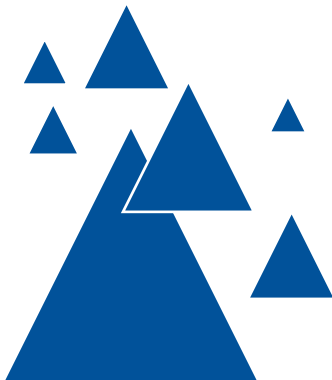


THE
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OF SCOTLAND



Measuring and Assessing Tone at the Top Using Annual Report CEO Letters

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Published by

The Institute of Chartered Accountants of Scotland
CA House, 21 Haymarket Yards
Edinburgh EH12 5BH

First Published 2010
The Institute of Chartered Accountants of Scotland

© 2010
ISBN 978-1-904574-55-2
EAN 9781904574552

This book is published for the Research Committee of
The Institute of Chartered Accountants of Scotland.
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Printed and bound in Great Britain
by T. J. International Ltd.

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OREWORD

Chief Executive Officers (CEOs) have a strong influence on the “tone at the top” of companies. If the “tone at the top” has a consequent influence on the quality of financial reporting then it may be useful for auditors and other users to find a way of examining and evaluating the “tone at the top” of companies and the resultant risks to which companies might be exposed.

The authors of this study contend that the CEO letter to shareholders in annual reports is one medium used by corporate leaders to communicate their attitudes and values. They argue that by analysing the text of such letters, auditors and other users can gain an insight into the “tone at the top” of major corporations.

This study demonstrates two methods of undertaking this analysis. Firstly, the use of a text analysis software package to analyse the CEO letters of FTSE 100 and the top 100 FORTUNE 500 companies. Secondly, the close reading or forensic examination of selected company letters (General Electric, Enron, BP and New Century Financial Corporation) is undertaken to seek to understand the ideology, rhetoric and metaphors at play and to highlight any silences.

The study finds that the combination of close reading and software analysis techniques can furnish a valuable understanding of the culture of an organisation and the intentions of top management teams and could therefore be of value to auditors and other users. It is argued that an assessment of business leadership risk can be formed by focusing closely on the language of CEOs, and that this may help auditors identify cultures that are overly partial to risk and those likely to prove too risk adverse. The study recognises that there are alternative methods which

auditors use to assess risk and this technique whilst useful would not necessarily replace these other methods.

The authors conclude that a closer scrutiny of corporate activity is essential in the current climate and that the methods highlighted in this book are critical tools in conducting much needed culture and communication audits.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER). The Research Committee of The Institute of Chartered Accountants of Scotland (ICAS) has also been happy to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the study will add to the existing understanding of corporate culture and “tone at the top”.

David Spence
Convener, Research Committee
March 2010

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CKNOWLEDGEMENTS

A book of this nature would not have been possible without the assistance and facilitation of many parties. The authors thank their respective current and former institutions (Rotman School of Management, Rhodes College, the University of Canterbury and Aberdeen Business School) for the facilitative environments in which they have been privileged to pursue their research interests.

For their dogged work in the arduous, tedious and eye-straining task of accessing CEO letters and formatting them for use with *DICTION* software, we thank our research assistants Fatima Butt (Rotman School) and Tyler Ponder and Steele French (Rhodes College). We are grateful for the sterling work of C. Nicholas McKinney (Rhodes College) in constructing and managing our database of letters, and in providing statistical support. The administrative assistance of Gilda Serrao (Rotman School) and Linda Gibson (Rhodes College) was always cordially given and is much appreciated.

We thank the research office staff at ICAS, Christine Helliard, Michelle Crickett and Angie Wilkie, for their encouragement, patience and cheerful facilitation of our journey to completion of this manuscript.

Finally, the Research Committee and the researchers are grateful for the financial support of The Scottish Accountancy Trust for Education and Research, without which the research would not have been possible.

This work is dedicated to our wives, Lilly, Annette, and Naheed, and to our families.

E XECUTIVE SUMMARY

Introduction

Chief Executive Officers (CEOs) traditionally have placed a strong value on the creation of unified corporate cultures, devoted to the achievement of strategic objectives. They strive to create a 'tone at the top' that will set a powerful example for important internal and external stakeholders.

CEO letters to shareholders in annual reports are a potentially important vehicle for communicating the attitudes, values and behaviours of those in senior leadership roles. These letters deserve much closer examination and auditor scrutiny than has occurred in the past. They are authorised and signed by CEOs, many of whom participate pro-actively in their composition. CEOs have a legal responsibility for the content of their letters, and because of this, the letters are a useful medium for assessing the intentions of CEOs as they struggle to set a tone at the top. For example, they can be crucial in showing how CEOs interpret important external challenges and how they visualise solutions to whatever problems their organisation is currently facing.

The growth in CEO power in recent decades further highlights the importance of this issue. Simultaneously, there has been a growth of 'heroic' models of leadership, which encourage many CEOs to exaggerate their proficiency, level of insight, and ability to command events (many of which are beyond their control). A growing concern has developed in the USA regarding the tone at the top of organisations, especially after the collapse of Enron in 2001 and the passage of the Sarbanes-Oxley Act in 2002. The financial crisis of 2008 and the onset of global recession have also raised critical questions by the public, policy makers

and media about the manner in which CEOs perform their role. How CEOs respond to this heightened scrutiny will be a vital issue for the global economy in the years ahead.

CEO letters to shareholders therefore have a great importance. This study of their content over the past decade has the potential to reveal how CEO mindsets function in a period of global boom and expansion, and help us to assess such matters as risk management policies and practices. An understanding of these matters is of relevance to auditors and others who are interested in obtaining early indications of potential future problems.

Measuring and assessing tone at the top in CEO letters

Our main aim in this book is to demonstrate, through critical investigation, certain methods for analysing text such as CEO letters, with a view to gaining insight into tone at the top.

The tone at the top is explored through the medium of CEO letters to shareholders. The significance of such letters and what they demonstrate about the culture of organisations, and the personalities of CEOs, is assessed.

Two main analytical approaches are employed on selections of CEO letters drawn from the UK and the USA – a qualitative approach and a quantitative approach. Qualitatively, selections of CEO letters are subjected to ‘close reading’, or forensic examination from a variety of perspectives, to seek to understand the ideology, rhetoric, and metaphors at play – and to highlight any ‘silences’. Detailed examples of such analyses are provided, focusing in particular on the communications of General Electric’s Jack Welch, British Petroleum’s Lord Browne, the letters of Skilling and Lay at Enron, and an instance of the use of both techniques in combination – an exploration of US sub-prime mortgage

company New Century Financial Corporation's CEO communications pre-bankruptcy.

Quantitatively, the software package *DICTION* is used to analyse collections of CEO letters to shareholders in 1998 and 2006 for large US and UK based companies. *DICTION* subjects 500 word segments of text to analysis, searching for distinctive linguistic markers – such as master variables labelled 'insistence', 'embellishment', 'complexity', 'optimism', 'certainty' and 'realism'.

DICTION is used to analyse two data sets comprising the text of CEO letters to shareholders for large UK-based companies and for large US-based companies. The UK companies were those designated as comprising the Financial Times Stock Exchange (FTSE) 100. An analysis was undertaken of 91 FTSE 100 company CEO letters for 2006, and 71 letters for 1998. The US companies of interest are those designated as the top 100 companies in the annual FORTUNE 500 listing of America's largest corporations according to annual revenues. An analysis was undertaken of 94 FORTUNE 100 company CEO letters for 2006, and 81 letters for 1998. In total, approximately 600,000 words of text were analysed.

Findings

The data show that close reading analysis combined with *DICTION* analysis generates valuable insights to the intentions of CEOs, and the intended culture and tone at the top of their organisations. Several clear examples are cited below.

- (a) The analysis of Jack Welch's communications when he was CEO of General Electric shows a tone at the top which stressed the *DICTION* variables certainty, optimism, activity and realism, but excluded commonality. This approach is characteristic of transformational leadership models which emphasise the importance

- of charismatic leaders, but which understate the importance of such leaders in creating conduits for corrective feedback to them from their employees and other stakeholders.
- (b) The Enron letters are marked by very strong indicators of hubris and haughtiness, with indications that Skilling and Lay thought their organisation was immune to wider processes in the macro-economy. The *DICTION* indicators are particularly strong for hubris. Given Enron's aspirations to become 'the world's leading company' before it collapsed spectacularly, this sense of over-optimism is of major interest. Analytic tools which disclose such potentially destructive linguistic markers could be of value to auditors, and have the potential to reveal difficulties when organisations can still do something to avert collapse.
- (c) The analysis of BP's CEO letters from 1998 to 2006 illustrates how qualitative thematic and metaphor analysis may reveal insights into top management's approach to conducting leadership through language and setting a problematic tone at the top. In the specific case of BP, subsequent official investigations into, for example, safety issues, provided some support for questioning the 'heroic' leadership and 'speed' themes, among other examples, in the letters beginning in 1998. More generally, we believe that useful ways of gaining insight into tone at the top are offered by qualitative case studies of leadership language use based upon: (i) a longitudinal approach over time; (ii) more than one methodological perspective (for example, thematic analysis and metaphor analysis); and (iii) external independent indicators of tone at the top.
- (d) The analysis of New Century Financial Corporation shows that, while there was regular acknowledgment of an increasingly harsh operating environment, there were also indications of excessive

optimism about the organisation's ability to handle it. Even on the brink of bankruptcy, the [then] current year was being described as 'the best year in the history of (the company)'. Hyperbole is clearly present – the CEO sought to commit the organisation to becoming 'A New Shade of Blue Chip'. This emphasis on becoming something 'new' implies an abandonment of something traditional, a move into a fresh paradigm, and therefore to greater risk taking. While optimism is a necessary quality in the leadership of organisations, when taken to excess, it can indicate an inadequate understanding of the perils ahead – and therefore suggest insufficient readiness to cope. Such over-optimism sounds a warning note. The early detection of such optimism, including by auditors, is potentially of great value.

- (e) Related to this, quantitative analysis of CEO letters in the US and UK in 2006 reveals linguistic variables that are associated with a tone of self-assured smugness and confidence, suggestive of a general lack of humility by the signatories. Rather than reporting in a more matter-of-fact manner, there is evidence of brash boasting about product launches, and lack of perspective about the real priority of various products in customers' lives. Alongside this, there are frequent assertions about the values and emotions of employees that imply the CEOs concerned have some particularly acute insight into the feelings and mindsets of employees. This is questionable, since employees rarely communicate their deepest thoughts about where they work to those in charge. But an apparent CEO conviction that they do so may reinforce the creation of organisational visions, strategies and goals that are less readily acceptable to internal stakeholders than is imagined by CEOs. Nevertheless, the growing tone of certainty, insight and optimism identified remains consistent with a transformational leadership model. Some of the rhetoric indicates a corporate and individual mood that is consistent with

what has been dubbed ‘irrational exuberance’, and which therefore, in retrospect, can be viewed as a harbinger of imminent economic problems.

Discussion and implications

While recognising that assessing tone at the top in a comprehensive fashion requires analysis of a broader array of corporate communication media, the above findings point to the analysis of CEO letters to shareholders as being a very a fruitful contribution to this process. Importantly, neither close reading nor *DICTION* analysis, used in isolation, can yield a comprehensive insight into what CEO letters disclose about the tone at the top. However, when used in combination, they have strong potential to add a great deal and to furnish valuable understandings of the culture of the organisations concerned and the intentions of top management teams.

There are considerable implications for the accounting profession and academic researchers, as well as shareholders and, indeed, all stakeholders. Analysis of company accomplishment has tended to rely on financial metrics of performance. In the aftermath of Enron’s demise, and the more recent \$50 billion fraud allegedly perpetrated in the US by Bernard Madoff, the limitations of this approach are evident. A closer and more well-rounded scrutiny of corporate activity seems essential and inescapable.

International Standard on Auditing 315: Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment stresses the importance of understanding audit risk in a comprehensive fashion. Our approach highlights how assessments of business leadership risk can be formed by focusing closely on the language of CEOs. Although it is recognised that auditors will also make use of internal information and evidence in making their risk assessment. Understanding an organisation’s culture, as envisaged and

determined by the tone at the top, is a vital part of assessing its trajectory and prospects. Such understanding would enable auditors to identify cultures that are overly-partial to risk – and those likely to prove too risk averse. Analysts and auditors need to look more carefully at how to assess an organisation's going concern status; and how they diagnose an organisation's problems (e.g. whether CEOs accept responsibility for the consequences of their previous decisions, or seek to deflect responsibility to other stakeholders or the external environment).

We believe that close reading and *DICTION* analysis are critical tools in conducting much needed culture and communication audits. While these techniques, which are introduced and demonstrated in this book, need to be refined and developed, the initial analysis provided demonstrates that they offer multiple opportunities for insight, diagnosis and prescription.

1 TONE AT THE TOP AND CORPORATE CULTURE: AN AUDITING PERSPECTIVE

Introduction

Our main aim in this book is to critically investigate and demonstrate methods for analysing text such as CEO letters, with a view to gaining insights into tone at the top of major corporations.

This book addresses the role of the CEO in influencing the tone at the top of a large corporation and, through this, the quality of the company's financial reporting. A major theme endorsed is that a corporation's leadership, as represented by the CEO, strongly influences the tone at the top of a company and the culture of a company. Such a view is consistent with the assertion of Edgar Schein, a prominent management scholar, that:

Culture is created by shared experience, but it is the leader who initiates this process by imposing his or her beliefs, values, and assumptions... (Schein, 2004, p. 225)

Addressing the topic of organisational culture contributes to a literature which, over the past thirty years, has produced at least three major handbooks, thousands of studies, and a multitude of instruments each purporting to measure, or audit, its multi-faceted forms. The study of organisational culture is fraught with controversies. How should culture be defined to encompass its impact on organisational performance? How should culture be audited? What represents best practice in terms of the management of culture?

This chapter reviews some of the key issues in debates about culture and the relationship of culture with communication processes generally. It addresses some overarching concerns about tone at the top and posits that those interested in this area, such as auditors, should devote more attention to studying CEO discourse from the perspective of ascertaining a CEO's intended impact on organisational culture. This chapter outlines why a cultural audit or audit of tone at the top is important, and discusses some key features of tone at the top and a cultural audit. It sets the scene for subsequent chapters which outline why and how the CEO's letter to shareholders in a company annual report can be analysed qualitatively and quantitatively to assess corporate culture and tone at the top. The chapter offers support for the case that auditors should analyse a CEO's annual letter to shareholders because such letters can reflect, and help constitute, the tone at the top of a company. Analysis of CEO letters can lead to many other beneficial outcomes, for example, in the area of corporate governance.

CEO letters are, of course, only one medium through which corporate leaders express their leadership through language; the speeches that CEOs deliver are another important medium. In addition, auditors have access to other sources of internal communication, policy making and decision making, which might be less easily observable externally. However, as we suggest in the next chapter, CEO letters deserve a prominence amongst the various means of CEO communications.

Concern for tone at the top

Interest in the ethical values and the tone at the top of organisations has increased in recent years as stories have unfolded of major company crises in which the influence of CEOs and other senior managers has contributed to a dysfunctional tone at the top. In particular, the financial crisis of late 2008 has focused attention on these issues again: dysfunctional practices took root, leading to a series of collapses that imperilled prosperity in the global economy, and led ultimately to a new

relationship between the State and the finance system in many countries. A crucial issue is how those at the top of investment banks, mortgage lenders, and other financial and non-financial organisations articulated values, condoned practices and set a tone which persuaded regulators, politicians, shareholders and staff to embrace the business models in question enthusiastically.

In his testimony regarding the bailout of American insurance giant AIG before the US Congress's Committee on Oversight and Government Reform, former Chief Accountant of the Securities and Exchange Commission (SEC) Lynn Turner said:

...with respect to AIG, there has been, in my opinion, poor management and governance that has led to a poor tone at the top... (lines 549-551, Preliminary Hearing Transcript www.oversight.house.gov/story.asp?ID=2211; accessed October 18, 2008)

But what does tone at the top mean? Why is it important? Is it synonymous with ethical culture? How might anyone, including auditors, assess tone at the top? These questions are explored now and in later chapters, to demonstrate quantitative and qualitative techniques that can be used by external auditors or internal auditors. In doing so, attention is drawn to calls for the conduct of cultural audits: that is, audits which include examination of CEO-inspired tone at the top. Additionally, and importantly, is our promotion of the idea that auditors should address the issue of business leadership risk in assessing audit risk – that is, that they should give particular attention to the risk of an organisational leader setting an inappropriate tone at the top.

Concern for tone at the top has been especially prominent in the USA following the collapse of Enron in 2001, and the passage of the Sarbanes-Oxley Act in 2002. On December 3, 2004, the importance of tone at the top was emphasised in a high profile speech, 'Tone at the

Top: Getting it Right', by the SEC's Director, Division of Enforcement, Stephen Cutler (2004). He argued that tone at the top is constituted by the words and deeds of top management; and that since leadership is at least partly enacted by means of language, the link between the language of corporate leadership and the tone at the top is very close.

Tone at the top was given considerable prominence in 2006 in post-mortems on the 2004 crisis at the Federal National Mortgage Association (commonly known as Fannie Mae). The US government's Office of Federal Housing Enterprise Oversight (OFHEO) report on the failure of Fannie Mae concluded that 'Fannie Mae's corporate culture was intensively focused on attaining EPS [earnings per share] goals. Decisions by Mr Raines [Fannie Mae's CEO] shortly after he became CEO in 1999 set an inappropriate tone at the top that permeated the enterprise throughout his chairmanship' (OFHEO, 2006, p. 3). The problems of tone at the top at Fannie Mae at that time were illuminated further by the allegations of Christian (2005, p. 48) that:

...there seems to have been a tone at the top that FAS-133 [Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments] did not really apply at Fannie Mae and, while it was [a component of] generally accepted accounting principles (GAAP) ... the mindset was that if management did not agree with the rules, it would just not follow them.

At Enron the tone at the top was such that the company's written code of ethics did not need to be followed and that the 'culture of the organisation almost encouraged breaking the rules and pushing the envelope – anything to keep the stock price propped up' (Cunningham, 2005, p. 6). A process described as 'ethical drift' set in, whereby top leaders openly encouraged an atmosphere of hubris, narcissism and indulgence that fatally untethered the organisation from the real world around it (Salter, 2008).

Tone at the top has been implicated as well in lesser-known corporate contexts. For example, on 5 December, 2005, Stone Energy Corporation, an independent oil and gas company headquartered in Louisiana ‘announced the findings of the independent review by the audit committee of Stone’s board of directors concerning the downward revision to its proved reserves’ (retrieved 4 May, 2007 from www.stoneenergy.com/link_pages/pdfdoc/pressreleases/2005pressreleases/ReviewFindings.pdf). Among the findings which contributed to the need for substantial write-downs of stated reserves was the announcement indicating that:

... there was an optimistic and aggressive ‘tone from the top’ with respect to estimating reserves. Some on the Stone technical staff felt pressure to interpret the geological and engineering data in an aggressive manner; and there were several factors that may have prevented or discouraged the technical staff from pushing back against the optimistic tone from the top and the pressure that some perceived with respect to reserve estimation... (p. 1)

The International Federation of Accountants (IFAC), in referring to audit firms, asserted that ‘...the tone at the top is an important driver of audit quality’ (IFAC, 2007, p. 4).

The importance of tone at the top is not confined to for-profit organisations. The *United Nations Organizational Integrity Survey 2004, Final Report*, for example, stressed the importance of the United Nations having an appropriate tone at the top if it was to encourage good ethical behaviour:

Changing Tone at the Top will improve staff perceptions of Organizational Integrity. To improve Tone at the Top means the UN must focus on changing staff perception of senior leaders. This is particularly true of staff perceptions of how senior leaders place

their values and ethics ahead of their personal interests, aspirations or prior relationships. This can be achieved through acts and statements that set an appropriate example of ethical behaviour, as well as an effort to communicate these behaviours to staff. In other words, leaders must lead by example and be held to an even higher standard regarding all things ethical. (p. 7)

Interest in analysing tone at the top in accounting contexts was promoted by Castellano and Lightle (2005). They built on the recommendations proposed in 1987 by the National Commission on Fraudulent Financial Reporting (known as the Treadway Commission) and the Sarbanes Oxley Act 2002, to highlight the importance of assessing the tone at the top in internal control reporting. They argued that the tone at the top (set by CEOs and senior managers) affects the culture of an organisation; and that an inappropriate tone is likely to increase the risk of fraudulent financial reporting and help explain cases of corporate collapse. Castellano and Lightle advocated the conduct of a cultural audit in which an assessment is made of ‘the tone at the top and the attitude toward internal controls and ethical decision making’ (2005, p.10). They identified three key issues that need to be addressed in a cultural audit: pre-occupation with analysts’ expectations; pressure of numerical targets; and pre-occupation with compensation plans. But they did not propose any protocols for assessing tone at the top. Nor did they explore in depth the importance of tone at the top in influencing the culture of an organisation. These matters are addressed in the remainder of this chapter.

What is tone at the top?

Tone at the top is defined by Cunningham (2005, p. 6) as ‘the shared set of values that an organisation has emanating from the most senior executives. It can be reinforced with written codes and other policies

and documents, but, more importantly, it reflects the actions of these executives. Are they “walking the talk”? Sheeder (2005, p. 35) claims that tone at the top is ‘the company’s “integrity DNA” – the foundation of all that it does [where] “integrity” generally means the possession and consistent adherence to high moral principles or professional standards that one refuses to change’.

In referring to public accounting firms, IFAC’s Transnational Auditors Committee contends that tone at the top is ‘the standard set by the organization’s leadership whereby performance is measured; the culture within which the members of the organization operate; the tone set by senior management; irrespective of management’s documented strategy and policies, it is the force that drives individual professionals; the “unseen hand” that directs activities regardless of management’s proximity to the action; and a commitment to the quality of care clients receive’ (IFAC, 2007, p. 8).

These definitions suggest that a fuller understanding can be obtained from a close reading of how the term is illuminated through metaphor, since ‘metaphors reflect...cultural information...’ (Su, 2002, p. 589). As explained later, such illumination emphasises the importance of CEO communication and language in setting and reflecting an organisation’s tone at the top.

One persistent metaphor used to explain tone at the top is that ‘tone at the top is a setting’, within which people work in an organisation. Thus, tone at the top is conceived to be an atmosphere, a climate, or a culture. The *Oxford English Dictionary* (OED) (1989) invokes metaphor to define tone at the top as an emotional setting; and, in particular, ‘a state or temper of the mind; mood, disposition’. Rieger (2006, p. 28) claims that the phrase ‘tone at the top’ first appeared in 1987 in recommendations of the Treadway Commission. (Retrieved April 3, 2006 from www.coso.org/Publications/NCFRR.pdf.) The Treadway Commission used ‘tone at the top’ to describe an environment set by management in which financial reporting occurs. A critical, desirable aspect of this environment was the establishment of ‘internal controls

that provide a reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection’ (p. 11).

The OED (1989) defines tone at the top as ‘the general or prevailing state of morals or manners in a society or community’. Its focus on the state of morality (or ethicality) within a social setting is consistent with the metaphor that ‘tone at the top is an establisher of ethical values’. Mahadeo (2006, p. 1) seems to concur, describing tone at the top as ‘the ethical (or unethical) atmosphere’ that is created in the workplace by ‘an organisation’s leadership’. Importantly, she cites the exemplary ‘trickle down effect’ to employees of the tone set by managers regarding ethics and integrity (p. 1). Thus, ‘if employees see managers bend the rules, they’ll bend the rules’ (Cutler, 2004). So, a senior manager, intent on fiscal prudence or frugality, can promote the achievement of such an aim by setting an example – complying with the same budget allowances and privileges as all other staff (e.g. in terms of office furnishings and travel allowances). In other words, senior management generally, and corporate leadership in particular, have the potential to create ethical mental spaces in their organisation by embedding their beliefs, values and assumptions in crafting a healthy organisational culture.

Another related metaphor used to portray tone at the top is that ‘tone at the top is a network of cues’ that directs organisational functioning, work ethics, and the application of management pressure and control. In particular, tone at the top is conceived as the exemplary work ethic cues top management provides, through their words and actions, to show employees how to behave. Such cues might include:

Good cues:

- adopting an attitude of zero tolerance to fraud;
- committing to ethical values such as honesty, loyalty, responsibility and fairness; or
- encouraging transparency and openness in financial reporting.

Bad cues:

- cultivating a culture of arrogance, combativeness and intractability;
- pressuring lobbyists to interfere with the activities of regulators in order to ensure the organisation's interests are upheld;
- engaging cavalierly in unsound accounting practices (such as income smoothing, and failing to establish internal control systems);
- adopting an attitude of passivity or complacency;
- promoting a culture of deception and misrepresentation; or
- engaging in intimidating behaviour or bullying of employees (especially with likely whistle-blowers).

An important cue for (or characteristic of) the wave of recent corporate accounting and financial scandals has been 'lethal brews of overly aggressive financial targets, coupled with a tone at the top that not reaching those targets was unforgivable' (Sayther, 2004, p. 6). One of the world's most prominent management scholars has characterised this approach as 'America's monumental failure of management' (Mintzberg, 2009), and has argued that it lies at the root of the global financial crisis of 2008. In particular, Mintzberg (2009) criticises many CEOs as 'detached and hubristic. Instead of rolling up their sleeves and getting engaged, too many CEOs sit in their offices and deem: They pronounce targets for others to meet, or else get fired'.

An example of the harmfulness of overly aggressive financial targets is found in the behaviour of [former] CEO, 'Chainsaw' Al Dunlap. During his tenure as CEO of Sunbeam, 1996-2002, he demanded that all earnings expectations be met – no matter what variety of accounting had to be deployed. In this and in other instances, CEO rhetoric should be careful to avoid mis-cues or double-talk, such as might arise

in situations where senior management has one set of espoused ethical values for public consumption, and another set for when it is 'off-line', 'off-record' or out of public sight (Cutler, 2004).

The metaphors for tone at the top described above suggest the discursive role of top management in enacting leadership through language and symbols (including non-linguistic symbols). This provides a link to CEO annual report letters to shareholders, addressed in the following chapter. But first, the meaning of culture and the implications of that meaning for the conduct of a culture audit are examined.

Corporate culture: The conundrum of definition

There have long been multiple definitions and conceptualisations of organisational culture and how a healthy culture can be created (McAleese & Hargie, 2004). Schein (2004, pp. 245-271) asserts that leaders can create a healthy organisational culture by deploying primary embedding mechanisms, and secondary articulation and reinforcement mechanisms:

Primary embedding mechanisms

- What leaders pay attention to, measure, and control on a regular basis.
- How leaders react to critical incidents and organisational crises.
- How leaders allocate resources.
- Deliberate role modelling, teaching, and coaching.
- How leaders allocate rewards and status.
- How leaders recruit, select, promote, and excommunicate.

Secondary articulation and reinforcement mechanisms

- Organisational design and structure.
- Organisational systems and procedures.
- Rites and rituals of the organisation.
- Design of physical space, façades, and buildings.
- Stories about important events and people.
- Formal statements of organisational philosophy, creeds, and charters.

The mechanisms for creating a culture, suggested by Schein, echo work on rhetoric theory that proposes a tension between ‘primary’ and ‘secondary’ rhetoric. For the Ancient Greeks, ‘primary rhetoric’ is held to be oral persuasion, usually performed on a specific occasion with a given audience and purpose in mind. ‘Secondary rhetoric’ refers primarily to written texts, which are held to affect wider audiences in a deeper manner. Secondary rhetoric has been growing in importance for centuries (Conrad & Malphurs, 2008). This book addresses one outcome of the capacity for secondary rhetoric (in the form of CEO letters) to have a persuasive impact on a variety of internal and external audiences. The impact of CEO letters may be heightened since secondary rhetoric has the potential, as with some theories of management in general, to become a self-fulfilling prophecy. That is, it can create attitudes and promote governance mechanisms to ensure behaviours become aligned more closely with the rhetoric in question, however dubious its intrinsic merits (Ghoshal & Moran, 1996).

An inherent presumption is that a healthy organisational culture is a plausible antidote to widespread corruption within an organisation. Such a presumption is consistent with the observation of Ashforth *et al.* (2008, p. 673) that:

Organizational cultures evolve norms that guide employee practice. If those norms and practices operate mainly to serve the competitive interests of a company in an unbridled drive for profits at any cost, they run the risk of shouldering aside other norms that might serve the interests of other stakeholders, including those of the larger society. When that occurs, an organizational culture can appropriately be labelled corrupt, as can the organization itself.

Ashforth *et al.* (2008, p. 674) also emphasise that ‘a formal ethics infrastructure does not guarantee a corruption-free organisation. What is required is a culture that embeds support for ethical conduct throughout its formal and informal systems’. The language by which an organisation’s senior leaders help to craft such a desirable culture seems of central importance.

Morgan (1997) has argued that organisational culture can best be understood in terms of metaphor – as a form of social glue, a sacred cow, an affect regulator or a set of ‘blindings’ that seeks to secure some kind of cognitive closure (Alvesson, 2002). Fletcher and Jones (1992, p. 30) assert that organisational culture ‘refers to the overall ethos of an organisation; those characteristics, including both psychological and structural elements, which affect the perceptions and behaviours of employees’.

More typically, culture has been defined as ‘the taken-for-granted and shared meanings that people assign to their social surroundings’ (Wilkins, 1983, p. 25). Shared group meanings are embodied in values, symbols and ritualised practices (Sergiovanni & Corbally, 1984). Culture can be understood as a consistent set of values and attitudes held by people in an organisation, expressed in whatever practices flow from these values and attitudes (Ashkanasy & Jackson, 2001). Thus, measuring culture requires the exploration of language, artefacts and the observable behaviours and rituals of organisational members. Many of these attitudes have a taken-for-granted quality in the minds of those

who adhere to them, and determine ways of looking at the world that are often applied automatically, unthinkingly and usually with very little interrogation (Ashkanasy, 2003). Expressed in these terms, culture is believed widely to have a 'powerful and sometimes overwhelming impact on the organisation's decision making and performance' (Wilkins, 1983, p. 26).

Conceptualisations of culture

One of the leading theorists in the field, Edgar Schein, has pointed out that:

A chronic issue in conceptualising 'culture' seems to be whether we should think of culture as a 'state' or static property of a given group/organisation or as a human process of constructing shared meaning that goes on all the time. (Schein, 2000, p. xxiv)

In line with this, Chan (2003) challenges the notion of culture as some kind of group property that is relatively unchanging, attracts consensus and is free of ambiguity. He cautions that '...treatment of culture as a fixed, unitary, bounded entity has to give way to a sense of fluidity and permeability. It requires also that explanation of cultural forces be situated in a larger context and a wider arena of different forces' (Chan, 2003, p. 313). Thus, an organisation can have an 'official' culture articulated by its key managers, and which they wish to believe has strong internal support, but which is more contested than is acknowledged in officially sanctioned organisational discourse (Tourish & Robson, 2006). From this perspective, organisational culture is much harder to define, is constantly changing, stimulates controversy, is likely to contain sub-cultures, and is continually co-created by organisational members as they struggle to make sense of their environment.

Martin and Frost (1996) have outlined four common conceptualisations of culture:

1. *Integrationist*. This stresses similarities within organisations. Culture is conceived as an organised set of common values which shape the ways members of organisations understand their experiences. Ashkanasy (2003, p. 302), for example, notes that 'organisational culture... focuses on the consistencies of values, attitudes, and behaviours within a particular organisation that distinguish it from others'.
2. *Differentiation*. This stresses differences within organisations. Culture is conceived to be associated with different values and practices which co-exist within organisations. Thus, the study of culture requires the study of sub-cultures. For a summary of this view, see Martin *et al.* (2006). It also follows that such sub-cultures will often contain elements that do not conform to managerial ideals.
3. *Fragmentation*. This assumes that meanings within the organisation are diverse and disorganised. Culture is conceived as emanating from an organisational tension, with competing perspectives striving for dominance, and often in conflict with each other. Sub-cultures are not seen as any more stable than dominant cultural narratives (see Martin *et al.*, 2006). The study of culture therefore becomes a study of tension and conflict.
4. *Post-modern*. This asserts that culture is the study of organisational sense-making as mediated through power relationships. Culture is conceived as being the handmaiden of managerial rhetoric, and often as a device to maintain the control of powerful elites (e.g. Deetz & Kersten, 1983). Such approaches explore how dominant organisational actors seek to naturalise 'a particular way of knowing, thus excluding as illegitimate other forms of representing knowledge claims' (Mumby, 2001, p. 601). Culture therefore tends to be understood as a project of oppression.

The conceptualisation of culture in this book is cognisant of each of these different streams of thought but draws more heavily on the post-modern conceptualisation. Organisational leaders are urged continually to build shared meanings, group identities and cultures among those they employ. Group identity is 'highly mutable, flexible, open to shaping from many directions at once in its changing environments, and most importantly, a result of constructions continuously debated and contested among its highly independent, even unruly membership. The discourse about corporations as cultures now focuses on this sense of flexibility over solidity, multiplicity over standard models' (Marcus, 1998, p. 6). It is an approach that explicitly directs us to the process of sense-making.

Sense-making, CEO discourse, corporate culture and cultural audits

Weick (1995) argues that while people have many shared experiences, these do not necessarily equate to shared meanings – irrespective of how much effort is expended in this direction. Consistent with this perspective, the discourse of powerful CEOs is an attempt at creating shared meanings and cultures. From this, assumptions can be made about the cultures they would like to see predominate within the organisations where they perform their roles. However, as with all social contexts, their efforts can only ever be partially successful. Culture audits can therefore explore the official and unofficial cultures within organisations – as these cultures form, evolve and mutate into new forms, and as they vary between groups and individuals.

Many organisations promote teamwork, loyalty and belonging as a means of creating more liberating cultures – ones that also happen to be aligned more closely with corporate purposes. There is considerable evidence to suggest that, in many cases, the outcome is more oppressive: for example, where employees are expected to think continually of themselves primarily in terms of their designated organisational identity

(Kunda, 1992). Thus, the frequent gap between espoused and enacted values has created a great deal of stakeholder cynicism about mission statements and values. A key role for culture audits is to explore these tensions. Culture audits should be alert to the ambiguities of culture formation and change, as varied organisational members struggle for voice, power, dominance and meaning in enacting relationships with each other.

These issues can be of decisive significance for an organisation's future, and for those who manage its destiny. For example, failure to grasp the importance of deeply embedded cultures that conflict with those of a CEO, and the associated difficulty of changing them, seems to have been a key factor in the sacking of Carly Fiorina as CEO of Hewlett-Packard (Burrows, 2003). Fiorina championed an ambitious programme of change, which nevertheless conflicted with the famed 'Hewlett-Packard' way – a set of cultural norms championed by employees and other long-standing stakeholders, including members of the Hewlett and Packard families. Consistent with this example, 'Change spawns stories and stories can trigger change. Stories can also block change and can define what constitutes change' (Brown *et al.*, 2009: p. 323). It is much more common to find multiple, contested and contradictory stories of organisational change than a single narrative account that is consistent with the intentions of top management teams (Beech *et al.*, 2009). The challenge is to explore organisational culture in all its multifaceted forms. This creates a more accurate picture of the sense-making heuristics used by employees and managers alike, and so provides a more comprehensive assessment of an organisation's priorities, competing cultures, emerging challenges and likely trajectory.

Cultural audit: methodologies, controversies and constraints

Wilkins (1983) was one of the first proposers of a culture audit. He was frank in acknowledging the difficulties likely to be faced in such

an endeavour. In particular, given that people rarely articulate their values and attitudes directly, any attempt to understand them must involve sifting 'through a wealth of concrete and diverse manifestation of culture (stories, rituals, language, daily routines, and so forth) before we can arrive at our goal' (Wilkins, 1983, p. 27). Wilkins did not outline any particular technique for conducting a culture audit. Rather, he argued that it is a question of watching, observing, and interpreting behaviour, while chronicling the stories exchanged and seeking to determine how people make sense of them. Consistent with this flexible approach, Denniston (2002, p. 132) has characterised a culture audit as a 'comprehensive assessment, which can entail a variety of techniques including surveys, interviews and group discussions about an organisation's philosophies, attitudes, actions and beliefs'. But culture audits are fallible. Wilkins (1983, p. 37) observed that 'it is something of an art to uncover basic assumptions that are buried in an organization's rich collection of observations, stories, language and customs. Because people have the natural tendency to cover up some assumptions, observers must be careful to take broad enough samples to determine how representative their findings are'.

Wilkins (1983) presents the issue of culture formation, transmission and management as largely the preserve of top management. It is assumed that top management can frame a desirable culture for others, which they then model. Top management then rewards compliance in an attempt to embed the desired culture deeply in their organisations. Thus, a culture audit is envisaged as a management tool, to gauge the success or otherwise of these efforts. According to Denniston (2002, p. 132), 'a comprehensive culture audit can be the first step toward a strategic rethinking of management practice, work life issues, ways of standardisation and other aspects of above average performance'. To this list might be added issues related to a company's accounting, accountability and corporate governance.

Despite a frequent stress on the multi-faceted nature of culture and on the need to study its many and varied manifestations, there has also

been a plethora of more simplistic approaches to its measurement. For example, Fletcher's (1991) culture audit uses a pen and pencil self-report instrument which assumes that organisational culture can be defined as homogeneous or heterogeneous; enriched or managed; developing or stationary; balanced or dissonant. A five-point scale is used in a 17 page questionnaire with approximately 70 questions and 200 response elements. Thus, no rich stories are produced in such an audit. Rather, overall mean scores are tabulated, from which inferences are made about where the organisation sits on the main dimensions of culture chosen for inquiry. Despite obvious limitations, a plethora of such instruments has emerged. One major review identifies at least 18 questionnaires that, between them, possess varying degrees of construct validity and reliability (Ashkanasy *et al.*, 2000).

