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# **Linguistic accounts in letters to shareholders**

A comparison between equity based and creditor based countries

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## **Abstract**

**Title:** Linguistic accounts in letters to shareholders: A comparison between equity based and creditor based countries

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**Key words:** Financial communication, letter to shareholders, accounts, narratives, international classification

**Purpose:** The purpose of this study is to give shareholders and potential investors a better understanding of international similarities and differences in the use of language in financial reports.

**Theory:** The theoretical framework in this paper is built upon theories of international differences and similarities in financial reporting, financial communication and linguistic accounts.

**Methodology:** A qualitative study of letters to shareholders in UK and Germany has been made. The method also has traces of grounded theory and some quantitative elements.

**Analysis of empirics:** The analysis of the letters to shareholders resulted in three main findings. The first finding is that the total amount of accounts used in the UK letters is bigger than in German letters. The second finding is that the relative share of the different types of accounts in relation to other types of accounts are roughly the same in UK and in Germany. Lastly, the third finding is that the characteristics of the different types of accounts are very similar between UK and Germany.

**Conclusion:** The analysis of empirics end up in three conclusions. (1) The total amount of accounts used in equity based countries is bigger than in creditor based countries, (2) the relative share of the different types of accounts in relation to other types of accounts are roughly the same in equity based countries as in creditor based countries, and (3) the characteristics of the different types of accounts are very similar between equity based countries and creditor based countries.

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# 1. INTRODUCTION

*In this chapter a background of international classifications in accounting practices will be presented. This will be followed by a problematization of the use of narratives in financial reports. Then the purpose and the research question will be presented.*

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## 1.1 Background

The European Union (EU) has an idea of a free open market within the EU, with equal terms for all member states. The process of harmonisation led to the creation of an EU endorsed International Financial Reporting Standard (IFRS) which is applicable to all consolidated statements of listed companies since 2002 (Nobes & Parker, 2016). Despite the strive for harmonisation, some differences are argued to persist in the financial statements (Nobes, 2011), possibly due to inertial forces which make the transition to similar accounting practices slow. Their historical background influences the accounting systems in different countries. Both political and economic developments have shaped accounting practice to give it the form it has today. In particular, the economic development has shaped how companies raise money, and who is the main financial provider in the country (Nobes, 1998). To understand the differences among countries, attempts to categorise countries have been made. Both Zysman (1983) and Nobes and Parker (2016) have made a distinction between “equity based” and “creditor based” countries, often named Anglo Saxon countries and Continental European countries.

Nobes and Parker (2016) suggest that the distinction between insider and outsider financing is the most important explanation for international differences in financial reporting. Companies that rely heavily on the capital market are according to Gibbins, Richardson and Waterhouse (1990) more likely to provide the market with extensive voluntary information and disclosures. These findings could possibly be explained by the different purposes of accounting, where accounting in equity based countries has evolved to provide shareholders with information, whereas accounting in creditor based countries has evolved mainly for tax purposes (Nobes & Parker, 2016). In line with this research, Aerts (2005) concluded that listed companies publish more attributional information than unlisted companies. This indicates that equity based countries possibly disclose more information than creditor based countries. Furthermore, the shareholders and potential investors rely on information disclosures to make informed decisions (Epstein & Freedman, 1994; Hutchins, 1994).

The annual report is seen as an important device for communication between management and shareholders (O’Brien & Tooley, 2013). Investors are more likely to read the narrative parts of the annual report, rather than the financial statements themselves (Bartlett & Chandler, 1997). Furthermore, research has found that the letter to shareholders is of particular interest to investors (Amernic & Craig, 2006; Bartlett & Chandler, 1997). The letter to shareholders is written annually by the CEO/chairman of a company and normally precedes the

financial statements in the annual report (Poole, 2016). The letter to shareholders has different labels in different companies, for example “chairman’s statement” or “CEO letter”. Still, they all take the form of a short narrative in the beginning of the annual report, that typically explains past performance and describes how future success will be achieved (Poole, 2016). The use of different names has led to researchers labelling the letter to shareholders in different ways. However, in this paper, chairman’s statement and CEO letter will be considered as one and the same since they both mainly have the purpose to address the shareholders, and from now on it will be named letter to shareholders. Amernic and Craig (2006) have emphasised the importance of doing research on letters to shareholders as they can be used by management to influence readers. The importance of the letter to shareholders has earlier been demonstrated by Anderson and Epstein (1995), who found that the majority of shareholders regard the CEO letter as the most useful part of the annual report. In a similar vein, Bartlett and Chandler (1997) found that the part of the annual report which is most thoroughly read by private investors is the letter to shareholders.

## **1.2 Problematization**

Considering the importance shareholders assign the letter to shareholders, it is essential that they can rely on the information in those letters to make informed decisions. However, Amernic and Craig (2006) argue that CEO letters always need clarification, and that shareholders need to read them in a critical manner. They argue that the reason for this is that language used in CEO letters is intended to persuade shareholders and other readers, and that it often is seductive to its nature. In a similar vein, Aerts (2005) argues that narratives in annual reports provide an opportunity for managers to manage the impressions outsiders have of the company. By engaging in this kind of communication, Hines (1988) argues that managers construct reality. More specifically, Palmer, Wilcox King and Kelleher (2004) found that construction of reality can be achieved through the choice of language in CEO letters. This means that reality is constructed through communication and that the meaning of a text is a product of the words used by the authors and the interpretations made by the reader.

The opportunity for management to use language to manage impressions in letters to shareholders can be seen to emerge from the lack of standards on the narrative parts of the annual report. IFRS is only applicable to financial reports, not necessarily other information in the annual report, such as the narrative parts (IFRS, 2016). This means that even if IFRS has been used to harmonise accounting practice in Europe, differences between countries may still persist in those parts of the annual report that are not subject to standardisation and audit. Hooghiemstra (2010) supports this view of international differences, as he finds differences in CEO letters between companies in the US and Japan. However, “the rhetoric purposes of annual reports that cross cultural lines, specifically those that are read by foreign investors, may be even more difficult to analyse than materials read primarily by same-country nationals” (Conaway & Wardrope, 2010, pp. 142-143). In other words, foreign investors may struggle to analyse the rhetoric purposes of narratives in financial reports. We argue that as globalisation and digitalisation provide more opportunities for investors to invest in companies in foreign countries, the need for them to understand potential international differences increases. In a

similar vein, Amernic and Craig (2006) argue that shareholders and other readers need to engage in critical analysis of CEO letters. We argue that such analysis should regard the findings Clatworthy and Jones (2003) make as they come to the conclusion that language in chairmen's statements is carefully chosen when making excuses for underperformance. Furthermore, they found that chairmen's statement often exaggerate what is going well, and understate what is going badly.

The arguments presented above illustrate the need for a tool of analysis that can be used to dissect the language in letters to shareholders in different countries. One such tool that specifically regards the characteristics that Clatworthy and Jones (2003) found is to analyse letters to shareholders in terms of account giving, accounts being a linguistic device used to handle a failure event (Sandell & Svensson, 2016). Accounts are given to "bridge the gap between actions and expectations" (Scott & Lyman, 1968, p. 46), and are therefore closely related to Clatworthy and Jones' (2003) findings. Furthermore, since Clatworthy and Jones (2003) conclude that language is carefully chosen when making excuses, accounts becomes an interesting theory since one of the most common types of accounts is the *excuse* (Sandell & Svensson, 2016). As described earlier, the letter to shareholders can be used both for explaining performance and for impression management, and thus accounts is an appropriate theory since the purpose of using accounts is to "explain unanticipated or untoward behaviour" (Scott and Lyman, 1968, p. 46). Also, Sandell and Svensson (2016) argue that accounts can be applied not only in its original sociological context, but also in corporate situations. Thus, in this paper accounts will be used as a tool to analyse language in letters to shareholders.

### **1.3 Purpose**

The aim of this study is to give shareholders and potential investors a better understanding of international similarities and differences in the use of language in financial reports.

This will be done by answering the following research question:

*How are accounts used in letters to shareholders in equity based and creditor based countries?*

## 2. THEORETICAL REVIEW

*In this chapter a review of previous research and theory will be made. The chapter begins with describing the reasons for international differences in accounting and forces that work against differences. This is followed by a broad discussion of language used in financial communication, which then narrows down to the theory of accounts. In the end we present the taxonomy of accounts that will be used in this thesis.*

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### 2.1 International differences and harmonisation

#### 2.1.1 Equity based and creditor based countries

There are many reasons for differences in accounting practices among countries. Hofstede (1984) provides a framework that has been widely used (e.g. Douppnik & Salter, 1993; Gray, 1988) when analysing cultural aspects that can lead to differences in accounting practice. Hofstede (1984) suggests that the dimensions and degree of individualism, power distance, uncertainty and femininity can explain international differences in culture. Further, Gray (1988) found that culture over time has formed financial systems. He explains how norms and values that are present and the behaviour of accountants and auditors have affected accounting practices in different countries.

Countries are also affected by their historical background, both political and economic development forms the legal system and accounting regulation (Nobes, 1998). The economic development has also formed how companies are able to raise their capital, and who is the main financial provider in a country. A distinction is often made between equity based financing with a more spread ownership and many shareholders, and creditor based financing from banks and large institutions (Nobes, 1998). The different sources of finance are also the reason for different purposes of accounting. In equity based countries the main purpose for accounting is to provide external stakeholders with relevant information, which is less important in creditor based countries as the creditors often has a close and informative relationship to the firm (Nobes, 1998).

To handle all these differences among countries, there have been many attempts to categorise countries into larger groups with similar features. A generally acknowledged framework of categorisation was originally presented by Nobes (1983), where he distinguished between macro and micro orientations. This framework has since then been developed several times and in 1998 the terminology used was rather strong equity countries (also referred to as Anglo Saxon countries) and weak equity countries (also referred to as Continental European countries) (Nobes, 1998). The most prominent difference between the two groups is argued to be the provider of finance (Artsberg, 2003; Nobes & Parker, 2016). Anglo Saxon countries are characterised by a strong capital-market, a case law system and a separation between tax and accounting system (Nobes, 1998). Contrary, the Continental European countries are characterised by a high degree of bank financing, a code law system and a link between tax and ac-



counting (Nobes, 1998). Another classification similar to Nobes' is presented by Zysman (1983) where he distinguishes between capital market systems, creditor based governmental systems and creditor based financial institution systems. Nobes and Parker (2016) simplify this classification by merging the two last mentioned, which leads to another classification based on "equity based" and "creditor based" financial systems. Further in this thesis, the terminology equity based and creditor based will be used.

