abstract values.

At this point some additional remarks on the *corpus* considered for the analysis are needed. It is about 50,000 words in size and is composed of eighteen annual company reports issued in 2000 and 2009 by 9 companies: British Airways, British Petroleum, British Telecom, GKN, Invensys, Marks & Spencer, Tate & Lyle, Tesco, Vodafone. Of the 30 companies included in the FT30 index in 2000, 13 were not included any more in 2009. Among those which were still included (17), 1 fund and 3 insurance companies have been discarded due to the different accounting standards of this kind of companies; 3 companies changed their names and probably underwent a radical change (i.e. M&A); Diageo does not provide annual reports from its archive if you are not a shareholder. It is to be noted that in 2009 two companies contained in the index and included in the *corpus* performed quite successfully despite the economic downturn. This fact actually affected the use of the four strategies of the apologetic discourse, as it will be demonstrated through the paper.

The financial statements of all the companies that make up the *corpus* have been preliminary analyzed and the financial data assessed to verify how the company had performed in the previous year. In fact, data can be really ambiguous, and it was also necessary to consult expert informants from corporate restructuring studies to obtain an independent evaluation of economic performance. The main point was to understand if the companies under consideration were performing strongly or poorly and if their strong/poor performances were relative – i.e. compared to the previous year - or could be considered so in absolute terms – i.e. compared to the market as a whole (see Table 1). At this stage of the research project, and as far as it concerns the aim of the present paper, this seemed to be the best assessment criterion to identify poor or well-performing companies.

Table1. Companies' Economic Performance

	British Petroleum	British Airways	British Telecom	GKN	Invensys	Marks & Spencer	Tate & Lyle*	Tesco	Vodafone
2000									
2009									

Note. Well-performing companies are indicated in light grey, companies performing poorly are indicated in dark grey. Strong or poor performances were both relative – i.e. compared to the previous year - and in absolute terms – i.e. compared to the market as a whole.

3.The Four Strategies in the texts

The distributions of the four strategies in the 18 ACRs considered in the study are illustrated in Table 2 at the end of the present study.

Table 2. Strategies Distribution

	British Petroleum	British Airways	British Telecom	GKN	Invensys	Marks & Spencer	Tate & Lyle*	Tesco	Vodafone
2000	T	T					T		
	De	De		De *(once)*			De		
	DI	DI							
	B	B	B	B	B	B	B	B	
2009	T	T	T	T	T	T	T		T
	De	De	De	De	De	De	De		De
	DI	DI	DI	DI	DI	DI			DI
	B	B	B	B	B	B	B	B	B

*[illegible] by CEO

Note. The table shows in which year and in which annual company reports strategies are deployed. Key to symbols: T=Transcendence; De= Denial, Di= Differentation; B= Bolstering.

Generally speaking when companies use the strategy called transcendence their intention is, as mentioned above, to reframe the situation in a broader context: In company reports issued in 2009 the broader context was typically the macro-economic scenario, i.e. the financial and economic crisis. It is usually described at the very beginning of both the Chairman and the CEO's Reviews. For example in British Airlines' company report issued in 2009, at the very beginning of the Chairman's Statement a whole page is filled up with the following words: "We are in the grip of a devastating global economic downturn and the next year will be extremely difficult for us. In times of crisis, it is essential that we keep our sights fixed on the future." (British Airways 2009: 4). The Chairman's Statement that follows fills three pages where you can find reference to "the pace of economic slowdown", the "sharp fall in premium traffic", the "record oil prices and adverse current movements", the "very tough trading environment, "the collapse of the banking system", "the credit squeeze on business and homeowners", "rising unemployment".

The CEO's Review is similar in style and, again, we find preliminary remarks on a separate page, to place greater emphasis on them: "The airline industry is enduring the toughest times in its history and we expect more pain before things improve" (*Idem*: 8). In order to get a more general impression, the reader can read the *incipit* of the CEO's Review here below.

> It is hard to exaggerate the severity of the current economic conditions. During the year the credit crisis spread quickly from US to the rest of the world provoking a global downturn that has left no single region and very few business sectors untouched. Added to that we saw that the value of sterling plunge; a collapse in consumer confidence; the continuing suffocation of credit markets; record of oil prices […]. Airlines across the world are being battered by this storm. We have seen some 35 carriers go out of business or forced into rushed mergers […]. Meanwhile the competition remains fierce, particularly at Heathrow and on important transatlantic routes (*Idem*: 9)

The economic scenario was radically different in 2000 and transcendenceimplied references to company-related crisis and not financial and economical crisis. The example which follows is taken from British Petroleum 2000 CEO's Review:

> In the oil sector, prices were 15% down against the level seen in the previous year; refinery margins were weak; retailing was fiercely competitive; and in the chemicals sector margins were at levels below those seen at the bottom of the previous business cycle […]. Our chemicals business was restructured in the face of a sharp sectoral downturn (British Petroleum 2000: 12).