Culture is manifest in communication, and simultaneously constituted by it. Communication perspectives on culture therefore acknowledge 'the symbolic character of ordinary language and the ways in which cultural meanings are co-constructed in everyday conversation, textual evidence of patterns, and also the entire non-verbal, semiotic field' (Eisenberg & Riley, 2001, p. 295). This suggests that the study of culture must be concerned inevitably with the wider communicative processes occurring within an organisation. A communication audit is therefore also valuable in considering how culture can be audited.

The nature and role of communication audits in exploring culture

The ubiquity of the term 'audit' often generates confusion (Baker, 1999). Historically, the practice of auditing is associated commonly with scrutiny of an organisation's financial health. This book extends the ambit of auditing: if culture is expressed through, and constituted by, an organisation's communication processes, then an audit of communication helps to uncover issues of high importance. At its most basic, an audit is simply an evaluation of a designated process (Hogard

& Ellis, 2006). Communication audits typically examine and evaluate communications programmes and activities, often with the intent of revealing gaps and inadequacies that can then be remedied (Henderson, 2005). Communication audits share several characteristics with more established audit practices in finance, medicine and accounting, as noted below (Tourish & Hargie, 2009).

1. *Accumulation of information*

In the case of auditing, the goal is to check the efficacy of financial accounting procedures by sampling a representative cross section of transactions within the organisation. In communication terms, a similar goal is to assess a sample of communication episodes to determine key trends. From these, many inferences about culture can be made. This might be termed the *diagnostic* phase of the auditing process.

2. *Creation of management systems*

Systems are developed to control the flow of information and resources over a given period. This is the *prescriptive* phase of the audit process.

3. *Comparison of communication practices with publicly declared standards*

A finance audit normally ensures that funds are managed appropriately and that efficient methods of financial management are being applied (Singleton & Singleton, 2007). Clinical audits monitor the effectiveness and efficiency of medical activity, and contrast performance against national and international benchmarks (Shapiro, 1999). Communication audits provide similar performance benchmarks. They generate a much enhanced ability to measure performance and the impact of specific measures designed to improve performance. This is the *accountability* phase of the audit process.

In the 1970's, considerable attention was devoted to the issue of communication audits by the International Communication Association (Goldhaber & Krivonos, 1977) and by prominent communication scholars (e.g. Greenbaum & White, 1976). A seminal text was published from the work of the International Communication Association by Goldhaber and Rogers (1979). This identified several key issues to be evaluated by a communication audit:

- the amount of information underload or overload for major topics, sources and channels of communication;
- the quality of information communicated between various sources;
- communication relationships, including interpersonal trust, supportiveness, sociability and job satisfaction;
- operational communication networks (including for rumours, social and job related messages), and how they compare with formal networks;
- bottlenecks and gatekeepers of information;
- positive and negative communication experiences; and
- individual, group and organisational patterns of actual communication behaviours related to sources, channels, topics, length and quality of interactions.

Other suggestions have been made regarding what should constitute reasonable communication audit objectives in most organisations. Cheney *et al.* (2004) identified various ingredients of organisational communication, which many communication audits therefore seek to explore. These include:

- symbols (e.g. logos, architecture, uniforms);

- structures (e.g. rules, reporting mechanisms, operating procedures);
- patterns of practices (e.g. the informal means by which news is habitually spread);
- discrete messages (e.g. particular announcements, CEO statements, or press releases);
- interactions (e.g. those that might occur during performance appraisal interviews or disciplinary hearings);
- relationships (e.g. those between different departments);
- narratives (e.g. stories about how the organisation was born, evolved or survived a crisis);
- meetings;
- networks (formal and informal);
- rituals (e.g. coffee mornings or celebrations);
- myths or stories (e.g. 'Jane got early promotion, and you can too'); and
- broad discourses (e.g. a company's firm belief in its ethical values).

Much of this ingredient list above relates explicitly to issues of organisational culture (e.g. rituals/myths and narratives). Thus, audit measures typically focus on issues such as:

- who is communicating with whom?;
- which issues have received the most attention and arouse the most anxiety?;
- how much information are people receiving and sending on crucial issues?;

- how much interpersonal trust exists?; and
- how can the overall quality of working relationships be characterised?

Such issues are also among the core concerns of efforts to establish ‘organisational climate’ – a construct that overlaps organisational culture. Thus, climate:

...reflects beliefs about the organisation’s environment that are shared among members and to which members attach psychological meaning to help them make sense of their environment. (Dickson et al., 2006, p. 351)

Climate is the result of interaction between an organisation’s structure, systems, leader behaviours and employees’ psychological needs (Srivastav, 2006). It is determined strongly by people’s emotional responses to a wide range of issues, including communication (Patterson et al., 2004).

The growing emphasis on language analysis in organisational studies conceives organisations as narrative spaces in which stories and accounts are employed by participants to facilitate the process of sense-making (Cornelissen, 2006; Amernic et al., 2007). In this context, leaders engage ‘in a process of rhetorical negotiation with their audience, trying out words, phrases, and literary constructions to better and more convincingly communicate their vision of their organisation’ (Cuno, 2005, p. 205). It follows that communication audits helping a better understanding of culture should pay considerable attention to language-in-use, for example, in reports, memos, conversation and formal letters. The interpretive challenge that this poses is to tease out the implicit, probable or possible meanings that different audiences attach to the language concerned. This includes analysing, or auditing, the tone at the top, in such forms as CEO letters. Communication audits have the following methodological strengths:

- They permit auditors to identify the subjective interpretations of reality held by important actors in organisational life. This extends to customers and clients who are recognised increasingly as having a vital contribution to make to the business planning process.
- Depending upon the method utilised, people are permitted to voice their views and feelings in their own words, while also recording (on objective measurement scales) their responses to communication issues which can be analysed extensively. By one means or another, audits explore individual perceptions of communication. Such perceptions sometimes disclose a harsher communication reality and organisational culture than senior managers had hoped or planned for (Tourish & Robson, 2003). Thus, audits bring to the fore the reality of how people feel.
- The understanding that participants have of communication episodes can be compared to formal organisational channels and systems, to explore the gaps that exist between imagined and real practice.

There is no established method of conducting communication audits. A contemporary handbook on the subject (Hargie & Tourish, 2009) identifies at least thirteen approaches, including: questionnaires; interviews; focus groups; communication diaries; mystery shopping; video recording; critical incident analysis; network analysis; and direct observation. Selection of an appropriate method depends on the precise nature of the communication being audited (e.g. whether it is written, oral, retrospective or occurring in real time); the research aims, objectives and/or hypotheses that are being pursued; and the resources available to the audit team, including time. Auditing communication and culture is a science, but it is also an art. This is unlikely to change in the near future.

Summary

The concept of organisational culture is multi-faceted. But it is not yet completely clear what impact it has on organisational performance. What is apparent is that senior managers are often committed to building unifying cultures – ones which they assume can impact positively on performance. The financial melt-down in global capital markets in 2008 created a crisis of managerial legitimacy which makes this task more difficult (Khurana & Nohria, 2008). Communication by CEOs has become more complex, contradictory and contested. This means that culture and communication audits must also seek to explore the surface and deep structure meanings in the discourse of CEOs, including in the letters that they send to shareholders (Amernic *et al.*, 2007). At the very least this means that researchers and auditors can determine the culture that an organisation's leaders are seeking to create or which they imagine is already in existence. Exploring the tone at the top and the extent to which tone at the top is shared by other organisational actors is a crucial component of this task.

2 THE IMPORTANCE OF CEO LETTERS IN ASSESSING THE TONE AT THE TOP

Enacting leadership through language

Senior corporate leaders and managers ‘work with words’ (Jönsson, 1998, p. 11). The discourse of CEOs, whether formal (in speeches, press releases, interviews and narrative parts of annual reports) or informal (in meetings or corridor conversations) is a set of complex communicative acts with symbolic, emotional, cultural and political overtones. The language used is an inherently strategic form of ‘sense-making’ (Weick, 1995). It helps establish an ideological theme for management control and reflects the culture and tone of a company. It even helps to make sense of why companies account the way they do and to understand why they focus on particular indicators in assessing financial performance.

Indeed, leadership is enacted largely through language – which should be interpreted broadly to include all symbolic acts of corporate leaders (such as body language, power dressing, ‘casual Fridays’). This is consistent with a growing interest in leadership as a discursive language-based phenomenon (Fairhurst, 2007, 2008; Tourish, 2008). In particular, charismatic leaders are assumed to communicate a vision for their organisation energetically. This puts a heavy premium on the use of language and encourages charismatic or would-be-charismatic leaders to exploit the dramatic possibilities of language fully (Westley & Mintzberg, 1989; Den *et al.*, 1997). More broadly, emerging communication theories of what constitutes a firm suggest that ‘textually mediated practice’ is central to how companies and their leaders are constituted, secure consent and marshal capital (Kuhn, 2008).

This emphasis on language in effecting leadership is evident in Smircich and Morgan's (1982) characterisation of leadership as the management of meaning, and in Zarefsky's claim regarding the office of the American president, that a key function of senior leadership rhetoric is 'to define social reality' (2004, p. 207). In the process, rhetoric is involved heavily in the construction of identity (Heracleous & Barrett, 2001). It is therefore an important ingredient in the discourse of any CEO concerned with promoting a particular organisational identity and loyalty on the part of employees. Within this framework, organisations can be conceptualised as 'interpretive structures in which identity is socially constructed and symbolically mediated' (Hartelius & Browning, 2008, p. 26).

While cognisant that the language of corporate leadership – whether evidenced by the CEO letter or the many other forms of corporate leader discourse – unfolds within a broader formal and informal discourse framework (Holland, 2006), this study focuses at a more micro level on the CEO, and in particular on the CEO letter. CEO letters to shareholders in annual reports are important instances of the use of language in the discourse of senior corporate leaders. Such letters are narrative accountability texts offering valuable insight to the motives, attitudes and mental models of management. Labels (such as 'fair employer', 'good corporate citizen' or 'innovative manufacturer') are used therefore to 'succinctly embody what the organisation means – or is hoped or intended to mean – to individuals and groups' (Ashforth & Humphrey, 1997, p. 53).

Thus, the way CEOs enact their leadership, largely in words, helps us to learn and understand their espoused world-view, and ultimately, the *raison d'être* motivating their corporation's behaviour (Lakoff & Johnson, 1980; Lakoff, 1993; Weick, 1995). In particular, rhetorical analysis is 'a specific kind of discourse analysis that concentrates on analysing linguistic strategies of argumentation as individuals seek to persuade an audience of a particular construction of reality congruent

with their own interests (through justification), while undermining others (through criticism)' (Symon, 2008, p. 78).

Amernic *et al.* (2007) justify the importance of CEO letters by arguing that they help readers to comprehend how powerful corporate leaders make sense of the world and attempt to engage the active support and involvement of employees and other key stakeholders. They point out that CEO letters should not be regarded merely as 'mundane, common discourses of seemingly minor importance, possessing a narrow, "captured" audience of stockholders' but that they are important documents for scrutiny. This is because 'they are public documents signed by the corporation's CEO, published annually as an integral part of a corporation's Annual Report, and provide a personal accountability narrative' (Amernic *et al.*, 2007, p. 1844). The importance of CEO letters and the insights they offer have been illustrated also by Kendall (1993), Fiol (1989), Prasad and Mir (2002), Palmer *et al.* (2004), and Fanelli and Grasselli (2005).

CEO letters to shareholders have the potential to reveal many interesting practical and theoretical aspects of corporations, their leaders, and tone at the top. For example, if the CEO narrative in the annual letter to shareholders is read and analysed closely (in terms of content, context and ideology) and with regard for cognitive linguistic markers (such as metaphor), then the cognitive world of CEOs as senior corporate leaders can be made visible, at least partially. Such analysis of the 1940 CEO letter of the iconic cultural figure, Walt Disney, revealed a CEO who was seemingly 'a skilful, yet subtle rhetorician, whose ...capabilities encompass a deft capacity to manipulate accounting data strategically ...[and whose] use of metaphor ... assists us in entering theoretical speculations about Disney's ideological motivations' (Amernic & Craig, 2000, pp. 74-75). Consequently, the study of rhetoric facilitates our ability to understand persuasion, power, ideology and manipulation (Hartelius & Browning, 2008).

Since the CEO letter to shareholders is an important medium through which many of Schein's (2004) cultural embedding mechanisms (see chapter one) can be communicated, it serves essential strategic and

accountability functions. Indicative of this is a statement on the General Electric (GE) Company's website (www.ge.com; visited May 25, 2005) which explains that the CEO letter, published as part of GE's corporate annual report 'includes management's assessment of the prior year, as well as a discussion of future plans. The letter typically highlights the CEO's priorities for the coming year'. There is clear evidence that CEOs generally take the construction of CEO letters very seriously (see for example, Welch 2001, p. 442).

Thus, the annual report CEO letter is a personal account, in a fundamental sense, consistent with the literature in sociology on account-giving (Scott & Lyman, 1968; Franzosi, 1998). The letter serves CEOs in two broad ways. First, since 'what most people have missed is the use of writing as a tool for comprehension' (Weick, 1995, p. 196), the CEO's involvement in crafting the annual report CEO letter serves as a means by which the CEO structures his or her cognition of the organisation and its setting. As Weick writes 'if people know what they think by seeing what they say, then the variety, nuance, subtlety, and precision of that saying will affect what they see, question, and then pursue' (1995, p. 196). Second, it helps the CEO make meaning for stakeholders by identifying, labelling, and organising phenomena such as events and ideas (Weick & Sutcliffe, 2007), including strategies and performance measures. If the CEO has included something or written about something in a certain way in the CEO letter, that something rhetorically cries out to be noticed. In much the same way as with the power of rhetoric of the president of the United States, the CEO of a major corporation has a degree of power to define social reality for many corporate stakeholders. Zarefsky (2004, p. 611) describes this 'power of definition', in the context of the American president, in the following way:

The key assumption I make is that characterizations of social reality are not 'given'; they are chosen from among multiple possibilities and hence always could have been otherwise. Whatever

characterization prevails will depend on choices made by political actors. People participate actively in shaping and giving meaning to their environment, and they do so primarily by means of naming situations within it. Naming a situation provides the basis for understanding it and determining the appropriate response... Because of his prominent political position and his access to the means of communication, the president, by defining a situation, might be able to shape the context in which events or proposals are viewed by the public...

Do CEOs write their letters?

In response to any contention that CEOs are unlikely to have personally composed all of the written communications that appear above their signature, including the annual report CEO letter, it is noteworthy that many prominent CEOs, such as Jack Welch and Warren Buffett, have acknowledged publicly their strong personal role in drafting CEO letters to shareholders (Jones, 2005). Some CEOs brief professional letter writers and investor relations staff about the tone and content they would like reflected in their letters to shareholders. But it would stretch credibility to suggest that CEOs routinely delegated responsibility to others for determining the thoughts and issues that will comprise their signed, completed, public-domain letters. It is much more defensible to argue that the thinking and issues infusing the CEO's letter are determined primarily by the CEO, and that they are indicative of the CEO's mindset – irrespective of whether or not the letters are crafted in their entirety personally by the CEO or by a ghost writer. Schoenberger (2001, p. 281) argues (in the context of corporate leader autobiographies) that it is legitimate to regard CEOs as the authors of text written for them by ghost writers because CEOs have a 'sense of themselves [that] is too strong to allow themselves to be ventriloquised by another person'. Indeed, as signatories of their letter, CEOs assume legal responsibility for its content. This acts as a strong

incentive for them to scrutinise closely, and to approve, the final version before signature and publication. However, more importantly 'in a perverse sense, whether or not a CEO is actively involved in composing a letter to stockholders does not matter: the words in the CEO's letter are symbolic and emblematic, and the reader takes them to be the CEO's own' (Amernic & Craig, 2006, p. 200).

Why are CEO letters useful in assessing tone at the top?

There are at least five major reasons why CEOs' annual letters to shareholders are worthy of serious investigation for their capacity to reflect and enact the tone at the top.

First, they are the signed, public, written representation of the corporate CEO. The CEO's signature makes the letter the CEO's personal responsibility, and constitutes a direct and personal claim which is publicly visible for all to see. There is no equivocation about claimed responsibility. Even if others assisted in composing the wording, the ultimate attribution is to the CEO. The fact that the CEO's letter is written, and is not a verbal utterance, makes its attribution more potent and enduring.

Second, they are an important annual ritual, in a sociological sense (Etzioni, 2000). They are associated intimately with the other contents of the corporate annual report, such as the management discussion and analysis, the audited financial statements, and management's representations regarding the financial statements. The dissemination of corporate annual reports, including the CEO letter, is an established annual event. It is an account-giving and an explanation that is expected by important corporate stakeholders regarding the year just past and plans for the future. Such narrative accounts are an important part of the functioning of society (Franzosi, 1998; Scott & Lyman, 1968).

Third, they have potential to provide insight to top management's mindset: for example, analysis of the metaphors and metaphorical structure of the CEO's letter can expose implicit ideologies (Craig & Amernic, 2004; Amernic & Craig, 2000, 2006).

Fourth, they often emphasise the key performance measures by which top management wishes to be held accountable. For example, in their annual report CEO letter for 2000, Enron's two top leaders, Skilling and Lay, wrote that 'Enron is laser-focused on earnings per share'. Such a single-minded and inapt fixation on one accounting measure has been claimed to be a key contributor to Enron's failure (Stewart, 2006).

Fifth, they have potential to provide additional important insights about senior leaders. For example, Barr *et al.* (1992) compared the CEO letters of two US railroad companies from 1949 to 1973. They sought to reveal senior management's differences in causal reasoning by constructing mental maps from the two railroads' CEO letters over time.

In sum, the CEO's letter in a corporate annual report offers potential to reveal important aspects regarding the tone at the top. This is because leadership is enacted through language and language is an important means of crafting corporate culture. The CEO letter is a privileged communication medium by which that enactment occurs. The letter has the capacity to reflect the CEO's priorities, mindset, implicit ideologies and perceived charisma and greatness.

Linking the CEO letter, leadership and tone at the top

The CEO's annual report letter is a personal and public statement with multiple potentialities. It can define how performance will be measured and assessed; set out a business model, strategy, vision or direction; instil confidence; and be an accountability report on the organisation's success or failure in attaining goals. CEOs frequently intend their letters to enact their leadership: by charting an agenda behind which all employees must rally; by defining the values and culture

to which the organisation will aspire; and by convincing all stakeholders of the leader's virtues.

CEOs now have a relatively short tenure period in which to make a difference. They are claimed to be allowed barely eight months to develop a strategy, 19 months to improve the share price, and 21 months to improve earnings (Haigh, 2003, p. 6). Given that they have less time to make an impact, the rhetorical power of the CEO's letter is stronger. Paradoxically, the power of CEOs has grown significantly too, meaning that CEO communications assume even greater capacity to define organisational tone.

There is empirical evidence that the CEO's letter to shareholders communicates important aspects of the tone at the top, thereby exerting important social influence over stakeholders. Segars and Kohut (2001), for example, analysed 200 web-based letters of the CEOs of Fortune 1000 companies. They concluded that CEO letters have the capacity to reflect a CEO's:

- credibility (sincerity and accuracy of interpretation of corporate events).
- efficacy (capacity to be a controlling force in organisational and environmental events).
- commitment (capacity to be a good steward).
- responsibility (the degree to which the CEO is a good citizen in business relationships).

CEO letters are not monotonic, but vary considerably in the tone they project. They reflect a wide range of leadership styles, CEO personalities, and the varied commercial contexts and cultural settings in which companies operate. French CEO letters, for example, unlike those of other cultures, are characterised by 'seduction, charm and obfuscation' (Bournois & Point, 2006, p. 46). The CEO letters of some companies

have statistically different semantic structures from other companies (Jang & Barnett, 1994).

Grace (2005) cites examples of the CEO narrative of Al Dunlap (Sunbeam), Bernard Ebbers (Worldcom), Dennis Kozlowski (Tyco), John Rigas (Adelphia) and Jeffrey Skilling (Enron) to argue that 'the publicly announced tone at the top can sharply differ from the ethical and moral values actually observed within the organisation'. However, none of the examples of CEO text cited by Grace was made within the formal and legal confines of the CEO's letter to shareholders.

Annual report letters of CEOs attempt to engage people's emotions and commitment, and to define their reality; that is, to secure their compliance. In many cases, for example, Enron, these attempts succeeded. With Enron, the desire for compliance extended to the utilisation of rhetorical devices by the CEO. These were aimed at producing a conversion experience on the part of employees, thus producing devoted believers in the organisational ideology (Tourish & Vatcha, 2005). In other cases, there is either overt or covert resistance. But the point remains that, while conceding the existence of dissent and resistance, CEOs attempt to limit both by framing reality in particular ways and by defining acceptable and unacceptable values and behaviours. Their letters to shareholders are one of the most obvious and understudied framing devices to which management researchers have access.

The many critiques which challenge the authority wielded by CEOs within contemporary organisations (e.g Mintzberg, 2004; Lipman-Blumen, 2005) do not fully explain the processes whereby the power and authority of leaders is manifest in the daily lives of followers. Much of the leadership literature fails to address the issue of power, particularly at a 'deep structure' level – that is, in terms of the mechanisms and social interactions whereby leadership is enacted and expressed (Gordon, 2002). CEO letters and the discourse of CEOs generally, constitute a relatively unexplored means whereby the power of CEOs is manifest in their attempts to reframe reality for organisational actors by setting a tone at the top.

Summary

This book focuses attention on how to assess tone at the top. What are its characteristics? And, more importantly, what are its implications? The focus is principally on the accounting and financial reporting consequences. Will the tone at the top lead to highly conservative accounting, 'adventurous' accounting, or an accounting that is contemptuous of conventional norms, regulations and proprieties?

It is important to audit the tone at the top to understand better the motives and rationales underlying the accounting policies and procedures that are chosen from those allowable within generally accepted accounting principles and International Financial Reporting Standards – and the consequences of such choices. The CEO has a very strong role in setting the tone of the company and this tone permeates the company and affects the variety of accounting conducted and the financial information reported. For example, a CEO who sets a 'can do, nothing is impossible' tone at the top seems more likely to engender organisational acceptance of values of contempt for formality, disregard for administrative propriety, and lack of respect for regulation. The upshot seems likely to be a greater risk of accounting and regulatory oversights, and the adoption of dubious or aggressive accounting techniques to ensure that 'can do' financial targets are reported.

The following chapters propose some qualitative and quantitative techniques whereby tone at the top can be assessed. Some procedures that can assist in auditing or analysing an organisation's tone at the top are explained and demonstrated. The cultural audit proposal of Castellano and Lightle (2005) is operationalised by focusing on the words of CEOs and what can be discerned about tone at the top from those words. The approach and the catchment of interest is very broad and is not confined to the three issues regarded by Castellano and Lightle to be of principal interest when conducting a cultural audit: pre-occupation with analysts' expectations, pressure of numerical targets, and pre-occupation with

compensation plans. The medium used in this analysis, for reasons just argued, is the CEO's letter to shareholders in a company's annual report. Knowledge of tone at the top, evinced from the words of CEOs, should be instrumental to auditors in planning their reviews of internal controls, in assessing the effectiveness of corporate governance checks and balances, and in preparing their audit opinion.

3 QUALITATIVE APPROACHES

Introduction

Numerous qualitative and quantitative methods are available to analyse CEO letters for insight into the culturally-embedded tone at the top of a company. These methods can also help to ascertain any inconsistencies and apparent mal-intent therein. They can be used by a broad constituency of stakeholders, including senior managers, as part of a self-assessment, and by external auditors, as part of the various assessments they are required to make about an auditee company.

In this chapter, a qualitative method is introduced that involves a series of 'close readings' (Amernic & Craig, 2006) drawing upon the nine focal points of a framework of qualitative inquiry suggested by Peshkin (2001). In the following chapter, a computer-assisted quantitative approach is explained for assessing the tone at the top of a company. This involves use of the *DICTION* text analysis software program (Hart, 2000).

Close reading

The technique of close reading has been used to elicit understanding of CEO narrative and to reveal a CEO's 'emotionally charged beliefs, values, and norms' (Trice & Beyer, 1993, p. 33). This technique has been described as subjecting 'selected samples of CEO text to multiple (usually three) close readings, conducted from different (but mutually reinforcing) perspectives. Each close reading constitutes an intensive, almost forensic, scrutiny of the explicit and implicit composition of the text. We typically conduct one close reading for ideology, one for rhetoric, and another for metaphor' (Amernic & Craig, 2006, p. 6).

Those engaging in close reading should consider using five of the strategies of textual analysis proposed by Martin (1990): dismantle dichotomies; examine silences; fill voids of understanding; decipher taboos; and interpret metaphors. One highly beneficial way of using close reading to assess the tone at the top, which is also consistent with Amernic and Craig (2006), is to apply an ‘angle of vision’ perspective (Peshkin, 2001). All references in the following section are taken from the latter source, unless otherwise indicated.

Angles of vision

Peshkin (2001) recommended the use of a range of possible focal points or ‘lenses through which to perceive’ (p. 242). Such focal points or lenses are not mutually exclusive ways of learning about a phenomenon, such as the tone at the top, but help develop awareness that ‘other things come into focus and get connected, so that we move away from our [conditioned] starting point’ (p. 244).

Peshkin’s nine focal points, and how they can assist in assessing tone at the top from the CEO letter, are explained briefly.

1. *Patterns*

As a way of perceiving, one should identify what occurs regularly in the CEO letter. For example, like most CEO letters, the letters crafted by Jack Welch during his 20 year tenure as CEO of GE begin with a recitation of financial results for the preceding year. This is a recurrent feature of his CEO letters. But, at times, this pattern was breached, and this is where insight might be available. For instance, in 1983, contrary to his prior practice, Welch began his CEO letter with a discussion of GE’s strategy. He thus framed his audience’s (and his own) attention on strategy (a proactive theme) rather than past financial results (a passive theme).

2. *Time*

Peshkin suggests that ‘the arrogance of presentism’ should be shunned. With such a perspective, the CEO letter can be explored through the lens of history to help ‘grasp meaning’ (p. 243) and ‘uncover honor, respect, concern and importance’ (pp. 243-44). Examining CEO letters over time and within different contexts, especially over the long-term tenure of a single CEO (for example, Walt Disney or Jack Welch), or of a set of companies over time, helps to understand the evolution of leadership approaches and adaptation (Amernic *et al.*, 2007; Barr *et al.*, 1992). Cross-sectional comparison of CEO letters from companies in the same industry, in the context of an event affecting them all, is worthwhile too (Amernic & Craig, 2004).

3. *Emic*

We can learn by showing respect ‘by taking seriously what [CEOs] say, what they think they are doing, what they make of things’ (p. 244). This will help dispel ‘pre-conceived notions of the type that preclude careful, serious listening [reading]’ (p. 244). Thus, one useful way of investigating a CEO letter to assess tone at the top is to imagine the motivations of the CEO for writing the letter as written, and for deploying the words used. For example, during his ten years as CEO, Michael Eisner of the Walt Disney Company made frequent use of the word ‘Walt’ in his CEO letters to evoke the cultural image of the company’s founder and long-time CEO, Walter Elias Disney – a person who became an enduring cultural icon (Amernic & Craig, 2000). A great deal can be learnt about CEO Eisner’s intent by enquiring why he repeatedly and consistently made the decision to draw rhetorically upon Walt in his CEO letters, at different times, and in different ways.

4. *Positionality*

Peshkin writes that ‘a strength of researchers is their capacity to take the role of others’ (p. 245). Thus, in addition to critically reading a CEO letter from a more abstract, disinterested perspective, further valuable insights to tone at the top might be obtained by adopting the roles or mindsets (as we perceive them) of other corporate stakeholders, such as shareholders, employees, and competitors. To ‘truly understand’, Peshkin urges us to ‘de-centre’ ourselves so that we ‘do justice to how someone can think and feel and conclude the way they do when all of this is, possibly, antithetical to how we ourselves think and feel!’ (p. 245).

5. *Ideology*

Peshkin maintains that ‘the lenses of ideology are a powerful means of perception’ (p. 246). Thus, implicit or explicit ideological stances – of the researched (that is, CEOs and their letters) and the researchers – require reflective consideration in assessing tone at the top. If, for example, a CEO appeared to reflect a ‘strict father’ ideology of the type described by Lakoff (1996), the tone of the organisation would be expected to be one that was committed to conservative values, strict reward and punishment systems, and more importantly, a top-down management style. In such an ideological context, tone at the top would be particularly important. It would be imposed on the organisation without genuine consultative processes. (See Amernic (1998) for an analysis of the ideology in Walt Disney Company CEO Michael Eisner’s CEO letters.)

6. *Themes*

The themes pursued in CEO letters are likely to indicate attitudes with respect to power, ‘adaptation, transition and change’ (p. 247). Of particular interest should be binary themes such as conflict and co-operation, order and confusion, success and failure, resistance and compliance, and themes related to race, class, gender and ethnicity (p. 247). To illustrate this, a thematic analysis of the first three paragraphs of Jack Welch’s 1981 letter to shareholders of GE is provided in Table 3.1. This analysis draws on the techniques for theme identification proposed by Ryan and Bernard (2003).

Table 3.1 *Theme identification in Jack Welch’s 1981 CEO letter to the shareholders of General Electric*

Text of 1981 CEO Letter	Preliminary theme identification
<p>Para 1: Your company’s underlying strength and resiliency were reflected in its 1981 performance and year-end financial position.</p>	<ol style="list-style-type: none"> 1. The company has underlying strength and resiliency. Could these be human characteristics? 2. 1981 performance and year-end financial position reflect this underlying strength and resiliency. 3. Paras 1 and 2 together support the theme that: <i>The company has underlying strength/resiliency which is reflected in its 1981 performance and year-end financial position; and which is (or perhaps is shown by) the financial accounting measures listed in para 2.</i>
<p>Para 2: Sales of \$27.24 billion were up 9% over 1980. Earnings of \$1.65 billion – \$7.26 a share – were also 9% ahead of 1980. Total assets exceeded \$20 billion for the first time: our debt-to-capital ratio was 19.4%; cash and marketables increased 12%, to almost \$2.5 billion.</p>	<ol style="list-style-type: none"> 1. The words ‘up’, ‘ahead’, ‘exceeded’, ‘increased’ all laud growth. The theme perhaps is: <i>growth is good.</i> 2. Why are these particular financial accounting numbers chosen? Possible theme: <i>Only a subset of financial accounting numbers reflects the company’s underlying strength and resiliency.</i> 3. Doing things ‘for the first time’ is lauded.

Table 3.1 *Theme identification in Jack Welch's 1981 CEO letter to the shareholders of General Electric (Cont.)*

Text of 1981 CEO Letter	Preliminary theme identification
<p>Para 3: These 1981 earnings were produced in the face of weak economic conditions in the United States and most foreign markets; they also came on top of record levels of expenditures for research and development (\$1.7 billion) and company investments in plant and equipment (\$2 billion). A number of electronics and computer software companies were acquired, strengthening General Electric in two areas targeted for high growth.</p>	<ol style="list-style-type: none"> 1. The company achieved laudatory 'earnings' (an accounting construct) in the face of adversity ('weak economic conditions' external to the company and perhaps beyond management's control). 2. The company's 'earnings' achievements were in spite of 'weak economic conditions' and 'record levels' of R&D and P&E, two categories of forward-looking expenditures. R&D and P&E are more controllable than 'weak economic conditions'. So, para 3 generally has as a theme: <i>Management can overcome a poor external environment and earn a profit, and at the same time look to the future by making record R&D and P&E investments.</i> 3. The last sentence reinforces the theme in para 2 by signalling that companies with technical virtuosity and innovation were acquired, and that management has a 'high-growth' strategy. 4. Growth, and especially 'targeted' 'high-growth', is lauded. 5. 'Targeted' is a thematic metaphor: <i>top management is a military leadership.</i> 6. The words 'were produced', 'were acquired', and 'targeted' all are consistent with an underlying <i>theme of top management agency.</i>

R&D = Research and development

P&E = Plant and equipment

7. *Metaphors*

Lakoff and Johnson (1980, p. 3) have noted that 'our conceptual system is largely metaphorical ...the way we think, what we experience, and what we do every day is very much a matter of metaphor'. Metaphors go beyond directly evoking a straightforward comparison between a term and a concept: they also 'generate inferences beyond the similarities required for their comprehension' (Cornelissen, 2005, p. 754). Metaphors accomplish this by linking abstract concepts to concrete things, and tie the familiar to the unknown by providing a 'cognitive bridge between domains'

(Putnam & Boys, 2006, p. 542). Thus, message recipients actively construct a relationship between the explicit semantic domains contained in terms used and the concepts that they seek to evoke. They cannot therefore be reduced to literal propositions (Cornelissen, 2006).

Metaphors are often embedded in the deep structure of a text, rather than stated overtly. In addition to their formal intent, they challenge analysts to tease out their implied and explicit inferences, paradoxes and outright contradictions. The linguistic metaphors evident in the words and sentences of CEO letters reveal underlying cognitive metaphors that potentially structure the way CEOs think – including how they reason and perceive the world and their company's place in it. Identification of such metaphors in CEO letters, along with their entailments, should provide insight to how CEOs portray the way they intend their leadership to be regarded. As the analysis in Table 3.1 reveals, Welch seemed to have a militaristic view of leadership. Such a conclusion is consistent with analysis of the corpus of Jack Welch's 20 CEO letters to shareholders of GE in which one of the pervading root metaphors was claimed to be 'Jack Welch is a commander' (Amernic *et al.*, 2007).

As a further example, the following appeared in the 1991 CEO letter to shareholders for GE, signed by Jack Welch as CEO:

1991 did, however, once again remind us how absolutely critical productivity growth is in the brutally Darwinian global marketplaces in which virtually all of our businesses compete. We are aware, for instance, that if we had the same productivity growth in '90 and '91 that we had in '80 and '81, our '91 earnings would have been more like \$3 billion rather than \$4.435 billion. We also are acutely aware that, without productivity growth, it is possible to lose in 24 months businesses that took a half-century, or a century, to build. Productivity growth is essential to industrial survival.

It is relevant to consider how the metaphor, ‘the marketplace is brutally Darwinian’, structures Welch’s thinking and (apparently) his behaviour as CEO, and helps create a tone at the top. The image is clearly intended to be one of brutal competition, in which ‘the survival of the fittest’ is assured. Competition of this kind is therefore depicted as beneficial, whatever its immediate unpleasant effects. But the invocation of Darwin goes beyond this. It also, subtly, frames business action as a natural and inescapable phenomenon, and thus, in some sense, a process that goes beyond the mediating power of human volition. Organisations can depict themselves as reacting impersonally to impersonal historical processes, rather than deliberately choosing particular courses of action – such as downsizing. Of course, business is not alone in invoking the spectre of Darwinism. But, as others have suggested, this often means that Darwinian ideas are misrepresented, applied to inappropriate contexts, and erroneously employed to justify unethical practices and ideas (such as that of racial superiority) (Gould, 2007). Welch’s use of Darwinian ideas in this context carries rhetorical power. Whether those ideas explain much about what GE was doing at the time may be another matter.

8. *Irony*

‘Irony is an enabling perspective for enhancing perception’ (p. 248). It helps us to become more aware of something by seeing ‘the viewpoint of its antithesis’. Thus, we might appreciate the CEO’s ‘contradictions between prevailing beliefs and the realities of mass society’ (p. 248). From irony we can learn about ‘that which is contradictory; and incongruity or paradox’ (p. 249). Thus, if a CEO lauds corporate success despite financial results indicating serious problems, or when a CEO claims that ‘our people are our most important asset’ in the midst of a major corporate downsizing, the attendant irony might suggest a disconnection in the CEO’s perceptions of reality – or an almost callous disregard for such reality.

9. *Silence*

It is important to understand what is excluded from a CEO's text. 'Detecting silence opens us to an institution's injustices, and missed opportunities'; and, quite often, what is missing in analysis 'is disappointment, apathy, alienation, or sadness' or 'those silences indicative of achievement that tell us we are somewhere worth being, that success is happening, that goals are being achieved' (p. 250). Thus, although high performing organisations tend to cultivate a climate in which the 'brutal facts of reality' are confronted head on (Collins, 2001, p. 67), much CEO rhetoric avoids a frank discussion of difficulties. For example, as shown in chapter five, BP's (British Petroleum) Chief Executive's letters to shareholders between 1998 and 2006 contained virtually no disclosures about the operational safety and cost control issues implicated in that company's refinery disaster at Texas City in 2005. Nonetheless, a major investigatory committee concluded that the problems were systemic:

Process safety leadership in an organization must start at the top. The Board of Directors of BP plc, its Group Chief Executive, and corporate management as a group must set the process safety 'tone at the top' and establish appropriate expectations regarding process safety performance. Those expectations must reflect an unwavering commitment to process safety and infuse into BP's workforce the mindset that process accidents are not acceptable. Those expectations must also be translated into measurable goals designed to move BP toward the achievement of excellence in process safety performance. (Report of the BP US Refineries Independent Safety Review Panel, 2007, p. 244)

It is striking that these issues are long standing in the oil industry. Researchers have documented a substantial gap between the declared aspirations, perceptions and language of senior managers on the issue, and the reality of practice on the ground (e.g. Collinson, 1999). Assessing tone at the top in BP communications on this issue today, and contrasting it with other information sources, exposes such tensions to public scrutiny, and enables an assessment of how much, or how little, has changed over the years on this vital issue.

Summary

The nine focal points described above can assist in learning about tone at the top. For example, a picture might emerge of a company that is static, and maintains the same organisational characteristics and values from year to year ('patterns', 'time'); promotes a behaviour and a culture that reflects the social construction of the CEO ('emic', 'positionality'); is obsessed with the virtues of a free market and a 'survival of the fittest mentality' ('ideology'); is resistant to change, pro-conflict and success-obsessed ('themes'); is motivated by the 'business is war' metaphor to the extent that it is overtly aggressive, lacking compassion, and non-conciliatory ('metaphor'); is disingenuous in pleading the need for cost cutting and wage restraint while substantially increasing the remuneration benefits of directors and senior executives ('irony'); and declines to disclose fully the ramifications of a pending class action law suit ('silences').