Nobes' classification has been subject to criticism regarding its relevance, but Nobes (2011) has responded to the critique by making an empirical study of large listed companies in eight countries, all using IFRS in their financial statements. His conclusion is that, despite large pressure for harmonisation from the EU and the International Accounting Standards Board (IASB), there is still empirical evidence for differences between equity based and creditor based countries.

### **2.2.2 International harmonisation**

Accounting practices and regulations are becoming more harmonised due to several global developments (Nobes & Parker, 2016). The development of the EU and the IASB are examples of forces that have led to increased similarities among countries, and made the classification of countries more complex (d'Arcy, 2001). As already mentioned, Nobes' classification has been subject to criticism. The criticism consists of arguments that there are large differences within the equity based group. In particular, the large differences between United Kingdom (UK) and United States (US) have been up for discussion and they are often separated by the critics (Alexander & Archer, 2000). Alexander and Archer (2000) argue that what before was the largest similarities between UK and US, the capital market orientation, is now applicable to almost all countries in the world.

To understand why accounting systems in different countries possibly become more similar to each other, the institutional theory and isomorphism will be presented. Meyer and Rowan (1977) composed the modern theory of institutionalism and explained that institutionalised policies and structures could function as a legitimacy builder and something that companies adopt ceremonially. They argue that effectiveness is no longer the only driver of organisational change, rather conformity with institutionalised context becomes more important. DiMaggio and Powell (1983) refined the idea of institutionalism and composed the framework of isomorphism, which tries to describe why organisations become more homogenous. They argue that effectiveness and competitiveness are no longer the drivers for change in organisations, but that organisations rather change to become more similar. A separation between *coercive*, *mimetic* and *normative* isomorphism is made by DiMaggio and Powell (1983). Coercive isomorphism derives from political forces, mimetic isomorphism derives from environments with high uncertainty and normative isomorphism is more linked to professionalism. The strive for harmonisation within the EU and the creation of IASB are typical examples of coercive isomorphism, as DiMaggio and Powell (1983, p. 150) argue that "The existence of a common legal environment affect many aspects of organisation's behaviour and structure".

The development of accounting practices has in several studies been described with the institutional theory. For example, Guerreiro, Rodrigues and Craig (2012) investigated why large Portuguese companies voluntarily decided to adopt IFRS. Their findings show that the institutional pressure had a large impact, together with the legitimacy the adoption created for the companies. In another context, Wang, Che and Fang (2014) found that institutional pressure also had a large impact on large listed Chinese companies' accounting practices as it affected how they disclosed their circular economy accounting information. Related to this, Rutherford (2005) suggests that accounting narratives can be seen as a genre, resulting from rhetorical actions founded in recurring situations.

## **2.2 Financial communication**

### **2.2.1 Language in financial reporting**

Financial reports are important for communication between the company and its stakeholders (Bartlett & Chandler, 1997; O'Brien & Tooley, 2013). Shareholders and potential investors rely on the annual report as they make investment decisions (Epstein & Freedman, 1994; Hutchins, 1994). One reason for studying language in annual reports is that the purpose of the annual report is not only to provide readers with information about the company's yearly progress, it also has the purpose to convey the company's beliefs and attitudes (David, 2001). Unlike advertising, in which the purpose is openly seductive, annual reports persuade the reader indirectly (David, 2001).

An additional reason for studying language in financial reporting is that the space devoted to narratives in the annual report is continuously extended. Between 1965 and 2004 the narrative parts in annual reports increased in volume by 375 % in the UK (Beattie, Dhanani & Jones, 2008). The reason narrative parts become more extensive can be explained by the argument that Dowling and Pfeffer (1975) make; that it is easier to use communication to manage one's image, than to change the outputs, goals and methods of the company's operations. This means that companies have an incentive to disclose more information when there is a need to create congruence between the organisation's image and the expectations of the public, which for example has resulted in extensive corporate social responsibility disclosure (Neu, Warsame & Pedwell, 1998). Similar to Dowling and Pfeffer (1975), Crowther, Carter and Cooper (2006) conclude that the reason management does this is to try to control how the corporate story is interpreted. When using language in annual reports for this purpose, Hines (1988) argues that reality is constructed through financial communication. In a similar vein, Arnold and Oakes (1998, p. 146) state that "financial reporting is not a passive reflection of events but plays an active role in constructing them". Thus, verbal communication in financial reporting can be used to construct and manage impressions that the public has of the organisation (Leary & Kowalski, 1990). On the other hand, Merkl-Davis and Brennan (2007) discuss that corporate disclosures are used to provide incremental information. In other words, language in financial reporting can be used both to manage impressions and to provide value-relevant information (Bowen, Davis & Matsumoto, 2005). These insights motivate critical analysis of financial reporting in order to assist shareholders and potential investors in their decision making.

One way for companies to engage in impression management is through a biased use of charged words (Rutherford, 2005). In his study, Rutherford (2005) finds evidence for the Pollyanna effect, which in financial reporting refers to the tendency to pay more attention to positive than negative aspects of one's operations. Furthermore, he concludes that the Pollyanna effect is more evident in poorly performing companies, as they have a stronger tendency to use positively charged words such as *profit*, over negatively charged words such as *loss*.

Another area that research on language in financial reporting previously has concerned is the self-serving attributional bias. This concept refers to the tendency to take personal credit for success and deny responsibility for failures by ascribing them to external causes (Hooghiemstra, 2008). Thus, research in this area is not interested in how often success or failure is mentioned in annual reports. Instead, it focuses on how the success or failure is explained. Aerts (2005) found that self-serving attributional bias is more pronounced in listed companies' reports than in non-listed companies' reports. However, according to this study, financial performance is not decisive for how pronounced the self-serving attributional bias is.

In a comparative study between the US and Japan, Hooghiemstra (2008) found that it is more common to emphasise positive events in the US than in Japan, and that Japanese companies to a larger extent attribute negative outcomes to external causes. These findings are interesting considering that Nobes and Parker (2016) argue that Japan is similar to Continental European countries while US is part of the Anglo Saxon category. Aerts (2001) conducted a longitudinal study on attributional behaviour in annual reporting narratives and came to the conclusion that inertial forces make attribution patterns in annual reports very similar from year to year.

### **2.2.2 Previous research on letters to shareholders**

A letter to the shareholders is described by Poole (2016, p. 57) as a document that "typically explain past performance and also offer a vision for achieving future success". Amernic and Craig (2006) explain that the CEO letter and similar accounting narratives are texts that are carefully prepared by the management and their advisors and that give insights in the mindset and the motives of the management. The CEO letter is an annual ritual where the CEO takes the role as storyteller, and the document is easily accessible for the public (Craig & Amernic, 2008).

The narrative parts of the annual report written by the managers provide the users with a context to the financial information presented in numbers. They are important tools of communication and serve the function of both supplementing and complementing the financial statement (Merkl-Davis & Brennan, 2007). Investors use the narratives to interpret the financial performance, the future cash flow, the objectives of the firms and possible future risks (IASB, 2009). Investors are more likely to read the narrative parts of the annual report, such as the chairman's statement, chief executive review and the review of operations, rather than the financial statements themselves (Bartlett & Chandler, 1997).

Several studies highlight the importance the stakeholders assign to the narrative parts of the annual report. From a survey of 12 shareholder reports conducted between 1971-1979, Hines (1982) concluded that all the surveys in the review suggested that the chairman's report is the most widely read part of the annual report. Similarly, Anderson and Epstein (1995) found that the majority of shareholders regard the director's report as the most useful part of the annual report. The letter to the shareholders is argued to be an important research area because of the managers' social power to influence readers (Amernic & Craig, 2006) and the letters role as a legitimacy builder with the attempt to gain the reader's faith in the company (Jonäll & Rimmel, 2010). Abrahamson and Amir (1996) conveyed a study of 2600 president's letters and found them as useful tools for investors when predicting the future performance of a company.

The high degree of value that the investors place in the letters to the shareholders force the management to carefully consider how they present their statements. Clatworthy and Jones (2003) found in their study of 50 top performing and 50 poor performing UK firms that the language in the chairman's statements is carefully chosen when explaining underperformance. They showed that chairman's statements often overstate what is going well, and understate what is going badly, which also is supported by Hooghiemstra (2010). Furthermore, Bettman and Weitz (1983) conveyed a study of letters to shareholders and concluded that managers attribute negative events to the environment and positive events to themselves. These findings are the same as Aerts (2005) and Hooghiemstra (2008) make for attributional self-serving bias in annual reports in general (see section 2.1). However, unlike Aerts (2005), Bettman and Weitz (1983) find that attributional self-serving bias in letters to shareholders was especially apparent when the outcome of the firm was worse than expected.

In addition to the attributional theory, other aspects of language in letters to shareholders have also been studied, where Craig and Amernic have been especially prominent. They conducted a micro discourse analysis of the letter to the shareholder and a testimony made by the CEO in connection to the Enron crisis (Craig & Amernic, 2004). The results showed that metaphors and hyperbolic adjectives were used to a large extent in both documents. Amernic, Craig and Tourish (2007) studied the language in CEO letters and highlighted how metaphors can be used to portray the CEO as a legitimised leader through a transformation phase of a firm. Further, Craig and Amernic (2008) conveyed a trilogy of studies of the narratives used during the privatisation of the Canadian National Railway, with focuses on the CEO letters from the years of change and how they were used to express the success of the privatisation process.

Several studies looking to compare the letters to shareholders of low and high performers have been conveyed. Kohut and Segars (1992) compared the themes present in the president's letters of high and low performing firms in the US. They concluded that both groups emphasised past events but that low performers tended to highlight future opportunities rather than past failures, and that the low performers presented shorter and more concise information without elaboration compared to the high performers. In contrast, Geppert and Lawrence (2008) found that firms with high reputation (cf. high performance) tended to use shorter and more concrete explanations than the firms with low reputation.