At British Airways both chairman and CEO mainly refer to competition and Tate & Lyle executives to over-capacity in the US sugar market and adverse, difficult market conditions. No traces of transcendence were found in the remaining company reports issued in 2000.

Differentiation is typically used to turn readers' attention on positive data and divert them from negative figures. For example GKN, the automotive industry, in its 2009 company report places emphasis on shareholders support and the cutting down of interest costs, while they do not mention the reasons why they needed a rights issue (companies usually opt for a rights issue either when having problems raising capital through traditional means or to avoid interest charges on loans):

> The rights issue launched in June was strongly supported by shareholders, with over 95% acceptances, and raised £423 million before expenses. […] we have been able to repay our revolving credit facilities and buy back £124 million of our 2012 bound, thereby reducing interest costs going forward.(GKN 2009 Annual Company Report: 3).

British Airways 2009 company report can provide a good example of differentiation:

> Financially, this is a very difficult time for our business. Operationally however, we are achieving levels of excellence today never seen before in this airline. […] Shortlanded baggage at Heathrow in March 2009 was 19.2 bags per 1000 passenger, 72.3 per cent better than March 2008 (British Airways 2009 Annual Company Report: 3).

Focusing on details concerning short-landed baggage is a way to distract the reader's attention from the company's poor financial performance. These words are part of the Chairman's Statement the reader can find in the following pages and they are placed at the very beginning of the company report. They occupy a prominent position in the text and are the verbal counterpart to some graphics dealing with the same topic, baggage, placed at the beginning of the annual report as well. Something similar happens, for example, in Vodafone's company report issued the same year, where the focus is on money transfer system in Kenya and Afghanistan in order to drive reader's attention to unimportant information.

In 2009, Marks & Spencer performed badly and exploited, among the others, the indirect denialstrategy, to respond to charges that are not formulated explicitly, but are nonetheless implicitly acknowledged by the company:

> We are now increasing the pace of change and operational execution in the business and reinvigorating our brand communications […]. During the year we acted decisively to meet the challenges of the global economic downturn, taking steps to manage costs tightly and respond quickly to the changing needs of our customers. […] We are now back on track after a challenging period. […] Over the past five years we have invested heavily in the business and re-established our value credentials.

> As a result we have grown market share by both value and volume, and out brand is back in the hearts and minds of our customers(Marks & Spencer 2009 Annual Company Report: 2-5)

The following is an example of indirect denial from British Telecom CEO's Statement in2009; please note that it is also the conclusion of the overview:

> So in the past year we have taken some tough decisions and we have taken some bold decisions too […], but I believe the actions we have taken will enable BT to come out of this recession a stronger and better business(British Telecom 2009 Annual Company Report: 4).

In the *corpus* considered for the study, the indirect denial strategy, as well as transcendence and differentiation, are strategies consistently used in the company reports of companies performing poorly, both in 2000 and 2009. The chart in Table 3 combines the presence of the four strategies with companies' financial performance.

Table3. Correlation between Strategies Distribution and Companies' Performance

	British Petroleum	British Airways	British Telecom	GKN	Invensys	Marks & Spencer	Tate & Lyle	Tesco	Vodafone
2000	B	T De Di B	B	De *(once)* B	B	B	T De B	B	B
2009	T De B	T De Di B	T De Di B	T De Di B	T De Di B	T De Di B	T De B	B	T De Di B

Note. The table combines the presence of the four strategies with companies' financial performance. A distinct tendency is detectable: When companies perform poorly, they use all the four strategies of apologetic discourse. There seems to be only one exception in the tendency in Marks & Spencer 2000 Company Report, where no traces of transcendence and differentiation were found. Key to symbols: T=Transcendence; De= Denial, Di= Differentiation; B= Bolstering.

4.Conclusion

A distinct tendency is detectable (see Table 3). When companies perform poorly, they use all the four strategies of apologetic discourse. There seems to be only one exception in the tendency in Marks & Spencer 2000 Company Report, where no traces of transcendence and differentiation were found.

Recourse to all four apologetic strategies happened, as expected, more frequently in 2009 due to the financial crisis. At the other end of the scale, when companies performed strongly they did not need to employ all the four the strategies and this suggests that apologetic discourse is indeed deployed more frequently at times of crisis, but does make an appearance also in prosperous times, not only when downturns - big or small – are faced, but also under relatively unchallenging circumstances. Of these strategies, bolstering is the only one that is ever present, being aimed at enhancing company image by linking it to abstract values. Bolstering is ubiquitous, its purpose is to promote company image, and its presence does not seem to be dependent on the company's financial performance.

Despite the fact that the *corpus* considered for the paper is composed of a relatively small number of company reports, it proved to be suitable for testing the methodology and find answer to the two research questions. Next steps in the research project will take into consideration a wider number of texts and some attention will be devoted also to low capitalized companies. At the same time, distinctive lexical markers of the four strategies will be first identified and then thoroughly investigated throughout the new *corpus*, with a view to pinpointing the key features in the repertoire of strategies habitually deployed to convey positive corporate images and identities.

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