The analysis of themes in the first three paragraphs of the CEO letter of GE (presented in Table 3.1) can be supplemented extensively by the various perspectives offered by Peshkin's (2001) other eight angles of vision. Such analysis adduces important features of the ambient tone at the top of GE during Jack Welch's leadership. It reveals a company and a leader who are asserted to be strong, resilient, confident, canny, omniscient, smart, militaristic, and aggressive; and with employees who are regarded as subservient resources rather than as human beings deserving to be consulted about decisions affecting their welfare.

Chapter five presents a detailed example of the capacity of close reading techniques to discern aspects of the culturally embedded tone at the top of BP plc during the period 1998-2006, but with special emphasis on 1998. For the moment, the following chapter introduces a quantitatively-based approach for assessing the tone at the top.

4 QUANTITATIVE APPROACHES

Introduction

This chapter introduces a quantitative, computer-assisted approach to assessing tone at the top which involves the dictionary-based software *DICTION* (Hart, 2000). The use of *DICTION* is illustrated by applying it to the CEO letters to shareholders of GE for 1981-2000 signed by Jack Welch; and to the last CEO letter to shareholders of Enron before its collapse in 2001. Chapters seven and eight present more detailed examples to reinforce claims about the capacity of *DICTION* to reveal important features of tone at the top, especially when used in conjunction with qualitative approaches.

DICTION analysis

Computer-assisted text (or content) analysis has been used in a wide variety of research settings. For example, Williams *et al.* (2003) related the reduction of language complexity over a several-year period to the cognitive illness of a historical figure. Hogenraad (2003) analysed the content of literary stories and real-life documents concerned with conflict to see whether certain words might predict war. Magnusson *et al.* (2005) used data-mining techniques to ascertain whether changes in the text of quarterly reports indicated a change in financial data in the next quarter. More particularly, in their study of the leadership language of US president G.W. Bush, Bligh *et al.* (2004) contended that:

...content analysis allows the investigator insight into the often symbolically laden connotations used by leaders themselves in

context, making it a valuable tool for researchers specifically interested in leadership as the management of meaning... (p. 563)

Analysis of large corpora of text has been revolutionised over the past decade by the availability of numerous low cost computer-assisted software packages. In addition, the body of knowledge pertaining to computer-based text analysis has expanded greatly (see, for example Pennebaker *et al.* 2003; Hart, 2001; West, 2001).

A review of several computer-based text analysis packages for this project led to the choice of *DICTION* (Hart, 2000), supplemented at times by the use of 'Word' and 'ANTCONC' (for its 'keyword-in-context' (KWIC) and other corpus-analysis features; see Anthony, 2005). The choice of *DICTION* as the main quantitative computer-assisted text analysis tool was influenced by its widespread recent use in the leadership literature, and its introduction into the accounting and related literatures.

An extensive list of research works that have employed *DICTION* is posted to the website dictionsoftware.com. Recently, for example, in the leadership literature, *DICTION* has been used by Bligh and Hess (2007) and Bligh *et al.* (2004); and in the accounting and related literatures by Sydserff and Weetman (2002) and Yuthas *et al.* (2002), among others. To justify their support of *DICTION*, Sydserff and Weetman (2002) contend that:

...DICTION offers considerable potential for the accounting researcher. It is simple to use, it is automated, and yet it embraces a considerable degree of sophistication. The dictionaries have been constructed by experts in linguistics... (p. 533)

In relation to validity and reliability, the objectivity of DICTION analysis is a particular strength. Its automated nature, both for coding and quantification, renders it attractive as a research instrument...In particular, the specific theoretical basis of the

approach in linguistic semantics, the fact that the approach is well established in the applied linguistics literature and the independent attestation of the approach all point to strength in face validity. (p. 534)

DICTION is especially attractive to those interested in the influence of communication and language of senior corporate leadership on the tone at the top. This influence is a political function, and *DICTION* was developed especially for assessing political leadership discourse (see Hart, 1984, 2001). Bligh and Hess (2007), for example, in their study of former US Federal Reserve Chairman Greenspan's rhetorical leadership, claim that:

DICTION was a natural choice as it was explicitly developed for political leadership discourse while paying careful attention to linguistic theory... To our knowledge, DICTION is the only existing content analysis program that has been specifically designed for public policy dialogue... (p. 92)

Bligh *et al.* (2004), in their study of US presidential rhetoric pre-9/11 and post-9/11, justify their use of *DICTION* in the following way:

...the choice of a program should not be taken lightly in content analysis. There are a wide variety of pre-existing dictionaries and software packages to choose from, but caution should be exercised in evaluating the purposes of the dictionaries and the extent to which previously developed constructs are consonant with the current research question. To our knowledge, DICTION is the only software program that was explicitly designed to examine the linguistic elements of political leaders. In addition, the construction of its dictionaries was based on careful attention to linguistic theory ... DICTION uses 31 pre-defined dictionaries,

containing over 10,000 search words, to analyze a passage...All of the dictionaries contain individual words only, and homographs are explicitly treated by the program through statistical weighting procedures... (p. 564)

How does **DICTION** work?

DICTION uses 31 word-lists or dictionaries to search a given text. It produces 31 corresponding raw frequency measures based upon 500-word segments of text (Hart, 2000). *DICTION* permits users to analyse text in a variety of optional ways:

- only the first 500 words;
- an average for a complete text (up to 500,000 words) as averages of 500-word segments; and
- in separate 500-word segments.

In addition, for texts and text segments of less than 500 words, *DICTION* permits the user to choose either a raw score option or an option that extrapolates the result for the small file to a 500-word segment.

The 31 dictionary measures have labels such as ‘numerical terms’, ‘ambivalence’, ‘self-reference’, and ‘tenacity’. In addition, *DICTION* produces measures of four calculated variables (‘insistence’, ‘embellishment’, ‘variety’, ‘complexity’) by linguistically-based methods of calculation.

Finally, five master variables (‘activity’, ‘optimism’, ‘certainty’, ‘realism’, ‘commonality’) are constructed using various combinations of the 31 dictionary measures and the four calculated variables. Thus, 40 measures are produced by the program. A complete set of *DICTION*’s 40 measures, along with explanations, are provided in Appendix 1.

The master variables are defined in Table 4.1.

Table 4.1 *Definition of master variables*

Master variable	Definition (Hart, 2000)
Certainty	Language indicating resoluteness, inflexibility, and completeness and a tendency to speak <i>ex cathedra</i>
Optimism	Language endorsing some person, group, concept or event or highlighting their positive entailments
Activity	Language featuring movement, change, the implementation of ideas and the avoidance of inertia
Realism	Language describing tangible, immediate, recognisable matters that affect people's everyday lives
Commonality	Language highlighting the agreed-upon values of a group and rejecting idiosyncratic modes of engagement

As a caveat in interpreting *DICTION*'s normative values for comparison purposes, Sydserff and Weetman's (2002) comments are kept in mind:

A distinctive feature of DICTION 5.0 is the availability of a number of normative values for comparative purposes. One of these is 'corporate financial reports', which consists of a sample of 48 annual financial reports from Fortune 500 companies. The texts analysed comprise the president's letter and sections of the management discussion and analysis (MD&A). Use of such comparatives would require some caution, because the sample relates to US companies and to relatively large companies. (p. 533)

Use of large companies in constructing *DICTION*'s normative values is consistent with the subject-matter of this report, large companies. However, for the FTSE 100 companies such norms must be used with caution. Even for FORTUNE 100 companies analysed later as well, the norms are suggestive only, and more material changes in

DICTION variables should be the focus. With these limitations in mind, the GE example, focusing on the *DICTION* master variables, follows.

General Electric

DICTION's master variables are computed for the first 500-words of Jack Welch's CEO letters to shareholders of GE for 1981 to 2000, as shown in Table 4.2.

Table 4.2 *DICTION master variable measures for Jack Welch's 1981-2000 CEO letters to shareholders of General Electric*

	Activity	Optimism	Certainty	Realism	Commonality
Year	Score	Score	Score	Score	Score
1981	42.59	51.94	50.09	47.09	54.57
1982	<u>54.38</u>	<u>56.78</u>	<u>51.85</u>	<u>58.48</u>	49.86
1983	48.65	<u>57.79</u>	50.14	<u>52.25</u>	52.59
1984	49.32	<u>53.74</u>	47.00	45.67	50.09
1985	49.31	<u>53.47</u>	<u>54.05</u>	55.36	52.23
1986	51.26	51.67	49.95	<u>53.81</u>	52.71
1987	52.29	46.57	55.90	55.90	50.79
1988	51.91	51.85	<u>53.76</u>	<u>57.35</u>	50.56
1989	48.05	<u>53.81</u>	49.13	<u>47.22</u>	43.28
1990	51.33	<u>54.71</u>	49.33	<u>56.05</u>	50.37
1991	49.87	<u>53.49</u>	48.31	53.03	51.15
1992	52.62	<u>54.57</u>	49.04	<u>54.84</u>	51.71
1993	55.65	50.19	48.06	47.98	49.29
1994	50.48	52.47	49.40	56.78	49.72
1995	<u>54.27</u>	47.83	45.07	48.56	48.06
1996	51.98	52.30	<u>51.67</u>	<u>52.49</u>	48.71
1997	50.41	52.50	46.77	<u>56.74</u>	50.72
1998	55.13	51.99	<u>51.72</u>	<u>54.25</u>	47.81
1999	49.96	<u>54.79</u>	<u>51.89</u>	56.89	49.13
2000	49.51	<u>54.21</u>	52.86	56.00	49.90

Notes:

First 500 words analysed (Class = Business – Corporate financial reports).

Normal range for measures are as follows:

Activity	low	48.16	high	53.97
Optimism	low	48.21	high	52.50
Certainty	low	48.44	high	50.26
Realism	low	44.40	high	46.85
Commonality	low	48.40	high	55.30

All out-of-normal range scores are in bold typeface. Low out-of-range scores are italicised. High out-of-range scores are underlined.

Some interesting patterns are revealed in the data for the first 500 words of these twenty CEO letters of GE. Language displaying strong realism appears throughout the 20 years, except for 1984. Language displaying certainty appears to flow, then ebb, and then flow again throughout Welch's tenure, reaching a low point at the start of the 1995 letter, and recovering during the last three years of Welch's tenure as CEO. Optimism also seems to go through cycles, not necessarily in the same years as certainty, but it also ends with a flourish as Welch approaches retirement. There is no unusually high or low frequency of use by Welch of words that indicate commonality in the beginning 500 words of his CEO letters.

1982 seems to have been an unusual year, as far as semantic tone measured by *DICTION* is concerned. The CEO letter for that year scores significantly higher than the norms for activity, optimism, certainty, and realism. Since Hart (2001) has shown that 'virtually no statistical relationship exists among the five variables' (p. 45) based upon his analysis of over 20,000 verbal texts, this particular letter is semantically potent, perhaps signalling a take-charge, top-down communicative approach to leadership. Since 1982 was only the second CEO letter signed by Welch, was he attempting to establish his particular view of what leadership should be all about? Notice that the realism score for this year is especially high, perhaps to condition GE stakeholders to the need to acquiesce and comply with the new leader's direction?

Because of the pattern in this year, the semantic tone suggests a leadership language tone at the top that emphasises Hart's definitions of certainty, optimism, activity, and realism, but not commonality. Such a pattern offers hints about the tone at the top being constructed by GE's new leader. However, it signals that other aspects related to tone at the top (including other speeches by the CEO and other senior corporate leaders, changes to performance measures embedded in compensation plans, etc.) might merit close scrutiny in order to understand whether a new, perhaps risky, culture was being nurtured.

Enron

Now, a brief analysis of the dictionary variables of Enron’s last pre-bankruptcy CEO letter (for the year 2000) is provided. Five of the 31 dictionary variables that scored more than two standard deviations from the norms are examined in Table 4.3.

Table 4.3 *Extreme out-of-range DICTION variables in Enron’s last letter to shareholders*

DICTION dictionary variable	Frequency	% of words analysed	Normal range		Standard score
			Low	High	
Praise	8.57	1.71	0.00	5.13	2.25
Familiarity	87.00	17.40	106.54	137.49	-2.26
Present concern	13.05	2.61	1.06	8.54	2.21
Human interest	34.00	6.80	0.00	12.10	3.56
Diversity	7.00	1.40	0.00	3.53	2.77

The word frequency in the CEO letter for these variables was either extremely high (for praise, present concern, human interest, and diversity) or extremely low (for familiarity). (The definitions of these variables are provided in Appendix 1). This pattern is suggestive of a CEO who is prone to promote the accomplishments and qualities of his company (praise) in a way that has a ‘life-like’ character (human interest) but which lacks a common touch (familiarity). The portrait is that of a physical achievement-oriented, but aloof, CEO. It is a portrait which is consistent with the conclusion of a previous qualitative analysis of Enron’s 2000 CEO letter by Craig and Amernic (2004):

If we read the 2000 letter generously (that is, without assumptions of deceit on the part of the letter’s authors), Lay and Skilling seemed to have been caught up in their own hubris and haughtiness – deluded into thinking that Enron was so influential that it was

immune to the effects of any recession in the macro-economy... A hubristic stance is reflected also in the 'imperialistic' words used in the letter... (p. 826)

Although computer-assisted textual analysis has the potential to offer intriguing overviews of a text, it should not stand alone, but should be used with qualitative close reading analyses for a deeper appreciation of tone at the top. For example, one of the angles of vision Peshkin (2001) described was the identification of themes. With computer assistance, trends and patterns can be discerned in the use of keywords and constructs (using *ANTCONC*). Thus, qualitative analysis is complemented by identifying more extensive themes than might have been possible by non-computer means alone. As a particular instance, how often, and in what contexts, does a CEO letter contain personal pronouns ('I' for a single CEO; 'we' for a jointly-signed letter)? Are such uses of personal pronouns similar to the uses by CEOs of peer companies?

Furthermore, patterns in *DICTION* results can be revealing. For example, the fact that the language in Jack Welch's CEO letters always (except for one year out of the twenty) scored significantly higher than the norm on the master variable realism, suggests enduring construction of a culture that must recognise and adapt to immediate, tangible matters. Of course, deciding what should be included as immediate and tangible (in other words deciding on what qualifies as being the 'reality' to which the company must adapt) seems to be guarded jealously as a senior management prerogative. Thus, the language of the letter signals a rigid, top-down leadership style and an accompanying tone at the top.

***DICTION* as a potential diagnostic tool for auditors**

DICTION can be used to alert auditors to the possibility of an entity's exposure to business leadership risk. Auditors can draw upon extant literature and their reading of emerging threats, trends and issues

that are critical to the construction of whatever master variable they conclude will help them to detect an 'undesirable' tone at the top. They could then analyse CEO text using *DICTION* and be watchful for any out-of-range observations in respect of this variable. If such out-of-range observations were detected, these could be used to prompt the deployment of closer audit monitoring and more stringent corporate governance controls.

For example, auditors might contemplate constructing a master variable that sought to detect extremely low out-of-range scores for humility. Such an approach could draw, indirectly at least, from the theory of leader 'humility' which is based upon ideas such as those of Collins (2001). These ideas are that long-term organisational success is likely to result when a leader proffers a blend of humility and strong personal will. So, what might be of particular interest would be the corollary or obverse of this idea: that what is undesirable is the opposite of humility and strong personal will – a blend of hubris and personal abandon.

Morris *et al.* (2005) outline theoretical aspects of humility in leadership. They regard the construct of humility as being central to good leadership:

Specifically, the superior performance of the organization led by the 'humble' CEO is continually sustained over long periods, often spanning decades. Second, the organization is quite often the benchmark performer in its particular industry. Third, if the humble leader retires, resigns, or otherwise leaves the helm of the organization, the sustained superior performance of the organization continues long past the tenure of the humble leader. Finally, 'embarrassments' such as mistresses, theft for personal gain, 'cooking the books', excessive perquisites, etc., do not seem to arise in connection with the leadership of the 'humble' CEO. (Morris et al., 2005, p. 1,324)

The CEO who might be a business risk (leading to doubts, albeit possibly remote, about an entity's going concern status) could be theorised as likely to present the obverse profile; that is, one in which we might expect *DICTION* variables such as the master variable certainty and the dictionary variables blame and levelling to be rather high or moderate, while human interest and cooperation might be expected to score rather low. A difficulty, of course, is that true humility in leadership, or its obverse of hubris, are difficult to observe unambiguously. Therefore, in constructing *DICTION* expectations of hubris, an auditor should look for words used in CEO's letters that seem plausible indicators of predictors of hubris.

Amernic and Craig (2006), in their summation of a decade of research during which they analysed CEO letters to shareholders, described a common portrait of some CEOs as characterised by 'hubris, greed, contempt, deceit'. To this portrait one might add the common features which seem to have characterised CEO behaviour in the prelude to corporate failures in the past few decades: a CEO exuding over-confidence, cockiness and a 'can-do' mentality. The tone at the top engendered by such characteristics and behaviour is likely to be uncondusive to sound corporate governance, respect for ethical principles, and adherence to the law and regulation (including to accounting norms such that companies present their financial statements 'fairly'.)

In this regard, auditors might, for example, construct a hubris (or similarly titled) master variable in the *DICTION* style and commit to investigating more closely any extremely positive out-of-range measures. Such an index could be compiled by combining scores for praise (representing a propensity for 'affirmations'), accomplishment (reflecting a 'can-do' mentality), and tenacity (reflecting confidence). Thus:

$$\textit{Hubris} = \textit{praise} + \textit{accomplishment} + \textit{tenacity}$$

In the case of Enron's final CEO letter before its collapse, the out-of-range standard deviations were as follows:

$$\text{Hubris} = 2.25 (\text{praise}) + 1.89 (\text{accomplishment}) + 0.78 (\text{tenacity})$$

Thus, on average, this (alleged) indicator of hubris was $4.92/3 = 1.64$ standard deviations from the mean expected score.

An auditor prepared to accept an audit risk of 5.05% (that is, of observations, more than +1.64 standard deviations from the mean. See normal distribution tables) would be indifferent as to whether or not to investigate this further. But if the audit risk was greater than 5.05% such a result could trigger further audit scrutiny of the CEO's leadership and the attendant business leadership risks.

Summary

Our approach to employing *DICTION* to assess tone at the top is experimental. No rigid formulaic method seems appropriate. Nonetheless, it is important to analyse whatever metric is chosen not only cross-sectionally, but also longitudinally, for emerging trends. Further, it is important to use quantitative techniques cautiously and in conjunction with qualitative techniques.

Three further broad suggestions are pertinent. First, initially attempt to interpret patterns in the *DICTION* results of an individual company and for groups of companies. In doing so, keep the context of the company of interest in mind to the extent feasible. For example, the *DICTION* results for GE's 1982 CEO letter (included in Table 4.2) were interpreted within the context that a new CEO would intend to firmly establish his rhetorical leadership.

Second, look for material changes in *DICTION*'s dictionary variables, calculated variables, and master variables, or in clusters of these

measures. For example, in Table 4.2, 1982 seems to be an unusual year for GE in terms of its semantic tone, at least according to *DICTION*. Chapter six illustrates such an apparent material change in the 2004 CEO letter for the American company, New Century Financial, a major contributor to the sub-prime mortgage crisis in the USA.

Third, another useful activity can be to match *DICTION* measures with theories of leadership that indicate positive or negative aspects of tone at the top. For example, transformational leadership, especially more extreme varieties, might suggest the possibility of dysfunctional tone at the top (Tourish & Pinnington, 2002). Amernic *et al.* (2007, p. 1839) examine transformational leadership 'as a rhetorical artefact of one-sided dialogue emanating from a powerful leader'. This implies that the *DICTION* master variable certainty, and the calculated variable, insistence, might both be unusually high, as would the dictionary variables tenacity and self-reference.

Quantitative, computer-assisted text analysis of CEO letters can help to understand how tone at the top is enacted linguistically and reflected in CEO letters. The value in employing text analysis software such as *DICTION* is in providing a bird's-eye view, with consistency, of word usage in a large corpus of texts (Hart, 2001). But its potential for brute empiricism should be blunted by theorising about patterns and expectations, and its use as part of a combined qualitative-quantitative analysis.

The techniques discussed here and in chapter three have the potential to generate multiple insights into organisational discourse. They can enable enquirers, such as auditors, to discern the tone at the top much more accurately. From there, a clearer understanding can be developed of leadership patterns, styles and intentions. In turn, such analysis can foster a much better appreciation of an organisation's culture and associated communication dynamics.

5 'CLOSE READING' OF LEADERSHIP LANGUAGE

Introduction

The following quotes demonstrate, the importance of the tone at the top and CEO language:

Tone at the top is your best defense. (Sutton, 2007, p. 10)

The CEO sets the tone – good or bad. (Edersheim, 2007, p. 43)

Generally written as a signed personal letter, the document [the CEO letter] has enormous rhetorical importance in building credibility and imparting confidence... (Hyland, 1998, p. 224)

We got the [annual report CEO] letter done, as we always did. The 1995 letter started out with one hundred drafts, several of them major... (Bill Lane, Jack Welch's speechwriter for 20 years, in Lane, 2008, p. 241)

...letters to shareholders provide a unique glimpse into the minds of CEOs in a way that is impossible to obtain through other means. (Yadav *et al.*, 2007, p. 89)

A more critical awareness of the language used by leaders... would enable a more fruitful debate about the actual contribution of leadership to organisational outcomes. (Tourish *et al.*, 2010)

This chapter analyses the text of the Chief Executive's letters to shareholders of British Petroleum (BP) from 1998 to 2006. These

temporal endpoints are significant because the years 1998 to 2006 were momentous in BP's history. In 1998, BP and the American petroleum company Amoco merged to create a dominant company in the industry. 2006 saw the last CEO letter to shareholders signed by long-time BP Chief Executive, The Lord Browne of Madingley (previously known as Sir John Browne) before his abrupt departure from BP in 2007.

BP was not the focus of a financial reporting scandal during these years. Nonetheless it is worthwhile to examine the company's tone at the top over this time period because BP is an important global corporation in a sensitive industry. Such an examination, especially if conducted by key internal and external corporate stakeholders concerned with the company's integrity, has the potential to identify dysfunctional aspects of leadership and encourage improvements in the tone at the top before a crisis in financial reporting or similar matter occurs. Interest in the tone at the top should be a continuing pursuit for key stakeholders – and not just an after-the-fact remedial exercise – although the retrospective examination of how leadership language contributes to a reporting crisis is also important in understanding the tone at the top and what contributes to its impairment. Such an examination in connection with the CEO letters of the American company, New Century Financial Corporation is conducted in chapter six.

The analysis of BP's CEO letters is based on two close readings, each conducted from a different perspective (Amernic & Craig, 2001, 2006). It is acknowledge that CEO letters are only part of the communication and language spectrum of a corporate CEO. Other aspects of CEO discourse, ranging from informal corridor conversations to formal speeches, are important as well. Some examples of the other CEO discourse mediums are provided by Amernic and Craig's (2001) examination of the joint merger announcement by the heads of three major aluminium companies; and by Hayes (1922), who examined corporate publications targeted to employees. CEO discourse is not limited to text and talk; for example, Chatterjee and Hambrick (2007)

examined the prominence of the CEO's photograph in a company's annual report as an indicator of narcissistic tendencies.

The first close reading perspective of BP's CEO letters identifies the themes in the letters. This perspective recognises the insight CEO letters provide to what is apparently important to the CEO. However, the term 'theme' itself requires definition. Ryan and Bernard (2003, p. 87) observe that determining 'what is a theme?' is a 'problem [which has] a long history'. They contend that 'You know you have found a theme when you can answer the question, what is this expression an example of?' The present research draws upon several techniques they suggest in the thematic analysis of BP's CEO letters using close readings. The most important of these 'typically involves pawing through texts' (Ryan and Bernard, 2003, p. 88) – in other words, reading and re-reading texts, and re-reading them again and again, picking out textual instances of seemingly-relevant concepts, then refining these concepts until they apparently can be refined no more.

The second close reading perspective involves analysing the metaphorical features of the CEO's letter. For many people, metaphors might seem innocuous when first encountered in a CEO's speech, a letter in a company's annual report signed by a CEO, or elsewhere (including non-textual, visual metaphors such as in a photograph of a CEO). Some might be tempted even to regard a metaphor as just a rhetorical flourish for entertainment or emphasis. However, the modern theory of metaphor draws attention to the capacity for metaphors to reveal a corporate leader's mindset, and to affect the behaviour of others. Metaphors influence behaviour by the images they trigger, the emotions they stir, and what they emphasise and obscure (Bergmann, 1982).

However, this chapter does not provide a psychological assessment of corporate CEOs – nor is this provided elsewhere in this book. Although there is a well-established literature (mainly in political psychology) that garners indications of political leaders' psychological characteristics at-a-distance (see Schafer, 2000), the main interest is in the leadership

provided through the key discourse medium of the CEO letter. The actual psychological state of the CEO is not discussed, although this is probably related.

Indications of the tone at the top in the CEO's letter can be explicit or implicit. Explicit indications can be sought, for example, by determining the topics and themes that are included in the letter. What is the relative importance of these topics and themes? How, if at all, are these topics and themes pursued outside of the CEO letter? Does the letter contain empty words and platitudes?

Alternatively, indications of tone at the top can be implicit. For example, what metaphors are used? How are these metaphors linked to the topics and themes in the letter? How well-developed and extensive are the metaphors? Are they used to support reasoning in the letter – that is, to develop specific arguments and positions? Are enthymemes (or unstated assumptions) evident, and if so, what are the implications for positions taken in the CEO's letter? How, if at all, is hedging language (that is, language employing equivocation) used? How are rhetorical techniques used (Lanham, 1991)? What are the silences in the letter? For example, is there an indication of a turnaround strategy if the results of the current year are poor? Is there mention – in a meaningful and non-platitudinous way – of publicly-known events affecting the company? What accounting performance measures are mentioned? Are the measures justified? How are their weaknesses acknowledged? Are failures or lack of success attributed to events beyond the leadership's control? Is success attributed to the leadership? How is the CEO's leadership portrayed – as even-handed, heroic, transformational (Amernic *et al.*, 2007) or perhaps, unintentionally, as destructively-narcissistic (Chatterjee & Hambrick, 2007)?

All of these explicit and implicit aspects of the CEO's letter provide insight to the tone at the top of an organisation. Perhaps just as importantly, they provide insight to the tone at the top that the leadership of an organisation intends to exist. Consequently, the concept of tone at the top is largely about leadership and how it is perceived and enacted.

The CEO letter is a convenient, important, publicly-accessible medium for ascertaining the tone that top corporate leadership sets, wishes to set, and wishes to be seen by others.

The company of interest here, BP plc, is described first to emphasise the context within which BP's CEO discourse took place. An analysis of CEO discourse is enriched in helping to understand the tone at the top if it is embedded contextually. Examples of other research on CEO communication and metaphor that places CEO discourse in context include studies by Amernic and Craig (2000) (of Walt Disney's 1940 CEO letter) and David and Graham (1997) (of a speech by a relatively new CEO). Following the contextualisation of BP, the results of a reading and re-reading of the nine CEO letters to identify themes are reported. This step is important since it captures information regarding what the CEO focused upon, and consciously neglected to focus upon. Thereafter, the metaphors underlying the leadership theme in the 1998 CEO letter are examined. The final section links the discussion to the forensic purpose of using textual analysis of CEO letters as a means of understanding tone at the top.

British Petroleum

BP plc was previously known as British Petroleum, or simply BP. It is one of the world's largest global energy companies, with headquarters in London. In 2006, BP reported revenues of \$US 266 billion and profits of \$US 22 billion. Jaffe and Soligo (2007, p. 2) indicate the importance of the Big Five group of international, non-governmental, integrated petroleum companies, of which BP is a member:

The so-called Big Five (BP, Chevron, ConocoPhillips Company, Exxon Mobil, and Royal Dutch Shell) had \$120.6 billion in profits in 2006 against 9.7 million barrels a day (b/d) of oil production.

By contrast, the next 20 largest American oil firms had \$31.2 billion in profits against 2.1 million b/d in oil production.

The analysis of the company's CEO letters begins in 1998, when BP acquired the American oil multinational, Amoco, to form BP Amoco. This transforming event enabled BP to join the top-tier of integrated petroleum companies worldwide.

The corpus of BP Chief Executive letters studied

Some characteristics of the Chief Executive's letters for BP are shown in Table 5.1. The nine CEO letters total 12,794 words, an average of 1,421 words. The letters from 1999 to 2005 were just at, or below, this average word count. However, the first and last letters (1998 and 2006 respectively) are well above the average (2,088 and 2,224 words respectively). Perhaps the CEO had much to say in 1998 as the BP and Amoco merger was being effected – and also as he contemplated his legacy in his final CEO letter in 2006.

Table 5.1 Length of BP's Chief Executive's letters, 1998-2006

Year	Word count
1998	2,088
1999	906
2000	1,360
2001	769
2002	1,338
2003	1,444
2004	1,447
2005	1,218
2006	2,224
TOTAL	12,794

Identified themes and their possible implications

Drawing on Ryan and Bernard (2003), the close readings initially identify themes, paragraph by paragraph, in BP's 1998 CEO letter. These themes and the analysis notes for the 1998 letter are reported in Appendix 2. One feature of Appendix 2 is that reading for themes necessarily forces the analyst to slow down and consider each word in its relation to other words and other discourses.

The analysis is then extended to encompass all of Browne's nine CEO letters (1998-2006) using the process illustrated by the example in Appendix 2. Thereafter, the letters are scrutinised again, this time applying short, tentative, theme labels to the text in each paragraph. This process was conducted for all nine letters. Because of space constraints, the results are not appended, but are available on request from the first author. The results of the analysis of all nine letters are summarised in Table 5.2, beginning with themes identified in the 1998 letter, and adding extra themes as they appeared in subsequent years.

Table 5.2 Summary of themes in the CEO of BP's letters 1998-2006

Themes	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Identified in the letter for 1998										
Heroic	x	x	x	x	x	x	x	x	x	9
Size	x			x		x				3
Leadership is realistic	x				x			x	x	4
Making size acceptable	x							x		2
Leadership is adaptive	x	x				x			x	4
Standard of care	x	x	x	x	x	x	x	x	x	9
Trust	x	x	x	x			x	x	x	7
Business environment is difficult	x	x	x	x	x	x	x	x	x	9
Business achievement	x	x	x	x	x	x	x	x	x	9
We have great strength	x	x	x							3
Real value is in potential	x		x	x		x			x	5
Speed is good	x	x	x							3
Management's enduring financial framework	x	x		x			x		x	5
The future is risky	x	x	x	x	x	x	x	x	x	9
Leadership is prudent	x	x	x	x	x	x	x	x	x	9
Key performance measures	x		x				x		x	4
Identified in the letters for 1999 to 2006										
Great strength is an enabler		x	x	x	x	x	x			6
Strategy evolves long-term		x	x	x	x	x	x	x	x	8
Business philosopher			x	x	x	x	x	x	x	7
New is good			x			x	x	x	x	5
Growth is good			x	x	x			x		4
People are human capital				x		x	x	x		4
Success depends on adaptation and evolving strategy		x		x						2
Size and diversity create strength				x				x		2
Maximise productivity					x	x	x			3
Leadership learns					x			x	x	3
Clarity in management control					x	x	x			3
CEO as pedagogue							x		x	2
CEO as guiding eminence							x			1

The 'heroic' theme appears in every CEO letter from 1998 to 2006. David and Graham (1997), who analysed the rhetoric in a speech given by Tenneco's CEO, elaborate on the heroic theme, as follows:

...the goal is saving the company [Tenneco] by reducing overhead and raising cash. However, with echoes of superhuman accomplishments, the events take on epic proportions. (p. 32)

Textual material in the 1998 letter which has an heroic theme includes the following:

Despite the fact that oil prices ended the year 34% below their December 1997 level, we improved our underlying performance and delivered on our promises. We also took a crucial first step in the restructuring of the oil and gas sector. (para 1998.1)

The merger of BP and Amoco was announced on 11 August, and completed on 31 December. To have secured full regulatory approval in just 99 working days is a tremendous credit to all those involved and gives us an excellent opportunity to proceed rapidly with the process of integration. (para 1998.2)

BP's return on capital was 11% – an industry top-tier performance. (para 1998.12)

As we announced in February, we now aim to deliver the \$2 billion pre-tax benefits of the merger in around a year's time, some nine months earlier than originally planned. We also expect to bear a substantial part of the costs associated with this restructuring during 1999. These costs are likely to be around \$1.5 billion pre-tax. (para 1998.19)

The theme tying these and other textual instances labelled heroic in the 1998 CEO letter (and also all the other BP CEO letters 1999 to 2006) is based upon the epic, or heroic, characteristics ascribed to BP, its management and leadership. For instance, Table 5.3 contains an excerpt from the analysis notes for paragraph 1998.1, from Appendix 2, demonstrating the heroic theme as follows:

Table 5.3 Theme identification in 1998 Chief Executive's letter

Text of 1998 CEO letter	Preliminary theme identification
<p>Para 1 1998 was a momentous year for the oil industry, and for BP Amoco in particular. Despite the fact that oil prices ended the year 34% below their December 1997 level, we improved our underlying performance and delivered on our promises. We also took a crucial first step in the restructuring of the oil and gas sector.</p>	<p>– A time interval [the year 1998] is able to be momentous [important/significant/historic/earth-shattering/...], and in turn affect an industry [the oil industry] and 'in particular' a corporation [BP Amoco].</p> <p>– 'We' [BP Amoco? The employees of BP Amoco? The leadership of BP Amoco? Other?] 'improved our underlying performance and delivered on our promises' '[d]espite' the [uncontrollable behaviour?] of 'oil prices'. It is a 'fact' that 'oil prices' were '34% below their December 1997 level'. In this sentence, 'oil prices' are objectified; their price level is an objective 'fact', presumably beyond the control of BP. However, '[d]espite' this 'fact', 'we' exhibited dynamic agency since 'we':</p> <ul style="list-style-type: none"> ▪ 'improved...' ▪ 'delivered...' ▪ 'took a crucial first step...' <p>The 'we' in all of this suggest the metaphorical entailments that leadership is active, an agent of change, able to overcome external objective crucial facts and to keep promises. It is a brief heroic narrative.</p>

Thus, in answer to Ryan and Bernard's (2003, p. 87) question on theme identification, 'what is this expression an example of?', the textual instances in Appendix 2 labelled heroic are examples of heroic, epic business leadership: they are instances of a theme which creates and elevates a business story to almost 'mythic proportions' (David & Graham, 1997, p. 32), and which will be important in the metaphor analysis in the next section. From Table 5.2, it is apparent that this

heroic theme is a central and enduring one across the corpus of CEO Browne's letters from 1998 to 2006.

Based upon the summary information regarding themes in Table 5.2, the 1998 CEO letter seems broadly consistent with the following thematic structure, with the previously-identified themes underlined (see also Appendix 2):

Since the Business environment is difficult and The future is risky, Size is important to succeed in the future (Real value is in potential). But, because stakeholders, including the consumer and society in general, regard big companies with suspicion and as striving for the accumulation of power, Size must be made acceptable (Making size acceptable). This is accomplished by BP leadership since it is realistic (Leadership is realistic), adaptive, (Leadership is adaptive), prudent (Leadership is prudent), and moves quickly (Speed is good), whilst recognising that safety regarding employees and the environment is important (Standard of care; Trust) as well as ensuring that employees fulfil their potential (Trust). In addition, and importantly, BP leadership has constructed Management's enduring financial framework, including Key performance measures whose achievement is imperative (see para 1998.26), resulting in great strength and consequently Business achievement which is, given all the above, heroic.

But this thematic structure seems questionable for several reasons. First, there are inconsistencies: for example, defining targets in financial accounting terms and setting these accounting targets as 'the basis for the remuneration of all BP Amoco's senior managers' (para 1998.25) seems inconsistent with well-known deficiencies in using accounting targets for compensation incentive purposes. Second, the thematic structure ignores negative outcomes of speed, including never letting up the pace. Third, the themes are leader-centric and ignore followership.

While what connotes followership is open to debate, one view is that it is a partnership of reciprocal following in which leadership does not exist without willing followers who also exercise an influence on leaders (Maroosis, 2008). Further, the emphasis is on size and growth, with a dramatisation of the heroic nature of leadership. The themes in this CEO letter are based rhetorically, to a considerable extent, on hyperbole.

Absent or under-represented themes and their possible implications

What are the themes that one might have expected to appear, but which did not? That is, what are the silences? To consider this issue, evidence is used from outside the CEO letters and the financial statements and financial reporting generally for BP. Important aspects of the context within which BP operated between the years 1998 and 2006 are documented, and seem likely to warrant inclusion among the themes of the company's CEO letters.

CEO discourse does not exist in a vacuum – the context within which discourse is constructed is important in the interpretation and understanding of communication media such as a company's CEO letters to shareholders. For a company the size of BP, thousands of items can be relevant in structuring the context for CEO discourse. For purposes of analysis, the focus is on two major contextual issues, discussed below:

(i) New pipeline project initiatives

The focal project to represent this contextual issue is the controversial AGT (Azerbaijan Georgia Turkey) project. The principal background material examined for this contextual issue was *Some Common Concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System*, PLATFORM, London, 2002. Henceforth, this is referred to as *Some Common Concerns*. This massive project was described in September 2002 as:

...a vast social and industrial structure, a gathering of men, women and machines stretching 1,750 kilometres (1,087 miles) across hills and valleys, mountains and plains, fields and deserts, gardens and rivers that would remain in place for more than 40 years. The pipelines would be part of a complete system running from the offshore oil and gas fields in the Caspian Sea to a tanker terminal on the Mediterranean coast. Through the pipelines would flow US\$ 21 million worth of fuel every day. (Summary report of Some Common Concerns, published by PLATFORM et al., London, 2002, pp. 1-3)

This major, multi-pipeline, multi-country project received significant worldwide publicity due to its huge scale, numerous components, and the resulting social, environmental, political, and economic impacts. BP was the major leader of this project. Despite this, the text of the company's CEO letters between 1998 and 2006 are strangely silent regarding AGT. There are some very brief references to AGT, but no substantive comment from the CEO on the social and environmental issues involved. From the perspective of understanding a corporation's leadership and that leadership's establishment of the company's tone at the top, it is curious that this issue has been ignored in the CEO letters.