Poole (2016) conducted a keyword analysis on the letters to shareholders from Bank of America and Citigroup during the years 2008-2010. Similarly to Kohut and Segars (1992), his study revealed that poor performers tend to focus on how their strategy and vision will ensure future success and they also emphasise external factors. The high performers tend to tie the good performance to the management's actions. There is also evidence for low performers to not discuss and analyse the reasons of their bad performance, but rather they try to emphasise good news (Clatworthy & Jones, 2003). Further, Clatworthy and Jones (2006) studied 100 extremely profitable and 100 extremely unprofitable UK companies and found that the low performers had larger motivation for using impression management in their chairmen's statement.

Conaway and Wardrope (2010) tried to identify differences in the CEO letters in US and Latin America based on different predetermined themes. In the theme of culture, they found evidence for differences when it came to expressions of appreciation, gratitude and thanks, which occurred more often in Latin American CEO letters. In Latin America the references to the political and economic environment were more prevalent, which the authors explained by the tension in the area. Further, Hooghiemstra (2010) also made an international comparison between CEO letters in the US and Japan. The result showed that US companies to a higher degree emphasised good news, but the countries are equivalent in associate good news to the management. The study also found evidence for Japanese companies to attribute bad news to uncontrollable factors to a greater extent than the US companies. These conclusions are the same as Hooghiemstra (2008) made about annual reports in general.

### **2.2.3 Accounts**

Accounts is a theory first developed by Scott and Lyman (1968) in a sociological context. They considered an account to be a "linguistic device employed whenever an action is subjected to valuative inquiry" (Scott & Lyman, 1968, p. 46). In its original context, accounts referred to verbal communication regarding past events and was defined as "a statement made by a social actor to explain unanticipated or untoward behavior - whether that behavior is his own or that of others, and whether the proximate cause for the statement arises from the actor himself or from someone else" (Scott & Lyman, 1968, p. 46) in order to "bridge the gap between actions and expectations" (Scott & Lyman, 1968, p. 46). By this definition, they make clear that account giving is not only possible when a social actor is exposed to valuative inquiry from someone else; it could just as well be a result of the actor questioning his/her own behavior. Adding to this, Sandell and Svensson (2016) argued that accounts could be used for both explicit and implicit external demands, expectations or accusations.

Since Scott and Lyman (1968) introduced the concept of accounts, other authors have developed and broadened it. One way that this has been done is through the application of accounts in different contexts. For example, Sandell and Svensson (2017) argue that the accountability situations that occur in everyday life, where Scott and Lyman's (1968) original meaning of accounts is applied, are "essentially the same accountability situations that appear in corporate life" (Sandell & Svensson, 2017, p. 6). In a corporate context, accounts are textual descrip-

tions used when outcomes do not meet expectations (Sandell & Svensson, 2017). More specifically, accounts can be used to respond to financial failure in financial reports (Sandell & Svensson, 2016).

Furthermore, other authors have developed the understanding of how accounts are used. Waring (2007) and Firth (1995) emphasise that accounts do not necessarily have to be used in a reactive way, but can be used proactively before the untoward behaviour has occurred. In other words, if an actor knows that it will be impossible to avoid a certain untoward behaviour, accounts can be used before it has occurred. Accounts can also be used proactively in a situation where the untoward behaviour in fact has occurred, but the occurrence is yet unknown to those who can issue criticism against the actor.

When first introducing the concept of accounts, Scott and Lyman (1968) added a taxonomy of two different types of accounts: *justifications* and *excuses*. A justification is an account “in which one accepts responsibility for the act in question but denies the pejorative quality associated with it” (Scott & Lyman, 1968, p. 47). An excuse, on the other hand, is an account “in which one admits that the act in question is bad, wrong or inappropriate but denies responsibility” (Scott & Lyman, 1968, p. 47).

This taxonomy was extended by Schönbach (1980) as he introduced the accounts *concessions* and *refusals*. However, he did not ascribe one single definition to these new types of accounts, but instead conceptualised categories in a way that allows either subdivision or combinations of categories under wider headings. A concession is explained to be the acknowledgement of responsibility or guilt, while a refusal is the total denial of guilt of the failure, or of that the failure has taken place (Schönbach, 1980). Adding to the two new types of accounts, he presented the same kind of conceptualisation regarding the earlier defined justifications and excuses.

*Silence* is another type of account that was added to the previous accounts by McLaughlin, O’Hair and Cody (1983). They argued that silence is an account that can be used if the use of another account is likely to make matters even worse. Thus, silence is an account that is used when the actor wants to avoid any reference to the untoward behaviour (McLaughlin et al, 1983). Beyond extending the taxonomy, McLaughlin et al (1983) attempt to understand the use of accounts in their context. For example, contextual factors such as goal orientation of the actors and the severity of the untoward action were considered when analysing the use of accounts. Additionally, when it comes to the account concession they discussed different ways in which it is used and found the features of apologies and offers of restitution. They concluded that apologies could be used as a strategy in failure management, and that it not always means that the company expresses its true attitude towards the failure (McLaughlin et al, 1983).

Other accounts, such as *attention switching* (Sitkin & Bies, 1993), *corrective actions* (Benoit & Drew, 1997), *mystification* (Sandell & Svensson, 2016), *relativisation* (Brühl & Kury, 2016) and *wordification* (Sandell & Svensson, 2017) have been suggested as additional ac-

counts. The idea of attention switching has later been expressed in other terms, such as *refocusing*. Refocusing is described as an account that “redirects the reader’s attention toward completely or partly different issues” (Sandell & Svensson, 2016, p.11). Corrective actions is an account similar to refocusing, as it offers to repair damages or to take steps to prevent recurrence of the act (Benoit & Drew, 1997). However, corrective actions is classified as a type of concession by Sandell and Svensson (2016). Mystification is as an account that originally only was presented as a meta-account (Scott & Lyman, 1980). Mystification refers to a situation in which the actor admits the failure but makes vague and incomprehensive explanations of the event (Sandell & Svensson, 2016). Relativisation when the failure event is accepted but where the circumstances around it are mitigated with reference to the larger context (Brühl & Kury, 2016). Further, Sandell & Svensson (2017) introduced the account wordification, which is when the actor explains numbers in words, and is argued to be similar to mystification.

Several studies have recently investigated the use of accounts in different contexts. The appearance of accounts in banks president's letters after the financial crisis was studied by Brühl and Kury (2016). They concluded that the accounts were extensively used as rhetorical tactics by banks during the financial crisis, and the most used account was to relativise the performance against other banks. The relativisation was used to deemphasise the responsibility by comparing the bank’s performance with competitors’. Furthermore, they found that the banks referred the accounts to the future rather than to the past, which provides empirical evidence for Waring’s (2007) and Firth’s (1995) arguments. From their sample of 91 banks, they found accounts used to explain a negative outlook as caused by the environment 292 times. They did not find any example of accounts used to explain the negative outlook as caused by the company.

Sandell and Svensson (2016) conducted a study of the use of accounts in financial reports and found that excuses and justifications were most frequently used, but they also found evidence for refocusing, concession and mystification. In another study, Sandell and Svensson (2017) focused on the use of accounts concerning goodwill impairment and found seven accounts that were discussed and analysed, namely; excuses, justifications, refocusing, concessions, mystifications, silence and wordifications.

The attributional self-serving bias has strong similarities to excuses. Thus, the research that has been conducted on attributional theory has some implications on the knowledge on the use of accounts in annual reports. The main implication from comparing attributional self-serving bias to excuses is that studies from Aerts (2005), Bettman and Weitz (1983), Hooghiemstra (2008) and Hooghiemstra (2010) indicate a widespread use of excuses when companies explain negative performance.

#### **2.2.4 Taxonomy of accounts**

The above literature review of accounts has resulted in the following taxonomy. The methodological considerations we have made to compile this taxonomy can be found in section 3.4.2. However, we will here make a brief presentation of why certain accounts have been excluded from the taxonomy. Silence has not been included since the identification of this account re-

quires that the reader knows what failure should have been mentioned. In this paper reduced dividend was only used to select companies with financial troubles. The underlying source for the problems may differ between the companies, and therefore it is difficult for the reader to decide what should be mentioned. Wordification has not been included either because of the similarities it has to mystification. Neither has refocusing been included in the taxonomy since we considered refocusing to be an inevitable characteristic of the text overall. A description of the failure event is by necessity followed by a different topic sooner or later. Therefore, we treat refocusing as an inherent characteristic of letters to shareholders, and not an account included in our taxonomy.

Table 1: Our taxonomy of accounts

<b>Account</b>	<b>Example of definition</b>
Justification	Admittance of responsibility of the act, but denial of negative qualities associated with it (Scott & Lyman, 1968)
Excuse	Admittance that the act it bad, but denial of responsibility (Scott & Lyman, 1968)
Concession	Acknowledgement of guilt (Schönbach, 1980)
Refusal	Denial of guilt, or denial that the failure took place (Schönbach, 1980)
Mystification	Admittance of the failure event, but presentation of vague and incomprehensive explanations of it (Sandell & Svensson, 2016)
Relativisation	Admittance of negative event but the negativity of the event is mitigated (Brühl & Kury, 2016)



### 3. RESEARCH METHOD AND DESIGN

*In this chapter the reader will be provided with the method used for answering the research question “if there is a difference in the use of accounts in CEO letter between equity based and creditor based countries”. The method will both be described and motivated.*

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#### 3.1 Research approach

In this section we will briefly explain the research approach, which will be developed further in the following sections. In order to fulfil the aim of this study a document analysis of the letters to the shareholders in eight annual reports from UK companies and eight annual reports from German companies has been conducted. The eight largest listed companies in each country that proposed a reduction in dividend in the annual report 2015 has been selected for analysis. The research method is mainly qualitative, which facilitates the understanding and interpretation of the data (Bryman & Bell, 2015). The features of accounts involves a lot of interpretation, which means that a qualitative study is appropriate for this reports’ comparative purpose. There are also some traces of quantitative methodology, as we also will calculate the amount of accounts used in the letters. In figure 1 below, we summarise the research approach used in this study.

