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An exploration of the relationship between language choice in CEO letters to shareholders and corporate reputation

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ABSTRACT

This paper proposes a taxonomy to assist in more clearly locating research on aspects of the association between corporate reputation and corporate accountability reporting. We illustrate how our proposed taxonomy can be applied by using it to frame our exploration of the relationship between measures of reputation and characteristics of the language choices made in CEO letters to shareholders. Using *DICTION 5.0* software we analyse the content of the CEO letters of 23 high reputation US firms and 23 low reputation US firms. Our results suggest that company size and visibility each have a positive influence on the extent to which corporate reputation is associated with the language choices made in CEO letters. These results, which are anomalous when compared with those of Geppert and Lawrence (2008), highlight the need for caution when assessing claims about the effects on corporate reputation arising from the language choice in narratives in corporate annual reports.

1. Introduction

We respond to the challenge by Adams (2008) to refine knowledge of the extent to which corporate reporting influences corporate reputation. We begin by proposing a taxonomy of prior studies that have analyzed the association between corporate reputation in a corporate accountability reporting context. Influenced by Schwaiger's (2004) contention that any identification of factors influencing corporate reputation should be based on reliable empirical evidence, we then draw upon our proposed taxonomy for two purposes. First, to demonstrate how our research enquiries can be located and understood; and second, to contribute empirical evidence that will help to develop a better understanding of the relationship between the word choice in annual report CEO letters to shareholders and corporate reputation. A particular feature of this paper is the juxtaposing of our results with those reported in a study in which Geppert and Lawrence (2008) identified some language factors likely to influence the level of corporate reputation. Thus, theoretically and empirically, we explore the extent to which language choice in a corporate reporting and accountability narrative influences corporate reputation.

This paper builds on the work of Geppert and Lawrence (2008) who measure narrative disclosures in corporate reports as a proxy for corporate reputation. First, we contextualize the Geppert and Lawrence (2008) study, and other similar papers, in the form of an overarching taxonomy to apply to research linking corporate narrative disclosures and corporate reputation. Second, we replicate the Geppert and Lawrence (2008) study to the extent possible, and extend that study, where feasible, given our contradictory findings. We were concerned about the findings they reported because extant research into the written discourse of CEOs prompted doubts about the reliability of those results. In particular, their findings that high

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reputation firms use less complex (shorter), less varied and more concrete words appeared simplistic. We believe that the association between CEO text and corporate reputation is much more subtle and nuanced than advanced by Geppert and Lawrence (2008); and that such association is dependent heavily on company context.

Organizations are "discourse constructions" (Fairhurst & Putnam, 2004). As such, it seems appropriate to study (as we do here) how the language used in corporate reports might construct corporate reputation. In particular, we are intrigued by the implications of results reported by Geppert and Lawrence (2008): that is, that a high reputation might accrue to a company simply from adopting a communications (or accountability) strategy that involves a more relaxed writing style, more desirable words (such as those associated with honesty, virtue and self-sacrifice), more present tense verbs, and a focus on immediate concerns of everyday life. As part of our enquiries, we replicate the Geppert and Lawrence study, to the extent possible, using (as they did) data sourced in *Fortune* magazine's annual *America's Most Admired Companies* survey, and in CEO letters to shareholders in annual reports of major US companies. However, unlike Geppert and Lawrence, we found no statistically significant associations between chosen language-related variables and corporate reputation.

The important influence that corporate communications can exert on corporate reputation has been highlighted in argument that "communications was one of the 'six key drivers' of corporate reputation" (the others were competitive effectiveness, marketing leadership, customer focus, familiarity/favorability, and corporate culture) (Greyser, 1999, p. 179). In an increasingly competitive global economy, companies are keen to identify the drivers of corporate reputation so that they can acquire a sustainable competitive advantage (Schwaiger, 2004). Thus, it is not surprising that corporate reputation, and how it can be sustained and improved, has become an important element in the strategic communications of companies (Dolphin, 2004). Corporate annual reports (and the CEO shareholder letters they contain) are used not only for accountability purposes but also to create corporate reputation, corporate image and corporate credibility.

However, corporate reputation is not synonymous with either corporate image (Dutton & Dukerich, 1991, p. 537) or corporate legitimacy (Bebbington, Larrinaga-González, & Moneva-Abadía, 2008b). Whereas image describes attributes members of a firm believe outsiders use to distinguish a firm, reputation describes the actual attributes outsiders ascribe to a firm. Following Schwaiger (2004, p. 48), a reputation is formed based on information about a firm's relative positioning in an organizational field, on marketing and accounting signals concerning performance, on institutional signals concerning social norms, on signals concerning firm strategy, and on attributes based on a firm's past actions. Because reputation is based on information and signals about a firm, corporate reporting is an ideal medium for communicating that information and those signals.

Gotsi and Wilson (2006) tease out the differences between the dynamic concepts of corporate reputation and corporate image. They conclude that there is a bilateral relationship between corporate reputation and corporate image. Corporate reputations are largely dependent on everyday impressions people form of companies, based on firm behavior, communication and symbolism. Different stakeholders are likely to assess corporate reputation differently, depending on their economic, social and personal background. Gotsi and Wilson (2006, p. 29) conclude with a definition of corporate reputation as:

> . . .a stakeholders' overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals.

Analysis and debate in accounting and accountability reporting literature about matters of corporate reputation have usually been conducted within a framework of legitimacy theory – and the need to build and maintain organizational legitimacy. Deephouse and Carter (2005) argue that organizational legitimacy focuses on a social acceptance that is derived from conforming to social norms and expectations – whereas organizational reputation involves social comparison. He and Baruch (2010) consider organizational identity and organizational legitimacy simultaneously. They observe that organizational identity is not fixed but depends on the social context in which organizational identity is narrated. They maintain that legitimacy can be created, maintained and repaired by choice of environment and social referents; and, importantly in the context of the present study, they identify external communications (such as impression management tactics, verbal accounts and stakeholder information disclosure) as the means of achieving this (He & Baruch, 2010, p. 44).

Table 1
Organizational reputation, image, and legitimacy.

Concepts	Key aspects	Time dimension	Definition
Organizational reputation	• Whole organization • Quality • Evaluation	• Short-term • Stable	A general, temporally stable, shared evaluative judgment about a firm
Organizational image	• Aspect of the organization (e.g., investment image) • Quality • Evaluation	• Short-term • Dynamic	A dynamic perception of a specific area of organizational distinction
Organizational legitimacy	• Whole organization or industry • Social norms and rules • Appropriateness	• Long-term • Stable	A shared general judgment about normative appropriateness

Reproduced from Brennan and Merkl-Davies (in press) and adapted from Table 1 of Highhouse, Brooks, and Gregarus (2009, p. 1487).