Projects such as AGT involve many companies, international agencies, technologies, and stakeholders, including many unrepresented stakeholders. BP was the leader in the consortiums involved, and also acquired one of its major competitors for AGT influence, Amoco, thereby enhancing its power over the project. Environmental, political, human rights, social, and many other AGT issues – all on a massive scale – ought to have warranted substantive attention in the BP CEO's letter to shareholders.

The summary report of *Some Common Concerns* (2002) included the following comment on BP and Amoco in the AGT negotiations:

Throughout the 1990s, the Caspian states such as Azerbaijan struggled to gain favourable terms from foreign oil companies for the development of their resources. To do so, they tried to play one corporation off against another. When the two largest players, BP and Amoco, merged, however, this advantage was largely lost. Since 1998, BP has been the primary player in the western Caspian region. It has a 34.1% holding in the Azerbaijan International Operating Company (the company developing the majority of Azerbaijan's oil and gas fields), a 25.5% holding in the SCP (gas) pipeline and a 34.76 % holding in the BTC oil pipeline. It is also the operator of the complete AGT pipelines system, which is in effect a BP pipelines system. (p. 5)

(ii) Operational safety

This contextual issue involves the operational processes and systems at BP facilities (such as its refineries and pipelines). Two events within this issue are included:

- The Texas City refinery disaster of March 23, 2005. This resulted in the death of 15 people and serious injury to about 170 people. (*Report of the BP US Refineries Independent Safety Review Panel*, January, 2007; *Investigation Report: Refinery Explosion and Fire*, US Chemical Safety and Hazard Investigation Board, Report 2005-04-I-TX, 2007).
- The Prudhoe Bay pipeline rupture. (*Hearings of the US House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight*, May 16, 2007 (accessible at www.house.gov)).

Operational safety has always been an important issue in the oil extraction, transportation, and refinery business. It is an issue related

closely to corporate governance, cost control, and management control, including compensation incentives. The following three quotations from recent reviews of operational safety at BP indicate the importance of this issue at BP and the role of tone at the top in promoting concern for safety issues:

Process safety leadership. The Panel believes that leadership from the top of the company, starting with the Board and going down, is essential. In the Panel's opinion, it is imperative that BP's leadership set the process safety 'tone at the top' of the organization and establish appropriate expectations regarding process safety performance. Based on its review, the Panel believes that BP has not provided effective process safety leadership and has not adequately established process safety as a core value across all its five US refineries. (Report of the BP US Refineries Independent Safety Review Panel, 2007, p. xii)

Process safety leadership in an organization must start at the top. The Board of Directors of BP plc, its Group Chief Executive, and corporate management as a group must set the process safety 'tone at the top' and establish appropriate expectations regarding process safety performance. Those expectations must reflect an unwavering commitment to process safety and infuse into BP's workforce the mindset that process accidents are not acceptable. Those expectations must also be translated into measurable goals designed to move BP toward the achievement of excellence in process safety performance. (Report of the BP US Refineries Independent Safety Review Panel, 2007, p. 244)

There are striking similarities in the reported causes of the 2006 events involving BP's Prudhoe Bay pipelines and the 2005 explosion at the BP Texas City Refinery. Most if not all of the seven root causes... that BP consultants identified for the Prudhoe

Bay incidents have strong echoes in Texas City. (Testimony of Carolyn W. Merritt, Chairman and CEO, US Chemical Safety Board, Before the US House of Representatives Committee on Energy and Commerce, Sub-committee on Investigations and Oversight, May 16, 2007, p. 1)

But, this issue was sorely under-represented in the CEO letters. The Texas City disaster only appears briefly in the 2005 and 2006 CEO letters, and the Prudhoe Bay failure only in 2006. This is significant since, as the three quotations above indicate, management control issues that facilitated the Prudhoe Bay pipeline rupture were similar to those with the Texas City refinery disaster. And, indeed, as the Report of the BP US Refineries Independent Safety Review Panel concluded (2007, p. 173):

Even more than five years after BP acquired four of its US refineries from Amoco and ARCO, those refineries continue to rely heavily on legacy systems, standards, and procedures, some of which need substantial updating to bring them into conformity with current good practices...

The report asserted that BP's corporate management had not provided such safety guidance (p. 173), and that (as the quotation above indicates) 'process safety leadership in an organisation must start at the top. The Board of Directors of BP plc, its Group Chief Executive, and corporate management as a group must set the process safety "tone at the top" and establish appropriate expectations regarding process safety performance'.

Operational safety is a strategic issue at any major oil company. BP's leadership could have discussed how it managed the Amoco acquisition and the attendant cost control, incentive compensation, and cultural challenges. According to the investigation reports cited above, this crucial aspect of the tone at the top was missing at BP for many years.

The omission of such operational safety issues from the company's CEO letters *before* the public crises of 2005 and 2006 could be considered as a lapse of corporate leadership with respect to communication. Why, in the 1998 CEO letter (written just after the BP-Amoco business combination), were serious issues of operational safety at the Amoco facilities not addressed? And, in the 1999 CEO letter (written more than a year after the business combination) serious mention of the issue is still conspicuously absent.

Perhaps, with the benefit of hindsight, it would be unfair to claim that CEO letters from 1998 onward should have included text mentioning operational safety issues arising from the Amoco acquisition that subsequently appeared to lead to the 2005 Texas City disaster and the 2006 Prudhoe Bay failure. But this is not the point. In 1998, because of the failures of tone at the top, Texas City and Prudhoe Bay seemed to be set on a course for crisis several years hence. The absence of these important operational safety themes in the CEO letters and other financial reporting disclosures might have alerted auditors knowledgeable in this industry, *ex ante*.

In this connection, it might be suggested that during the BP-Amoco merger process and thereafter, BP's external auditors might have been aware of (or should have been aware of) major operational safety issues discussed in 2007 in the *Report of the BP US Refineries Independent Safety Review Panel*, although without the clarifying benefit of hindsight. Safety is an overarching issue in the petroleum industry. The coming together in 1998 of two complex companies with their individual operational safety systems and processes, and the attendant organisational and leadership challenges that this merger created, was plausibly a vivid part of the context within which CEO discourse in general, and the CEO letter in particular, was crafted. Because of its silence with regard to significant operational safety issues, BP's CEO letters from 1998, and for several years thereafter, might be regarded as deficient. The Amoco transaction was lauded profusely by CEO Browne in the 1998 letter (see Appendix

2), but a crucial material aspect of the future success of the merger was left unspoken, or as Peshkin (2001) might put it, 'silenced'.

The ninth of Peshkin's (2001) angles of vision (see chapter three), 'silences', offers a stimulus for external auditors to learn as much as possible about the key business and contextual factors impinging upon an organisation that one would expect to be included in responsible CEO leadership language. Thus, external auditors might then be in a position to question why such silences regarding key factors exist in CEO discourse.

Importance of themes: CEO attention and tone at the top

There is much more to explore regarding the themes in the 1998 to 2006 BP CEO letters. But the methodology and importance of thematic analysis, including its relationship to leadership and the tone set by top management, has been introduced. Before analysing the metaphors in the CEO letters, two other aspects of a thematic analysis of the letters that might be explored usefully, are presented.

First, which themes appear to be most important for the CEO? This can be determined initially by identifying the themes that occupy the most space (in word count, for example), and which appear first (or at least early) in the letters each year. In the BP letters, what is the significance of the 'business philosopher' theme which appears prominently in various letters, including at the beginning of the letters for 2001, 2002, 2003, 2005 and 2006? What is the specific content of the business philosophy thus espoused? Is it consistent over time? Does it occur when other, contextual events occur?

Second, since trust is as an important theme throughout the corpus of letters (see Table 5.2), and since this theme is also central to current concerns regarding business generally, what are the specific features of trust in the BP CEO letters? For example, Bogle (2007, p. 26) writes

that 'the central ethic of the system of modern capitalism when it began in Great Britain around the start of the eighteenth century – trusting and being trusted – was gradually eroded'. Are these features consistent with the concepts of leadership and management control that also appear in the letters?

If, as Edersheim (2007, p. 43) contends, 'The CEO sets the tone – good or bad' what the CEO publicly pays attention to is an important aspect of the tone set. The silences in BP CEO's letters were described earlier – things that might have been expected to be discussed but were not. Also, various themes that were found in the corpus of the BP CEO letters were noted; these were themes that appeared in the CEO letters and thus were accorded public attention by the CEO. This thematic analysis is refined now in two ways. First, a justification is made in more depth, of the importance of themes in the CEO letter, using the concept of 'attention-structures' (Lanham, 1993, p. 227). Second, what appear to be the most important themes in the letters is ascertained, revealing what the CEO seemed publicly to be giving most attention to.

(a) *The CEO and attention structures*

Yadav *et al.* (2007, p. 86) contend that 'the important role of the CEO in focusing the attention of the firm suggests that greater CEO attention to certain issues and events can lead to greater awareness, anticipation, and action in firms with respect to these types of issues and events'. This contention is based upon the idea that human cognitive ability is limited, and therefore, especially in a world characterised by information overload, attention is the scarce resource. Lanham (1993, p. 227) develops this notion, more formally, as follows:

We have in the West a venerable tradition of studying how human attention is created and allocated: the 'art of persuasion' which the Greeks called rhetoric. A better definition of rhetoric, in fact, might

be 'the economics of human attention-structures', for whenever we persuade someone, we do so by getting that person to 'look at things from our point of view', share our attention-structure. It is in the nature of human life that attention should be in short supply, but in an information economy it becomes the crucial scarce commodity. Just as economics has been the study of how we allocate scarce resources in a goods economy, we now will use a variety of rhetoric as the 'economics' of human attention-structures.

Three observations can be made of this:

- the CEO letter is an important and privileged public corporate communication medium;
- the CEO, in general, is the most important and powerful corporate leader; and
- CEO attention is in short supply due to the nature of limited human cognitive ability and CEO information overload.

It is thus plausible that the most prominent themes in the CEO letter are those to which the CEO is publicly devoting his or her scarce attention. Conversely, themes that are absent from the CEO letter are being shown publicly as *not* being attended to. This does not mean that the CEO is ignoring these absent CEO letter themes, since, privately they may be of utmost importance to the CEO. But the absence or minimisation of what *should* be key themes in the CEO letter (such as major politically and socially potent pipeline initiatives and core issues regarding operational safety) raises serious concerns since such key issues should be at the centre of the CEO's publicly-displayed attention.

Thus, CEO *attention* is an important indicator of tone at the top, since the more attention devoted by the CEO to a topic, the more important the topic is, or is intended to be, in the culture of the firm. In addition, the themes that are the most prominent in the CEO letter

are signals to internal and external stakeholders about the themes to which they should be devoting their scarce human attention-structures.

Consequently, given the importance of the CEO letter as a communication medium, the most prominent themes in the letter are twofold. First, an important (public) enactment for the CEO as corporate leader; and second, the provision of a frame for all other corporate stakeholders of what should be attended to, given limited human abilities and information overload. This raises an audit question in relation to the tone at the top: which important topics does the CEO attend to, publicly, in an important disclosure medium such as the CEO letter?

In research focusing on how a CEO's attention affects subsequent technological innovation in a company, Yadav *et al.* (2007) used CEO letters 'to measure three independent variables related to the attentional foci of CEOs: future focus, external focus, and internal focus'. In this chapter, the attention of BP's CEO is measured by assuming that topics appearing first in the CEO letter have captured the CEO's attention, since they are the topics the CEO intends readers to notice first.

(b) Important themes in the BP CEO letters

The first theme that appears in each BP CEO's letter, year-by-year (based upon Appendix 2), is shown in Table 5.4.

Table 5.4 First theme of each CEO letter

Year	First theme	First paragraph of each CEO letter
1998	Heroic leadership	1998 was a momentous year for the oil industry, and for BP Amoco in particular. Despite the fact that oil prices ended the year 34% below their December 1997 level, we improved our underlying performance and delivered on our promises. We also took a crucial first step in the restructuring of the oil and gas sector.
1999	Heroic leadership	1999 was an exciting, dynamic and very successful year for BP Amoco. We combined two great companies into one, unifying our operations and processes, and our team of people. As a result we were able to deliver the financial benefits of the merger in full and well ahead of schedule.
2000	Heroic leadership	2000 was a year of great success for BP. Record results were delivered, targets were met and a new group was established, bringing together the people and assets of a number of different businesses – including ARCO, Vastar and Burmah Castrol, as well as BP itself. Each element strengthens our portfolio and helps us to fulfil the strategic objectives we have been pursuing for the last five years.
2001	Business philosopher	2001 was a year that reminded us, in the most dramatic and tragic way, that events shape the lives of individuals and of companies. No one could have predicted the events of 11 September and very few expected the economic recession that ended a long period of growth in the USA.
2002	Business philosopher	Our strategy is to create value from a distinctive set of opportunities, biased towards the upstream, which through a disciplined approach to long-term investment growth can produce returns that are secure and highly competitive.
2003	Business philosopher	When I wrote to you last time, my team and I had as many questions as answers about the forthcoming year. Would our strategy endure a weak global economy, impending war in Iraq, continuing uncertainty over terrorism, increasingly complex regulation and a groundswell of anti-corporate sentiment? How would our competitors respond to the challenging position we had worked so hard to achieve?
2004	Heroic leadership	2004 was a great year for BP. In terms of overall performance, it was the best since the recent series of mergers and acquisitions.
2005	Business philosopher	We start from the view that the purpose of business is to satisfy human needs and, in doing so, to generate profits for investors. For BP, that means providing energy to fuel human progress and economic growth. It also means satisfying the need for a sustainable environment.
2006	Business philosopher	BP's purpose is a progressive one. That means we aim to generate returns for our investors by providing the energy for basic human needs such as light, heat and mobility and to do so in a safe, sustainable and environmentally responsible way. Our financial results were very strong in 2006. However, we fell short of our expectations in certain areas, notably with two oil spills in Alaska and the inability to start up the Thunder Horse platform as soon as we had hoped.

CEO Browne introduces four of his CEO letters with words that resonate with a heroic leadership theme. The other five letters begin with a business philosopher theme. In the three years 1998 to 2000, the heroic theme serves to explain the apparently epic achievement of melding two companies, BP and Amoco, along with other acquisitions, into the 'great success' of 2000. But the business philosopher theme is deployed first in a letter when it is needed. It is prominent in the CEO letter for 2001, written following the attacks of September 11, 2001. CEO Browne also begins the remaining letters of his tenure, except for 2004, with a business philosopher theme. The business philosopher seems to appear first in CEO letters in years in which a crisis occurred (for example, in 2005, the year of the Texas City disaster).

Why is the first theme in Browne's letter either the heroic theme or the business philosopher theme? In the nine letters examined, it seems that BP's Chief Executive willingly claimed credit for achievements heroically, but shifted initial attention to broader, philosophical issues in crisis years. This underscores the need to question the construction of tone at the top by CEOs when they engage in forms of self-eulogy regarding their (and their leadership cohort's) achievements, while deflecting attention from crises and failures to achieve. The Texas City disaster occurred in 2005. The Baker Report appeared in early 2007 and is mentioned in CEO Browne's 2006 CEO letter. Did the disaster and the subsequent report affect Browne's rhetorical leadership as evidenced by the first themes in his CEO letters of those two years? The moving in and out of positional pre-eminence of the heroic theme, even though as indicated in Table 5.2 it appeared somewhere in every letter, invites questions regarding the linguistic character of this heroic leadership, as suggested by metaphor. This is a matter to which we now turn.

Metaphors in the BP Chief Executive's letters

Contemporary theory of metaphor: a brief overview

Lakoff (1993, p. 203) defines metaphor in the 'classical theory of metaphor' as 'a novel or poetic linguistic expression where one or more words for a concept are used outside of their normal conventional meaning to express a "similar" concept'. But he goes on to dismiss this 'classical theory' by claiming that 'the locus of metaphor is not in language at all, but in the way we conceptualise one mental domain in terms of another' (Lakoff, 1993, p. 203).

According to contemporary metaphor theory (Lakoff & Johnson, 1980, 1999; Lakoff, 1993), a metaphor is a word, phrase, or sentence that is the manifestation of a 'cross-domain mapping' of '... everyday abstract concepts like time, states, change, causation, and purpose' (Lakoff, 1993, p. 203). Metaphoric language 'provides a means for ideas nourished in one domain to lend their authority to another domain and simultaneously be enriched by the alliance'. For example, through the use of metaphor 'spaces may get created ... in which moral and political actions appear to be sanctified by nature...' (Harrington, 1995, p. 378).

As Slingerland observes, 'a single complex, metaphorical structure can inform a whole series of specific linguistic expressions. These "families" of specific metaphorical expressions are not random or unrelated but, rather, are all motivated by a common conceptual schema' (2004, p. 13).

So, for example, the words 'Enron is laser-focused on earnings per share' (which appeared in Enron's 2000 CEO letter) may be interpreted as a linguistic instance of a conceptual metaphor such as business is war. Keeping in mind Eubanks' caution (1999) that metaphor's work depends on the context (including the understanding one has of war), this conceptual metaphor might be expected to have entailments such as:

- all members of the company must centre their attention on a single (accounting-based) performance measure;

- their attention, being 'laser-focused', ignores all else;
- winning is achieving increased earnings per share;
- losing is not an option, since the losing side in a war typically is subjugated or destroyed;
- competitors are enemies;
- any means of winning is acceptable (recall the old saying 'all's fair in love and war');
- business leadership must be top-down, since an army at war must have a unitary hierarchical command structure; and
- dissent is not allowable, and therefore followers must obey the leader.

According to Eubanks (1999, p. 195), metaphors are not isolated linguistic phenomena but are '...rhetorically constituted. No metaphor is spoken or written except in the context of a socio-historically bound communicative situation. Therefore, all metaphors are inflected by politics, economics, philosophy, social interests, professional commitments, and personal attitudes – in short by the whole of our cultural and conceptual repertoire. Because metaphors are inflected, we cannot explain how they work unless we consider concrete instances of metaphor, taking into account how inflections constrain the way metaphors are uttered and understood'.

Accordingly, the metaphors in CEO text are not atomised, but are considered in relation to 'metaphoric and literal concepts that are already in motion within a culture's (or subculture's) discourse' (Eubanks, 1999, p. 195).

In addition, as Craig and Amernic (2004, p. 823) note, the metaphorical structure implied by the words 'Enron is laser-focused on earnings per share' is especially troubling and might raise other issues:

It suggests that 'earnings per share' is a target, to be conquered or destroyed, rather than to be regarded as a 'measure' by which 'success' is partially assessed. Even if it is not a target set for destruction, then it might be the object of perverse fixation. It might bias managers' behaviour. After all, earnings per share is a measure with fundamental flaws that are well-known in the accounting and management literature. And, further, fixation on any single quantitative measure is well-known to induce 'undesirable consequences for over-all organizational performance' (Ridgway, 1956, p. 247) – and, we would add, the numerous stakeholders in the organization as well!

Language in general, and metaphors in particular, are well suited to influence thought and behaviour (Lakoff, 1993; Cohn, 1987). The contemporary theory of metaphor is central to understanding how this is so. In industrial relations, for example, there has been debate about the appropriateness of the 'trench warfare' or 'pioneering journey' metaphors as controlling 'root metaphors' or 'conceptual archetypes' influencing industrial relations practice (Dunn 1990, 1991; Keenoy 1991). In religious studies, Slingerland (2004) has argued that contemporary metaphor theory is important in understanding issues in comparative religion and in 'enabling cross-cultural dialogue on contentious religious issues' (p. 1). In business and accounting, metaphors help provide the vocabulary and conceptual tools to identify what are considered legitimate problems and acceptable solutions. Metaphors used by CEOs become a sort of public language or 'an external reality that [people] have to adopt if they are to communicate with others' (Carrier 1997, p. 49). And the more powerful and influential the CEO, the more this language affects how people (both inside and outside the company) think and act.

The more that particular metaphors are used in specific discourses, the more apparently natural and uncontroversial the entailments of such metaphors become (Gramm, 1996). For example, in examining

the discourse of public policy, Hart *et al.* (2005, p. 47) contend that: 'To use a metaphor repeatedly is to open up certain policy options and to close off others'. They illustrate their point by asking 'Did it make a difference that China came to be viewed as a market for US goods rather than a *rapacious* and *backward* nation?' (p. 47, italics in the original). Hobbs' (2008) analysis of the 'surge' metaphor in the US government's increase in troop strength in Iraq makes a similar point.

The importance of metaphors to corporate leaders in establishing tone at the top

CEOs deploy metaphor to fashion, implicitly, perceptions about how a corporation has fulfilled its accountability to stakeholders. Consequently, there is much to be gained by being sensitised to the existence of metaphors and to the metaphor-related entailments, implications, contexts and cognitive models that are used to construct a corporation's accountability.

Hart *et al.* (2005, p. 47) list several reasons for 'paying attention to metaphors'. These reasons justify an examination of metaphor in BP's CEO letters: metaphors '*signal authorial assumptions*'; '*signal ideological commitments*'; and '*signal latent values*' (pp. 47-48; italics in original). Thus, metaphors in the language of corporate leaders might suggest how 'a particular language affect[s] the adoption and abandonment of management practices...' (Ferraro *et al.*, 2005, p. 16)

Consequently, the language that structures comprehension of phenomena by CEOs affects the thoughts and actions of CEOs regarding those phenomena, just like for other, less-powerful, humans (for example, see Cohn, 1987). And since much CEO-speak draws upon accounting language, the often implicit consequences of metaphor(s) about accounting are important because they structure the way CEOs comprehend accounting and, in turn, affect CEOs' thoughts and actions about real things. There are many empirical implications of the

importance of metaphors in CEO discourse. For example, are metaphors about accounting coherent within instances of CEO discourse (Shen & Balaban, 1999)? Or do they differ according to context? Are they shared or idiosyncratic? Are they anchored in broader, society-wide discourse? What are their entailments and other implicit secondary consequences? Do CEOs form attitudes and make judgments about real phenomena consistent with the entailments of the metaphors that they employ?

Two important considerations justify focusing on the metaphors CEOs use in accounting and business generally. First, more broadly, accounting language and business language is implicated intimately in a wide variety of social and economic discourses with profound effects on human welfare. These range from the use of accounting in debates about whether or not (and if so, how) to privatise a public utility; to arguments regarding the necessity of downsizing to support global competition; to debates about the design of corporate performance management approaches such as Economic Value Added and the Balanced Scorecard. Second, language relies fundamentally upon accounting metaphors to structure the way people, including CEOs, think about rights and obligations (Johnson, 1993; Lakoff, 1996). Thus, a sense of accountability and reciprocation becomes a pervasive and fundamental feature of thought. Rights and duties are defined metaphorically within the framework of social accounting and moral accounting metaphors (Johnson 1993, pp. 41-50). If accounting helps structure a person's non-accounting language (and thus thought), it seems crucial to examine how (non-accounting) language helps structure the way CEOs conceive accounting and business.

Organisations function partly as narrative spaces in which stories and accounts are employed by all participants to facilitate the process of sense-making (Gabriel, 2004). The narratives of companies and CEOs are regarded as constructed with the aid of interpretative devices or poetic tropes, such as metaphor, to attribute responsibility, blame and credit, and to establish causal connections and agency (Gabriel, 2000).

In this context, leaders engage 'in a process of rhetorical negotiation with their audience, trying out words, phrases, and literary constructions to better and more convincingly communicate their vision of their organisation' (Cuno, 2005, p. 205). Metaphors are integral to this process of communicative leadership.

Discourse, such as written CEO text, consists of 'the surface level of communicative actions, and the deeper level of discursive structures' (Heracleous, 2006, p. 1,060). Although various interpretative prisms are used by different readers to enhance understanding of CEO text, there is a strong need to explore the 'deeper level' of that text. One concern is to identify fundamental root metaphors implicated in the activation of leadership – that is, metaphors that provide rich summaries of the world and reveal dominant and powerful ways of seeing (Smith & Eisenberg, 1987). In pursuing this task, it is important to acknowledge that interpretations of texts, stories and narratives are informed also by our 'own frame of reference' (Heracleous, 2004, p. 176); and that all data, including CEO text in a CEO letter, are affected by the constructions placed on them by the reader (Alvesson & Deetz, 2000). Metaphors evoke multiple meanings in everyday language and in the minds of those who deploy them and perceive them (Oswick *et al.*, 2004). Organisational rhetoric is thus affected inherently by 'contingencies, uncertainties and ambiguities' (Cheney *et al.*, 2004, p. 82).

The challenge is to go beyond the apparent explicit meanings in a text to tease out the implicit, probable or possible meanings likely to be attached to it by different audiences. The exploration of metaphor usage (conducted in this chapter on BP's CEO letters) is an integral part of this process; and it is potentially insightful in view of the argument that 'a metaphor is not an ornament. It is an organ of perception' (Postman, 1996, p. 174); an organ of a CEO's perception.

Consistent with the approach to metaphor analysis outlined by Cornelissen (2006) and applied by Amernic *et al.* (2007), an initial reading and re-reading was conducted of the nine CEO letters to

stockholders of BP from 1998 to 2006, with the intent of identifying metaphors-in-use, since ‘...metaphor is rhetorically constituted. No metaphor is spoken or written except in the context of a socio-historically bound communicative situation’ (Eubanks, 1999, p. 195). The importance of context in metaphor analysis is illustrated in Amernic’s (1998) exploration of the metaphors in Walt Disney Company CEO Michael Eisner’s 1996 CEO letter. This requires an understanding of the importance of Walt Disney, the company’s founder, to the successful communicative leadership of its then-CEO, Eisner.

Exploring the metaphoric structure of the ‘heroic’ theme

The 1998 CEO letter for BP is important because it is the first CEO letter following the company-altering Amoco acquisition. It has themes which were important in subsequent letters, omits crucial themes, and is the second-longest letter in the corpus by word count (suggesting that the CEO had a lot to say that year). This letter is examined for metaphors. The heroic theme, identified earlier as being prominent throughout the corpus of BP’s CEO letters, is the stimulus for the metaphoric analysis. This theme involves ascribing to BP, and its leadership, dramatic and heroic qualities. The interest centres on the company’s most senior leadership, to develop aspects of the heroic theme that relate most closely to such leadership. We employed a probe to isolate linguistic instances of textual top management leadership in the corpus of letters. In previous work on GE’s leadership, it was argued that ‘the metaphors used in conjunction with a personal pronoun by the leader... signal ...strong attribution or ownership of the metaphorical characteristics’ (Amernic *et al.*, 2007, p. 1858). The probe used here is the word ‘we’ (both lower and upper case), using *ANTCONC* (Anthony, 2005) *KWIC* (keyword-in-context) software was used to search for, and capture, each instance of this word and its surrounding context. The word ‘we/We’ occurs 300 times in the 1998 to 2006 letters, and 45 times in the 1998 letter. To illustrate the analysis, the metaphoric

features of the first six instances of the 45 occurrences in the 1998 letter are noted, as follows. The text of each paragraph of the CEO letter that was examined is followed by the analysis. The word 'we' is in bold with each instance numbered sequentially; for example, **we**[1] refers to the first instance of 'we'.

Paragraph 1998.1

*1998 was a momentous year for the oil industry, and for BP Amoco in particular. Despite the fact that oil prices ended the year 34% below their December 1997 level, **we**[1] improved our underlying performance and delivered on our promises. **We**[2] also took a crucial first step in the restructuring of the oil and gas sector.*

Although both **We**[1] and **We**[2] may be regarded as primarily referring literally to BP, in so doing they invoke metaphor because of the human-like agency that they ascribe to the inanimate corporation, BP. This agency is reinforced three times in this paragraph ('we improved... [we] delivered...[we] took...'). Such agency, in the life of the modern corporation, can be exercised only by the corporate leadership. Thus, both instances of the pronoun in this paragraph must stand for the top leadership.

There were other ways to phrase the language contextualising these uses of 'we'; for example, the passive voice could have been used, but was not. Thus, the choices made, including the structure 'Despite X, we Y', makes agency both salient and potent, and reinforces the metaphoricity embedded in this first paragraph regarding top management. Thus, top management have:

- overcome natural phenomena such as oil prices steeply declining (notice that 'oil prices' have their own agency in this paragraph);
- 'improved our underlying performance' despite the oil price decline;

- ‘delivered on our promises’; and
- ‘[taken] a crucial first step in the restructuring of the oil and gas sector’.

Thus, top management, an overcomer of natural impediments, an improver of underlying performance, a promise-keeper, and a taker of the ‘crucial first step in the structuring’ of a whole economic sector, is nothing short of heroic. Consequently, the metaphor ‘top management is a hero’ seems apt.

One might argue that BP’s CEO has merely engaged in flowery language, in hyperbole. However, such hyperbole is by design, and is thus textual evidence of purposive language that is suggestive of an underlying conceptual metaphor of a heroic self-image.

Paragraph 1998.2

The merger of BP and Amoco was announced on 11 August, and completed on 31 December. To have secured full regulatory approval in just 99 working days is a tremendous credit to all those involved and gives us an excellent opportunity to proceed rapidly with the process of integration.

Since no instance of ‘we’ appears in this paragraph, it is not subject to analysis by itself. Rather, it is analysed below along with paragraph 1998.3, in which the third ‘we’ appears. This is appropriate since paragraph 1998.3 depends materially on paragraph 1998.2’s introduction of ‘The merger’, and thus provides important context for **we**[3].

Paragraph 1998.3

*Although the merger creates one of the world's largest industrial organisations, **we**[3] are very aware that size alone is no guarantee of success.*

The 'we' in paragraph 1998.3 is wisely 'aware that size alone is no guarantee of success'. The newly-merged company is, though, 'one of the world's largest industrial organisations', and the merger (from paragraph 1998.2) 'secured' 'full regulatory approval' in an extraordinarily short time. Notice in paragraph 1998.2 that the passive tense is employed when describing the announcement and subsequent completion of the merger; this absence of agency permits top management to share praise with 'all those involved', but abstractly, while then quickly reasserting agency by use of the phrase 'and gives us an excellent opportunity to proceed rapidly with the process of integration'. Thus, top management leads in securing merger approval, shares praise, now leads 'one of the world's largest industrial organisations', but is also wise. Again, 'top management is a hero', seems an apt characterisation of the metaphor regarding leadership embedded in these two paragraphs.

Paragraph 1998.4

All the available evidence suggests that big companies are commonly regarded with suspicion, and that mergers are often considered to be simply about the accumulation of market power.

Since no instance of 'we' appears in this paragraph, it is not subject to analysis by itself. Rather, it is analysed below along with paragraph 1998.5, in which the fourth 'we' appears. This is appropriate since paragraph 1998.5 depends materially on paragraph 1998.4's introduction of 'All the available evidence' that provides important context for **we**[4].

It should be noted too that **we[4]** is linked back to **we[3]**, at which point the wisdom of the leadership was introduced.

Paragraph 1998.5

*To be acceptable to the consumer and to society in general, mergers must be progressive – enhancing rather than reducing the range of choices available to the customer, by combining the skills and know-how to achieve things which neither company could have delivered on its own. That means **we[4]** have to listen with great care and be continuously responsive to the changing pattern of customer needs and desires.*

The metaphoric nature of the surface text in which **we[4]** is embedded operates at two levels. First, and most obviously, **we[4]** metaphorically suggests someone who, because of the conditions declared by the CEO in paragraph 1998.5 that must be fulfilled in order for mergers ‘[t]o be acceptable to society’, must both ‘listen with great care’ and ‘be continuously responsive’ ‘to the changing pattern of customer needs and desires’. Since no one person could neither literally ‘listen’ nor ‘be continuously responsive’ to so many customers and their ‘changing pattern of...needs and desires’ (and indeed would be hard-put to identify these ‘needs and desires’), it seems that **we[4]** is operating symbolically, or rather metonymically, in standing for the whole company. Second, the ability to listen to so many customers, and be continuously responsive to their identified needs and desires, links back to **we[3]**, and importantly also to **we[1]** and **we[2]**, since **we[4]** might also be interpreted as continuing the ‘top management is a hero’ theme, especially if there is even a vestige of literal intent in paragraph 1998.5.

Paragraph 1998.6

In our sector in particular the challenge is to ensure that hydrocarbons can be found, produced, refined, distributed and used without damaging the natural environment. BP Amoco will aim to provide consumers with the choices that make that aspiration achievable.

Since no instance of 'we' appears in this paragraph, it is not subject to analysis by itself.

Paragraph 1998.7

*Secondly, **we[5]** have to organise and manage a huge worldwide company in a way which excites and empowers the people who work for us. **We[6]** have to avoid rigidity and bureaucracy and ensure that, within clear boundaries and standards, individuals have the freedom to fulfil their potential and to make a difference.*

Both **we[5]** and **we[6]** suggest an approach to leadership that is strongly top-down. It is top management who must 'organise and manage', set 'clear boundaries and standards', while also ensuring employees are excited, empowered, have freedom, and make a difference. But this excitement, empowerment, freedom, and making a difference seem to be defined by top management, the leadership that has the burden 'to organise and manage' the new BP Amoco, a 'huge worldwide company'. This again evokes a heroic mantle (who but a hero could do such heroic things, could know what excites 'the people who work for us' (not with us), could know what 'clear boundaries and standards' to set?), and is consistent with the underlying root metaphor 'top management is a hero'.

In the first seven paragraphs of the 1998 CEO letter (using as the probe the identification of the leadership metaphor, ‘we’) it is argued plausibly by the textual analysis that a fundamental, or root metaphor coursing through at least the first part of the CEO letter reporting on 1998, is ‘top management is a hero’. Of course, the analysis is based upon the authors’ close reading, and is subject to dispute. But ‘top management is a hero’ fits rather nicely when considered in the context of the themes in the corpus of BP CEO letters from 1998 to 2006 (see Table 5.2), and also given the importance of 1998 to the newly merged BP-Amoco corporation and the attendant symbolic work that top management would have to do to fashion a common worldwide organisational culture.

The key implication in terms of tone at the top is that this root metaphor signals a perverse leadership approach, as described below. And since this metaphor appears strongly in BP’s CEO letters, one might ask whether it is intended to be so portrayed by top management to all other stakeholders (especially employees), and whether top management itself – in the person of the CEO – operated cognitively within such a mental model.

The leadership approach signalled by this metaphor includes the following:

- top management exercises leadership in a top-down fashion;
- top management knows best;
- top management knows all there is to know;
- top management has little regard for followership;
- top management is imbued with extraordinary insight, wisdom, and other abilities; and
- top management might not appreciate criticism, even if constructive.

The text of the CEO letter is insightful, especially in view of what is now known regarding the conclusions of the *Report of the BP US Refineries Independent Safety Review Panel* (2007) that was cited above regarding the tone at the top. Top management cannot, indeed should not, be regarded by others or themselves as heroes, metaphorically or literally.

Summary

International Standard on Auditing 315: Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment reinforces the importance of comprehending audit risk in a comprehensive fashion. Based upon the discussion in the first five chapters of this book, one significant aspect of audit risk is entity (or business) leadership risk, especially the risk associated with the setting of an inappropriate tone at the top by the CEO. The leadership of the CEO is constructed to a significant degree by means of communication and language – formal and informal, verbal and written. Thus, it seems prudent to assess how this leadership is made manifest through analysis of key CEO communication media, such as the CEO letter.

The chapter has illustrated some qualitative approaches to analysing the CEO letter, first through thematic analysis (including the identification of themes that are under-represented in the CEO letter), and second through metaphor analysis. While the analyses are illustrative and therefore selective, they focus on the key link between the rhetoric of leadership and the setting of tone at the top.

Close readings of CEO letters, by company directors (including of drafts of these letters as they evolve), external auditors, analysts, employees, and numerous other corporate stakeholders, should lead to many benefits. These would include a higher awareness of the importance of depth in leadership, eschewing platitudinous and empty words, and of the importance of encouraging the humble CEO (as summarised earlier from Morris *et al.* (2005)). Of course, monitoring CEO discourse

should not be limited to the CEO letter, however important it is, but also include samples of all textual discourse that has been made public, and – on a confidential basis – internal memos and speeches to the extent available to internal stakeholders. Such actions should not be taken to ‘police’ CEO discourse, but with a view to monitoring such discourse and encouraging the construction of a more functional tone at the top.

The next chapter analyses the case of New Century Financial Corporation, using quantitative and qualitative approaches.

6 NEW CENTURY FINANCIAL CORPORATION'S CEO LETTERS PRIOR TO BANKRUPTCY

Introduction

Assessment of tone at the top is multimedia since corporate leadership language, including the language of CEOs, is expressed in numerous formal and informal ways both inside and outside the company. It is also multi-method, and so this chapter uses a combination of quantitative and qualitative methods to examine the CEO letters of the bankrupt company New Century Financial Corporation. This was one of America's 'premier full-service mortgage finance companies' (www.ncen.com; last visited June 30, 2008), involved intimately in the sub-prime mortgage crisis that facilitated the global economic crisis of 2008. The analysis reveals a perverse tone at the top well before the company's 2007 bankruptcy.

Company description

On Wednesday, March 26, 2008, the 581 page final report of the bankruptcy court examiner concerning New Century Financial Corporation [New Century] was unsealed. The examiner, Michael Missal, concluded:

New Century's Senior Management did not set an appropriate 'tone at the top'. (Final Report of Michael J. Missal, Bankruptcy Court Examiner, February 29, 2008, p. 5)

The report documented numerous detailed allegations regarding material accounting misstatements and other significant deficiencies in

the operation and governance of the company over several years. Missal (2008, p. 1) summarised the New Century situation as follows:

On February 7, 2007, New Century Financial Corporation ('New Century' or the 'Company') announced the need to restate its financial statements for the first three quarters of 2006. At the time, New Century was the second largest originator of subprime residential mortgage loans, which are loans made to borrowers who represent a high level of credit risk. The Company had growth at an incredible pace since inception, from originating \$357 million in mortgage loans in its first year of operation in 1996, to approximately \$60 billion in 2006. New Century's equity securities were traded on the New York Stock Exchange ('NYSE'), the Company had a market capitalization of over £1 billion in February 2007, and it had credit facilities of \$17.4 billion to finance its activities. New Century reported net earnings of \$411 million for 2005 and \$276 million for the nine months ended September 30, 2006.