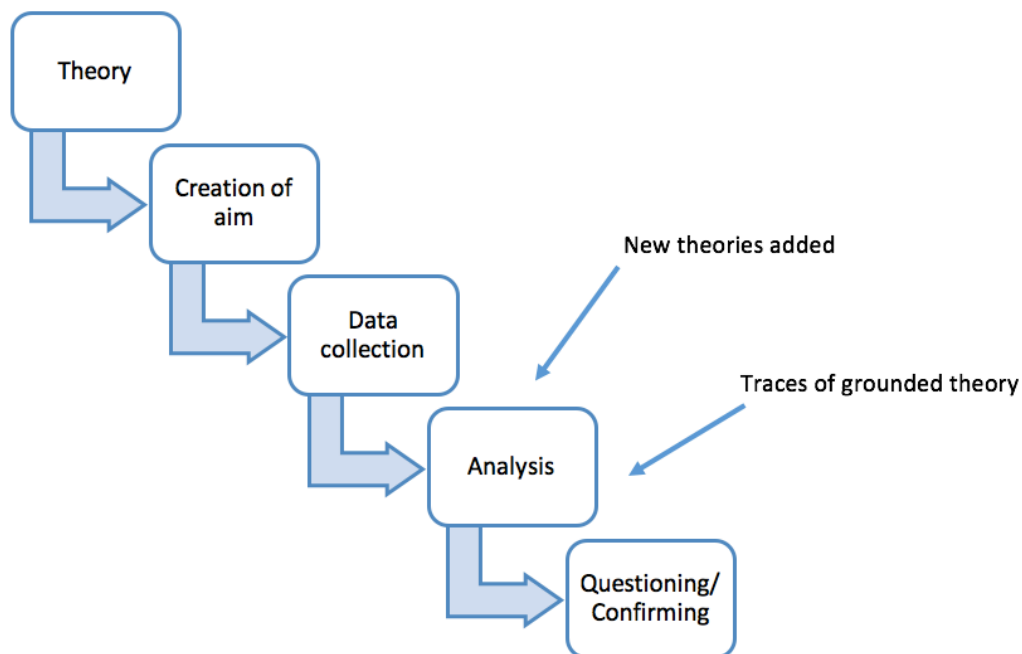


Figure 1. Our research approach

The research is based on *theories* of differences between countries and previous research and theories of accounts, which means that the approach of the study could be seen as mainly deductive. Even if we do not explicitly state any hypothesis, the logic in our research approach

is similar to what Bryman and Bell (2015) explain as the deductive process. *The aim* of this study is developed with inspiration in the acknowledged framework by Nobes (1983) and the theory of accounts, first presented by Scott and Lyman (1968). The *data was then collected* and coded separately by the two authors. When the data was coded, the *analysis* took place. The analysis was based on previous research and theories but also had traces of grounded theory, which will be described more in detail later (Charmaz, 2006). When doing the analysis we realised that it would be beneficiary to add additional theories to describe our result, which mean that our approach also has some inductive elements (Bryman & Bell, 2015). To clarify, our research intertwines the deductive and inductive approach, and also adds traces of grounded theory. The last step in the research involved a discussion where we both *confirmed and questioned* previous research, as we found both similarities and differences between the countries.

The rest of this chapter will serve as guidance through the different steps. First, the choice of theory will be motivated, we then explain data selection and finally we will describe the whole process of analysis more in depth than what is done above. Throughout the chapter links to the evaluation criteria *credibility, transferability, dependability* and *confirmability* will be made. In qualitative studies Lincoln and Guba (1985) argue that these four criteria should be used to evaluate the 'trustworthiness' of the study. This evaluation terminology is more appropriate to our qualitative approach than the alternative *validity* and *reliability* (Bryman & Bell, 2015).

### **3.2 Motivation of theory**

As mentioned earlier, the categorisation made by Nobes (1983) has formed the basis for our research question. The classification by Nobes (1983) is well known and has also been supported by Zysman (1983) who found a similar classification system.

Regarding the theory of accounts, which also is a theory of high importance for our aim, the original definition by Scott and Lyman (1968) has been used. The way of writing a content analysis about accounts has been inspired mostly by Sandell and Svensson (2016), Sandell and Svensson (2017) and Brühl and Kury (2016). These three articles have also been important in guiding us regarding what articles in the area of account giving that are appropriate for our thesis. They are all recently published and cover a broad spectrum of previous research. We have tried to separate collected articles between the themes that also form the headlines for section 2.2, namely "Language in financial reporting", "Previous research on letters to shareholders" and "Accounts".

The theory of institutionalism (Meyer & Rowan, 1977) and isomorphism (DiMaggio & Powell, 1983) were the only two theories added after the analysis was made. We argue that they add value to our analysis as they serve as a counterweight to the theories of international differences presented by Nobes (1983) and Nobes and Parker (2016). They also enable us to consider possible reasons of the similarities we found, even if our thesis not explicitly aims to study this.

### 3.3 Data selection

The empirical data in this report consists of annual reports from 2015, from companies that proposed a reduced dividend during the year. 2015 is the most recent year with available annual reports for all selected firms. The selection of companies has been grounded in the theory of accounts and in the proven relationship between reduced dividend and companies' under-performance. The theory of accounts explains how companies rhetorically try to bridge the gap between expected and real outcome, as a response to unanticipated behaviour (Scott & Lyman, 1968). More specifically, accounts can be used to respond to financial failure in financial reports (Sandell & Svensson, 2016). In previous studies on accounts, profit decline is a frequently used negative event for studying the use of attributional statements (Bettman & Weitz, 1983; Brühl & Kury, 2016; Tomlinson & Mayer, 2009). Lintner (1956) concludes that net income is the major determinant of changes in dividend. This result is supported by Goergen, Renneboog and Correia da Silva (2005) who studied the reasons for changed dividends in German companies and found that the occurrence of a loss is the key explanation for reduced dividend.

One can argue that as long as possible, managers will try to maintain their dividend and smooth out changes in the dividends to avoid unforeseen news that affect the value of the company. The market reaction to omitted and reduced dividends is resulting in a drop in share price (Michaely, Thaler & Womack, 1995). The drop in share price can be explained by the theory of dividend signal developed by Bhattachary (1979), which describes that reduced dividend is a signal of reduced future cash flow. The existence of the dividend signal theory has also been evident more recently (Liljeblom, Mollah & Rotter, 2015). This theoretical background motivates why it is appropriate to use proposed reduced dividend per share as a financial failure that the selection of companies is based upon. Awareness of the problems of looking at dividend per share exists. It is possible that some of the twenty companies have increased or maintained their total dividend, due to emitted or repurchased shares. But the choice to base the selection on dividend per share is made because of the above signal theory, which explains the importance the shareholders place in dividend per share.

Based on the classification between equity based countries and creditor based countries (Nobes 1983; Zysman 1983) UK and Germany will be examined in this study. Germany and UK are two dominant economies in Europe when it comes to GDP (International Monetary Fund, 2017) and to size of stock exchanges (Nobes & Parker, 2016), which means that they are of particular interest for foreign investors. Additionally, UK is equity based and companies from the UK are expected to present an extensive amount of information to their spread owners while Germany is creditor based and the companies have a closer relationship to the providers of finance (Nobes & Parker, 2016). When it comes to the accounting system classification presented by Nobes, Feige (1997) describes UK and Germany as two extreme examples, which motivates why a comparative study of these countries is interesting.

Both UK and Germany are currently members of the EU and follow both the IFRS regulation and the EU Directives, which means that their group accounts will have the same require-

ments, and risk for bias in that respect is reduced. The firms have been selected from the largest stock exchanges in the chosen countries, which is the London Stock Exchange and the Frankfurt Stock Exchange. Lists of the largest companies based on market capitalisation were downloaded. The list from London Stock Exchange was compiled in April 2017 while the list from Frankfurt Stock Exchange was compiled in November 2014. The time difference is not expected to affect the result since it is not necessary for the purpose of the study to analyse the very largest companies in the countries. The lists were sorted in falling order, and the ten first companies with reduced dividend were chosen for further analysis. We then took a closer look at the ten companies and found that two UK companies originated in South America respectively Hong Kong. As our theories are concentrated on the accounting system in different countries, and not in the different stock exchanges, we decided to deselect the companies that originated from other places than UK and Germany. To get a more reliable comparison, we decided to have the same amount of companies from both countries and reduced the amount from ten to eight.

To summarise the choice of data, the selection criteria is presented below:

1. Largest companies on London and Frankfurt stock exchange
2. Reduced dividend per share between 2014 and 2015
3. Origin from UK and Germany

## **3.4 Process of analysis**

### **3.4.1 Introduction to process of analysis**

To further strengthen the *dependability* of this study, the research process will be described in detail below. Bryman and Bell (2015) highlight the importance of describing different steps in the process to enable the readers to follow all phases the research has passed. We will clarify the decisions and interpretations we have made during the analysis, to facilitate the readers' understanding of the dependability of our thesis. The process of analysis can be described in four steps. First, the previous research on accounts were summarised into a taxonomy. Second, then the individual coding process started. Third, we started to compare and discuss the coded accounts and last, we summarised the empirical findings and presented the analysis. The four steps will be described in detail below.

### **3.4.2 Creation of the taxonomy**

When summarising the taxonomy, some of the accounts from previous researches were deselected. The characteristics of silence hindering the use of it in this study as we argue that to determine if silence has occurred, a deeper understanding about the reasons for the reduced dividend is required. The wordification has also been deselected because of the argued similarities with mystification (Sandell & Svensson, 2017). Further, after starting the coding process we decided to also remove refocusing from our taxonomy. It was deselected as we argue that the appearance of refocusing is a way of writing the whole letter to the shareholders. The companies often began with an excuse, which then was followed by several paragraphs that intended to switch the attention of the reader. We decided to comment on this in our analysis,

without calculate how many refocusing accounts we found, as it was very difficult to distinguish them from the rest of the text.

The taxonomy presented in section 2.2.4 was not intended to be strictly fixed in the coding process, but is presented as a broad guideline for the authors, and for the reader to get an overview of the accounts that were studied. It should be noted that the definitions above are just some examples of all the definitions provided in previous research.

Bryman and Bell (2015) describe that discrete dimensions could be a problem when designing a coding manual like our taxonomy. It becomes a problem when there is an overlap between the different dimensions, in our case the accounts. This is a problem we encountered later in the coding phase and which we solved through discussions around the meaning of the different accounts. The absence of a more detailed taxonomy affects the dependability of the study slightly negatively, but we argue that the advantages with not having too much guidelines, as the grounded theory below describes, exceed the disadvantages.

### **3.4.3 The coding process**

The second step of the analysis was the coding process, which was made individually by the two authors. The taxonomy was used as a foundation for the coding but the research approach also included traces of what Charmaz (2006) describes as grounded theory. The grounded theory means looking for theories that are grounded in the selected data itself, and not in previous research (Charmaz, 2006). In our study, this was conveyed when we reviewed the material and at the same time considered accounts that did not fit into the premade taxonomy. We looked for both new types of accounts, but also for possible subcategories of accounts. Schönbach (1980) presented an extended account taxonomy where he motivated that there are reasons to analyse also what types of accounts there could be within the main categories. This combination of guideline without detailed rules is what Charmaz (2006) recommend for a grounded theory approach and has been widely used within the research field of accounts and discourse analysis (Conaway & Wardrope, 2010; Gibbins et al, 1990; Sandell & Svensson, 2017).

Within the research field of organisational discourse analysis a distinction between different levels of in-depth analysis is often made (Amernic & Craig 2006). In this paper, the coding was made line-by-line, which made the coders aware of every sentence and forced interpretation of every detail of the text which could open up for new ideas (Charmaz, 2006). Line-by-line coding also encouraged the coders to individually decide which sentences are important and which are not.

In order to understand a written text it is important to place the text in its context (Charmaz, 2006; McLaughlin et al., 1983). This study includes texts written by CEOs and chairmen of companies that have underperformed the last year, which forms the context of how the accounts in the text are interpreted. To consider the context but at the same time not investigate the context deeper for all of our 16 companies can threaten the *confirmability* of the study. In this respect, we admit that we are affected by previous knowledge about the companies. For

example, the context around Volkswagen is discussed because the authors are aware of the context that contributed to a reduced dividend in the Volkswagen case.

#### **3.4.4 Comparison process**

In the third step the individual analysis and categorisations were discussed by the authors to compare the results. In those cases where we had made the same classifications it was easy to agree on what analysis and conclusions to make, whereas in those cases where we had made different findings a discussion was necessary to agree on how to interpret the empirical material. One reason that some classifications were easier to agree on may be that some accounts are clearly defined in earlier research. One such example is excuse, which is defined by Scott and Lyman (1968), and which has been accepted and adopted by other authors. In other words, there seems to be a strong consensus in previous research on how to define the excuse, which probably has had the effect that we did not consider other interpretations regarding this type of account. More discussions arose regarding accounts with not that distinct definitions, for example mystification. But in all cases we are confident that we in the end came to a result that are in line with previous theories and that we both fully agree on.

Furthermore, excuses are among the most common types of accounts in previous research, which may have shaped our expectations of how many excuses to find, resulting in looking more for excuses than for other accounts. A similar reasoning goes for the types of accounts that are not so common, for example mystification. Since previous research has not highlighted mystification as one of the most common types of accounts, our expectations are adjusted accordingly, thus leading to us not looking for mystifications to the same extent as excuses. The previous knowledge of the authors may have had an impact on the *confirmability* of the study. However, to minimise this problem, we have not focused too much on pre-existing definitions but instead tried to be open for new phenomena. In line with Bryman and Bell's (2015) arguments we have ensured that we did not deliberately let our personal knowledge and values affect the result. Also linked to the confirmability, it may be easier to identify accounts that follow a certain pattern. For example, this is the case with many proactive excuses in UK, as they generally are to be found under the heading "Outlook" in the letter to shareholders. Accounts that do not follow such a pattern are likely to be more difficult to find, as the context differs.

Additionally, the confirmability could also have been affected by if the coder views the letter to the shareholder in the "informative perspective" (Merkl-Davis & Brennan, 2007) or as a tool of impression management (Leary & Kowalski, 1990). This is not seen as a threat to our thesis, as we have been aware of both the perspectives, and have tried to act in good faith, as Bryman and Bell (2015) advocate.

Despite the arguments above we believe that we have made logical and appropriate classifications of the accounts that were found. A bigger threat to the study, according to us, is the possibility that we may have failed to identify some accounts that as a consequence do not become part of this study at all. To control this, the reader of this paper would have to analyse all the letters to shareholders to make a judgment of all the empirical material. However, we

believe this risk is quite small, as both authors have experiences of the theory of accounts since before.

### **3.4.5 Summarised empirical findings and analysis**

In the last step of the analysis, a summary was conducted in which the accounts were counted. An analysis was made based on similarities and differences between UK and Germany in terms of how frequently they used accounts. After the quantitative analysis was conducted a more extensive qualitative comparison between the countries was made. In the thesis, the empirical section and the analysis section were combined. The identification and classification of accounts need interpretation and analysis, which made it inappropriate to present the empirical material without also present our analysis.

When it comes to the result of the analysis, it seems appropriate to discuss the *credibility* and *transferability* of this study. The credibility of a study is similar to the internal validity (Bryman & Bell, 2015). The expressions become relevant in this study, as we must consider that there is a small probability that the differences in amount of accounts used depend on other factors than what country the companies originates from. The limited sample of companies can make the result depend more on the specific companies. The industry they act in could also be such a factor, but after a quick review of the industries (see Appendix 1) there is nothing that indicates that this should affect the amount of accounts used. There are for example three companies acting within the commodity industry in both countries.

Another threat to the credibility of the thesis is that the conclusion is based only on one country seen as equity based and one country seen as creditor based. This means that the result could be more dependent on the specific country than the category they are classified within according to Nobes. Although, the authors argue, that even if one can not draw any absolute conclusions of our results, the thesis still fulfil its aim and contributes to further empirical indications of the topic of international differences and similarities.

The transferability of a study is closely linked to the external validity (Bryman & Bell, 2015). As this qualitative study to a large extent are dependent on the author's interpretations of the situations described in the letters to the shareholders, the transferability could be threatened. To neutralise the threat, an extensive review of previous research was made before the coding and analysis started. Further, as already described, when questions arose in the analysis the account was discussed and analysed more in depth. To increase the transferability, we have also inserted extracts in the analysis. The extracts constitute typical examples of accounts and how they have been interpreted. In addition to the extracts, all the accounts are attached in Appendix 1.

## 4. ANALYSIS OF ACCOUNTS

*In this chapter, the empirical findings will be presented and analysed. To begin with, a summary of the amount of accounts will be presented and international differences will be discussed. This is followed by an analysis of all the accounts found and extracts from the letters. In the extracts, the part that is interpreted as the account will be underlined. The section ends with a summarised discussion.*

### 4.1 Overview of empirics

Table 2: Summary of findings

	United Kingdom		Germany		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Reactive Excuse	34	43%	24	52%	58	46%
Reactive Concession	22	28%	9	20%	31	25%
Proactive Excuse	16	20%	6	13%	22	18%
Mystification	2	3%	5	11%	7	6%
Relativisation	2	3%	1	2%	3	2%
Justification	2	3%	0	0%	2	2%
Refusal	1	1%	0	0%	1	1%
Proactive Concession	0	0%	1	2%	1	1%
<b>Total</b>	<b>79</b>		<b>46</b>		<b>125</b>	

The above table summarises how different accounts are used in letters to shareholders in UK and Germany. This table differs in some respects from our taxonomy, due to the grounded theory approach used in this thesis. The large amount of proactive excuses found led to the decision to separate them from the reactive excuses. Similarly, the fact that we found one interesting proactive concession made us separate between reactive and proactive concessions. This is a distinction that for example Waring (2007) makes. The table explains the amount of accounts used in the letters, and the percentage shows the proportion the individual account make up of the total amount of accounts in each country and in total. There is no apparent difference in what type of accounts that occur, but the total amount of accounts are higher in



UK compared to Germany. The fact that the German letters were longer in general makes this conclusion more credible. The German letters amounted to 59 pages compared to 42 pages in the UK letters.

UK is categorised as an equity based country that to a large extent relies on the capital market and a variety of outside owners (Nobes & Parker, 2016). According to Gibbins et al (1990) companies that are financed by the capital market provide their stakeholders with more comprehensive voluntary information. The letters to the shareholders are not restricted in any regulation and the companies therefore have the opportunity to voluntarily decide what to present there. That the voluntary information in equity based countries, such as UK, are argued to be more extensive could be a reason for the more prominent occurrence of accounts.

The purpose of accounting in equity based countries is to provide the external stakeholders with information (Nobes & Parker, 2016) which can explain that they have a bigger need to “bridge the gap between actions and expectations” (Scott and Lyman, 1968, p. 46) than the companies in the creditor based countries. Companies in creditor based countries, such as Germany, have a closer relationship to their owners (Nobes & Parker, 2016). Consequently, they probably have a less extensive gap to bridge, and a smaller need to use accounts in their letters to shareholders.

Further, it might be easier for equity based companies to use impression management in their narratives as the stakeholders do not possess the same information about the company’s operations. Accounts could be viewed in the perspective of impression management. For example *excuses* (Scott & Lyman, 1968) are closely linked to *self-serving attributions* which emphasise companies’ opportunities to attribute negative news to the external environment (Hooghiemstra, 2008). By attributing negative performance to external factors, excuses can be used to manage the impressions of the reader, blaming circumstances that cannot be controlled by the company. In other words, the reader’s impression of the text may be that management is doing a satisfactory job considering the circumstances.

Differences between equity based and creditor based countries are argued to be erased, and the similarities sometimes seem to be larger than the differences (d’Arcy, 2001). Nobes and Parker (2016) argue that global developments such as creation of the EU and the IASB and the stronger impact of outside investors also in the creditor based countries have contributed to reduce the differences. That we despite these arguments find differences can derive from what Aerts (2001) explains as inertial forces, that companies make attribution patterns in annual reports very similar from year to year, and that the differences therefore remain even if the financing source today is more similar.

Worth mentioning is also that there could be other reasons for the differences we found. As discussed in section 3.4.5 it is possible that the result is based more on the sample of companies and the industries they act within, than the countries they origin from.

Although, our result indicates and contributes to further empirical findings to what Nobes (2011) found, that there still is a difference between the equity based and creditor based coun-

tries, at least when it comes to the amount of accounts used in letters to shareholders. The international differences do not seem to be easily erased by harmonisation.