The February 7, 2007 news that New Century needed to restate its 2006 interim financial statements caused a dramatic and swift descent of the Company. Immediately following the announcement, New Century's stock price dropped precipitously, and the Company disclosed on March 2, 2007 that it would not file its 2006 Annual Report on time. This revelation and other developments prompted increased margin calls by the Company's lenders, accompanied by their refusal to provide further financing. As a result of these financial pressures, New Century stopped accepting loan applications on March 8, 2007, and the NYSE delisted the Company's securities on March 13, 2007. On April 2, 2007, New Century and many of its affiliates (collectively the 'Debtors') filed for bankruptcy protection. KPMG LLP ('KPMG')

resigned as the independent auditor for New Century on April 27, 2007, and the Company announced on May 24, 2007 that its financial statements for the year ended December 31, 2005 also should no longer be relied upon.

The allegations regarding New Century Financial Corporation are highlighted below (source: Missal, 2008):

- Aggressively increased loan originations without due consideration of risk. 'The increasingly risky nature of New Century's loan originations created a ticking time bomb that detonated in 2007' (p. 3);
- Made 'frequent exceptions to its underwriting guidelines for borrowers who might not otherwise qualify for a loan' (p. 3);
- 'Senior Management turned a blind eye to the increasing risks of New Century's loan originations and did not take appropriate steps to manage these risks' (p. 4);
- 'Senior Management was aware of an alarming and steady increase in early payment defaults...on loans originated by New Century, beginning no later than mid-2004' (p. 4);
- The company 'did not invest in the necessary technologies, systems or personnel to meet its growing business and expanding challenges' (p. 5);
- 'New Century's Senior Management did not set an appropriate 'tone at the top'. Many former New Century employees rationalised the company's actions with the belief that the company was conducting business in the same manner or even better than its competitors' (p. 5);

- ‘New Century engaged in...wide-ranging improper accounting practices in 2005 and 2006, most of which were not in conformity with generally accepted accounting principles...’ (p. 5). These ‘improper practices’ included: (i) improper accounting ‘for the reserve for losses associated with the repurchase of loans previously sold to investors’ (p. 5); (ii) ‘failed to value properly residual interests that the company held in off-balance sheet securitisations’ (p. 6); (iii) allowance for investment loan losses (p. 7); (iv) mortgage servicing rights accounting (p. 7); (v) ‘deferral and amortisation of loan origination fees and costs’ (p. 7); (vi) ‘hedge accounting’ (p. 7); and (vii) goodwill (p. 7);
- Many other allegations in the Missal report, including: (i) allegations regarding the conduct of KPMG, New Century’s external auditor; (ii) allegations regarding an ‘unhealthy friction between the Board of Directors and Senior Management...’ (Missal, 2008, p. 9); (iii) ‘New Century failed to have an effective system of internal controls’ (Missal, 2008, p. 9); (iv) Audit Committee lapses; and (v) Internal Audit Department lapses.

New Century’s self-description on its website is as follows (www.ncen.com; last visited June 30, 2008):

Company Information

Founded in 1995 and headquartered in Irvine, California, New Century Financial Corporation is a real estate investment trust (REIT) and one of the nation’s premier full-service mortgage finance companies, providing first and second mortgage products to borrowers nationwide through its operating subsidiaries, New Century Mortgage Corporation and Home123 Corporation. The company offers a broad range of mortgage products designed to meet the needs of all borrowers. New Century is committed to serving the communities in which it operates with fair and responsible lending practices.

We originate and purchase loans on the basis of the borrower's ability to repay the mortgage loan, the borrower's historical pattern of debt repayment and the amount of equity in the borrower's property (as measured by the borrower's loan-to-value ratio, or LTV). We have been originating and purchasing loans since 1996 and believe we have developed a comprehensive and sophisticated process of credit evaluation and risk-based pricing that allows us to effectively manage risk.

We originate and purchase loans through our wholesale network of approximately 35,000 independent mortgage brokers and through our retail network of 216 sales offices operating in 35 states, and 34 regional processing centres operating in 17 states. Although a significant percentage of our loans are originated in California, we are authorized to do business in all 50 states and regularly originate and purchase loans throughout the country. Additionally, we employ approximately 7,500 Associates.

We originate approximately 90 percent of our loans through our wholesale channel and 10 percent through our retail channel. Of the loans that we originate, approximately 60 percent are refinances of existing mortgages and 40 percent are for the purchase of residential property. Of the refinance transactions, 85 percent were cash-out refinances in which the borrower receives additional proceeds to pay off other debt or meet other financial needs.

We have a secondary marketing strategy where we sell approximately 80 percent of our loans for cash in the whole loan market and hold the remaining 20 percent of our production for investment through on-balance sheet securitizations. This secondary marketing strategy provides greater stabilization of earnings going forward.

On October 1, 2004, we converted into a REIT, which we believe we will put us in a better position to achieve our long-term growth objectives, diversify our revenues in a more tax-efficient manner and increase stockholder value.

Nielsen ('The Rise and Demise of New Century Financial', Investopedia.com) describes the industry in which the company operated as follows:

The Wild West of Mortgage Lending

New Century Financial was a star in the booming mortgage business of the late 1990s and 2000s. It made its money by concentrating on a then underserved section of the mortgage market: sub-prime borrowers.

New Century's approach to the mortgage market was made clear in its March 2006 10-K filing, in which it stated that '[New Century Financial lends] to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers.'

During this time, interest rates reached all-time lows. New types of mortgages were introduced to borrowers, which allowed for interest-only payments and deferred interest. Mortgage companies were rolling out proprietary automated-underwriting systems that allowed for quick, analytical underwriting decisions.

Borrowers were constantly willing to take on the risk of higher mortgage payments and a flat or rising mortgage balance because the ability to refinance down the road seemed certain. Housing prices continued to climb.

Wall Street and big investors were willing to take on risk that seemed quantifiable and diversified in exotic mortgage-backed security (MBS), asset-backed security (ABS) and collateralized debt obligation (CDO) structures.

Everybody was making money and virtually everyone was happy. As in most bubbles, the belief by most was that the good times were sure to go on forever. And New Century was on the leading edge.

A timeline of major events in the company's history is set out in Table 6.1.

Table 6.1 *Timeline of major events*

Date	Major event
1995 - 1998	New Century Financial was founded in 1995 by three mortgage veterans Bob Cole, Brad Morrice and Ed Gotschall. The company made its first loan in 1996 and went public in 1997. By 1998, it had grown to 1,151 employees, had 111 offices, originated \$2 billion in mortgages and made \$17.7 million in net profit.
2000	New Century originated \$4.2 billion in mortgages.
2002	Added to the Nasdaq Financial 100 Index.
2003	Ranked twelfth on <i>Fortune Magazine's</i> '100 Fastest Growing Companies'.
2004	Converts to a real estate investment trust; lists on the NYSE; originates \$42.2 billion in mortgages.
2005	Ranks third on the <i>Wall Street Journal's</i> 'Top Guns' of best performing companies; originates a record \$56.1 billion in mortgages.
2006	Ranks second nationally in subprime mortgage origination volume.
First quarter 2006	The rapid pace of home price appreciation ends. However, New Century and the mortgage industry continues to originate subprime loans under the previously valid assumption that subprime borrowers will be able to refinance out of adjustable-rate mortgages.
Fourth quarter 2006	Things begin to fall apart. The assumptions used in automated credit underwriting engines prove to be invalid as the percentage of subprime loans in default begins to rise. Investor appetite for subprime securities wanes. Loan repurchase requirements for New Century and other subprime originators increases as early payment defaults rise. This is because mortgages sold into the secondary market frequently have clauses stating the mortgage must be repurchased if it goes into default within a certain period of time.
March 8, 2007	New Century announced it had stopped accepting loan applications because some of its financial backers are refusing to provide access to financing; and that it had received \$150 million of margin calls from its warehouse lenders. 'As a result of the current constrained funding capacity, the company has elected to cease accepting loan applications from prospective borrowers effective immediately, while the company seeks to obtain additional funding capacity'; and that one of its financial backers has demanded the company repurchase some loans pursuant to repurchase provisions contained in loan purchase agreements.

[Sources: company website; Wikipedia.com; Investopedia.com; Barry Nielsen, "The Rise and Fall of New Century Financial"]

Table 6.1 Timeline of major events (Cont.)

Date	Major event
March 9, 2007	New Century reported that it had failed to meet certain minimum financial targets required by its warehouse lenders and disclosed that it was the subject of a federal criminal investigation. The company also indicated that it did not have the cash to pay creditors.
March 12, 2007	The NYSE halted trading of New Century while it decided whether to continue listing the company's securities in light of liquidity problems. The stock of New Century lost approximately 90 percent of its value since the start of March 2007 on news of growing defaults and problems obtaining new financing.
March 13, 2007	In a regulatory filing, New Century reported that it had received a grand jury subpoena from the US Attorney's Office for the Central District of California as well as a letter from the SEC notifying it of a preliminary investigation. The filing stated that the US Attorney's office had indicated in a letter dated February 28, 2007 that it was conducting a criminal inquiry in connection with trading in the company's securities, as well as into accounting errors regarding the company's allowance for repurchase losses. The filing also stated that the SEC has requested a meeting with the company to discuss the company's previous announcement that it would restate certain financial statements.
March 20, 2007	New Century said it can no longer sell mortgage loans to Fannie Mae or act as the primary servicer of mortgage loans for the government sponsored enterprise. In a filing with the SEC, New Century said that Fannie Mae terminated 'for cause' a mortgage selling and servicing contract with it, citing alleged breaches of that contract and others. New Century said it received a notice of breach and termination on March 14, 2007; that it had received 'cease-and-desist' orders from California, that it has entered into consent agreements with Florida and Washington state regulators, and that New York's banking department has suspended the banking license of its Home123 Corporation subsidiary for up to 30 days.
April 2, 2007	New Century and its related entities filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Delaware. New Century listed liabilities of more than \$100 million, and also announced that about 3,200 of its employees would be terminated. New Century said that it had obtained \$150 million from CIT Group and Royal Bank of Scotland Group Plc's Greenwich Capital unit to use as its bankruptcy case moves through the court process. The company said it planned to sell most of its assets within 45 days of the bankruptcy filing.
April 16, 2007	A petition by the US Department of Justice, filed with the bankruptcy court, requested the handover of company management to a court-appointed trustee. The petition claimed that there were signs of ongoing self-dealing by company executives and directors. The creditors' committee opposed this request, and it was denied.
May 25, 2007	The company filed its form 8-K, a day after stating that they '...probably overstated 2005 earnings'.

Table 6.1 *Timeline of major events (Cont.)*

Date	Major event
June 8, 2007	New Century warned that its effort to liquidate assets could be stymied if GE Capital was allowed to seize computers and other equipment it leased to the bankrupt housing lender. GE Capital, argued that New Century owed it \$8.7 million on leased equipment and was behind on current on payments. It asked a judge to lift the protection normally granted to companies in chapter 11. That would enable GE Capital to repossess the equipment, which included computer servers, and chairs. New Century said that would disrupt its effort to wind down operations and repay creditors. New Century said 'much of the data and information' involving its assets and business operations, including accounting information, is stored on the computers, or generated by them. New Century also said 'it is critical for the debtors to use the equipment' so that the loan-servicing business it recently sold to Carrington Capital Management can be kept 'operating as a going concern'. Carrington paid \$188 million for the business. The committee of unsecured creditors in the bankruptcy case also opposed GE Capital's bid to seize the computers, saying it was the third time the company had tried to force New Century to pay 'substantially more' in cash than the value of the equipment.
March 26, 2008	An unsealed report by bankruptcy court examiner Michael Missal outlined a number of 'significant improper and imprudent practices related to its loan originations, operations, accounting and financial reporting processes,' and accused auditor KPMG of helping the company conceal the problems during 2005 and 2006.

Quantitative analysis using *DICTION*

The New Century CEO letters from the years 2000 to 2005 were extracted from the corresponding annual reports after these reports, as pdf files, were downloaded from the company's website (ncen.com) and converted to text files. The CEO letters were then analysed using *DICTION*. The results are shown in Table 6.2. The first 500-word option was chosen, and it was decided to initially consider only results that were two or more standard deviations from *DICTION*'s norms for business annual reports, for the reasons mentioned in chapter four.

Table 6.2 New Century Financial: DICTION results, CEO letters 2000-2005

Year	2000	2001	2002	2003	2004	2005	Average	More than one standard deviation from norm						
								2000	2001	2002	2003	2004	2005	
No. of words	1165	1277	1317	1223	1037	1570	1265							
Numerical terms	17.66	40.66	34.18	35.48	16.50	21.78	27.71	-1.64						
Ambivalence	0.25	1.97	2.08	1.37	0.50	8.27	2.41							
Self-reference	0.00	0.00	0.00	0.00	0.00	0.00	0.00							
Tenacity	11.34	14.91	10.99	8.24	6.95	9.74	10.36							
Levelling terms	1.50	11.32	6.15	2.25	2.75	3.75	4.62		<u>2.23</u>					
Collectives	16.33	11.82	8.29	7.47	21.10	7.57	12.10	1.45					<u>2.27</u>	
Praise	5.90	3.81	7.36	6.76	3.78	7.44	5.84	1.28		1.81	1.59			1.84
Satisfaction	2.52	7.32	8.06	3.74	0.50	1.25	3.90	1.39	<u>4.94</u>	<u>5.49</u>	<u>2.30</u>			
Inspiration	4.69	5.83	9.68	8.61	3.14	11.31	7.21			1.70	1.40			<u>2.14</u>
Blame	0.25	0.00	0.00	0.00	0.00	0.00	0.04							
Hardship	3.78	1.81	1.83	2.49	20.27	8.14	6.39	1.00						<u>7.90</u>
Aggression	4.77	2.40	3.08	1.75	1.75	2.75	2.75							<u>2.83</u>
Accomplishment	36.57	28.28	37.50	30.32	16.32	23.77	28.79							
Communication	1.03	1.71	0.81	1.43	0.50	0.25	0.96							-1.20
Cognition	10.04	13.01	8.33	7.80	5.61	7.37	8.69		1.67					
Passivity	7.46	5.10	11.89	7.82	2.23	3.91	6.40	1.07		<u>2.33</u>	1.17			
Spatial terms	1.59	3.47	3.86	1.86	2.47	1.25	2.42							
Familiarity	101.94	113.10	102.59	106.32	76.27	115.64	102.64	-1.30						<u>-2.96</u>
Temporal terms	22.86	18.53	11.19	9.99	21.76	32.18	19.42	1.29						1.14
Present concern	9.25	5.85	5.84	7.61	3.54	7.57	6.61	1.19						
Human interest	46.82	32.51	48.53	47.16	25	40.36	40.06	<u>5.06</u>	<u>3.39</u>	<u>5.26</u>	<u>5.10</u>	<u>2.51</u>	<u>4.31</u>	
Concreteness	30.21	22.33	20.45	19.24	37.01	20.99	25.04							1.58
Past concern	3.78	1.25	2.04	0.50	0.75	1.25	1.60							

Table 6.2 New Century Financial: DICTION results, CEO letters 2000-2005 (Cont.)

Year	2000	2001	2002	2003	2004	2005	Average	More than one standard deviation from norm				
								2000	2001	2002	2003	2004
Centrality	6.66	6.81	6.34	5.68	8.01	6.70	6.70					
Rapport	4.53	1.25	1.04	1.62	0.25	0.88	1.60	<u>2.60</u>				
Cooperation	7.30	9.61	10.44	11.98	2.75	4.00	7.68					-1.30
Diversity	0.75	0.50	2.58	2.99	1.00	1.13	1.49					
Exclusion	1.75	2.81	2.04	0.50	0.25	0.38	1.29					
Liberation	1.00	0.00	0.79	0.00	0.25	0.25	0.38					
Denial	0.50	0.25	0.50	0.00	0.75	0.25	0.38					
Motion	0.75	2.40	0.75	0.25	0.50	0.50	0.86					
Insistence	87.98	251.06	161.14	168.16	93.48	66.19	138.00	-1.20				-1.16
Embellishment	0.50	0.62	1.35	0.89	0.95	0.89	0.87					
Variety	0.56	0.46	0.49	0.49	0.63	0.62	0.54	1.32				1.89
Complexity	5.28	4.95	5.26	5.33	5.46	5.07	5.23					1.12
Activity	48.92	48.14	46.93	47.37	48.16	48.21	47.96					
Optimism	52.58	56.72	59.56	55.88	43.09	52.41	53.34	ANR	ANR	ANR	ANR	BNR
Certainty	50.78	54.59	50.94	49.46	50.75	46.45	50.50	ANR	ANR	ANR	ANR	ANR
Realism	54.85	54.03	52.96	53.25	50.57	56.48	53.69	ANR	ANR	ANR	ANR	ANR
Commonality	52.42	51.33	49.56	51.04	49.98	50.25	50.76					

ANR – Above normal range
BNR – Below normal range

Normal range for	High	Low
Activity	46.26	53.97
Optimism	47.92	52.50
Certainty	38.62	50.26
Realism	41.14	46.85
Commonality	47.94	55.30

From the *DICTION* results in Table 6.2, a major point of disjuncture and a major change of tone at the top in the company commenced in the CEO's letter for 2004. The following three-step procedure was adopted.

First, we identified whether any of the 35 *DICTION* variables were more than + or - 2 standard deviations from the expected mean. This focused particularly on any changes in the pattern of those deviations. Second, *if* a change was found in the pattern in the first step, the other *DICTION* variables which became out-of-range (even by +1 or - 1 standard deviation) simultaneously (and thereby indicated a similar pattern) were analysed too. Third, the pattern of above or below range results were explored for the five *DICTION* master variables to assess whether they helped substantiate the conclusions emerging from the two prior steps.

For the years 2000-2005, there are 18 instances of variables being more than + or - 2 standard deviations from the expected norm (these are underlined in bold typeface in Table 6.2). Seven of the variables appear once. They are not a part of any run of consecutive instances and are not focused on. These are:

- Levelling terms (2001)
- Collectives (2004)
- Inspiration (2005)
- Rapport (2006)
- Passivity (2002)
- Familiarity (2004)
- Temporal terms (2005)

The human interest variable is present every year from 2000 to 2005. They indicate an extremely and consistently high level of focus on people and activities. Their chief preoccupation is a stress on the humanity of the organisation, the care which is felt towards all its employees, and

a tone of 'motherhood and apple pie'. But they are not of immediate interest. More striking are changes in the pattern of out-of-range results. One such change occurred with the extremely out-of-range result for hardship (+7.90). This began to be out of range in 2004, and continued to be out of range strongly in 2005.

Hardship suggests a growing recognition that the organisation's operating environment has become more competitive and difficult. But what other *DICTION* variables can help us to understand the change of the tone at the top which is evident with the suddenly strong out of range result for hardship?

So, in the second stage of analysis, any other *DICTION* variables are examined which became out of range (even by +1 or -1 standard deviation) simultaneously in 2004, and indicate a pattern similar to that exhibited by hardship and re-occurred in 2005. As with hardship, in 2004, three variables were out of range by at least +1 or -1 standard deviation after a lapse of three years of not being out of range. These variables, which continued to be out of range in 2005, were temporal awareness (+1.14, +2.54), insistence (-1.16, -1.39) and variety (1.89, 1.84) and were assessed to see whether they can illuminate the very strong change in the hardship variable.

It is understandable that temporal awareness, insistence and variety should exhibit a pattern similar to that for hardship. The CEO, aware of hardship facing the company, invokes a tone of precise and measured concern for practicalities and need for change – a kind of sober but precise 'business like' way ahead to resolve the company's difficulties.

In the third stage, changes in the 'master' variables were studied to assess whether there is any reinforcement of a finding of a major change in tone, of the type described above, in 2004. Table 6.2 reveals that a disjuncture seems to have occurred in 2004, as outlined above. This is apparent, in particular, from the results for optimism, which indicate a tone of endorsement and stress on positive entailments. These results appear as a counterpoint to the other acknowledgements of hardship.

In other words, things may be difficult, but the tone is one in which it is asserted that the organisation will prevail. This is complemented by the tone of certainty, which seeks to reinforce the view that, ultimately, the organisation will revert to a platform of success. Scores for both of these variables exceeded the normal range from 2000 to 2002. But a change in this pattern occurred in 2003. In that year only optimism exceeded normal range and realism was within range. In 2005, optimism was below range. After three years of these variables being almost in tandem, in 2004 this pattern was upset. The stress on endorsement and positive entailment had been diminished greatly without effect on the stress on more tangible matters in 2004. So, this was a tone of measured concern for the harsher realities facing the company and the changes it needed to undergo. This tone appears to have been linked to the strategic decision of the company to become a Real Estate Investment Trust – and the stresses, demands and exigencies that would impose.

In sum, the pattern of results in terms of *DICTION*'s semantic tone measures reveals that the 2004 CEO letter represented a rather dramatic change from the letters of previous years. Thus, the 2004 letter is our candidate for a closer, qualitative, analysis.

Qualitative analysis of the 2004 CEO letter

The text of the 2004 CEO letter of New Century Financial is shown in Exhibit 6.1 (with line numbers added).

*Exhibit 6.1 New century financial corporation 2004 CEO letter***1 New Century Financial Corporation 2004 CEO Letter**

2 To Our Stockholders,

3 2004 was the best year in the history of New Century Financial Corporation from a financial, operational and
4 strategic perspective, achieved while weaving our 'New Shade of Blue Chip' thread through our
5 accomplishments.

6 Financially, we set a goal of growing our 2004 diluted EPS from \$6.32 in 2003 to over \$8.25 in 2004, and we did
7 it, earning \$8.29 for the year.

8 Operationally, we grew our 2004 loan production 54 percent over 2003's results to a record \$42.2 billion. In our
9 Wholesale Division, we added six new regional processing centers and 283 new account executives, which
10 translated into a 51 percent year-over-year increase in wholesale production. We delivered even stronger growth
11 in our retail franchise as we increased production 86 percent by hiring 213 additional loan officers and increasing
12 our productivity.

13 Strategically, we believe we positioned the company to deliver even greater returns to our stockholders, most
14 notably by converting into a REIT. Management and our board of directors analysed the REIT structure for many
15 months before deciding to become a REIT, and we appreciate our stockholders' strong vote of support for the
16 REIT conversion. We believe that as a REIT we are in a better position to achieve our long-term objectives by
17 diversifying and stabilizing our revenues in a more tax-efficient manner, which we expect will increase
18 stockholder value. We are now one of the largest mortgage REITs by origination volume and have the largest
19 taxable REIT subsidiary (TRS).

Exhibit 6.1 New century financial corporation 2004 CEO letter (Cont)

20 Total Return REIT

21 Our Total Return REIT business model consists of a REIT that we believe will deliver a stable and growing
22 dividend, and a sizeable TRS that generates earnings that can be used for franchise growth, expansion of our
23 portfolio of mortgage loans, or to supplement our dividend. This model provides significant competitive
24 advantages compared with other mortgage REITs as we have greater financial flexibility and less reliance on the
25 capital markets. As a REIT, we expect to distribute to our stockholders 100 percent of our annual REIT taxable
26 income - the income we earn on our mortgage loan portfolio held at the REIT. We also have the option of
27 supplementing our dividend with a portion of the earnings from our TRS. We paid our first quarterly dividend as
28 a REIT in the amount of \$1.50 per share on January 31, 2005 and we intend to deliver an annual dividend of
29 \$6.50 per share or more this year. Looking beyond 2005, our goal is to grow our dividend 10 percent annually.

30 Strategic Acquisition

31 Another 2004 strategic milestone was our acquisition of the Home123 Corporation brand assets. The Home123®
32 brand promise is to help borrowers 'cut through the loan clutter' and make the loan process as easy as 1-2-3.
33 Early results show that this value proposition and distinct identity will allow us to more significantly grow retail
34 production volume and increase market share. The Home123® brand rollout began in January 2005 and features
35 Bob Vila, one of America's best-known home improvement experts, as its spokesperson. We expect to convert all
36 74 of our retail branches to the new brand in the first half of 2005.

Exhibit 6.1 New century financial corporation 2004 CEO letter (Cont.)

37 2005 Outlook

38 As we look forward to 2005, we will face more challenges than the past few years due to rising interest rates,
38 moderating home-price appreciation and greater competition. However, we believe our management team has the
39 experience to navigate through this environment and we have a clear and compelling strategy to deliver another
40 year of strong results.

42 Within the REIT, we plan to accelerate our mortgage loan portfolio's growth during 2005 to deliver greater value
42 to our stockholders. . By deploying our existing capital, we project our average portfolio balance to be
43 approximately \$16 billion this year. . We expect this portfolio to pay out most or all of our projected 2005
44 dividend. .

45 Within the TRS, we will focus our efforts on expanding our product menu to grow our purchase business,
46 develop additional Alt-A (higher FICO score) products and provide home equity lines of credit. . Additionally, we
47 plan to add 10 new retail offices and increase our sales forces to drive greater penetration in regions where we do
48 not currently have a strong presence. . Overall, we expect to grow loan production to \$45 billion or more in 2005,
49 with a significant portion of this growth coming through our retail franchise's Home123 rollout. .

50 Additionally, we are implementing a number of cost saving initiatives that we believe will enhance our
51 competitive position and profitability. . We have the size and scale to operate as a low cost originator, an important
52 factor in delivering strong results in this part of the business cycle. .

53 With the continued strength of our mortgage banking operations and our growing mortgage loan portfolio, we
54 believe our Total Return REIT will increase stockholder value by delivering a dividend of at least \$6.50 per share
55 by paying out our REIT taxable earnings, and delivering EPS of \$9.00 or more this year. .

Exhibit 6.1 New century financial corporation 2004 CEO letter (Cont.)

56 Community Involvement

57 We are also focused on giving back to the communities in which we do business, which we believe is
58 fundamental to our success and is our responsibility as a corporate leader. Our corporate philanthropy programs
59 focus on the areas of affordable housing, education and healthcare. We also offer company-sponsored volunteer
60 programs, paid time off for volunteer work and a gift-matching program.

61 Everything that we do at New Century is guided by our 'New Shade of Blue Chip SM' beliefs. We aspire to
62 become a world-class mortgage company by transforming ourselves from a subprime mortgage company into
63 one of the top 10 mortgage banking companies in the United States. We expect to reach our goals by meeting or
64 exceeding our commitments and delivering the right results, done well.

65 We look forward to sharing another year of success in 2005 and know we could not do it without our board of
66 directors, financial partners, brokers, customers, stockholders and especially our Associates. We thank you all for
67 your continued support of New Century Financial Corporation.

70 Sincerely,

71 Robert K. Cole Edward F. Gotschall

72 Chairman of the Board and Chief Executive Officer Vice Chairman-Finance

73 Brad A. Morrice

74 Vice Chairman, President and Chief Operating Officer

Lines 3 to 5 of the letter proclaim that '2004 was the best year in the history of [the company]... achieved while weaving our "New Shade of Blue Chip" thread through our accomplishments'. Although the examination of CEO letters in this report are restricted to just the text of CEO letters, clearly text is only one aspect (albeit a potentially revealing aspect) of any document. The non-text visual and graphic aspects of a communication medium such as a CEO letter or annual report are significant as well, and can enhance interpretation of straight text. For example, portraits of top executives and CEOs, sometimes contained in annual reports 'represent significant sites for the visual construction of corporate identity and image', while simultaneously raising issues of authenticity (Guthey & Jackson, 2005, p. 1057). Such are the issues raised with these first few lines of New Century's 2004 CEO letter.

Writing about corporate annual reports, David, a professor of rhetoric and professional communication, has reinforced the importance of narrative context themes and pictorial images. She argues that 'by presenting themes in annual reports and offering vivid pictorial images, the producers of reports obscure the differences between reporting the company's yearly progress and promoting business values that leaders find important' (David, 2001, p. 196). Importantly, she argues that:

The narrative sections of annual reports are not just portrayals of a company's history. They are purveyors of cultural values about the company, the broader industry, and business and its activities. For readers wishing to scan the report without granting it the time needed to analyze figures, the photographs and summaries in the narrative section allow at a glance an impression of the company's image and its central theme. Furthermore, the documentary style of photography imports the ethos of truth that documentary has enjoyed from its onset...the stories presented in the narratives of some annual reports convey myths through pictures and graphics and accompanying text. The myths tap into the large cultural belief systems represented in the broader media. (David, 2001, p. 206)

In New Century's letter, the words 'achieved while weaving our "New Shade of Blue Chip" thread through our accomplishments' are evocatively metaphorical. This metaphor is consistent with, and reinforced by, the graphic image of a line, or 'thread'. The metaphor 'weaves' from the front cover of the 2004 annual report, through the next three pages of the annual report, skipping a page, then re-appearing again (as a thread outlining what seems to be a woman and a man) on the first published page of the CEO letter in the annual report. It continues over the next three pages of the published version of the CEO letter, ending on the second-to-last page of the letter as a hard-to-interpret squiggle that might represent a person with a backpack on the top of a mountain. This thread metaphor, as text and as a visual metaphor, serves to frame the CEO letter and the 2004 annual report as a whole.

While a more complete analysis of this combined textual and graphic metaphor would require considerable depth and run for several pages, only three aspects are emphasised here. First, that this complex text/visual metaphor is an important framing device. Second, that it employs socially-appealing images (a curvy line or thread that variously becomes a dove, a woman and man, a climber at a mountain peak). Third, that it is itself reinforced with attractive text: 'there is a belief that runs through our company'; and 'a belief that performance means little without integrity'.

On one hand, New Century's use of a sustained, framing metaphor might be regarded as simply corporate hyperbole. But since this metaphoric structure is associated intimately with the CEO letter and the context within which the letter is embedded, its use should be taken seriously in analysing the letter. For example, notice how the metaphor first appears in the CEO letter as the verbal subject of the word 'while'. The authors of the CEO letter are proclaiming that:

2004 was the best year in the history of New Century Financial Corporation from a financial, operational and strategic perspective, achieved while weaving our 'New Shade of Blue Chip' thread through our accomplishments.

So, becoming 'A New Shade of Blue Chip' (a presumably socially-meritorious goal) was accomplished even as the company had its 'best year in [its] history'. And, further, the criterion for 'best year' is based upon 'financial, operational and strategic' perspectives, which were criticised persistently in court examiner Missal's (2008) report.

From the perspective of an analyst interested in 'tone at the top', such a complex framing metaphor combined with the hyperbolic 'best year in history' assertion thus suggests that extreme language and rhetoric are in play. Lines 6 and 7 of the letter (see Exhibit 6.1) are as follows:

Financially, we set a goal of growing our 2004 diluted EPS from \$6.32 in 2003 to over \$8.25 in 2004, and we did it, earning \$8.29 for the year.

Setting a singular financial goal of increasing EPS seems inapt, since the shortcomings of this financial accounting metric are well-known. And the growth target of almost 31% ($8.25/6.32$) seems to require an explanation of how the company would manage such a significant and rapid increase in the implied level of operations.

The phrase 'New Shade of Blue Chip' provides bookends to the letter. The phrase appears on line 4 and line 61. The metaphor that begins as a thread that the corporate leadership 'weave[s]...through our accomplishments' and ends as 'our...beliefs', has interesting visual overtones. What begins at the start of the letter (line 4) as a 'thread' that the leadership has been 'weaving', ends the letter (line 61) as 'beliefs' that 'guide[...] 'Everything we do at New Century'.

So, a 'thread' (that is passive since the leadership does the 'weaving' of the 'thread') becomes at the end of the letter active (as agent) since it now does the 'guid[ing]'. But what does 'New Shade of Blue Chip' signify? The text of the letter uses the phrase twice (as bookends: see above). The visual line ('thread') which courses from the cover and through the first few pages of the 2004 annual report, is coloured blue (against the black background of the cover and the next two black background

pages of the annual report results). Visually, this is a very vivid image. The New Century leadership contrast a ‘New Style of Blue Chip’ with a ‘traditional blue chip’ company (2004 annual report, p. 4):

Like traditional blue chip companies, we have outperformed our competitors with consistent and strong financial performance. Over the past three years, annual revenue more than tripled, earnings per share (EPS) grew significantly and annual loan production set our record levels.

New Century Financial Corporation has delivered strong results like traditional blue chips, while putting significant emphasis on the way these results are achieved. We are committed to forging relationships with partners based on trust and living up to our promises.

At New Century Financial Corporation, integrity and performance are part of the same equation.

The phrase ‘A New Shade of Blue Chip’ is first introduced in the 2004 annual report on the fourth page after the above contrast with ‘traditional blue chips’ in the heading:

New Century Financial Corporation

‘A New Shade of Blue Chip’

This appears in blue font, just like the ‘thread’ line graphic. Then there are two uses of the phrase ‘New Shade of Blue Chip’, as mentioned above. This phrase did not appear in the 2003 annual report, but appeared in the 10-K portion of the 2005 annual report as part of a factual explanation for an increase in advertising and promotion expense due to the company’s ‘New Shade of Blue Chip corporate brand campaign’

(2005 annual report, p. 61). The Missal report (2008) provides evidence that the more egregious transgressions at New Century became apparent in 2004 and after – and the 2004 CEO letter presumably was written at least at the cusp of the company's inapt behaviour. This suggests that the 'New Shade of Blue Chip' 'brand campaign' may have coincided with an attempt to shade such behaviour inappropriately. The rhetoric embedded in the 2004 letter, as well as the hints from *DICTION*, seem to suggest this; from the perspective of the language of corporate leadership and the tone at the top, at the very least, there was something rather curious about New Century's 2004 CEO letter.

Thus, there are important major themes in the 2004 CEO letter and the annual report context. First, the leadership's proclamation, via both textual and visual metaphors, of a new type of company – 'A New Shade of Blue Chip' – plausibly entails that is a blue chip company, and such self-branding has the rhetorical intent of benefiting from the positive social carriage of the phrase 'blue chip'. The website investorwords.com (visited September 12, 2008) defines the phrase 'blue chip' as:

Stock of a large, national company with a solid record of stable earnings and/or dividend growth and a reputation for high quality management and/or products. More generally, anything of very high quality.

The website investopedia.com (visited September 12, 2008) offers a similar definition:

A nationally recognized, well-established and financially sound company. Blue chips generally sell high-quality, widely accepted products and services. Blue chip companies are known to weather downturns and operate profitably in the face of adverse economic conditions, which help to contribute to their long record of stable

and reliable growth. The name 'blue chip' came about because in the game of poker the blue chips have the highest value.

Blue chip stocks are seen as a less volatile investment than owning shares in companies without blue chip status because blue chips have an institutional status in the economy. Investors may buy blue chip companies in order to have a portion of their portfolio in stocks that will provide steady growth. The stock price of a blue chip usually closely follows the S&P 500.

But New Century attempted to differentiate itself even further by being a 'new' rather than a 'traditional' blue chip company. There is rhetorical value in newness in our society. In addition, the implication is that since the only difference that the company espouses between a 'new' and 'traditional' blue chip is values and ethics, the old blue chips were somehow deficient when it came to 'forging relationships...based on trust and living up to...promises' (annual report, p. 4).

Second, a major theme can be seen from the way the letter proclaims and idealises a singular financial goal, achieving EPS. But what is 'new' about this? It is 'new' in the same dysfunctional sense that Enron was (in the words of its corporate leadership in that company's 2000 CEO letter) 'laser-focused on earnings per share'.

Thus, these two themes are inconsistent. By its intensive focus on earnings per share, New Century is not 'new' at all, and the use of EPS in such a prominent and highly focused manner is a strong symbol of what appears to be a cognitively-restricted corporate leadership mindset.

Summary

The discourse in the 2004 CEO letter, and the textual and visual context of the annual report of which it is a part, is far from innocent, and far from being merely decorative. Assertions are made of 'newness', when in fact little that is 'new' appears to be on offer. Rather, a rhetorical

appeal is invoked which its authors clearly imagine will have a potent appeal to the letter's target audience. This gulf between rhetoric and reality is troubling. Thus, the analysis provides insight to the company's leadership-through-language-and-symbol, a leadership that indicates an indication, at the very least, of a perverse tone at the top. The next chapter considers how to further gauge the tone at the top using *DICTION*.

7 USING *DICTION* SOFTWARE TO HELP ASSESS TONE AT THE TOP

Introduction

This chapter demonstrates how a quantitatively based analysis of the text of CEO letters to shareholders, using *DICTION* 5.0 software, can help to gauge tone at the top of a company. Techniques are introduced that help to identify companies whose CEO letters to shareholders reflect a potentially undesirable tone at the top. Other elements of CEO discourse, such as speeches, can be analysed similarly.

The techniques demonstrated can be employed by auditors to identify companies whose culture might warrant closer scrutiny. The conclusions that stem from the applications of such techniques are strengthened when they are also based on longitudinal (rather than cross-sectional) data and are supplemented by qualitative close reading analysis.

DICTION-based assessment of tone at the top for major companies is conducted in respect of the text of two sets of CEO letters to shareholders for 2006: one for large UK-based companies; and the other for large US-based companies. The UK companies are in the Financial Times Stock Exchange (FTSE) 100 index of the top 100 companies, according to market capitalisation, listed on the London Stock Exchange. The US companies are the top 100 companies in the annual FORTUNE 500 listing of America's largest corporations according to annual revenues (FORTUNE 100).

The CEO letters to shareholders of the FTSE 100 and FORTUNE 100 companies are analysed to show how *DICTION* can help to ascertain the current ambient tone at the top in major corporations. An important motive for doing so is to provide a benchmark against which assessments

of the tone at the top in individual companies can be compared. The analysis also shows how quantitative techniques can help to reveal extremes of tone at the top: that is, traces of any unsavoury or egregious aspects that are conducive to heightened leadership risk. Finally, the differences in *DICTION* results for FTSE 100 and FORTUNE 100 companies are examined to assess whether the nature and character of the tone at the top is due to variations in the cultural, social, and regulatory environments in which FTSE 100 (essentially UK-based) companies and FORTUNE 100 (essentially US-based) companies operate.