## 4.2 Accounts

### 4.2.1 Reactive excuse

Reactive excuse is the most common type of account in both countries, occurring 34 times in the UK letters and 24 times in the German letters. As a proportion of the total amount of accounts in the letters, this means reactive excuses make up 43% of all accounts in UK and 52% in Germany. This finding is in line with previous research on accounts, as Sandell and Svensson (2016) found that the excuse was the most common type of account alongside the justification. Our finding that reactive excuses are most common is also supported by earlier research conducted on the concept of attributional self-serving bias. Even though this research does not put the use of excuses in relation to the use of other accounts, it concludes that excuses are widely used when companies explain negative performance (Aerts, 2005; Bettman & Weitz, 1983; Hooghiemstra, 2008; Hooghiemstra, 2010).

To understand why this pattern can be seen throughout different studies, we would first like to present our qualitative analysis of the reactive excuses. Interestingly, all 58 reactive excuses refer to external causes of the underperformance, such as macroeconomic factors, the price level of raw materials and weather conditions. The industry of the company seems to play a vital role in what kind of excuse is being used. For example, mining companies' excuses seem to have a tendency to explain their underperformance with unfavourable price levels of the raw material market. The following extract is taken from Antofagasta's annual report 2015 to illustrate how reactive excuses are used within this industry:

*"We are in the sixth year of the downturn in the copper market. While I entered 2015 with a degree of optimism that the year would see the low of the cycle, continued deterioration in the macro-environment has instead created further downward pressure on prices."*

– CEO letter, Antofagasta, (2015, p. 8), UK

From this extract it is clear that the CEO emphasises external problems that he cannot control himself, and in doing so rejects his own responsibility for the disappointing performance. Similar reactive excuses are used across all industries included in this study, but seem to be used in an almost systematic and even predictable way in the raw material industry. We see two possible explanations for this phenomenon. First, it could be explained by Merkl-Davis and Brennan (2007) who discuss that information in corporate disclosure may intend to inform the reader about the company's performance and the explanations behind it. From this perspective, blaming market prices is a legitimate and truthful explanation for the past year's performance, and a necessary piece of information for the reader to understand the company's performance. Second, it can be explained by that companies' try to manage the impressions the public has of the company. From this perspective, blaming market prices can instead be seen as a way for companies' to emphasise what is going well and understate what is going

badly. This is one characteristic of letters to shareholders (Clatworthy and Jones, 2003; Hooghiemstra, 2010). In a similar vein, Bettman and Weitz (1983) concluded that letters to shareholders often attribute negative events to the environment.

This paper does not intend to answer which of these two perspectives provide the best explanations for why reactive excuses are so common. Instead, by discussing them, we intend to provide an understanding for the different possibilities managers have at hand when formulating the letter to shareholders. In our view, these different possibilities may explain the widespread use of reactive excuses compared to other accounts.

The finding that reactive excuses are used to blame external factors beyond the control of the management of the company goes for both UK and for Germany. To illustrate the similarity we insert one extract from UK and one from Germany.

*“The economic and geo-political backdrop for the Group clearly deteriorated over 2015 and has not improved into 2016. Chinese equity markets have been increasingly volatile, impacting sentiment around the world, and commodity markets have plumbed new lows. This combination of headwinds has had an impact on our performance, in particular in the second half of the year.”*

– CEO letter, Standard Chartered, (2015, p. 6), UK

*“Our stock price did not perform as we would have wished in 2015 and showed significant volatility. In particular, the recent uncertainties in the markets about the developments in China and emerging markets as well as in the broader Internet sector seem to have contributed to the recent development.”*

– CEO letter, Rocket Internet, (2015, p. 3), Germany

From these two examples we see the similarities in how reactive excuses are formulated. In both cases external factors are blamed for the disappointing performance. Depending on the industry, the external factors that are blamed vary. For example, Rocket Internet, a company investing in start-ups within the Internet sector, naturally refers to this sector when using a reactive excuse. Similarly, Standard Chartered refers to external factors, which they argue have influenced their performance, even though the link between those factors and their own operations is not as clear.

#### **4.2.2 Reactive concession**

Reactive concession is the second most used account according to our findings, and occurred 22 times in the UK letters and 9 times in the German letters. The proportion of reactive concessions related to the total accounts is 27% in the UK letters and 19% in the German letters. The use of concessions has been identified in earlier studies (Sandell & Svensson 2016; Sandell & Svensson 2017), but it has not earlier been described to what extent they occur. Interestingly, it is only one of the letters that use a reactive concession without also using excuses while there are eight reports using excuses without using reactive concession. Ten letters use both excuses and concessions in a combination.

McLaughlin et al (1983) realised the importance of understanding the context when analysing the use of accounts, which we agree is an important factor also in our study. The only company using reactive concessions without using excuses in the same letter is Volkswagen, which could be interpreted as they admit responsibility of the whole operational and financial issue, without blaming someone else. Their use of accounts becomes clearer if we consider that the company during 2015 was revealed for irregularities related to diesel engines, an issue that arose within the company and as a consequence was reasonable to admit total responsibility for. Below we present an extract from Volkswagen's CEO letter. This is interpreted as a reactive concession as we are aware that the irregularities arose within the company. Also, as they state that it contradicts what they stand for is understood as they admit responsibility for the act.

*"I welcome this opportunity, although I would have preferred to be addressing you in more auspicious circumstances: as a result of the irregularities relating to diesel engines which contradict the very essence of what Volkswagen stands for, we find ourselves in the midst of what is probably the greatest challenge in the history of our Company."*

– CEO letter, Volkswagen, (2015, p. 7), Germany

Further, the weight and pressure of the reactive concessions used varied among the letters. The reactive concessions used could be very vague with a hint of mystification in them. In several situations the bad performance was described by something that we interpreted as caused by the company, even if the text not explicitly said it. An example of such vague presentation is presented below. Here, it is the worlds *we embedded* that decide that this should be interpreted as a reactive concession, and later they admit that the costs and complexity actually are affecting their performance.

*"As we grew as an organisation we embedded costs and complexity in the business which, in periods of significant investment and product transition like now, are impacting our performance."*

– CEO letter, Rolls-Royce Holdings, (2015, p. 11), UK

Contrary to the vague explanations our result also points at two reactive concessions with a lot of weight and pressure in them, where the companies expressed a real regret over their acts and performance, and explicitly asked for forgiveness. Leary and Kowalski (1990) discuss the impact the language has in managing impressions. In this respect the use of apologies and regrets could be a tool to allude to the readers' feelings and make them feel more emotionally connected to the company. Similarly, McLaughlin et al (1983) discuss how the use of reactive concessions and apologies can be a strategy for companies' failure management. On the other hand, the letters to the shareholders also have an informative purpose (Merkel-Davis & Brennan, 2007) and an apology might be a way to explain anticipatory behaviour caused by the human factor. Our two findings concerning this are presented below, one of the examples was found in UK and one in Germany, which means no indications of differences. Both extracts are interpreted as reactive concessions because the features of giving an apology or express-

ing sincere regret mean that the companies admit their responsibility over the underperformance.

*“On behalf of the Board, I would like to express sincere regret for the impact of the commercial income issue on this company, and would like to assure you that we have moved swiftly and decisively to address this serious matter.”*

– Chairman’s statement, Tesco, (2015, p. 2), UK

*“On behalf of the Volkswagen Group I would like to apologize to you, our shareholders, that the trust you placed in Volkswagen has been broken.”*

– CEO letter, Volkswagen, (2015, p. 7), Germany

The industry the companies act within could affect how reactive concessions are used in specific situations. In UK, two of the companies expressed their responsibility concerning fatalities during the year, both of the companies working with commodities in mining. To understand the use of the reactive concession here, the context is important (McLaughlin et al, 1983). The use probably depends more on the occurrence of fatalities within their industry than that the companies are more likely to confess. If fatalities had occurred in other companies, or in Germany, it is possible and likely that they would have confessed it too.

What we also have seen is a tendency for newly appointed CEOs to use reactive concession to a larger extent than CEOs that have been at the position for a while. CEOs that entered their position in 2014 or 2015 used totally 16 reactive concessions while CEOs that have been longer in the position only used 2 reactive concessions. The reason could be that when companies make internal mistakes, they appoint a new CEO. But on the other hand, it is possible that newly appointed CEOs to larger extent admit the companies’ guilt because they personally were not involved in the failure. It could also be a rhetorical tactic to reinforce the faith they, as new CEOs, possess the abilities to change the company.

The use of reactive concession in the letters vary between the individual letters and industries but not distinctive among the countries. The similarities in the way they are used are highlighted by the extracts below. Both extracts are interpreted as reactive concessions as the companies admit the issues associated with their internal accounting systems.

*“However, as previously reported we did face issues following the migration of customer accounts and associated data onto a new billing and customer relationship management system from multiple legacy systems in British Gas Business.”*

– CEO letter, Centrica, (2015, p. 6), UK

*“They also discussed in detail with the Supervisory Board the internal control and risk management system, in particular as it relates to the accounting process. The Supervisory Board shares the opinion of the Audit Committee on the effectiveness of these systems and has identified need for improvement.”*

– Chairman’s statement, Bilfinger, (2015, p. 13), Germany

### 4.2.3 Proactive excuse

Proactive excuse is the third most common type of account in both countries, occurring 16 times in the UK letters and 6 times in the German letters. As a proportion of the total amount of accounts in the letters, this means proactive excuses make up 28% of all accounts in UK and 20% in Germany. Proactive accounts have earlier been discussed and studied by for example Brühl and Kury (2016) who found that banks rather used accounts regarding the future than regarding the past during the financial crisis. Even though our study of letters to shareholders shows that most accounts refer to the past, and thus are reactive, we believe that the study also shows that the proactive excuses are common tools for companies to mitigate the readers' expectations of future performances. More importantly, proactive excuses give management the opportunity to refer back to this prediction if the performance the following year turns out to be disappointing as well. Thus, we believe that this finding, along with the finding that Brühl and Kury (2016) make, supports Waring's (2007) and Firth's (1995) arguments that accounts are not only used reactively.

Much like the reactive excuse, the proactive excuse refers to external factors when explaining anticipated underperformance. Low market prices for raw material and an uncertain macro environment were common external factors that letters to shareholders referred to in this study. The following statement taken from Anglo American's annual report from 2015 illustrates this.

*“Following the plunge in mining commodity prices from 2012, the outlook for raw materials remains challenging as China’s continuing slowdown unfolds and policymakers try to re-balance and restructure the economy away from its heavy reliance on infrastructure investment.”*

– Chairman's statement, Anglo American, (2015, p. 5), UK

In this example, we see how Anglo American refers to external factors such as the development in China and decisions by policy-makers. These two references indicate that the account should be classified as an excuse. However, since the excuse regards the outlook of the industry, it is not an account used to explain past performance, but to prepare the reader that these external factors are likely to impact the performance in the future. Therefore, we classified this account as a proactive excuse.

The proactive excuses make up 22 out of 23 proactive accounts found in this study. Similar to the analysis done in section 4.2.1, the widespread use of excuses even in a proactive manner can have different explanations. First, it could be explained by that the letter to shareholders has the purpose to explain the reasons behind the company's performance, as opposed to manage impressions (Merkl-Davis & Brennan, 2007). Abrahamson and Amir (1996) found that the president's letter contains useful information not only about the past, but also about the future of the company. This result is in line with the finding we made that proactive excuses are widely used in letters to shareholders. From this perspective, that market prices will remain low in the future is an important piece of information for the reader to understand the

reasons behind future performances. In other words, blaming external factors might be a legitimate and truthful explanation for future performances. Second, the occurrence of proactive excuses can be explained by impression management, which means that management tries to manage the impression the public has of the company (Aerts, 2005). From this perspective, blaming market prices can instead be seen as a way for companies' to manage the readers' impressions by indirectly saying management has no responsibility for the failure. As mentioned previously, this is one characteristic of letters to shareholders (Clatworthy & Jones, 2003; Hooghiemstra, 2010). In a similar vein, Bettman and Weitz (1983) concluded that letters to shareholders often attribute negative events to the environment.

Even though proactive excuses are about as common in proportion to other types of accounts in UK as in Germany, they are used in a slightly different way between the countries. In UK proactive excuses seem to be used in a systematic manner towards the end of the letter to shareholders, generally as the first sentence under the heading "Outlook". In Germany, proactive excuses seem to be placed more randomly in the letter to shareholders. However, apart from differences in placing proactive excuses, their content seems to be similar in both countries. This is illustrated by the following examples.

*"The world economy remains uncertain. Across the manufacturing sector this uncertainty is leading to reduced business investment. Brush is not immune to these economic challenges."*

– Chairman's statement, Melrose Industries, (2015, p. 6), UK

*"It is clear that the decline in wholesale electricity prices is increasingly affecting the Group's operating result, which in 2016 will probably amount to 2,8 billion to 3,1 billion euros, clearly below the 2015 level."*

– CEO letter, RWE, (2015, p. 5), Germany

From these extracts it is clear that both Melrose Industries and RWE emphasise external factors such as the development in the world economy in general, and the price level of wholesale electricity. In other words, the letters to shareholders blame circumstances that they are not able to control or affect themselves. This is what makes the extracts above excuses. However, since both extracts refer to the future rather than the past, we have classified them as proactive excuses instead of reactive excuses. In order to decide whether an excuse refers to the future or the past, the context where the account was found has also been considered. For example, the extract taken from Melrose Industries was found under the headline "Outlook", and therefore clearly refers to the expected future performance.

#### **4.2.4 Mystification**

Mystifications are present 2 times in the UK letters and 5 times in the German letters. As a proportion of the total amount of accounts in the letters, this means mystifications make up 3% of all accounts in UK and 11% in Germany. In earlier studies mystification is described as admittance of the failure event, but with a vague and incomprehensive explanation (Sandell & Svensson, 2016). To decide whether a presentation is vague and incomprehensive is problematic, and depends on the readers' previous knowledge and background. As argued by Hines

(1988) and Palmer et al. (2004), there is no reality before it is constructed through the communication, which means that the text and its meaning are a product of the words used by the authors and the interpretations made by the reader. As everyone probably would have interpreted the appearance of mystifications differently we argue that our findings mostly contribute to the earlier empirics (Sandell & Svensson 2016; Sandell & Svensson 2017) in showing their existence.

Many of the CEOs and the chairmen have their own way of telling stories, which could affect how much accounts, and especially mystifications that are used. Four of totally seven mystifications were found in the same CEO letter, which makes the numbers a bit misleading. Amernic and Craig (2006) explain the CEO letter as a narrative where the CEO takes the role as storyteller. This was indeed the case in the letter where we found four mystifications. An extract from this letter follows below.

*“There is an old saying that goes, ‘may you live in interesting times’. It is not meant to express good wishes, but rather a curse, as in this context ‘interesting’ is equivalent to ‘difficult’ and ‘challenging’.”*

– CEO letter, RWE, (2015, p. 3), Germany

The above extract is understood as a mystification as the CEO tries to equalise “interesting” with “difficult” and “challenging”. Notable, the CEO use the word interesting later in the CEO letter, and as readers we wonder if it is equivalent to the word difficult then as well.

No international differences could be found in the use of mystifications, the result differed more because of the language styles used by the individual authors. The similarities in the way they are used are highlighted by the extracts below.

*“Switchgear revenue was lower this year than in 2014, mainly due to a greater proportion of large “direct current” projects, which are more susceptible to order placement delays than the standard Switchgear product”*

– CEO letter, Melrose Industries, (2015, p. 7), UK

*“With the price base-load power currently just above 20 euros per megawatt hour on the forward market, nearly all of our stations are in the red.”*

– CEO letter, RWE, (2015, p. 4), Germany

The examples above illustrate that in both UK and Germany specific words are used to mystify the issues. In the extract from Melrose Industries, “direct current” projects are explained as the reason for lower performance. The coders interpret this as mystification as it is not clear whether the company itself is responsible for the lower performance or if they blame someone else. They probably have themselves to blame for the placement delays, but they clearly try to mystify the circumstances in the extract above. In the extract from RWE, it is stated that the “stations are in the red” which probably means that they are underperforming. Consequently, we interpret this as a mysterious way of explaining low performance at the stations.



#### 4.2.5 Relativisation

Relativisations are found 2 times in the UK letters and 1 time in the German letters. As a proportion of the total amount of accounts in the letters, this means relativisations make up 3% of all accounts in UK and 2% in Germany. This type of account has earlier been discussed and studied by Brühl and Kury (2016), who found that it was one of the most common types of account used. Relativisations do not occur as often in this study as in Brühl and Kury (2016), which may be because of differences in data selection. In this analysis we have defined relativisation as an account where the underperformance is put into perspective either by comparing it to other companies in the same industry, or by comparing it to earlier performance. By doing so, the relativisation contextualises the underperformance and thus mitigates the reader's expectations of the performance of the company. This definition is very reminiscent of the definition by Brühl and Kury (2016). One possible explanation for differences in findings is that Brühl and Kury (2016) studied banks during the financial crisis. It may be that those banks have a stronger tendency to refer to other banks having the same problems, and to refer to previous years during the financial crisis when the performance had been disappointing.

Relativisations have some similarities to excuses, as they play down the actor's own responsibility and power to affect the performance. However, the main difference is that the relativisation does not necessarily blame external factors for the underperformance, but rather point towards similar results in the same industry or in previous years to make the point that the underperformance is not that bad in its context. Relativisations also have some similarities with justifications, as they somewhat deny the negative consequences of the performance. However, according to us, the relativisations found in this study only partially deny the negative consequences by contextualising them. Therefore, they are classified as relativisations instead of justifications. The use of relativisations is illustrated below with one example from UK and one example from Germany:

*“Given that no mining company in today's market can rely on an early uplift in prices, we have acted to create a new Anglo American with a deleveraged balance sheet.”*

- Chairman's statement, Anglo American, (2015, p. 4), UK

*“Let us look back a little. In 2006, EU beet cultivation and sugar production policies changed fundamentally, and conditions for beet farmers and sugar producers deteriorated dramatically. After this setback, the company was able to return to the path of success and drive revenues and profits to record highs over the past few years.”*

- Chairman's statement, Südzucker, (2015, p. 20), Germany

As we can see in the example from Anglo American, the letter refers to the difficulties that all companies within the industry are facing, and thus relativises their own problems. Compared to other similar examples, which have been classified as excuses, we believe this account is different since it clearly compares itself to other companies. Those accounts that were classified as excuses refer to the industry in general, and thus do not compare one's performance with other companies. On the other hand, Südzucker refers to problems that apply for the

whole industry, but at the same time they emphasise that these are problems that they had 2006. They are doing this relativisation to highlight that they have been able to return successful from a crisis before, and will therefore be able to do it from the present crisis as well. Thus, Südzucker use a relativisation that refers to previous years, whereas Anglo American refers to other companies in the same industry.

#### 4.2.6 Justification

Justifications are found 2 times in the UK letters, and not at all in the German letters. As a proportion of the total amount of accounts in the letters, this means justifications make up 3% of all accounts in UK and 0% in Germany. This goes against what Sandell and Svensson (2016) found in their study, that justifications and excuses are the most frequently used accounts. In their study, goodwill impairment was used for selection of companies, while it in this report is based on reduced dividend. The selection criteria could possibly be a reason for the different result. The definition of justification is an account “in which one accepts responsibility for the act in question but denies the pejorative quality associated with it” (Scott & Lyman, 1968, p.47). A communicated reduced dividend has a strong signal effect (Bhattachary, 1979) as the disclosure often result in a drop in share price (Michaely et al, 1995). The proven negative effects with a reduced dividend can mean that it is not legitimate for companies to deny the bad qualities associated with it, and the appearance of justifications are therefore lower.

The difference between our result and Sandell and Svensson (2016) can also depend on the interpretation of the meaning of the account. Several times in the letters, the authors try to explain how they, despite the challenging market condition, have performed well. As this is an explanation that is based on blaming external factors, i.e. excuses, we have not interpreted them as justifications. According to Scott and Lyman’s (1968) definition, the company must first accept responsibility for the act, which they often avoid in the analysed letters. One such extract is presented below, where they in the earlier paragraph has blamed weaker prices and weaker currencies.