In very broad outline, the analysis reveals *prima facie* evidence of some semantic tone differences between FTSE 100 and FORTUNE 100 companies. It also reveals a wide variety of tone at the top, including tones of triumph in achievement, smugness, narcissism, hubris, confidence, strength, blame, frustration and resignation.

Data

FTSE 100

The identities of companies comprising the FTSE 100 were sourced from Eckett (2005). The database constructed contained the CEO (or similarly titled) letters for 91 of these companies. CEO (or similarly designated) letters for 2006 were not accessible for nine FTSE 100 companies: Scottish Power; BAA; BOC; Gallaher; Smith and Nephew; Boots; BPB; Sage; and AllianceUniChem. The first three companies were taken over during 2006 by companies based in either Spain or Germany. It is much less common for Continental European companies to issue CEO letters to shareholders and no such letters were published for these three companies in 2006. BPB was delisted during the year and Gallaher, Smith and Nephew, and Sage did not appear to issue a CEO (or similar) letter in 2006. The distractions of a merger between Boots and Alliance Unichem seems to have accounted for the absence

of a CEO (or similar) letter for either of those companies or for the merged company (Alliance Boots).

Unlike FORTUNE 100 companies, FTSE 100 companies do not have a strong tradition of publishing a CEO letter to shareholders in their annual reports. Some of the FTSE 100 companies published letters which serve the same purpose and which have the same characteristics, but have other titles. Accordingly, the 91 letters examined included 76 CEO letters to shareholders, 11 combined Chair's Statement and CEO's letter, and four which were a Chairman's Statement only. The resultant FTSE 100 letter file comprised 156,702 words, with an average length of 1,722 words (s.d. = 1,148 words). The companies represented had market capitalisations ranging from £133,858 million (BP plc) to £1,928 million (Schroders plc); and their reported earnings ranged from a profit of £17,772 million (Royal Dutch Shell plc) to a loss of £4,702 million (Vodafone Group plc).

FORTUNE 100

The companies comprising the FORTUNE 100 for 2006 were sourced from www.money.cnn.com/magazines/fortune/fortune500/full_list/. The database constructed contained the CEO (or similarly titled) letters for 94 of these companies. CEO (or similarly designated) letters for 2006 were not accessible for: Albertsons; Caremark; Johnson Control; Delphi; International Paper; and HCA. The first three of these companies were affected by major ownership re-structuring (de-merger, merger, leverage buyout) during the year. The other three companies with missing letters do not appear to have issued a traditional company annual report in 2006 but seemed to have confined their annual public reporting to 10-K disclosures. The companies represented in the FORTUNE 100 database had revenues ranging from \$US 339,938 million (Exxon Mobil) to \$US 21,290 million (General Dynamics); and their reported earnings ranged from a profit of \$US 36,130 million (Exxon Mobil) to

a loss of \$US 10,600 million (General Motors). The FORTUNE 100 letter file comprised 203,040 words, with an average length of 2,160 words (s.d. = 1,737 words).

The FORTUNE 100 letters were significantly longer than the FTSE 100 letters ($p \leq 0.05$, two-tailed). This could be explained as reflecting a longer tradition for FORTUNE 100 companies to publish such letters. Greater importance may be accorded to them in the US as a device for discharging CEO accountability to shareholders and stakeholders. One of many other explanations is that perhaps FTSE 100 CEOs were more efficient and disciplined in their use of the English language than FORTUNE 100 CEOs.

Method

The text of each CEO letter was downloaded from each company's website, converted into a text file, and formatted to facilitate processing using *DICTION* 5.0 software. The formatting involved excising all non-text items such as tables, diagrams, logos, and photographs, as well as all irrelevant text (for example, headers and footers, and notations such as 'continued on the next page'), together with foreign symbols and accents. The formatted files were imported into a FTSE 100 database and a FORTUNE 100 database.

The analysis began by assessing the 40 *DICTION* variables for the first 500 words of each letter in each database. This was prompted by the view, presented earlier, that the initial paragraphs of written text have stronger rhetorical impact and are more influential in reflecting tone at the top. The mean and median scores for each *DICTION* variable in each database were calculated. The word usage norm against which the analysed text was compared was the company annual report 'special dictionary'. Some caveats and cautions applicable to the use of this normative dictionary, especially in relation to FTSE companies, were noted in chapter four. Two-tailed tests were conducted to determine

whether there were significant differences between the respective means of each of the 40 variables for the FTSE 100 companies and the FORTUNE 100 companies. Mann-Whitney two-tailed tests for significant differences between median scores for each *DICTION* variable in the FTSE 100 companies and the FORTUNE 100 companies were also conducted.

Thereafter, for each company in both the FTSE 100 and FORTUNE 100 databases, the *DICTION* variable scores that were more than +2 or -2 standard deviations from expected values were noted and designated as being out-of-range. The incidence, nature and pattern of these out-of-range variables for FTSE 100 companies were compared against those for FORTUNE 100 companies. The procedures outlined above were repeated for each 500 word segment of text in each letter.

Results

The initial focus was on the variables with the highest level of significant difference between the two data sets; that is, those variables for which the test of difference in means, and the test of difference in medians, *both* revealed a two-tailed probability of no difference of 1% or less.

The four variables where the scores for the FTSE 100 companies were significantly higher ($p \leq 0.01$) than the FORTUNE 100 companies were tenacity, accomplishment, familiarity, and exclusion. These results show that, in some FTSE 100 companies at least, a distinctive point of difference occurs with common language [familiarity] being used to express a tone of 'cocky' confidence that the company's performance had been outstanding [tenacity, accomplishment] in a competitive, globalised business environment [exclusion, spatial awareness]. Such a tone goes beyond matter-of-fact reporting of success, or expressing simple pride in achievement, to one of smug, blinded, self-glorification in which the efforts of competitors are regarded disdainfully. There is no

trace of humility but a narcissistic air of ‘look at me. Look how great I am’. The Chief Executive of Reckitt Bensicker, Bart Becht, writes that the company:

...launched even better products and invested at record levels in our Power Brands to excite customers and stimulate growth. Examples of successful new products include Vanish Oxi Action Crystal White [a multi-purpose stain remover], Cillit Bang Stain & Drain [a versatile liquid cleaner for use in toilet, kitchens, drains and bathroom], Finish 5 in 1 [dishwasher tablets], Quantum [an automatic dishwasher powder and gel] and Air wick Freshmatic [a time-release home fragrance].

He tells us that it is the company’s ‘vision’ ‘to keep delivering better products to consumers *that improve their lives at crucial moments*’ [italics applied]. One marvels at what crucial moment one’s life could be improved by *Cillit Bang Stain & Drain* – or does Becht have his tongue firmly planted in his cheek? Becht basks in the following text:

At the heart of any successful company is a set of strong, commonly-held beliefs and ways of working. At Reckitt Benckiser, we work together with passion and commitment to excite consumers. We truly live our business, it is fun and therefore rewarding and it is an obsession that goes beyond just being a job. Our culture breeds pride in achievement, a truly personal commitment to delivery, pleasure in cooperating in teams and the excitement of taking business risks in the search for better solutions. Not for us a culture of consensus, rather we enjoy constructive conflict if it leads to better decision making. It is a culture that works for us.

It is notable that Becht assumes he has some sense of impeccable perception in ‘knowing’ the emotions and values of his employees.

Apparently, a large and diffuse organisation shares a uniform ‘personal commitment’ to producing home fragrances and dishwasher powder, and finds it exciting. However, many studies have emphasised that CEOs often have a poor grasp of the real attitudes of people much further down the organisational hierarchy, since any news which suggests the contrary is heavily filtered on its way to the boardroom (Tourish and Robson, 2006). It could well be that the reality in Becht’s organisation is somewhat different from that depicted in his letter. Consistent with this interpretation, there is considerable evidence to suggest declining levels of engagement, loyalty and enthusiasm in the majority of workplaces throughout the world. For example, an engagement index devised by the polling organisation, Gallup, found that only 16% of UK employees were engaged positively with their work – that is, they were loyal and committed to the organisation (Caulkin, 2007). The rest were unengaged or actively disengaged – that is, physically present but psychologically absent. While it is possible that Reckitt Bensicker has escaped these trends, it seems more likely that Becht’s letter shows an unawareness of a harsher reality – or an unwillingness to acknowledge it. Rather, Becht’s letter frames a more culturally uniform and engaged context and communicates this as if such a desired-for state of affairs already exists.

Matthew Emmens, CEO of Shire Pharmaceuticals, shows no evident traces of humility either – his company is a beacon, a shaper and a unique and exemplary model. Emmens tells readers that his company ‘set its sights high, and then delivered on its promises’. In doing so, the company reinforced its ‘reputation as a beacon’ among its competitors. This was presumably because of its innate ability to ‘know what it takes to both shape and realise a vision’ and its ‘unique business model that sets [the company] apart from the competition, a disciplined and focused growth strategy, an achievement oriented culture, and a high quality team of employees willing to meet extraordinary goals and get the job done’.

The two variables for which the FORTUNE 100 companies were significantly higher ($p \leq 0.01$) than the FTSE 100 companies were levelling and present concern. Two other variables, satisfaction and

human interest, were also significant ($p \leq 0.05$) for the average 500 words of each letter. An assessment of these results is that FORTUNE 100 letters could be characterised, perhaps uncharitably, as having a distinctively avuncular, evangelical tone of homage to the 'protestant work ethic' or 'American dream'. That is, there was assurance [levelling], expressed in a 'folksy' way [human interest], that activity [accomplishment] had led to the joy of achieving a positive outcome [satisfaction].

With the benefit of hindsight, the letter of Stan O'Neal, Chairman and CEO of Merrill Lynch, dated February 22, 2007 makes interesting reading, in view of the company's precipitate sale at a grossly discounted price in September 2008 to the Bank of America to thwart impending bankruptcy. O'Neal's message is one of success through work – and, in particular, work that is hard, disciplined and strategically smart. Maximisation of shareholder wealth is seen as the outcome of work that has a strong basis in Protestant values of 'integrity, dedication, discipline' and a focus on others [clients]. O'Neal is evangelical in extolling the virtues of capitalism and the benefits of embracing it. In words that subsequent events have proven highly ironic and incongruous, O'Neal lauds 'global capitalism'. He seems delighted about his company's 'remarkable position at the center of global capitalism – the most powerful force for improving lives and creating wealth that the world has ever known. All of us are proud of what we do and excited by a future that is literally brimming with opportunity ... Together, we can and will continue to grow our business, [and] lead this incredible force of global capitalism...' It is noteworthy that O'Neal's ideological endorsement of capitalism was highly challengeable subsequently. The 'incredible force' of global capitalism seems likely to have imploded without the strong financial and regulatory intervention of the US Treasury and Federal Reserve during 2008 to sustain the operational viability of many of global capitalism's key players, such as Fannie Mae and Freddie Mac. Indeed, the financial 'bail-out' of the American Insurance Group by the US government (and US taxpayers) was tantamount to nationalisation.

Several UK commentators such as Roubini (2008) have referred disparagingly to this development as ‘socialism for the rich’.

Finally, each data set was examined in terms of the hubris master variable that we have developed in chapter four for the variables praise, accomplishment and tenacity. There was no significant difference ($p \leq 0.01$) between the praise variable for the two data sets. However, FTSE 100 companies were significantly higher ($p \leq 0.01$) than FORTUNE 100 companies in terms of accomplishment and tenacity. This result was observed in analyses of the first 500 words and the average 500 words of each letter. This suggests that an air of overconfidence in one’s achievement and ability, and possibly diffidence to others, is probably more a feature in CEO letters to shareholders of FTSE 100 companies. This is consistent with the earlier suggestion (and examples) that there was a tone of smugness in some FTSE 100 letters; and with the results of the qualitative case analysis of BP’s letters for 1998-2006 (conducted in chapter five). The results draw attention to the probability of an inadvisable tone of complacency and exultation at the top in some FTSE 100 companies.

Company-by-company out-of-range analysis

FTSE 100

For each company in the FTSE 100 database, the out-of-range scores for each of the 40 *DICTION* variables (35 variables and the 5 master variables) were highlighted. The mean number of variables for which the FTSE 100 companies were out-of-range in analysing the first 500 words was 1.88, with a range of 0 to 10. In analysis of the average 500 words, the mean was 1.64 and the range 0 to 10.

The company with the most out of range variables in the first 500 words of each letter was William Hill plc ($n = 10$). Such a high number of out of range variables points to the desirability of giving closer scrutiny to the company and its ‘tone at the top’ – by, for example, a close reading analysis of its letters to shareholders. This company’s

letter was more than two standard deviations above the norm in terms of five variables (in order of strength): blame (+7.33); insistence (+3.45); embellishment (+2.80); collectives (+2.36); and numerical terms (+2.30). This suggests a tone of resigned [insistence], but overstated [numerical terms] and vague [collectives] blame-laying [blame] for some non-human action [embellishment]. It was more than two standard deviations below the norm in terms of five variables (in order of strength): variety (-3.40); optimism (-2.91); human interest (-2.20); complexity (-2.16); and activity (-2.11). This seems indicative of the presentation of an overstated [variety], unfavourable and detrimental situation [optimism], caused by non-human action [human interest], with clear implications [complexity], but for which the response has been inertia and futility [activity].

In sum, the letter's tone seems to be one of resigned frustration. This tone is set very much by the CEO's statements regarding the introduction of the *Amusement Machine Licensing Duty*. This is described as an 'imposition' and it is blamed for 'adversely' affecting profitability. No counter-proposals are made by the CEO to redress these effects – the company seems resigned to the 'imposition'. In the space of six sentences are such words as: 'imposition'; 'adversely'; 'fell' (four times); cost(s) (two times); 'reduced/reduction' (two times); and 'minimal'. None of the variables identified above for William Hill were out of range in the analysis of the average 500 words in the letter. This suggests that the letter was very powerful, rhetorically, in its extreme use of language in the opening paragraphs to draw attention to the unfavourable impact of the *Amusement Machine Licensing Duty*.

Variables out of range in each database

The variables for which the FTSE 100 companies were most frequently out of range (and more than +2 standard deviations above the mean) in the analysis of the first 500 words were: numerical terms

(n=7); hardship (n =7); aggression (n=7); and liberation (n=7). No company had all four (or any three) of these variables out of range, but two companies had two of these variables simultaneously out of range. Centrica plc was out of range in terms of hardship (+2.70) and aggression (+2.01): and British Airways plc was out of range in terms of hardship (+2.13) and liberation (+2.75). These out of range variables seem to be those expected to be found typically for companies that were reporting on a difficult operating year. Although both companies report that they were confronted with difficult operating circumstances, the tone of the letters exudes each company's (alleged) strength and wisdom in overcoming such adversity.

Hubris

In the out-of-range results in terms of the hubris master variable (praise + accomplishment + tenacity), Reed Elsevier plc was out of range simultaneously in terms of two of these variables: praise (+2.56) and accomplishment (+2.13). A reading of the company's letter reveals frequent adjectival affirmations, consistent with the praise variable. The company's progress is described as 'important' and 'accelerating'; its performance, cash generation and brands were each described as 'strong'; revenue growth was 'good'; returns were 'higher'; its brands were 'leading'; the data it provided were 'essential'; its information was 'authoritative'; its portfolio was 'synergistic'; and its allocation of resources was 'disciplined'. The opening paragraph conveys a strong sense of satisfaction with activity accomplishment. In the space of 47 words, readers are informed that the company 'made important progress', 'continued to expand', 'delivered', 'invested', 'achieved further significant efficiency gains' and had accelerated progress.

FORTUNE 100

For the FORTUNE 100 database, the mean number of variables that companies were out-of-range in analysing the first 500 words was 1.73, with a range of 0 to 10; and for the average 500 words, the mean was 1.82, and the range 0 to 11.

The company with the most out of range variables in the analysis of the first 500 words, was State Farm (n=10). But State Farm's letter comprised only 138 words. The extrapolation of this text to 500 words by *DICTION* seems to have been distortive. So, the second highest number of out-of-range variables, United Health (n=9), is analysed. A high number of out-of-range variables for any company should signal that closer scrutiny of its tone at the top might be warranted – including a close reading of letters to shareholders.

The CEO letter for United Health was more than two standard deviations above the norm in terms of eight variables (in order of strength): present concern (+3.83); satisfaction (+2.89); liberation (+2.73); tenacity (+2.66); inspiration (+2.51); certainty (+2.40); complexity (+2.33); and optimism (+2.20). It was more than two standard deviations below the norm in terms of familiarity (-2.75). This suggests a company (and a CEO) which is confident [tenacity], strong [certainty], affirming triumphantly [satisfaction, optimism] its strategic path [inspiration, complexity] and achievements [present concern] in a difficult social and business environment [liberation]. Such a general tone of success, despite 'dramatic change taking place in health care today' seems to be sustained from the first 500 words of the CEO's letter. For example, present concern is evident in the company's claim to 'embrace', 'shape', 'rationalise', 'define', 'see opportunities', 'reform' and 'cultivate'. Inspiration is evident in reference to such abstract virtues as 'rationalising', 'integration', 'interaction', 'technology-enabled', 'ethical behaviour' and 'integrity'; and optimism and satisfaction in exultation in self-proclaimed success in 'reforming and cultivating our long-standing competencies to serve expanding market needs... embracing

a corporate culture that thrives on change, social responsibility and ethical behaviour.’ Indeed, consistent with Mokoteli *et al.* (2006), the combination of positive out-of-range variables optimism and certainty is a strong measure of overconfidence.

In the analysis of the average 500 words of each letter, J. P. Morgan Chase ($n = 8$) was out of range in respect of eight *DICTION* variables. The company was more than two deviations above the norm in terms of: praise (+4.42); ambivalence (+3.01); cognitive terms (+2.78); self reference (+2.47); embellishment (+2.40). The company was more than two standard deviations below the norm in terms of: familiarity (-2.65); activity (-2.42); and certainty (-2.19). This suggests a semantic tone of abstract and detached [self-reference, embellishment], highbrow [cognitive terms, familiarity] affirmation [praise] of company behaviour. The following text from the eighth paragraph of the letter seems indicative of this:

... we were not managing our relationships with many of our largest clients in an integrated and coordinated way. Too many people were selling their own products without feeling accountable for JP Morgan Chase's overall relationship with the client. Now, we have addressed this issue with dedicated corporate bankers who cover the treasurer's offices of our largest, longest-standing and most important clients. These corporate bankers, in partnership with our investment bankers, are focused on developing our entire relationship with our clients – orchestrating the coverage effort with regular account planning, client reviews and coordinated calling. This effort ultimately should add hundreds of millions of dollars to revenue and create happier clients.

The stress in the language is on growth and opportunity, even as indications were mounting of a more difficult future. By stressing the opportunities for growth rather than a more constrained operating environment, this letter may have encouraged further risk taking

behaviours. In a soaring market, the main imperative is to chase the growth opportunities that are said to exist, rather than miss out by a cautious attitude to risk assessment.

The variables for which the FORTUNE 100 companies were most frequently out of range in terms of the first 500 words of each letter (and all more than two standard deviations above the mean) were: rapport ($n = 6$); insistence ($n = 6$); and embellishment ($n = 6$). No company had all three of these variables simultaneously out of range. These three variables appear to reflect a greater degree of uncertainty and hedging than was the case with the FTSE 100 companies.

In the out of range results in terms of the hubris master variable (praise + accomplishment + tenacity) no FORTUNE 100 company was out of range in more than one of the three components, either for the first 500 words or an average 500 words of each letter.

Summary

Overall, the analysis suggests several key themes with wider importance. There is a lack of humility, and a stress on growth and opportunity, which seems to have militated against a more cautious approach to risk assessment. Tendencies towards hubris and narcissism have been noted also. Thus, it appears that CEO letters faithfully reflect the dominant model of business management at the time they are written, even as these models career towards a precipice. But they also clearly do more than act as a neutral mirror. In validating particular world views and methods of doing business, they also encourage and reinforce precisely those approaches. While the analysis is necessarily retrospective, it suggests that much can be gained in the future by studying CEO letters, to yield insight into models of positive and negative leadership styles as they unfold. In turn, such an analysis could disclose valuable information about such issues as attitudes towards risk, before the organisations concerned stumble into avoidable crises. The next chapter considers the change in tone at the top over time.

8 DICTION AND TONE AT THE TOP OVER TIME

Introduction

A *DICTION*-based analysis can help in developing a longitudinal view of changes in ‘tone at the top’ over time. Aspects of tone at the top in the 2006 letters can be compared with CEO letters for 1998 to determine how the tone at the top has changed between 1998 and 2006 in UK and US companies. A plausible conjecture is that the passage of the *Sarbanes-Oxley Act* in 2002, with its international influences, prompted companies to be more guarded, more precise and more conservative and that this would be reflected in the tone at the top revealed by *DICTION*.

An important motive for the analyses reported in this chapter is to reveal how comparative benchmarks of tone at the top for companies change over time, and to reveal unsavoury or egregious aspects which are conducive to heightened business leadership risk. In very broad outline, the analyses reveal *prima facie* evidence of similarities and dissimilarities in the tone at the top for the FTSE 100 and FORTUNE 100 letters for 1998 and 2006. The FTSE 100 letters retained a stronger aura of conservatism and ‘matter-of-factness’ over the analysis period. Nonetheless, the CEO letters in 2006 for the FTSE 100, and especially for the FORTUNE 100, were inclined to be more editorial, conversational and hyperbolic, and less cautious or equivocal.

Data

FTSE 100

The previous chapter analysed the CEO (or similarly designated) letters of 91 of the FTSE 100 companies for 2006. This chapter accesses the CEO letters for 1998 for 71 of the companies that were listed in the

FTSE 100 in 2006. Sixty-four companies were 'matched' in terms of their CEO letter for 1998 and their CEO letter for 2006. The companies excluded for 1998 were those which were founded, or re-vamped considerably, after major merger activity post-1998. For example, no letter was found for AstraZeneca plc in 1998. This was because the company was not formed until 1999 – it resulted from a merger between the Zeneca Group plc and Astra AB of Sweden. Similarly, no letter was found for 1998 for BHP Billiton or for GlaxoSmithKline. Both companies were formed through merger activity in 2001.

The resultant FTSE 100 letter file of matched companies for 1998 comprised 100,893 words, with an average length of 1,578 words and a standard deviation of 974 words. For the same companies in 2006, there were 109,631 words, with an average length of 1,713 words and a standard deviation of 1,089 words. There was no significant difference in the average length of the FTSE 100 letters in 1998 when compared with 2006.

FORTUNE 100

The previous chapter analysed 94 FORTUNE 100 company CEO (or similarly titled) letters for 2006. For 1998, CEO letters for 84 of the companies listed in the FORTUNE 100 in 2006 were accessed. Eighty-one companies were 'matched' in terms of their CEO letter for 1998 and their CEO letter for 2006. Those not matched included, for example, Delphi, UPS, AmerisouceBergen or Medco Health Solutions in 1998 – these companies did not become public listed companies until 1999, 1999, 2001, and 2003 respectively.

The resultant FORTUNE 100 letter file of matched companies for 1998 comprised 138,366 words, with an average length of 1,708 words and a standard deviation of 1,310 words. For the same companies in 2006, there were 180,708 words, with an average length of 2,231 words and a standard deviation of 1,805 words. A test of differences in means

indicated that the FORTUNE 100 letters were, on average, significantly longer in 2006 than they were in 1998 ($p = 0.0001$). Why this is so, is a matter for conjecture. It could have been a consequence of the greater corporate accountability pressures in American society prompted directly and indirectly by the Sarbanes-Oxley Act, 2002.

The FORTUNE 100 letters for 1998 were also significantly longer than the FTSE 100 letters for 1998 ($p < 0.01$). The reasons for this could be that there was a more disciplined, succinct capacity for written expression by FTSE CEOs; or that the FTSE CEOs were naturally 'less expansive' individuals than FORTUNE CEOs; or that it reflected the more precise disclosures required in UK directors' reports – from which many FTSE 100 CEO letters seemed to have developed.

Method

About half of the CEO letters for 1998 were downloaded from company websites, converted into a text file, and formatted to facilitate processing using *DICTION* 5.0 software. For the remainder, letters were accessed from physical copies, and were then scanned and converted to text files using optical character recognition software, *OmniPage 16*, and then formatted to facilitate processing by *DICTION* 5.0. The formatting, described more fully in the previous chapter, involved excising all non-text items such as tables, diagrams, logos, photographs and footers from the letters.

Data were analysed in six major stages. Stage 1 calculated each of the 40 *DICTION* variables for the first 500 words in the 64 letters in the FTSE 100 database for 1998. These were compared with the *DICTION* scores in the paired 64 letters in the FTSE database for 2006 with focus applied to highly significant differences ($p \leq 0.01$) in the variables between 1998 and 2006. This involved conducting two-tailed tests for significant differences in means in the FTSE 100 companies between 1998 and 2006 together with Mann-Whitney two-tailed tests

for significant differences in median scores between 1998 and 2006. The word usage norm against which we compared the text was the company annual report 'special dictionary'.

Stage two repeated the process in stage one by using 81 pairs of letters in the FORTUNE 100 databases for 1998 and 2006 and compared the *DICTION* results for CEO letters for 1998 against results for the letters for the same companies in 2006.

In stage three, for each company in the 1998 database for the FTSE 100 companies, the *DICTION* variable scores which were more than + 2 or more than - 2 standard deviations from expected values were identified and designated as out-of-range. The incidence, nature and pattern of these out-of-range variables for 1998 companies was compared with those for 2006 companies. Stage four repeated the process described in stage 3 for FORTUNE 100 companies.

Stage five determined a broad measure of the movement in out-of-range variables that occurred for each company between 1998 and 2006 with the intent of helping to reveal companies whose CEO discourse and tone at the top had been unsettled and volatile. The broad measure used was calculated as follows:

$$\begin{aligned} & (\text{Sum of the } |z\text{-scores}| \text{ for all standard } DICTION \text{ variables in 2006}) \\ & \text{less} \\ & (\text{Sum of the } |z\text{-scores}| \text{ for all standard } DICTION \text{ variables in 1998}) \end{aligned}$$

Stage six calculated a global measure of 'tone' in each set of letters, using the method described by Henry (2008, p. 386):

Tone is calculated as the count of positive words minus the count of negative words, divided by the sum of positive and negative word counts. The maximum and minimum values of Tone are 1 and -1, respectively.

Consistent with Henry (2008), the positive words searched for were:

positive; positives; success; successes; successful; succeed; succeeds; succeeding; succeeded; accomplish; accomplishes; accomplishing; accomplished; accomplishment; accomplishments; strong; strength; strengths; certain; certainty; definite; solid; excellent; good; leading; achieve; achieves; achieved; achieving; achievement; achievements; progress; progressing; deliver; delivers; delivered; delivering; leader; pleased; reward; rewards; rewarding; rewarded; opportunity; opportunities; enjoy; enjoying; enjoyed; encouraged; encouraging; up; increase; increases; increasing; increased; rise; rises; rising; rose; risen; improve; improves; improving; improved; improvement; improvements; strengthen; strengthens; strengthening; strengthened; stronger; strongest; better; best; more; most; above; record; high; higher; highest; greater; greatest; larger; largest; grow; grows; growing; grew; grown; growth; expand; expands; expanding; expanded; expansion; exceed; exceeds; exceeded; exceeding; beat; beats; beating.

and the negative words searched for were:

negative; negatives; fail; fails; failing; failure; weak; weakness; weaknesses; difficult; difficulty; hurdle; hurdles; obstacle; obstacles; slump; slumps; slumping; slumped; uncertain; uncertainty; unsettled; unfavourable; downturn; depressed; disappoint; disappoints; disappointing; disappointed; disappointment; risk; risks; risky; threat; threats; penalty; penalties; down; decrease; decreases; decreasing; decreased; decline; declines; declining; declined; fall; falls; falling; fell; fallen; drop; drops; dropping; dropped; deteriorate; deteriorates; deteriorating; deteriorated; worsen; worsens; worsening; weaken; weakens; weakening; weakened; worse; worst; low; lower; lowest; less; least; smaller; smallest; shrink; shrinks; shrinking; shrunk; below; under; challenge; challenges; challenging; challenged.

Results

Stage 1

The initial focus was on the variables with high levels of significant difference between the aggregate FTSE 100 data sets for 1998 and 2006. That is, the focus was on those variables for which both the test of difference in means and the test of difference in medians were significant, with at least one of these tests revealing a two-tailed probability of no difference of 1% or less. This led to attention being directed to the seven *DICTION* variables listed in Table 8.1.

Table 8.1 *Differences in DICTION variables for FTSE 100 companies between 1998 and 2006*

Variable	P value: test of means	Significance level	P value: test of medians	Significance level
1998 > 2006				
Familiarity	0.0003	1%	0.0006	1%
Past concern	0.0040	1%	0.0032	1%
2006 > 1998				
Human interest	0.0000	1%	0.0000	1%
Satisfaction	0.0057	1%	0.0091	1%
Inspiration	0.0004	1%	0.0151	5%
Optimism	0.0002	1%	0.0328	5%
Accomplishment	0.0019	1%	0.0599	10%

There were two variables in which the FTSE 100 companies, in aggregate, were significantly higher ($p \leq 0.01$) in 1998 than in 2006 in terms of differences in means and medians: familiarity and past concern. These results suggest that CEO letters in 1998 were more in the nature of a matter-of-fact, objective reporting of what had happened in the past

year, and did not indulge in editorialising. This style of reporting seems consistent with (and likely strongly influenced by) the UK's tradition of a company law-required 'Directors' Report', with its strong legal compulsion for objectivity and transparency in performance reporting.

There were five variables in which the FTSE 100 companies, in aggregate, were significantly higher in 2006 than 1998 in terms of differences in means (all $p \leq 0.01$) and medians (all $p \leq 0.10$). These variables were human interest, satisfaction, inspiration, optimism, and accomplishment. Together, these results suggest that by 2006, the CEO letter had become more 'conversational' and 'folksy'; that it had more of the character of a public relations, opinion-influencing document focused on emphasising achievements, performance successes and ensuing positive outcomes; and that it was much more inclined to indulge in editorialising and highlighting a company's attractive virtues.

Stage 2

The focus was on the variables with the highest level of significant difference between the aggregate FORTUNE 100 data sets for 1998 and 2006. Table 8.2 lists the variables for which both the test of difference in means and the test of difference in medians were significant, with at least one of these tests revealing a two-tailed probability of no difference of 1% or less.

Table 8.2 *Differences in DICTION variables for FORTUNE 100 companies between 1998 and 2006*

Variable	P value: test of means	Significance level	P value: test of medians	Significance level
1998 > 2006				
Ambivalence	0.0007	1%	0.0015	1%
Hardship	0.0040	1%	0.0599	10%
Aggression	0.0032	1%	0.0154	5%
Concreteness	0.0039	1%	0.0017	1%
Denial	0.0053	1%	0.0559	5%
Variety	0.0020	1%	0.0805	10%
2006 > 1998				
Inspiration	0.0062	1%	0.0286	5%
Present concern	0.0045	1%	0.0140	5%
Optimism	0.0000	1%	0.0036	1%

There are six variables in which the FORTUNE 100 letters, in aggregate, are significantly stronger ($p \leq 0.01$) in 1998 than 2006 in terms of differences in means, and also significant in terms of differences in medians (at levels variously of 1%, 5% and 10%): ambivalence, hardship, aggression, concreteness, denial and variety. These results suggest that CEO letters in 1998 were more hesitant and equivocal; and more prone to express fears, doubts and negativity; to err on the side of caution by avoiding subjectivity and overstatement; and to focus more on tangible and material matters.

There were three variables in which the 81 FORTUNE 100 companies, in aggregate, were significantly stronger in 2006 than 1998 in terms of differences in means (all $p \leq 0.01$) and medians (all $p \leq 0.05$). These variables were inspiration, present concern and optimism. Together, these results suggest that by 2006, the CEO letter was invoked more as a conduit to promote the ideals and morals guiding

the company; and to highlight and endorse the positive achievements of the company (and its managers). They also suggest that a style of leadership more normally associated with transformational models of the leadership process, which stress the importance of leaders creating an energetic vision that can engage the enthusiasm of their followers, had gained ground.

Finally, analysis of the hubris master variable focused on results for the variables praise, accomplishment and tenacity. There was no significant difference ($p \leq 0.01$) between praise and accomplishment variables for the two data sets. However, FTSE 100 companies were significantly stronger ($p \leq 0.01$) than FORTUNE 100 companies in terms of tenacity.

Stage 3

FTSE 100

For each of the 71 companies in the FTSE 100 database, the mean number of out-of-range scores was 1.80 (1.88 in 2006), with a range of 0 to 9 (0 to 10 in 2006).

The two variables for which the FTSE 100 companies were most frequently out-of-range (and more than +2 or - 2 standard deviations from the mean) were variety ($n = 7$; all but one more than -2 standard deviations below the mean) and liberation ($n = 6$; all more than +2 standard deviations from the mean). In 2006 liberation was the most frequent variable out-of-range, and variety figured prominently with five out-of-range observations. No company had both liberation and variety out-of-range simultaneously. These results suggest that an enduring feature (from 1998 to 2006 at least) of FTSE 100 CEO letters is a tone of conservatism and compliance with convention; and that this is allied with avoidance of overstatement and hyperbole. The letters are more matter-of-fact than confected. In part, this may reflect

more deeply ingrained cultural differences between Britain and the US. If so, it also suggests that particular styles of communication have greater resonance in particular countries, and that they run the risk of alienating audiences elsewhere. For global corporations that produce reports with an international audience in mind, this is likely to present major challenges.

The company with the most out-of-range variables ($n = 9$) was Tesco plc. This company was more than two standard deviations above the norm in terms of seven variables (in order of degree): communication (+3.63); collectives (+3.60); familiarity (+2.99); rapport (+2.69); commonality (+2.66); insistence (+2.41); and co-operation (+2.27). This suggests that the company was exhortative – making a strong, but simply expressed appeal for stakeholders to pull together to achieve a desirable common goal. But close reading of the first 500 words on the CEO's letter reveals how *DICTION* indicators can be misleading, and how they need to be evaluated closely and read in context. The first 500 words of the Tesco plc CEO's letter do not have the characteristics one would expect to find on the basis of the out-of-range variables indicated above. The first 500 words are unremarkable. What prompts the high out-of-range scores for *DICTION* variables, and points to social interaction, common interest, and behavioural interactions, is that key words in the *DICTION* search dictionaries have not been used in their everyday sense, but as financial reporting jargon. Such jargon applies meanings to words (here, such as 'group', 'integration', 'share' and 'joint') which are technical and context-specific. Thus, care is needed in reading and interpreting them in their everyday sense, as *DICTION* seems to do.

In the case of the Tesco letter, the CEO refers nine times in the opening 500 words to the consolidated company as the 'Group'. 'Integration' is used twice, but in the context of 'integration costs'. The noun 'share' is used twice also, but in the context of 'share capital'. 'Joint' is used twice, but in the context of 'joint venture'. However, such words still carry an emotive impact as well as their 'technical' definition.

For example, even though the word 'share' has a technical meaning in accounting and finance, its epistemology draws upon the idea of 'sharing' in a common business enterprise. Although Tesco's CEO has frequently used words such as 'share' and 'group' in their 'technical' sense to produce what seems like a unremarkable 500-word introductory portion of the CEO letter, perhaps his letter is thus more powerful rhetorically, since these now-technical words still carry some emotive freight. This points to the need for *DICTION* analysis to be supported by close reading.

The out-of-range results in terms of the hubris master variable (praise + accomplishment + tenacity) showed that no company was simultaneously out-of-range on any two or more of these variables.

Stage 4

FORTUNE 100

The mean number of variables for which the FORTUNE 100 companies were out-of-range was 1.96 (1.73 in 2006), with a range of 0 to 7 (0 to 10 in 2006). The five variables for which the FORTUNE 100 companies were most frequently out-of-range (and more than +2 or - 2 standard deviations from the mean) were: human interest (n = 7; 3 high, 4 low); cognitive terms (n = 6; all high); passivity (n = 6; 4 high, 2 low); diversity (n = 6; all high); and variety (n = 6; 4 high, 2 low). (In 2006, the variables most frequently out-of-range were rapport; insistence; and embellishment, all n = 6). These results suggest that there were no enduring out-of-range characteristics between 1998 and 2006. The 1998 out-of-range variables suggest there is a wide diversity in the extent of focus on people, and in the degree of overstatement or 'spin' in letters. There are consistent out-of-range indications of the text being intellectually challenging and directed to a heterogeneous audience.

Plains All American Pipeline (PAA) had the most out-of-range variables (n = 7). This company was more than two standard deviations

above the norm in four variables (in order of strength): cooperation (+4.18); blame (+3.94); centrality (+2.26); and diversity (+2.02). It was also more than two standard deviations below the norm in terms of three variables: human interest (-2.75); passivity (-2.03); and optimism (-2.69). These results suggest mildly benign language that reflects an implied commitment to group action to regularise an irregularity, to a lack of focus on people or their activities, and to a tone of concern about something affecting the fortunes of the company. Such suggestions are reflected in the letter and the company's circumstances. The 1998 letter was the first for PAA after its listing on the NYSE as a master limited partnership on November 17, 1998. Thus, the text of the letter reflects PAA's commitment to regularise post-listing partnership distributions; and the tone of concern relates to the challenges claimed to be posed to PAA because of the uncertainties in the price of oil.

The out-of-range results in terms of the hubris master variable (praise + accomplishment + tenacity) found no company was simultaneously out-of-range on any two of these variables.

Stage 5

For the FTSE 100 companies, Alliance and Leicester had the greatest increase between 1998 and 2006 in the sum of the absolute value of the z scores for all *DICTION* variables, with a score of 14.62.

In 1998, Alliance and Leicester was out-of-range on one variable only, passivity (+ 2.76). However, in 2006, it was out-of-range on five variables: centrality (+2.56); cooperation (+2.23); insistence (+ 2.15); numerical terms (+2.08); and variety (-2.13). Together, these variables suggest a picture of a formerly settled company making an overstated appeal to stakeholders to bond together to adopt a common (but narrowly defined) set of values or aims. A reading of the CEO's letter for 2006 yields little to suggest such a scenario. However, when one explores further, there are ample indicators that such a situation existed.

For example, Sir Derek Higgs, in his Chairman's Report for 2006, urges that the company (implicitly at least) will not be unduly concerned by takeover speculation and will stay focused on delivering good service.

All this was achieved despite the distractions of press speculation in the summer about a possible bid for Alliance & Leicester. A perennial chestnut maybe, but this time accompanied by an announcement from Credit Agricole that we were – along with others – a potential target. Whilst that quickly went away without any proposal ever being made to us, we would have preferred to focus wholly and solely on growing the business in shareholders' interests.

It is a tribute to Richard Pym, his management team and all our staff that during this period they not only dealt calmly with the pressures created by the press but got on, to great effect, with delivering results today and building for the future.

So, what we learn from this is that *DICTION* has the capacity to reveal much more of the ambient tone and circumstances of a company than might be readily apparent from a casual reading; and that it is potentially useful in directing attention to aspects of 'tone at the top' that are otherwise not immediately apparent.

For the FORTUNE 100 companies, the greatest increase between 1998 and 2006 in sum of the absolute value of the z scores for all *DICTION* variables (of 18.24) was United Technologies, a company largely involved in the production of jet engines, helicopters and other products for military use. In 1998, United Technologies was not out-of-range on any variable. In 2006, it was out-of-range on only one variable human interest (-2.74). The fact that across all variables the company is out-of-range by an absolute sum of 38.10 suggests it has had to resort to atypical language in addressing the strong criticisms to which it has

been subject from environmentalists, labour unions, pacifist groups and local communities.

Stage 6

FTSE 100

There were fewer negative words in 2006 than in 1998 ($p = 0.057$). There were more positive words in 2006 than in 1998 ($p = 0.013$). The measure of 'tone' was high in both 1998 and 2006, and increased from +0.705 to + 0.819. Thus, there seemed to be an increased desire to create a positive spin around the accompanying annual reports. In retrospect, this sense of increased optimism may be an indicator that the top of the economic boom and the accompanying mood of 'irrational exuberance' had been reached. As one might expect, the peak of an economic cycle is also likely to be a time of heightened expectations, and the misguided thought that continuous growth and prosperity is assured. Close reading of the documents in question would be useful to help substantiate this view.

FORTUNE 100

The pattern of results for the FORTUNE 100 companies was very similar. There were significantly fewer negative words in 2006 than in 1998 ($p = 0.09$); and there were significantly more positive words in 2006 than in 1998 ($p = 0.001$). The measure of 'tone' was high in both 1998 and 2006. It increased from +0.752 in 1998 to + 0.837 in 2006.

For the FTSE companies in 1998, the range of 'tone' scores was -0.14 to 1.00 (8 companies had the maximum score; one company had a score less than zero); and in 2006 the range was 0.25 to 1.00 (10 companies had the maximum score). For the NYSE companies in 1998, the range of 'tone' scores was -0.21 to 1.00 (12 companies had the maximum score; two companies were less than zero); and in 2006 the

range was 0.24 to 1.00 (19 companies had the maximum score). The lowest score for 'tone' observed for any company in the databases was for Chevron in 1998. This is not surprising. The opening 500 words of the CEO's letter uses such terms as 'tough year', 'depressed economic conditions', 'hammered prices', 'falling earnings', 'overcapacity', 'slowdown', and 'a negative effect'.

In broad terms, the 'tone' of CEO letters to shareholders was highly positive in 1998 and was even more highly positive in 2006. The 'tone' of CEO letters to shareholders is much higher than the + 0.568 observed by Henry (2008) for earnings press releases. This lends some credence to criticism that annual report letters are public relations documents deliberately intent on putting a 'positive spin' on companies and their activities, and that they are reluctant to signal problems. The danger, of course, is that a culture of spin may help to disguise emergent problems from key decision makers, and therefore further limit efforts to engage with them. Research suggests that when people relentlessly sell the positive benefits of something to others, whether these are real or imagined, they end up re-convincing themselves of their own hype, in a process known as 'self persuasion' (Boudon, 1994). CEO letters may be evidence of precisely this phenomenon in the context of corporate communications and decision making. It is a perilous proposition.

The measure of 'tone' is one that needs closer analysis on a company by company basis – but it provides a benchmark measure of the ambient mood and confidence of a CEO and the likely tone at the top.

Summary

Overall, the analysis is not conclusive. *DICTION* opens a variety of ways of analysis and interpretation, but does not furnish definitive answers by itself. Close reading is absolutely essential to complete the task.

With that proviso, the analysis nevertheless suggests several trends that bear further examination. The growth we have detected of linguistic

terms is consistent with transformational models of leadership that stress the role of powerful leaders in determining the belief systems of others. It is incontestable that CEOs acquired much greater power over the period in question. Therefore, it would be unsurprising for leadership models that stress the central importance of their role to have a ready appeal, and influence significantly the linguistic tools and markers they deploy. Consistent also with the economic cycle over this period of time are some tentative suggestions of a growing mood of optimism, and reluctance to acknowledge potential difficulties. This may well chime with what, in retrospect, was often a corporate and individual mood of 'irrational exuberance'. Further analysis seems likely to be useful in offering significant pointers to a culture of excessive optimism which, it is now evident, may have prevented organisations from facing up to substantive problems before they matured into catastrophic crises which damaged the wider economy.

9 CONCLUSIONS

CEOs have enormous power to frame organisational reality for their internal and external stakeholders. Typically, CEOs place a strong premium on crafting coherent organisational cultures that reflect shared values, expectations and behaviours. While it is obvious that this is necessary to some degree, it is also clear that such cultures have the potential to create stifling organisational norms that facilitate corporate malfeasance and chicanery. This book provides many examples. The financial crisis of 2008 also demonstrates the importance of ensuring that the actions of CEOs, company boards and regulatory authorities ensure compliance with legal requirements, adherence to ethical codes of conduct, and the opening of corporate rhetoric and behaviour to proper scrutiny and accountability. This means that the actions of CEOs, and the words that underpin them, are becoming much more studied – and criticised – than has usually been the case in the past (for example, by Mintzberg, 2008; 2009).

Corporate culture is a vitally important area of study. In particular, the tone at the top set by CEOs is of major importance. Properly examined, it can demonstrate much about how companies are run, how they see themselves, and how CEO rhetoric accords with other measures of their actual performance. In the process, indicators of tension can be unveiled, particularly in terms of language that indicates hubris, intention to deceive, or any emphasis on aspects of strategy which other analysis suggests is incompatible with the real needs of a business. Culture and communication audits are important and, in particular, CEO letters to shareholders in annual reports provide a rich vein of data to help understand a CEO's mindset, view of the leadership process, and ideological intent. Those letters also help develop understanding of

the metaphorical constructs CEOs employ as they seek to frame reality for a wide range of stakeholders, thereby shaping perceptions of the organisations in question.

Several approaches can inform this analysis. Close reading and *DICTION* analysis provide indicative materials showing how this approach works in practice. Thus, an analysis of Jack Welch's letters during his lengthy tenure at General Electric has traced the shifting balance between such variables as optimism, realism and certainty. This kind of analysis sheds valuable light on the theory of leadership held by a major CEO, and how it was expressed in practice, in a company of global significance. This can be of considerable value in checking for signs of business leadership risk – and much else. Using qualitative and quantitative techniques in unison enables inferences to be made about the content that is present in the letters of CEOs, and also to identify important missing issues. Given that CEOs have accumulated immense power, in a context where the construct of leadership has been influenced heavily by notions of the leader as a charismatic hero, it is evident that these issues are of vital importance in illuminating the direction that companies are taking, and the strengths and weaknesses they exhibit in striving to achieve strategic aims. In particular, the analysis suggests that the metaphor of 'leader as hero' has taken deep root in the rhetoric (and, hence, presumably in the practice) of top CEOs.

The financial crisis of 2008 further exemplifies the perils in this approach to leadership. Powerful leaders, with an apparently exaggerated view of their own prowess and the efficacy of their business models, are unlikely to recognise the value of dissent, and perhaps even of input from other sources. Rather, their focus is on asserting, arguing and imposing their vision of the way forward. This is likely to be expressed in a tone of heightened certainty, including about issues that are objectively uncertain. This kind of exaggerated certainty has been shown in this book. For example, the analysis of the CEO letters of New Century Financial Corporation prior to its bankruptcy shows quite clearly that

an inappropriate tone at the top was set – one characterised by wholly inaccurate optimism. This arguably contributed to dire consequences for the organisation and its stakeholders.

The world economy is rebalancing. The State is exerting much more influence over corporate decision-making. The public is exhibiting increased scepticism towards the claims of competence and vision made by many CEOs. In such an environment, approaches that subject the rhetoric of CEOs to critical scrutiny seem likely to be useful for accounting and auditing professionals, academic analysis, the exercise of public oversight, and policy making.

Implications for the accounting profession

Overwhelmingly, accountants have focused their analysis of company performance on traditional financial metrics of performance. In the aftermath of Enron's demise, and the more recent \$50 billion fraud perpetrated in the US by Bernard Madoff, the limitations of this approach are evident. A closer and all-rounded scrutiny of corporate activity seems inescapable. In that context, the accounting profession needs to be more amenable to forms of data other than financial indicators. The language of those who captain organisations is an invaluable, and hitherto underused, means of achieving this.

In reflecting on the quantitative and qualitative analysis of CEO letters, *DICTION* is a useful diagnostic tool. However, it is likely to be much more beneficial if assessors of tone at the top 'get down and dirty' with close reading techniques and qualitative analysis more generally. There is much to be gained by reading text closely in context.

The apparent statistical sophistication and aura of scientific precision that accompanies *DICTION* should be noted with caution. Despite the masses of quantitative data it is capable of producing, ironically, its results can sometimes produce a spurious aura of certainty over objectively uncertain data, while failing to yield sufficient contextual information to

generate worthwhile insights. *DICTION* is only of value if accountants and auditors place its findings in context, and hence analyse around it. Users of *DICTION* must recognise that its principal benefit is in providing indicators of overall trends in word use by CEOs, rather than offering definitive conclusions.

There is a strong need to complement *DICTION* with close reading analysis to explore context and to provide much more insightful understandings. The advantage of close reading is that it is more conducive to generating rich, interesting, story-based, sense-making understandings. Close reading also presents challenges. It is very labour-intensive, and requires special aptitudes and training. In particular, accountants and auditors need to become sensitised to the power of language and its various tropes, especially the power of metaphor. They also need to be attuned to the world around them in order to contextualise the environment in which entities operate; and exhibit an awareness of the historical, social and psychological forces that impel the conduct of CEOs and their companies. They also need to develop ideas about pervading themes and critical silences in a CEO's letter to shareholders, and in CEO discourse more generally.

This approach is consistent with a growing interest in mixed methods research, defined broadly as 'research in which the investigator collects and analyses data, integrates the findings, and draws inferences using both quantitative and qualitative approaches or methods in a single study or a program of inquiry' (Tashakkori and Creswell, 2007, p. 4). The aim is to produce a synthesis in which a much deeper insight is gained into the object being studied (Johnson *et al.*, 2007). For example, purely qualitative methods generate multiple, contested and contradictory accounts of what is happening in organisations. While thus furnishing rich accounts of people's perceptions, qualitative methods also pose major interpretive challenges. On the other hand, purely quantitative methods such as *DICTION* analysis also have weaknesses. Researchers and auditors gain when they utilise a combination of approaches, generating

both breadth and depth in analysis. Given these advantages, it is likely that interest in the use of mixed methods analysis will continue to grow in the years ahead (Creswell, 2009), including during investigations of such issues as organisational culture and tone at the top. The challenge is to integrate the data and insights from both methods to produce a more coherent view of organisational reality (Bryman, 2007). Tone at the top is an important issue for auditors to address. But addressing it in a meaningful manner requires the adoption of a more sophisticated analytical approach, consistent with the various methods outlined in this book.

This kind of approach will also enhance the predictive potential of an auditing of CEO letters. Such auditing can generate tentative linguistic markers indicating, for example, the likelihood of increased risk taking behaviour by CEOs and the management teams they lead. Further work is required to establish more definitively the degree to which such markers differentiate between particular forms of behaviour by companies. It is conceivable that some such indicators are found in almost all CEO letters – but that a greater incidence of them characterises the letters of the most risk-inclined CEOs. Depth analysis using mixed methods, particularly if employed by researchers on a longitudinal and cross sectional basis, will help to address this kind of issue.

To engender a greater appreciation of words and discourse in assessing and auditing the accountability reports of CEOs and their companies, curriculum reform in accounting education is needed – not only in higher education institutions, but also in continuing professional development programs as well. This is a challenging task. A fundamental shift of attitude is needed. The accounting profession should actively nurture greater receptivity to the importance of language in constructing the world in which accounting and auditing operates. Being able to assess the tone at the top is one critical element of this.

The reforms needed will not come until the accounting and auditing profession makes a more deliberate effort to unburden itself of a pervasive and often limiting ‘quantitative’ mindset – one which

puts apparent objectivity before relevance. Alfred North Whitehead's 'fallacy of misplaced concreteness' (Whitehead, [1925]/1953) is one of the great weaknesses underpinning the engagement of accounting and auditing with the world, particularly in terms of understanding an organisation's culture.

Yet, a proper appreciation of culture issues, as envisaged and determined by the tone at the top, is a vital part of assessing the trajectory and prospects of an organisation. Such understanding will enable auditors to identify organisational cultures that are overly partial to risk – as well as those which are too risk averse. It will permit analysts and auditors to look carefully at how an organisation's problems are diagnosed (e.g. whether CEOs accept responsibility for the consequences of their previous decisions, or seek to deflect it to other stakeholders or the external environment), and therefore gain a better appreciation of whether the strategies that are proposed are likely to be effective. For example, the CEOs of the three major US car manufacturers (General Motors, Ford and Chrysler) were widely criticised for their initial visit to Washington in late 2008 seeking financial assistance. In particular, politicians and the media noted their reluctance to acknowledge that past strategic decisions concerning car designs and products had played a key role in their predicament. Rather, the CEOs chose to stress the impact of the credit crunch. In this case, the tone emanating from the top helped convince policy makers that the CEOs held a faulty diagnosis of their problems, and would therefore be unlikely to use financial assistance to correct past mistakes. The CEO's tone of over-certainty about their personal performance and that of their top managers contributed significantly to the failure of their intended mission. The consequences may be far reaching.

Close reading in particular, and computer-assisted text analysis such as *DICTION*, are critical tools in conducting such culture and communication audits. While they need to be refined and developed, the initial analysis provided here demonstrates that they offer multiple opportunities for insight, diagnosis and, ultimately, prescription.

Summary

The climate in which business operates has shifted. Regulation seems destined to increase in the years ahead. Financial services authorities, parliamentary bodies, the media and the wider public have cast a much more sceptical eye towards corporate practice than they have for many years past. As businesses and CEOs seek to re-legitimise their role in society, and engage with a more questioning audience, they too will likely place greater importance on their communications with all kinds of stakeholders. The language used by CEOs has always been important, even if much of it has been under-examined. All those concerned with business will find it of much more compelling interest in the years ahead. The tone at the top is a crucial aspect of how businesses function and how they project themselves to critical internal and external publics. In understanding how businesses succeed and fail in the marketplace, and rise and fall in public esteem, the techniques highlighted here will be of fundamental importance.

R

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A

PPENDIX 1

Definition of *DICTION* variables [Source: Hart, 2000]

CERTAINTY

Definition: Language indicating resoluteness, inflexibility, and completeness and a tendency to speak ex cathedra

Formula: [Tenacity + Levelling + Collectives + Insistence] – [Numerical Terms + Ambivalence + Self Reference + Variety]

TENACITY: All uses of the verb to be (*is, am, will, shall*), three definitive verb forms (*has, must, do*) and their variants, as well as all associated contraction's (he'll, they've, ain't). These verbs connote confidence and totality.

LEVELLING: Words used to ignore individual differences and to build a sense of completeness and assurance. Included are totalising terms (*everybody, anyone, each, fully*), adverbs of permanence (*always, completely, inevitably, consistently*), and resolute adjectives (*unconditional, consummate, absolute, open-and-shut*).

COLLECTIVES: Singular nouns connoting plurality that function to decrease specificity. These words reflect a dependence on categorical modes of thought. Included are social groupings (*crowd, choir, team, humanity*), task groups (*army, congress, legislature, staff*) and geographical entities (*county, world, kingdom, republic*).

INSISTENCE: This is a measure of code-restriction and semantic contentedness. The assumption is that repetition of key terms indicates a preference for a limited, ordered world. In calculating the measure, all words occurring three or more times that function as nouns or noun-derived adjectives are identified (either cybernetically or with the user's assistance) and the following calculation performed: [Number of Eligible Words x Sum of their Occurrences] ÷ 10.

(For small input files, high frequency terms used two or more times are used in the calculation).

NUMERICAL TERMS: Any sum, date, or product specifying the facts in a given case. This dictionary treats each isolated integer as a single word and each separate group of integers as a single word. In addition, the dictionary contains common numbers in lexical format (*one, tenfold, hundred, zero*) as well as terms indicating numerical operations (*subtract, divide, multiply, percentage*) and quantitative topics (*digitise, tally, mathematics*). The presumption is that Numerical Terms hyper – specify a claim, thus detracting from its universality.

AMBIVALENCE: Words expressing hesitation or uncertainty, implying a speaker's inability or unwillingness to commit to the verbalisation being made. Included are hedges (*allegedly, perhaps, might*), statements of inexactness (*almost, approximate, vague, somewhere*) and confusion (*baffled, puzzling, hesitate*). Also included are words of restrained possibility (*could, would, he'd*) and mystery (*dilemma, guess, suppose, seems*).

SELF-REFERENCE: All first-person references, including *I, I'd, I'll, I'm, I've, me, mine, my, myself*. Self-references are treated as acts of indexing whereby the locus of action appears to reside in the speaker and not in the world at large (thereby implicitly acknowledging the speaker's limited vision).

VARIETY: This measure conforms to Wendell Johnson's (1946) Type-Token Ratio which divides the number of different words in a passage by the passage's total words. A high score indicates a speaker's avoidance of overstatement and a preference for precise, molecular statements.

OPTIMISM

Definition: Language endorsing some person, group, concept or event or highlighting their positive entailments.

Formula: [Praise + Satisfaction + Inspiration] – [Blame + Hardship + Denial]

PRAISE: Affirmations of some person, group, or abstract entity. Included are terms isolating important social qualities (*dear, delightful, witty*), physical qualities (*mighty, handsome, beautiful*), intellectual qualities (*shrewd, bright,*

vigilant, reasonable), entrepreneurial qualities (successful, conscientious, renowned), and moral qualities (*faithful, good, noble*). All terms in this dictionary are adjectives.

SATISFACTION: Terms associated with positive affective states (*cheerful, passionate, happiness*), with moments of undiminished joy (*thanks, smile, welcome*) and pleasurable diversion (*excited, fun, lucky*) or with moments of triumph (*celebrating, pride, auspicious*). Also included are words of nurturance: *healing, encourage, secure, relieved*.

INSPIRATION: Abstract virtues deserving of universal respect. Most of the terms in this dictionary are nouns isolating desirable moral qualities (*faith, honesty, self-sacrifice, virtue*) as well as attractive personal qualities (*courage, dedication, wisdom, mercy*). Social and political ideals are also included: *patriotism, success, education, justice*.

BLAME: Terms designating social inappropriateness (*mean, naive, sloppy, stupid*) as well as downright evil (*fascist, blood-thirsty, repugnant, malicious*) compose this dictionary. In addition, adjectives describing unfortunate circumstances (*bankrupt, rash, morbid, embarrassing*) or unplanned vicissitudes (*wearry, nervous, painful, detrimental*) are included. The dictionary also contains outright denigrations: *cruel, illegitimate, offensive, miserly*.

HARDSHIP: This dictionary contains natural disasters (earthquake, starvation, tornado, pollution), hostile actions (*killers, bankruptcy, enemies, vices*) and censurable human behaviour (*infidelity, despots, betrayal*). It also includes unsavoury political outcomes (*injustice, slavery, exploitation, rebellion*) as well as normal human fears (*grief, unemployment, died, apprehension*) and incapacities (*error, cop-outs, weakness*).

DENIAL: A dictionary consisting of standard negative contractions (*aren't, shouldn't, don't*), negative function words (*nor, not, nay*), and terms designating null sets (*nothing, nobody, none*).

ACTIVITY

Definition: Language featuring movement, change, the implementation of ideas and the avoidance of inertia.

Formula: [Aggression + Accomplishment + Communication + Motion] – [Cognitive terms + Passivity + Embellishment]

AGGRESSION: A dictionary embracing human competition and forceful action. Its terms connote physical energy (*blast, crash, explode, collide*), social domination (*conquest, attacking, dictatorships, violation*), and goal-directedness (*crusade, commanded, challenging, overcome*). In addition, words associated with personal triumph (*mastered, rambunctious, pushy*), excess human energy (*prod, poke, pound, shove*), disassembly (*dismantle, demolish, overturn, veto*) and resistance (*prevent, reduce, defend, curbed*) are included.

ACCOMPLISHMENT: Words expressing task-completion (*establish, finish, influence, proceed*) and organised human behaviour (*motivated, influence, leader, manage*). Includes capitalistic terms (*buy, produce, employees, sell*), modes of expansion (*grow, increase, generate, construction*) and general functionality (*handling, strengthen, succeed, outputs*). Also included is programmatic language: *agenda, enacted, working, leadership*.

COMMUNICATION: Terms referring to social interaction, both face-to-face (*listen, interview, read, speak*) and mediated (*film, videotape, telephone, e-mail*). The dictionary includes both modes of intercourse (*translate, quote, scripts, broadcast*) and moods of intercourse (*chat, declare, flatter, demand*). Other terms refer to social actors (*reporter, spokesperson, advocates, preacher*) and a variety of social purposes (*hint, rebuke, respond, persuade*).

MOTION: Terms connoting human movement (*bustle, job, lurch, leap*), physical processes (*circulate, momentum, revolve, twist*), journeys (*barnstorm, jaunt, wandering, travels*), speed (*lickety-split, nimble, zip, whistle-stop*), and modes of transit (*ride, fly, glide, swim*).

COGNITIVE TERMS: Words referring to cerebral processes, both functional and imaginative. Included are modes of discovery (*learn, deliberate, consider, compare*) and domains of study (*biology, psychology, logic, economics*). The dictionary includes mental challenges (*question, forget, re-examine, paradoxes*), institutional learning practices (*graduation, teaching, classrooms*), as well as three forms of intellection: intuitional (*invent, perceive, speculate, interpret*), rationalistic (*estimate, examine, reasonable, strategies*), and calculative (*diagnose, analyse, software, fact-finding*).

PASSIVITY: Words ranging from neutrality to inactivity. Includes terms of compliance (*allow, tame, appeasement*), docility (*submit, contented, sluggish*), and cessation (*arrested, capitulate, refrain, yielding*). Also contains tokens of inertness (*backward, immobile, silence, inhibit*) and disinterest (*unconcerned, nonchalant, stoic*), as well as tranquility (*quietly, sleepy, vacation*).

EMBELLISHMENT: A selective ratio of adjectives to verbs based on David Boder's (1940) conception that heavy modification slows down a verbal passage by de-emphasising human and material action. Embellishment is calculated according to the following formula: [Praise + Blame +1] ÷ [Present Concern + Past Concern +1].

REALISM

Definition: Language describing tangible, immediate, recognisable matters that affect people's everyday lives.

Formula: [Familiarity + Spatial awareness + Temporal awareness + Present concern + Human interest + Concreteness] – [Past concern + Complexity]

FAMILIARITY: Consists of a selected number of C. K. Ogden's (1968) operation words which he calculates to be the most common words in the English language. Included are common prepositions (*across, over, through*), demonstrative pronouns (*this, that*) and interrogative pronouns (*who, what*), and a variety of particles, conjunctions and connectives (*a, for, so*).

SPATIAL AWARENESS: Terms referring to geographical entities, physical distances, and modes of measurement. Included are general geographical terms (*abroad, elbow-room, locale, outdoors*) as well as specific ones (*Ceylon, Kuwait, Poland*). Also included are politically defined locations (*county, fatherland, municipality, ward*), points on the compass (*east, southwest*) and the globe (*latitude, coastal, border, snowbelt*), as well as terms of scale (*kilometer, map, spacious*), quality (*vacant, out-of-the-way, disoriented*) and change (*pilgrimage, migrated, frontier*).

TEMPORAL AWARENESS: Terms that fix a person, idea, or event within a specific time-interval, thereby signalling a concern for concrete and practical matters. The dictionary designates literal time (*century, instant, mid-morning*)

as well as metaphorical designations (*lingering, seniority, nowadays*). Also included are calendrical terms (*autumn, year-round, weekend*), elliptical terms (*spontaneously, postpone, transitional*), and judgmental terms (*premature, obsolete, punctual*).

PRESENT CONCERN: A selective list of present-tense verbs extrapolated from C. K. Ogden's list of general and picturable terms, all of which occur with great frequency in standard American English. The dictionary is not topic-specific but points instead to general physical activity (*cough, taste, sing, take*), social operations (*canvass, touch, govern, meet*), and task-performance (*make, cook, print, paint*).

HUMAN INTEREST: An adaptation of Rudolf Flesch's notion that concentrating on people and their activities gives discourse a life-like quality. Included are standard personal pronouns (*he, his, ourselves, them*), family members and relations (*cousin, wife, grandchild, uncle*), and generic terms (*friend, baby, human, persons*).

CONCRETENESS: A large dictionary possessing no thematic unity other than tangibility and materiality. Included are sociological units (*peasants, African-Americans, Catholics*), occupational groups (*carpenter, manufacturer, policewoman*), and political alignments (*Communists, congressman, Europeans*). Also incorporated are physical structures (*courthouse, temple, store*), forms of diversion (*television, football, CD-ROM*), terms of accountancy (*mortgage, wages, finances*), and modes of transportation (*airplane, ship, bicycle*). In addition, the dictionary includes body parts (*stomach, eyes, lips*), articles of clothing (*slacks, pants, shirt*), household animals (*cat, insects, horse*) and foodstuffs (*wine, grain, sugar*), and general elements of nature (*oil, silk, sand*).

PAST CONCERN: The past-tense forms of the verbs contained in the Present Concern dictionary.

COMPLEXITY: A simple measure of the average number of characters-per-word in a given input file. Borrows Rudolph Flesch's (1951) notion that convoluted phrasings make a text's ideas abstract and its implications unclear.

COMMONALITY

Definition: Language highlighting the agreed-upon values of a group and rejecting idiosyncratic modes of engagement.

Formula: [Centrality + Cooperation + Rapport] – [Diversity + Exclusion + Liberation]

CENTRALITY: Terms denoting institutional regularities and/or substantive agreement on core values. Included are indigenous terms (*native, basic, innate*) and designations of legitimacy (*orthodox, decorum, constitutional, ratified*), systematicity (*paradigm, bureaucratic, ritualistic*), and typicality (*standardised, matter-of-fact, regularity*). Also included are terms of congruence (*conformity, mandate, unanimous*), predictability (*expected, continuity, reliable*), and universality (*womankind, perennial, landmarks*).

COOPERATION: Terms designating behavioural interactions among people that often result in a group product. Included are designations of formal work relations (*unions, schoolmates, caucus*) and informal associations (*chum, partner, cronies*) to more intimate interactions (*sisterhood, friendship, comrade*). Also included are neutral interactions (*consolidate, mediate, alignment*), job-related tasks (*network, detente, exchange*), personal involvement (*teamwork, sharing, contribute*), and self-denial (*public-spirited, care-taking, self-sacrifice*).

RAPPORT: This dictionary describes attitudinal similarities among groups of people. Included are terms of affinity (*congenial, camaraderie, companion*), assent (*approve, vouched, warrants*), deference (*tolerant, willing, permission*), and identity (*equivalent, resemble, consensus*).

DIVERSITY: Words describing individuals or groups of individuals differing from the norm. Such distinctiveness may be comparatively neutral (*inconsistent, contrasting, non-conformist*) but it can also be positive (*exceptional, unique, individualistic*) and negative (*illegitimate, rabble-rouser, extremist*). Functionally, heterogeneity may be an asset (*far-flung, dispersed, diffuse*) or a liability (*factionalism, deviancy, quirky*) as can its characterisations: *rare* vs. *queer, variety* vs. *jumble, distinctive* vs. *disobedient*.

EXCLUSION: A dictionary describing the sources and effects of social isolation. Such seclusion can be phrased passively (*displaced, sequestered*) as well

as positively (*self-contained, self-sufficient*) and negatively (*outlaws, repudiated*). Moreover, it can result from voluntary forces (*secede, privacy*) and involuntary forces (*ostracise, forsake, discriminate*) and from both personality factors (*small mindedness, loneliness*) and political factors (*right-wingers, nihilism*). Exclusion is often a dialectical concept: *hermit* vs. *derelict*, *refugee* vs. *pariah*, *discard* vs. *spurn*.

LIBERATION: Terms describing the maximising of individual choice (*autonomous, open-minded, options*) and the rejection of social conventions (*unencumbered, radical, released*). Liberation is motivated by both personality factors (*eccentric, impetuous, flighty*) and political forces (*suffrage, liberty, freedom, emancipation*) and may produce dramatic outcomes (*exodus, riotous, deliverance*) or subdued effects (*loosen, disentangle, outpouring*). Liberatory terms also admit to rival characterisations: *exemption* vs. *loophole*, *elope* vs. *abscond*, *uninhibited* vs. *outlandish*.

A PPENDIX 2

Example of analyst's notes for theme identification in BP's 1998 Chief Executive's letter

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.1 1998 was a momentous year for the oil industry, and for BP Amoco in particular. Despite the fact that oil prices ended the year 34% below their December 1997 level, we improved our underlying performance and delivered on our promises. We also took a crucial first step in the restructuring of the oil and gas sector.</p>	<p>– A time interval [the year 1998] is able to be momentous [important/significant/historic/earth-shattering/...], and in turn affect an industry [the oil industry] and 'in particular' a corporation [BP Amoco].</p> <p>– 'we' [BP Amoco? The employees of BP Amoco? The leadership of BP Amoco? Other?] 'improved our underlying performance and delivered on our promises' '[d]espite' the [uncontrollable behaviour?] of 'oil prices'. It is a 'fact' that 'oil prices' were '34% below their December 1997 level'. In this sentence, 'oil prices' are objectified; their price level is an objective 'fact', presumably beyond the control of BP. However, '[d]espite' this 'fact', 'we' exhibited dynamic agency since 'we': 'improved...'; 'delivered...' 'took a crucial first step...'</p> <p>The 'we' in all of this suggest metaphorical entailments such as: leadership is active, an agent of change, able to overcome external objective crucial facts and to keep promises. It is a brief heroic narrative.</p>
<p>1998.2 The merger of BP and Amoco was announced on 11 August, and completed on 31 December. To have secured full regulatory approval in just 99 working days is a tremendous credit to all those involved and gives us an excellent opportunity to proceed rapidly with the process of integration.</p>	<p>– 'The merger' de-emphasises agency, as does the use of the passive 'was announced'.</p> <p>– A 'merger' in accounting literature is a coming together of equals, and at the time of the BP-Amoco merger, so-called merger accounting was still acceptable under accounting principles.</p> <p>– Another heroic achievement is 'To have secured full regulatory approval in just 99 working days.'</p>
<p>1998.3 Although the merger creates one of the world's largest industrial organisations, we are very aware that size alone is no guarantee of success.</p>	<p>– To whom does 'we' refer? The newly-merged multinational corporate entity BP Amoco? A corporate leadership group? The employees of the new BP Amoco? The shareholders of the new BP Amoco? Other?</p> <p>– 'We' are not only 'aware', but importantly 'very aware'</p> <p>– Top management = realists.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.4 All the available evidence suggests that big companies are commonly regarded with suspicion, and that mergers are often considered to be simply about the accumulation of market power.</p>	<ul style="list-style-type: none"> – Is this setting-up a ‘straw man’? – Why is this issue introduced here? And, further, why introduce it all?
<p>1998.5 To be acceptable to the consumer and to society in general, mergers must be progressive – enhancing rather than reducing the range of choices available to the customer, by combining the skills and know-how to achieve things which neither company could have delivered on its own. That means we have to listen with great care and be continuously responsive to the changing pattern of customer needs and desires.</p>	<ul style="list-style-type: none"> – Why just ‘to the consumer and to society in general’? Since ‘society in general’ is so broad as to be vacuous, and ‘consumer’ is just one of many stakeholders of BP Amoco (others being: shareholders, employees, suppliers, neighbours, etc.), why are these the only two constituencies to which the CEO directs his concern regarding merger acceptability? – The CEO in this paragraph sets out the criteria by which the challenge introduced in paragraph 1998.4 can be met. – Notice the imposed definition of ‘progressive’: ‘enhancing rather than reducing the range of choices available to the customer, by combining the skills and know-how to achieve things which neither company could have delivered on its own.’ And the next sentence indicates what must be done in order to ensure that the merger is thus ‘progressive.’ – What must be done is: ‘... we have to listen with great care and be continuously responsive to the changing pattern of customer needs and desires.’ – The newly-merged entity has human-like characteristics: it ‘must be progressive’, must ‘listen with great care’, and must be ‘continuously responsive...’ BP Amoco will be a big, but progressive, listener, who will be responsive to what it (he/ she) hears (at least in connection with ‘the changing pattern of customer needs and desires.’)
<p>1998.6 In our sector in particular the challenge is to ensure that hydrocarbons can be found, produced, refined, distributed and used without damaging the natural environment. BP Amoco will aim to provide consumers with the choices that make that aspiration achievable.</p>	<ul style="list-style-type: none"> – Paragraphs 1998.6 to 1998.9 provide more detail on how ‘listen[ing] with great care and be[ing] continuously responsive to the changing pattern of customer needs and desires’ is to be done, ‘[i]n our sector in particular.’
<p>1998.7 Secondly, we have to organise and manage a huge worldwide company in a way which excites and empowers the people who work for us. We have to avoid rigidity and bureaucracy and ensure that, within clear boundaries and standards, individuals have the freedom to fulfil their potential and to make a difference.</p>	<ul style="list-style-type: none"> – These are empty words frightening in their superficiality and inconsistency. What does ‘excite and empower’ mean, exactly? And is the phrase ‘who work for us’ revealing, in suggesting a top-down approach to leadership and management. (Is ‘us’ related to a royal ‘we’?). – Notice the tension between ‘avoid rigidity and bureaucracy’ and ‘clear boundaries’. Who sets the ‘clear boundaries’? Top management. Who defines what indicates fulfilment of potential, and making a difference? Top management.

<p>Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)</p>	<p>Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)</p>
<p>1998.8 Empowerment and adopting a progressive and constructive approach will help ensure that we can deliver the sustained improvement in performance which is the primary objective of the merger. Beyond the gains in terms of cost savings and the elimination of duplication, the real challenge of any merger is to use the new combination of people and assets to lift competitive performance to a new level. That is our central focus as we begin to plan for the next century, and we will be announcing detailed targets as we go through 1999.</p>	<ul style="list-style-type: none"> – The word ‘progressive’ again...an ideograph? This time it is combined with ‘constructive.’ – Who determines what constitutes ‘the sustained improvement in performance which is the primary objective of the merger’? (The 1998 merger’s ‘cost savings’ were implicated in the 2005 Texas City disaster. At US Congressional Hearings in 2007 (House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, May 16, 2007), Carolyn W. Merritt (Chairman and Chief Executive Officer, US Chemical Safety Board), gave the following verbal testimony under oath in connection with the BP acquisition of Amoco and Amoco’s Texas City refinery operation: ‘1999...we know that the first 25% of operating budget cut...was issued by Lord Browne.’) – Since ‘the real challenge of any merger is to use the new combination of people and assets to lift competitive performance to a new level’, how is this lifting to occur? How will one know when it is successful (that is, when is ‘competitive performance’ is at the ‘new level’)? Does top management do this ‘lift[ing]’? – Notice that it is top management that ‘use’ things to ‘lift’. Top management is active, in contrast to ‘people’ (employees) who are passive in being acted upon (‘use[d]’). Also, it is top management that does the announcing of ‘detailed targets’ (‘we will be announcing’). – All this suggests strongly a top-down approach to leadership and management, which makes the use of the phrases ‘which excites and empowers the people who work for us’ (1998.7) and ‘Empowerment and adopting a progressive and constructive approach’ (1998.8) empty. <p>Thus far rhetorically, we have a unitarist, centralised management who has set the criteria for acceptability of the merger to ‘The consumer and to society in general.’</p>
<p>1998.9 This report, which draws together the activities of the two companies for the first time, is an important step in the process of integration. As well as setting out the facts, it aims to tell the story of an exceptional year, and of the people who made that year possible – the people who work for BP Amoco. They provided the magic that transformed a difficult year into a year when we made history.</p>	<ul style="list-style-type: none"> – The CEO asserts that this CEO letter ‘is an important step in the process of integration’ of the two companies. This is an acknowledgement of the importance of rhetoric and communication generally in leadership. – The CEO is explicit in asserting that his letter is intended to be a narrative (‘setting out the facts [just what are ‘facts’?]’ and ‘aims to tell the story.’). Notice that it is ‘the’ and not ‘a’ story. Notice also that the story to be told is about an ‘exceptional year’, and that ‘the people who work for BP Amoco...provided the magic...’ <p>Thus, we have: The CEO is a storyteller (compare to Jack Welch); a report (the CEO letter) is ‘an important step in the process of integration’; ‘people who work for BP Amoco’ are magicians.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.10 Performance in 1998 The difficulties of the business environment we faced in 1998 can be summed up in a few key statistics:</p> <ul style="list-style-type: none"> • average realised oil prices fell by 34% from around \$18 in 1997 to around \$12 in 1998 • refining margins remained low, at under \$2 a barrel for the third year out of the last four • petrochemicals margins fell, in line with the progression of the economic cycle. 	<ul style="list-style-type: none"> – The heading ‘Performance in 1998’ frames the contents which follow, particularly the measures chosen to indicate ‘performance’. – This para frames the letter’s discussion of ‘Performance in 1998’ further by establishing that it is the (external) ‘business environment’ that is replete with ‘difficulties’, and by asserting that ‘a few key statistics’ can ‘sum...up’ this environment. It is ‘we’ who ‘faced’ these ‘difficulties’ (perhaps like one who must face a force of nature beyond one’s control). – Why are these three ‘key statistics’ chosen? – Why is the CEO letter’s discussion of ‘Performance in 1998’ framed by using the ‘business environment’ to lead off? <p>To sum up: The 1998 story is set up by showing how bad key things beyond management’s control were. Before beginning to discuss BP Amoco’s performance, an excuse (that damn ‘business environment’) is already set up. Also, the company (perhaps in the persona of top management) ‘faced’ – passively – things beyond its control.</p>
<p>1998.11 In the face of such difficulty the results delivered represent a tremendous achievement. BP delivered \$3.0 billion of replacement cost profit before exceptional items, compared with \$4.6 billion in 1997. Around \$400 million of the 1998 profit resulted from self-help, with another \$100 million contributed by Amoco as part of its total profit of \$1.0 billion. The self-help includes gains in productivity and in volume in all our business streams.</p>	<ul style="list-style-type: none"> – But, to jump ahead in the 1998 narrative, the 1998 story has a happy and heroic ending: ‘In the face of such difficulty the results delivered represent a tremendous achievement.’ Management delivered a ‘tremendous achievement’, in spite of ‘such difficulty.’ The merged company, and perhaps most importantly its leadership, is indeed heroic. – Although ‘replacement cost profit before exceptional items’ declined by \$1.6 billion from the previous year, it was still ‘a tremendous achievement’ ‘[i]n the face of such difficulties’. <p>Perhaps a theme is: Achievement is measured in a favoured subset of accounting measures; achievement thus defined is justified as ‘tremendous’ when external obstacles (‘The difficulties of the business environment we faced in 1998’) can be used as an excuse for declines in the favoured subset of accounting measures.</p> <p>Question: Although it is all-too-common in the for-profit sector, why choose to define ‘results’ in terms of accounting performance measures? And why choose these measures in particular (the implication is that it is only a preferred subset of accounting measures that signal ‘performance’)? Also, what impact did the choice of ‘pooling accounting’ have on the reported financial accounting results?</p>
<p>1998.12 BP’s return on capital was 11% – an industry top-tier performance.</p>	<ul style="list-style-type: none"> – A separate para is devoted to this performance measure. – Being in the ‘industry top-tier’ on a ‘return on capital’ performance measure is thus a very good thing that deserves highlighting by separate recognition in the CEO letter.

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.13 BP's oil and natural gas production rose by 4%, and seven new developments came on stream, including Schiehallion, Loyal and the Eastern Trough Area Project (ETAP). Amoco's production increased by 3%, with output from Latin America and the North Sea more than offsetting declines in the USA.</p>	<ul style="list-style-type: none"> – This para reports a rise in oil and natural gas production: increases in this performance measure are noteworthy and thus reportable in the CEO letter. Theme: growth in this measure is good. – The phrase 'Seven new developments came on stream' deploys a common metaphor in this industry. This seems to be almost a dead metaphor in this industry, but why is it thus? The metaphor evokes the naturalness of a watercourse, a 'stream', with new sources of (desirable fluids?) joining up, or coming 'on stream' over the year. Notice also that the word 'came' is used, suggesting a passivity on the part of management (management didn't 'bring' these new sources 'on stream', they 'came').
<p>1998.14 Amoco's marketing sales rose by 2%, with a particularly strong performance in gasoline sales, while the benefits originally foreseen from BP's refining and marketing joint venture with Mobil in Europe have now been achieved.</p>	<ul style="list-style-type: none"> – Again, a theme of growth in (a select subset) of accounting performance measures is good. Part of this was due to a joint venture's 'benefits' being 'achieved'. – The phrase 'while the benefits originally foreseen from BP's refining and marketing joint venture with Mobil in Europe have now been achieved' suggests the sagacity and foresight of top management (but the passive sentence structure here ('while the benefits originally foreseen') do not identify explicitly who did the foreseeing, the implication is that it is the author of the CEO letter and his management group). But not only did top management foresee these benefits, they managed the joint venture so well that the benefits 'have now been achieved', indicating operating virtuosity on the part of top management. – Thus, top management has both strategic foresight and the operational ability to make such strategies come to fruition.
<p>1998.15 In chemicals BP continued to build new business activity in Asia, as well as strengthening leading positions in key centres such as Grangemouth, Scotland. Amoco's chemicals business brought on stream major expansions in the USA, further strengthening its global leadership in core products.</p>	<ul style="list-style-type: none"> – Use of 'strengthening' twice in the para evokes a metaphor: the company requires strength...???
<p>1998.16 BP's oil and natural gas production of 1,606,000 barrels of oil equivalent a day (boe/d) was more than fully replaced with new discoveries in Angola and the Gulf of Mexico and improved recovery in the mature areas of the UK and USA. Further significant discoveries in Norway and Venezuela are now under appraisal. Amoco's production of 1,444,000 boe/d was more than replaced by new discoveries and other additions, principally in Trinidad and Egypt.</p>	<ul style="list-style-type: none"> – Theme: New oil and natural gas discoveries, improved recoveries, 'and other additions' (presumably acquisitions) must exceed the current year's production.

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.17 The newly merged group Commitment to performance will be the driving force of the newly merged group.</p> <p>We start from a position of great strength. The merger of BP and Amoco has taken us into the top league of the oil industry. The newly merged group:</p> <ul style="list-style-type: none"> • has daily production worldwide of 2.0 million barrels of crude oil and 5.8 billion cubic feet of natural gas • is the largest producer of oil and gas in the USA and in the UK, producing respectively 1.25 and 0.74 million barrels of oil equivalent a day • has reserves of more than 14.9 billion barrels of oil and gas equivalent • has 15,500 service stations in the USA and 11,500 in the rest of the world • has chemicals revenues of \$9 billion a year • is one of the world's leading businesses in photovoltaics and solar power • is founded on a secure base with more than 70% of its capital invested in the OECD world – in particular, in the USA and the UK. <p>That is a great starting point but, of course, being big is not in itself an adequate response to the challenges we face.</p>	<p>– Notice that the phrase 'the driving force' suggests an irresistible, almost natural phenomenon. This is 'Commitment to performance', but with 'performance' as defined by the measures previously chosen.</p> <p>– Again, an extension of the mild apology for 'being big' as a result of the merger (see paras 1998.3, 1998.4, and 1998.5), but with a twist: 'being big' has now become 'a great starting point' for dealing with the 'challenges we face'. Thus, the listing in this para of the 'top league' indicators 'of the oil industry' provide documentation for the 'great starting point'.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.18</p> <p>The real value of the merger lies in the potential it creates. We now have the strength to take substantial positions in the key resource developments and markets of the world and also the ability to combine our skills and know-how, learning from each other and applying best practice across the whole of our combined asset base.</p>	<p>– The ‘real value’ of what the CEO calls ‘the merger’ (and what looks more like BP’s takeover of Amoco, but which uses ‘pooling’ accounting so should be, at least in the eyes of management, be talked about as a ‘merger’ to justify the accounting), ‘lies in the potential it creates’. That is, this ‘real value’ ‘lies’ (an interesting physical metaphor, indicating proneness and perhaps passivity...something is lying prone waiting only to be taken?) in the future as ‘the potential’. And this ‘potential’ is being created by the ‘merger’. Notice that the verb form is ‘creates’, thus suggesting that this creation of ‘potential’ is ongoing as the merger is effected. Thus, the ‘merger’ must be managed well for this ‘potential’ to be realised (and notice that, from para 1998.14, a previous major transaction, the joint venture, was managed well and its benefits ‘achieved’). But how is this management of the merger to be thus managed? By:</p> <ul style="list-style-type: none"> ▪ Using size and thus market power (‘We now have the strength to take substantial positions in the key resource developments and markets of the world’)àBig is good; ▪ Designing and implementing management control systems to take advantage of the former BP and Amoco and achieve economies of scale and scope (‘and also the ability to combine our skills and know-how, learning from each other and applying best practice across the whole of our combined asset base’). àWho will lead in this capturing of this ‘potential’? Top management will lead the way in defining what ‘skills’ should be combined, what ‘know-how’ is to be valued, and in indicating what are ‘best practice’ (is ‘top management’ the ‘We’ in this para?).

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.19</p> <p>As we announced in February, we now aim to deliver the \$2 billion pre-tax benefits of the merger in around a year's time, some nine months earlier than originally planned. We also expect to bear a substantial part of the costs associated with this restructuring during 1999. These costs are likely to be around \$1.5 billion pre-tax.</p>	<p>– This para elevates merger goals (fashioned in accounting terms) as public commitments (see Jonnsön (1998) for the implications of making accounting targets public).</p> <p>– The ‘\$2 billion pre-tax benefits of the merger’:</p> <ul style="list-style-type: none"> ▪ Have now been front-end loaded as a commitment; ▪ Are at least partly a function of the pooling of interests accounting method adopted by the company; ▪ Are not specified as including or excluding ‘a substantial part’ of the ‘likely’ \$1.5 billion ‘of the costs associated with this restructuring during 1999’. <p>All this leads to top management (‘we’), who proclaim a prior announcement (‘As we announced in February’), proclaiming again in the CEO letter (‘we now aim’) to ‘deliver’ the merger ‘benefits’ (as defined by them in accounting performance measure terms) much faster ‘than originally planned’ →Delivering accounting performance benefits earlier than planned is good. But what are the implications for the actual disruption due to the merger, on the ground in the real lived lives of employees, suppliers, customers, neighbours, etc? This has implications for an understanding of the Texas City and other cost control and safety issues faced later by BP.</p>
<p>1998.20</p> <p>A dramatic change in corporate organisation is disruptive for everyone. We are determined to make the process of transition as rapid as possible to minimise uncertainty for all our employees and their families. By the end of 1998 we had already announced appointments to more than 2,500 posts. By the end of the first quarter of 1999 almost all individual members of staff should know how they personally are affected by the merger.</p>	<p>– The BP-Amoco ‘merger’ is creating this ‘dramatic change in corporate organisation’. The first sentence in this para adopts a passive voice, as if to obscure the agency of what caused the merger and the ‘dramatic change’. It also refers to ‘A dramatic change’ rather than ‘The dramatic change’, further naturalising the ‘dramatic change’. The implication is that, as a result of natural capitalism, a necessary merger is taking place. In order for the merger to have ‘real value’ (1998.18), the merger must be managed well. Part of this management of the merger is how to manage the ‘dramatic change’ →Top management has a goal ‘to minimise uncertainty for all our employees and their families’...the dramatic change and the accompanying uncertainty are natural and unavoidable features of the merger, and they are beyond top management’s control as events, but top management can manage these processes to minimise this uncertainty ‘for all our employees and their families’ by ‘mak[ing] the process of transition as rapid as possible’. Thus, speed in a major corporate restructuring is good for employees.</p> <p>– Also, this para indicates that ‘appointments to more than 2,500 posts’ have been announced, but what about any effects of downsizing? And, since ‘By the end of the first quarter of 1999 almost all individual members of staff should know how they personally are affected by the merger’, what about disruption of the lives of individual employees and their families?</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.21</p> <p>Both within the company and externally, reaction has been positive. Despite the inevitable personal uncertainties, it is clear that our people see the merger and the changes it is bringing as a moment of great opportunity. Their attitude is already helping to make BP Amoco a truly progressive company.</p>	<p>– How is it possible that both within and external to the company ‘reaction has been positive’? What does this mean, exactly? For example, are employees who will not be downsized pleased? Were employees who are to be downsized or moved to other geographic locations or who will have their job descriptions changed, etc, all pleased? And who defines the criteria by which ‘reaction has been positive’?</p> <p>– How is it possible that ‘our people’ ‘see’ such a merger and ‘the changes it is bringing’ as a ‘moment of great opportunity’? In what way is this ‘clear’ to top management? And, even if true regarding what people ‘see’, how does such a sight result in an ‘attitude’ that in turn ‘is already helping to make BP Amoco a truly progressive company’?</p> <p>This para contains empty words, platitudes that should open top management up to scrutiny on the measures and criteria used and the conclusions reached.</p>
<p>1998.22</p> <p>Over the next few months we will be developing our strategy for the combined business. As we made clear when the merger was announced in August, BP Amoco will operate within a financial framework we believe is prudent and progressive:</p> <ul style="list-style-type: none"> • our gearing – the ratio of net debt to net debt plus equity – will be managed with a target ceiling of around 30% • our dividend policy – of aiming to pay out around 50% of our estimated average earnings through the business cycle – will be maintained • our net capital expenditure will be set to grow the company, with the objective of increasing returns on capital employed. 	<p>– It is top management (‘we’, ‘our’) who develops strategy (top-down?). The phrase ‘...we will be developing...’ signals agency, and ‘...our strategy...’ signals ownership.</p> <p>– Top management has set the ‘financial framework’ ‘within’ which ‘BP Amoco’ will operate’. Top management (‘we’) ‘believe[s] [the framework] is prudent and progressive’.</p> <p>– The ‘financial framework’:</p> <ul style="list-style-type: none"> ▪ is defined in accounting terms (it is accounting language and concepts which are used to define the framework); ▪ is described as ‘prudent’→what does this mean? ▪ is described as ‘progressive’→what does this mean? Also, the word ‘progressive’, which is used four times in the 1998 CEO, is again a sort of ‘ideograph’ in the sense of McGee. <p>Also... using the word ‘framework’ is interesting. WORD’s thesaurus returns: structure, frame, scaffold, skeleton, support, construction.</p>
<p>1998.23</p> <p>That financial framework is designed to be robust to a wide range of circumstances and to remain valid despite the difficult external environment. The last year appears to mark a point of discontinuity, with oil prices falling below the range in which they traded throughout the last decade.</p>	<p>– The so-called ‘financial framework’ identified in para 1998.22 has been designed by top management ‘to be robust to a wide range of circumstances and to remain valid despite the difficult external environment’. Thus, top management, who determined the framework (agency), created it (‘designed’) to counteract the vagaries of the external environment. So, even though the external environment is beyond management’s control, management is skilled enough to design such a financial framework to be ‘robust’ and ‘valid’.</p> <p>Thus, top management is a wise designer.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.24 No one can predict the future but, with our recent experience of weak oil prices, we are taking the precaution of ensuring that new projects are viable at \$11 a barrel for Brent crude.</p>	<p>– Even BP Amoco top management is not prescient; however, they learn from experience and therefore ensure that future projects ‘are viable’ (means what?) ‘at \$11 a barrel’.</p>
<p>1998.25 Performance and standards Our focus will be on performance, measured in terms of costs, return on capital and growth in earnings per share. Those key measures of performance will form the basis for the remuneration of all BP Amoco’s senior managers.</p>	<p>– A more precise identification of the accounting performance measures that ‘will be’ the ‘focus’ of top management’s attention: ‘costs, return on capital and growth in earnings per share’. What are the benefits and costs (to a variety of stakeholders) of such a narrow, reductionist ‘focus’?</p> <p>– Since “Those key measures of performance will form the basis for the remuneration of all BP Amoco’s senior managers, how will the behaviour of ‘all BP Amoco’s senior managers’ be affected (the following para 1998.26 asserts that ‘Performance against those key financial criteria is imperative’)? And what countervailing mechanisms are in place to counter the abuses of such a remuneration system?</p> <p>– The word ‘focus’ is an interesting metaphor, and evokes images of a spotlight, and single-mindedness. Performance measures – whether accounting-based or not – which are outside the bright well-marked circle of the spotlight might (will be?) ignored or de-emphasised?</p> <p>– The assumption is that a major, complex multinational corporation, which has just undergone a merger which significantly increases the organisation’s scope and size, can be managed by having its ‘senior managers’ ‘focus’ on this small set of measures.</p> <p>– How were these measures chosen? Was Amoco’s management compensation system very different, and thus would there be a learning effect for the Amoco senior managers brought on board?</p> <p>The theme here seems to be: A select small number of vulnerable accounting performance measures are the centre of attention of top management, and (crucially) also drive top management’s remuneration.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.26</p> <p>Performance against those key financial criteria is imperative but we are determined to demonstrate that we can simultaneously meet the highest standard of care in all our dealings. Performance must be indivisible. Society expects a great deal from large and successful companies. To win trust we have to live up to those expectations and build a track record of delivery and continuous improvement on all the relevant performance measures.</p>	<p>– This para is very curious: after announcing that ‘[p]erformance against’ the three accounting performance measures identified in the previous para was ‘imperative’ (not a mild requirement by any means, since WORDS’ thesaurus pops up ‘vital’, ‘crucial’, ‘essential’), the CEO (‘we’) announces ‘but we are determined to demonstrate that we can simultaneously meet the highest standard of care in all our dealings. Performance must be indivisible.’ The phrase ‘standard of care’ is explained in more detail in paras 1998.27 to 1998.34. But how can ‘all BP Amoco’s senior managers’ (para 1998.25) simultaneously live in a lifeworld dominated by a compensation constructed on three highly-reductionist accounting performance measures targets, the achievement of which ‘is imperative’, and at the same time ‘meet the highest standard of care in all our dealings’? If this is at all possible, the CEO letter should at the very least provide some detail regarding how this conundrum is to overcome.</p> <p>Theme: BP Amoco senior managers are super human, since they can overcome the inconsistencies and rigidities of the company’s management control system.</p>
<p>1998.27</p> <p>In terms of the standard of care, BP and Amoco have a strong track record. In 1998 we achieved:</p> <ul style="list-style-type: none"> • a 30% improvement in safety (BP and Amoco) • a 15% fall in hydrocarbon emissions to air (BP) • a 6% reduction in discharges to water (BP). 	<p>– This para defines, as performance measures, what ‘the standard of care’ means to BP Amoco top management. The three (non-accounting) performance measures cited here are described in the following para (1998.27) as indicating insofar as their 1998 values are concerned, ‘the baseline for BP Amoco’. Notice that the measures deployed in this para selectively report ‘BP and Amoco’ or ‘BP’..what happened with Amoco itself on the last two measures? Also, some indication of how these measures are defined should be provided, if only to refer the reader to another part of the company’s annual report.</p>
<p>1998.28</p> <p>Those achievements form the baseline for BP Amoco.</p>	<p>– See above.</p>
<p>1998.29</p> <p>We are already taking a number of further steps to demonstrate that oil and natural gas can be used and produced without damaging either people or the environment.</p>	<p>– How is it possible that this para can be literally true? It seems to be hyperbole, plain and simple.</p> <p>Theme: BP Amoco top management (‘We’) are super human.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.30 During 1998 BP established a long-term target to reduce its emissions of greenhouse gases by at least 10% from a 1990 baseline in the period up to 2010. We have established a number of steps to achieve that target, including an internal emissions trading system which began operating in September last year. As part of the process of integration following the merger, both the target and the trading system are now being extended to all BP Amoco activities.</p>	<p>– This para and the following four paras up to and including 1998.34 set out initiatives that the company is taking to achieve the claimed goal of para 1998.29. While laudatory, these ‘further steps’ (para 1998.29):</p> <ul style="list-style-type: none"> ▪ seem to be largely intentions in the future (see the two appearances of ‘We believe’ in para 1998.32; the ‘We will be working’ in para 1998.33; the ‘our aim’ in para 1998.34); ▪ are not convincing, even if realised, as a means to achieve the goal set out in para 1998.29. <p>Theme: BP Amoco’s ‘standard of care’ and environmental goals are subsidiary to its financial goals, both in terms of placement in the CEO letter, and in terms of their construction given the specific ‘imperative’ of achieving the company’s accounting targets.</p>
<p>1998.31 Reducing emissions is one small but important contribution to the challenge posed by climate change and global warming.</p>	<p>– See above.</p>
<p>1998.32 We believe we can also use our skills and technology to improve air quality. We believe we can demonstrate that, with modern refining technology and distribution techniques, it is possible to give consumers a wider and cleaner choice of fuels.</p>	<p>– See above.</p>
<p>1998.33 We will be working in close partnership with the automotive industry to ensure that fuel improvements match the progress being made in vehicle technology. At the beginning of 1999 we announced a plan to introduce clean fuels – including unleaded petrol and very low-sulphur gasoline and diesel – to a group of cities around the world.</p>	<p>– See above.</p>
<p>1998.34 That is just the beginning and, as with carbon dioxide emissions, our aim is to learn from experience and to set ourselves progressively higher targets which extend and build on these early steps as we go into the new century.</p>	<p>– See above.</p>

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.35 Conclusion</p> <p>BP Amoco has exceptional people at all levels. 1998 showed what they are capable of achieving.</p>	<ul style="list-style-type: none"> – This section reiterates and summarises the CEO's message for the year. – Hyperbole focused on the people that BP Amoco 'has'.
<p>1998.36 We improved our competitive performance despite all the difficulties of the operating environment.</p>	<ul style="list-style-type: none"> – Again the refrain regarding improvement in the face of 'difficulties of the operating environment'. Theme: the business environment in which the company operates is always difficult.
<p>1998.37 We maintained a good track record on safety and environmental protection in our operations and set ourselves the challenge of demonstrating that an oil, gas and petrochemicals company can make a positive contribution to the quality of life without damage to the world's natural environment.</p>	<ul style="list-style-type: none"> – Can this be linked to the Baker Report and other reports regarding Texas City and Prudhoe Bay? – Theme: the company set itself the following challenge: '... an oil, gas and petrochemicals company can make a positive contribution to the quality of life without damage to the world's natural environment.' For 'challenge', WORD's thesaurus shows: test, trial, contest, experiment.
<p>1998.38 And, through the merger, we gave ourselves the opportunity to do more, and the potential to lead the process of change in the industry as a whole.</p>	<ul style="list-style-type: none"> – Agency of 'we': <ul style="list-style-type: none"> ▪ 'we' did the 'merger' ▪ and therefore 'we' gave ourselves the opportunity to do more' ['more' is better than 'less'...but exactly is 'more?'] ▪ and also 'we' gave ourselves' [implicitly repeated] 'the potential to lead the process of change in the industry as a whole', Perpetual change is good; leading change is good.
<p>1998.39 But we have no illusions. The merger is a great step forward but being bigger does not exempt us from the challenges the industry faces. Track record is important, but we are conscious that we have to keep delivering every year, year in and year out.</p>	<ul style="list-style-type: none"> – 'But we have no illusions.' Signals that 'we' [top management? CEO Browne?] are realists. For 'illusion', WORD's thesaurus shows: delusion, false impression, misapprehension, fantasy, daydream, figment of your imagination, chimera. – 'we are conscious that we have to keep delivering every year, year in and year out.' Signals a perpetual obligation. What we have achieved in the past ('Track record'), while 'important', is insufficient. Theme: Top management must continuously 'deliver' going forward.
<p>1998.40 1999 shows no signs of being an easy year. Oil prices remain weak, and the development of the world economy remains uncertain.</p>	<ul style="list-style-type: none"> – This frames the next year: Theme of a difficult environment is again the refrain...environmental items beyond management's control: 'Oil prices remain weak'; 'the development of the world economy remains uncertain.'

Text of 1998 BP CEO letter (1998.3 means para #3 of the 1998 letter)	Preliminary theme identification (See Ryan & Bernard, 2003, for theme identification techniques)
<p>1998.41 Our strongest asset in the face of such a tough environment is the quality of our people. They bring the know-how and the standard of care which give us our reputation. They have built our track record of performance. It is their ability and commitment which convince me that, if any company can thrive in these difficult times, it is BP Amoco.</p>	<p>– Hyperbole re: ‘our people’ again. A possible theme involves the portrayal of ‘our people’ throughout the corpus of BP CEO letters? (word search for ‘people’). – Also, use of passive ‘our’ in phrase ‘our people’ (why not BP Amoco’s people? Or something similar?).</p>
<p>1998.42 Finally, may I thank you for your continued support, which is crucial to our success and a source of great encouragement. We will do everything in our power to ensure that we continue to earn that confidence.</p>	<p>– Perfunctory, empty words.</p>
<p>1998.43 Sir John Browne Group Chief Executive 17 February 1999</p>	

A PPENDIX 3

Single word theme identification in the 1998 BP Chief Executive's letter

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
<p>1998.1 1998 was a momentous year for the oil industry, and for BP Amoco in particular. Despite the fact that oil prices ended the year 34% below their December 1997 level, we improved our underlying performance and delivered on our promises. We also took a crucial first step in the restructuring of the oil and gas sector.</p>	<p>Framing of entire CEO letter heroic ('we')</p>
<p>1998.2 The merger of BP and Amoco was announced on 11 August, and completed on 31 December. To have secured full regulatory approval in just 99 working days is a tremendous credit to all those involved and gives us an excellent opportunity to proceed rapidly with the process of integration.</p>	<p>Heroic ('all those involved')</p>
<p>1998.3 Although the merger creates one of the world's largest industrial organisations, we are very aware that size alone is no guarantee of success.</p>	<p>Size; Leadership is realistic</p>
<p>1998.4 All the available evidence suggests that big companies are commonly regarded with suspicion, and that mergers are often considered to be simply about the accumulation of market power.</p>	<p>Size; Leadership is realistic</p>
<p>1998.5 To be acceptable to the consumer and to society in general, mergers must be progressive – enhancing rather than reducing the range of choices available to the customer, by combining the skills and know-how to achieve things which neither company could have delivered on its own. That means we have to listen with great care and be continuously responsive to the changing pattern of customer needs and desires.</p>	<p>Size; Making size acceptable; Leadership is realistic; Leadership adapts</p>
<p>1998.6 In our sector in particular the challenge is to ensure that hydrocarbons can be found, produced, refined, distributed and used without damaging the natural environment. BP Amoco will aim to provide consumers with the choices that make that aspiration achievable.</p>	<p>Making size acceptable; Standard of care; Trust</p>

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
<p>1998.7 Secondly, we have to organise and manage a huge worldwide company in a way which excites and empowers the people who work for us. We have to avoid rigidity and bureaucracy and ensure that, within clear boundaries and standards, individuals have the freedom to fulfil their potential and to make a difference.</p>	<p>Making size acceptable; Trust</p>
<p>1998.8 Empowerment and adopting a progressive and constructive approach will help ensure that we can deliver the sustained improvement in performance which is the primary objective of the merger. Beyond the gains in terms of cost savings and the elimination of duplication, the real challenge of any merger is to use the new combination of people and assets to lift competitive performance to a new level. That is our central focus as we begin to plan for the next century, and we will be announcing detailed targets as we go through 1999.</p>	<p>Making size acceptable</p>
<p>1998.9 This report, which draws together the activities of the two companies for the first time, is an important step in the process of integration. As well as setting out the facts, it aims to tell the story of an exceptional year, and of the people who made that year possible – the people who work for BP Amoco. They provided the magic that transformed a difficult year into a year when we made history.</p>	<p>Making size acceptable; heroic (magicians)</p>
<p>1998.10 Performance in 1998</p> <p>The difficulties of the business environment we faced in 1998 can be summed up in a few key statistics:</p> <ul style="list-style-type: none"> • average realised oil prices fell by 34% from around \$18 in 1997 to around \$12 in 1998 • refining margins remained low, at under \$2 a barrel for the third year out of the last four • petrochemicals margins fell, in line with the progression of the economic cycle. 	<p>Business environment is difficult</p>
<p>1998.11 In the face of such difficulty the results delivered represent a tremendous achievement. BP delivered \$3.0 billion of replacement cost profit before exceptional items, compared with \$4.6 billion in 1997. Around \$400 million of the 1998 profit resulted from self-help, with another \$100 million contributed by Amoco as part of its total profit of \$1.0 billion. The self-help includes gains in productivity and in volume in all our business streams.</p>	<p>Business environment is difficult; heroic (BP, Amoco)</p>
<p>1998.12 BP's return on capital was 11% – an industry top-tier performance.</p>	<p>Heroic</p>

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
<p>1998.13 BP's oil and natural gas production rose by 4%, and seven new developments came on stream, including Schiehallion, Loyal and the Eastern Trough Area Project (ETAP). Amoco's production increased by 3%, with output from Latin America and the North Sea more than offsetting declines in the USA.</p>	Business achievement
<p>1998.14 Amoco's marketing sales rose by 2%, with a particularly strong performance in gasoline sales, while the benefits originally foreseen from BP's refining and marketing joint venture with Mobil in Europe have now been achieved.</p>	Business achievement
<p>1998.15 In chemicals BP continued to build new business activity in Asia, as well as strengthening leading positions in key centres such as Grangemouth, Scotland. Amoco's chemicals business brought on stream major expansions in the USA, further strengthening its global leadership in core products.</p>	Business achievement; heroic
<p>1998.16 BP's oil and natural gas production of 1,606,000 barrels of oil equivalent a day (boe/d) was more than fully replaced with new discoveries in Angola and the Gulf of Mexico and improved recovery in the mature areas of the UK and USA. Further significant discoveries in Norway and Venezuela are now under appraisal. Amoco's production of 1,444,000 boe/d was more than replaced by new discoveries and other additions, principally in Trinidad and Egypt.</p>	Business achievement
<p>1998.17 The newly merged group Commitment to performance will be the driving force of the newly merged group.</p> <p>We start from a position of great strength. The merger of BP and Amoco has taken us into the top league of the oil industry. The newly merged group:</p> <ul style="list-style-type: none"> • has daily production worldwide of 2.0 million barrels of crude oil and 5.8 billion cubic feet of natural gas • is the largest producer of oil and gas in the USA and in the UK, producing respectively 1.25 and 0.74 million barrels of oil equivalent a day • has reserves of more than 14.9 billion barrels of oil and gas equivalent • has 15,500 service stations in the USA and 11,500 in the rest of the world • has chemicals revenues of \$9 billion a year • is one of the world's leading businesses in photovoltaics and solar power • is founded on a secure base with more than 70% of its capital invested in the OECD world – in particular, in the USA and the UK. <p>That is a great starting point but, of course, being big is not in itself an adequate response to the challenges we face.</p>	<p>Heroic</p> <p>We have great strength</p> <p>Making size acceptable</p>

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
<p>1998.18 The real value of the merger lies in the potential it creates. We now have the strength to take substantial positions in the key resource developments and markets of the world and also the ability to combine our skills and know-how, learning from each other and applying best practice across the whole of our combined asset base.</p>	<p>Real value is in potential; We have great strength; Leadership adapts</p>
<p>1998.19 As we announced in February, we now aim to deliver the \$2 billion pre-tax benefits of the merger in around a year's time, some nine months earlier than originally planned. We also expect to bear a substantial part of the costs associated with this restructuring during 1999. These costs are likely to be around \$1.5 billion pre-tax.</p>	<p>Heroic; Speed is good</p>
<p>1998.20 A dramatic change in corporate organisation is disruptive for everyone. We are determined to make the process of transition as rapid as possible to minimise uncertainty for all our employees and their families. By the end of 1998 we had already announced appointments to more than 2,500 posts. By the end of the first quarter of 1999 almost all individual members of staff should know how they personally are affected by the merger.</p>	<p>Heroic; Speed is good</p>
<p>1998.21 Both within the company and externally, reaction has been positive. Despite the inevitable personal uncertainties, it is clear that our people see the merger and the changes it is bringing as a moment of great opportunity. Their attitude is already helping to make BP Amoco a truly progressive company.</p>	<p>Heroic</p>
<p>1998.22 Over the next few months we will be developing our strategy for the combined business. As we made clear when the merger was announced in August, BP Amoco will operate within a financial framework we believe is prudent and progressive:</p> <ul style="list-style-type: none"> • our gearing – the ratio of net debt to net debt plus equity – will be managed with a target ceiling of around 30% • our dividend policy – of aiming to pay out around 50% of our estimated average earnings through the business cycle – will be maintained • our net capital expenditure will be set to grow the company, with the objective of increasing returns on capital employed. 	<p>Making size acceptable; heroic; Management's enduring financial framework ('prudent'; 'progressive')</p>
<p>1998.23 That financial framework is designed to be robust to a wide range of circumstances and to remain valid despite the difficult external environment. The last year appears to mark a point of discontinuity, with oil prices falling below the range in which they traded throughout the last decade.</p>	<p>Management's enduring financial framework ('robust'; 'valid'); Business environment is difficult</p>
<p>1998.24 No one can predict the future but, with our recent experience of weak oil prices, we are taking the precaution of ensuring that new projects are viable at \$11 a barrel for Brent crude.</p>	<p>The future is risky; Prudent leadership</p>

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
<p>1998.25 Performance and standards Our focus will be on performance, measured in terms of costs, return on capital and growth in earnings per share. Those key measures of performance will form the basis for the remuneration of all BP Amoco's senior managers.</p>	Key performance measures
<p>1998.26 Performance against those key financial criteria is imperative but we are determined to demonstrate that we can simultaneously meet the highest standard of care in all our dealings. Performance must be indivisible. Society expects a great deal from large and successful companies. To win trust we have to live up to those expectations and build a track record of delivery and continuous improvement on all the relevant performance measures.</p>	Key performance measures; Standard of care; Making size acceptable
<p>1998.27 In terms of the standard of care, BP and Amoco have a strong track record. In 1998 we achieved:</p> <ul style="list-style-type: none"> • a 30% improvement in safety (BP and Amoco) • a 15% fall in hydrocarbon emissions to air (BP) • a 6% reduction in discharges to water (BP). 	Standard of care
<p>1998.28 Those achievements form the baseline for BP Amoco.</p>	Standard of care
<p>1998.29 We are already taking a number of further steps to demonstrate that oil and natural gas can be used and produced without damaging either people or the environment.</p>	Standard of care
<p>1998.30 During 1998 BP established a long-term target to reduce its emissions of greenhouse gases by at least 10% from a 1990 baseline in the period up to 2010. We have established a number of steps to achieve that target, including an internal emissions trading system which began operating in September last year. As part of the process of integration following the merger, both the target and the trading system are now being extended to all BP Amoco activities.</p>	Standard of care
<p>1998.31 Reducing emissions is one small but important contribution to the challenge posed by climate change and global warming.</p>	Standard of care
<p>1998.32 We believe we can also use our skills and technology to improve air quality. We believe we can demonstrate that, with modern refining technology and distribution techniques, it is possible to give consumers a wider and cleaner choice of fuels.</p>	Standard of care

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
1998.33 We will be working in close partnership with the automotive industry to ensure that fuel improvements match the progress being made in vehicle technology. At the beginning of 1999 we announced a plan to introduce clean fuels – including unleaded petrol and very low-sulphur gasoline and diesel – to a group of cities around the world.	Standard of care
1998.34 That is just the beginning and, as with carbon dioxide emissions, our aim is to learn from experience and to set ourselves progressively higher targets which extend and build on these early steps as we go into the new century.	Standard of care; heroic
1998.35 Conclusion BP Amoco has exceptional people at all levels. 1998 showed what they are capable of achieving.	Heroic
1998.36 We improved our competitive performance despite all the difficulties of the operating environment.	Business achievement; Business environment is difficult
1998.37 We maintained a good track record on safety and environmental protection in our operations and set ourselves the challenge of demonstrating that an oil, gas and petrochemicals company can make a positive contribution to the quality of life without damage to the world's natural environment.	Standard of care
1998.38 And, through the merger, we gave ourselves the opportunity to do more, and the potential to lead the process of change in the industry as a whole.	heroic
1998.39 But we have no illusions. The merger is a great step forward but being bigger does not exempt us from the challenges the industry faces. Track record is important, but we are conscious that we have to keep delivering every year, year in and year out.	Leadership is realistic; Prudent leadership; The future is risky
1998.40 1999 shows no signs of being an easy year. Oil prices remain weak, and the development of the world economy remains uncertain.	Business environment is difficult; The future is risky
1998.41 Our strongest asset in the face of such a tough environment is the quality of our people. They bring the know-how and the standard of care which give us our reputation. They have built our track record of performance. It is their ability and commitment which convince me that, if any company can thrive in these difficult times, it is BP Amoco.	Business environment is difficult; The future is risky; heroic ('our people')

Text of 1998 BP CEO letter (1998.3 means paragraph #3 of the 1998 letter)	Single word preliminary theme identification
1998.42 Finally, may I thank you for your continued support, which is crucial to our success and a source of great encouragement. We will do everything in our power to ensure that we continue to earn that confidence.	
1998.43 Sir John Browne Group Chief Executive 17 February 1999	

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Measuring and Assessing Tone at the Top Using Annual Report CEO Letters

Chief Executive Officers (CEOs) have a strong influence on the tone at the top of companies. How they exercise this influence has the potential to affect the quality of financial reporting. Consequently, it is important that auditors and other users find a way of examining and evaluating the tone at the top and the resultant risks to which companies might be exposed.

The authors contend that the CEO letter to shareholders in annual reports is one of the most important of the mediums used by corporate leaders to communicate their attitudes and values. They argue that by analysing the text of such letters, auditors and other interested parties can gain insight into the tone at the top of major corporations.

This book demonstrates two complementary methods for undertaking this analysis. First, through the use of the text analysis software package DICTION to analyse the CEO letters of FTSE 100 companies and the top 100 FORTUNE 500 companies. Second, through conducting a close reading or forensic examination of selected company letters (General Electric, Enron, BP and New Century Financial) to understand their inherent ideology, rhetoric and use of metaphors, and to highlight any silences. The two methods should be used in conjunction with each other to enhance ensuing understandings of tone at the top and its effects.

The authors contend that the combination of close reading and software analysis techniques can furnish valuable understandings of the culture of an organisation and the intentions of top management teams. The techniques they demonstrate could be of value to auditors. The authors conclude that a closer scrutiny of corporate activity is important and that the methods they highlight should be regarded as highly useful tools in conducting much needed audits of corporate culture and communication.

ISBN 978-1-904574-55-2

EAN 9781904574552

Price: £15.00