*“We have, however, been able to maintain our level of net debt and liquidity at \$12.9 billion and \$14.8 billion respectively, through improvements we have made to the business, significant capex reductions, making the tough decisions on some of our more marginal assets and the delivery of our asset disposal commitments.”*

– CEO letter, Anglo American, (2015, p. 12), UK

The example above was not interpreted as a justification. Contrary, we below present an example that is interpreted as justification. The extract below is a justification as they state that the reduced dividend is appropriate, and they try to justify it by highlighting that it enables them to do new acquisitions. This means that they try to deny the negative qualities associated with the act, and instead focus on the positive impacts the act will have.

*“The Board recognises that the Group has a different shape, owning one business and carrying no debt, and that prior to any new acquisition it is appropriate to rebase the annual dividend per share to reflect the current size of and shape of the Group.”*

- Chairman's statement, Melrose Industries, (2015, p. 6), UK

The low number of findings makes it irrelevant to determine any difference between the countries. The two findings in UK could depend on the individual companies rather than the country they origin from.

#### **4.2.7 Refusal**

We found one refusal in UK and none in Germany. As a proportion of the total amount of accounts in the letters, this means the refusal makes up 1% of all accounts in UK and 0% in Germany. The finding that refusals are very uncommon is supported by Sandell and Svensson (2016), as they did not find any support of the use of refusals in their study. The one example found in this study is taken from Antofagasta's annual report from 2015.

*“Early in 2015 we were faced with disruptions at our Los Pelambres operations as a result of a blockade by the local community, who were protesting about the perceived impact of the mining operations on the local water supply”.*

- Chairman's statement, Antofagasta, (2015, p. 6), UK

In this case, the use of the word “perceived” indicates that the company is of the opinion that the mining operations have had no impact on the local water supply. Since there is no reference to external factors impacting the local water supply, this account cannot be classified as an excuse. Instead, Antofagasta refuses to accept that a failure event has occurred, and therefore we classify this account as a refusal. Furthermore, it is worth mentioning that it is only the last part of the extract above that is classified as a refusal. The first part is classified as an excuse.

One point that could be discussed from this finding is that refusals may be more common when writing about sustainability issues, than financial issues. Also, it is probably easier to use refusals about an issue such as the circumstances regarding a local mining camp, since it is not easily investigated by the reader whether such a statement is truthful or not. Thus, refusals cannot be used when explaining for example a reduced dividend, since the reader easily can check such information.

We believe that the one refusal found in this study is not enough to argue for differences in the use of refusal between UK and Germany. Instead, this finding may be explained by coincidences.

#### **4.2.8 Proactive concession**

Proactive concession is present one time in the German letters, and not at all in the UK letters. As a proportion of the total amount of accounts in the letters, this means that the proactive concession makes up 0% of all accounts in UK and 2% in Germany. In Brühl and Kury's

(2016) study they also looked for proactive concessions, but described it as a negative outlook caused by the company. When looking at the letters from 91 banks after the financial crisis they did not find any example of a proactive concession. Here, the analysis must be made with the context in mind (McLaughlin et al, 1983). In a financial crisis it is likely legitimised for banks to use proactive excuses, while they lack reasons for explaining their negative outlook as caused by the company. Contrary, in the example we found from Volkswagen, they have already admitted their responsibility for the crisis and are therefore compelled to also admit responsibility for their negative outlook. Below, the extract from Volkswagen is inserted. We interpret the word “transition” together with the explanation that they with time will be able to say that the crisis opened doors for them as a proactive concession. This is understood as the performance 2016 will still be affected by the crisis they themselves have admitted responsibility for (see section 4.2.2), and this is therefore a proactive concession.

*“As far as Volkswagen is concerned, 2016 will clearly be a year of transition, a year when we lay the foundation for the future. I am firmly convinced that, with time, we will be able to say: no matter how grave the crisis was, it also opened doors for us.”*

– CEO letter, Volkswagen, (2015, p. 9), Germany

Additionally, when looking at the annual report as a tool to manage impressions (Aerts, 2005) it is obvious that companies will avoid using proactive concessions as long as possible. To admit responsibility for low performance in the future means that although you are aware of the negative outlook, you are not able to prevent it.

As we only found one example of a proactive concession it does not suggest any international difference. It is likely more dependent on the exceptional circumstances of the crisis in Volkswagen.

#### **4.2.9 Refocusing and silence**

Refocusing and silence were not included in our taxonomy of accounts, which is explained in sections 2.2.4 and 3.4.2, and therefore we have not counted the number of appearances they make in the letters. Still, we reflected on those two accounts while reading the letters and we will here present our thoughts.

Refocusing is described by Sandell and Svensson (2016) as an account that redirect the reader’s attention to a different issue. When making an analysis line-by-line it is difficult to specifically identify the account refocusing. We instead argue that refocusing generally is an important component of the letters to the shareholder, and a tool to manage impressions. We have seen the pattern that many letters starts with a reactive excuse, followed by several actions the company now is taking to ensure future performance. This might not be an *issue* as Sandell and Svensson (2016) describe it, but it could although be seen as similar to refocusing. If all the companies’ future plans were counted as refocusing we would have found many of them. Thus, the way we have interpreted refocusing is similar to corrective actions, which are introduced by Benoit and Drew (1997). Our argument is that often when letters to share-

holders switch focus from an untoward event, they do so by describing what actions management is taking to ensure future success.

Further, we argued in section 3.4.2 that the account of silence should not be considered due to the need of additional knowledge of context. We stick to that view, but can comment that it is not all companies that mention that they have reduced their dividend in the letters. The reduced dividend can be seen as an unanticipated and untoward behaviour because of its signal effect (Bhattachary, 1979) and is therefore something that the companies could be expected to comment on in their annual reports. However, since the companies' financial problems in some cases had more thoroughgoing causes, to comment on the reduced dividend is not always the most appropriate focus in the letter, and therefore we have found it troublesome to include the account silence in the study.

#### **4.2.10 Discussion of findings**

To summarise the analysis above, three main findings have been made. The first finding is that the total amount of accounts used in the UK letters is bigger than in German letters. The second finding is that the relative share of the different types of accounts in relation to other types of accounts are roughly the same in UK and in Germany. Lastly, the third finding is that the characteristics of the different types of accounts are very similar between UK and Germany.

The purpose of this study has not been to analyse why accounts are used the way they are, but to analyse how they are used. Still, we believe that some discussion about the reasons behind the use of accounts will help readers of financial reports to understand how accounts are used and their function in the text. Thus, we will now briefly discuss possible explanations for the differences and similarities that we found in this study.

One explanation for the differences found in this study is the inertial forces discussed by Aerts (2005). It is possible that inertial forces slow down the harmonising effect of globalisation and liberalisation. If this is the case, national differences in accounting language may persist, giving support to Nobes' argument about differences between equity based and creditor based countries.

There are several possible explanations for the similarities found in this study, which have been discussed in the introduction and theory of this thesis. One explanation is that accounting practice has gone through a harmonisation process where international differences have been erased. The creation of EU and IASB are examples of coercive forces that drive organisations to become more and more homogenous (DiMaggio & Powell, 1983). Further, globalisation and liberalisation of capital markets may be another explanation as this has opened for international trade, making many countries more equity based as foreign investors have the possibility to invest across borders. It is possible that such forces have harmonised accounting language, in a similar way as Wang et al (2014) found that institutional pressure affected accounting disclosure, thus resulting in a similar use of accounts. Globalisation may have had the effect of institutionalising accounting language, creating an international genre for letters

to shareholders for every investor to recognise and understand, no matter where in the world. As Meyer and Rowan (1977) argued, organisations sometimes are doing things ceremonially just because it is legitimised to do so, rather than due to its effectiveness. Seen from this perspective, the use of accounts such as excuses may not be used to mislead the reader, but could also be a way to adapt the letter to the existing genre, making it easier for the reader to understand.

## 5. CONCLUSION

*In this chapter we will present the conclusion of the thesis by answering the purpose and the research question. Contributions and limitations will be discussed briefly and suggestion for further research will be presented.*

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### 5.1 Answer to purpose and research question

The purpose of this paper has been to give shareholders and potential investors a better understanding of international similarities and differences in the use of language in financial reports. This was done by answering the question “How are accounts used in letters to shareholders in equity based and creditor based countries?”. Based on the findings we have made in UK and in Germany, there are three main conclusions that could be made based on the classification between equity based and creditor based countries. These three conclusions are that (1) the total amount of accounts used in equity based countries is bigger than in creditor based countries, (2) the relative share of the different types of accounts in relation to other types of accounts are roughly the same in equity based countries as in creditor based countries, and (3) the characteristics of the different types of accounts are very similar between equity based countries and creditor based countries. In other words, in quantitative respects we have found some differences, whereas in qualitative respects we have found big similarities. However, the overall impression from reading the letters to shareholders is that the similarities are more evident than the differences.

### 5.2 Contributions and limitations

We believe that the findings we have made are contributing to giving shareholders and potential investors a better understanding of international similarities and differences in the use of language in letters to shareholders. The knowledge this study provides will add one piece to the puzzle of understanding language in financial reporting. More specifically, it will help readers of financial reports to understand the use of linguistic accounts, and increase their awareness of how they can be used to manage the reader’s impressions. Thus, the findings made in this study can help shareholders and potential investors to critically read financial reports, which Amernic and Craig (2006) argue is important. These insights will help readers of annual reports in their investment decision.

Furthermore, the findings contribute to understanding of Nobes’ classification (Nobes & Parker, 2016) between equity based and creditor based countries. In some respects, the findings of this study confirm Nobes’ argument that there is a distinction between these two categories also in terms of how language is used in accounting practice. In other respects, this study shows big similarities between equity based and creditor based countries, thus questioning what relevance this classification has today. Thus, we are not able to make a general conclusion whether Nobes’ classification hold.

As mentioned in section 3.4.5, one limitation of the study is that only two countries are used to represent the equity and creditor based categories. This means that there is a risk that the findings we have made are not transferable to all equity and creditor based countries. However, as argued before, UK and Germany are according to Feige (1997) at two extremes of the scale of equity based and creditor based countries. Also, even if questions can be raised regarding the transferability of the findings to other countries, the findings in this study are still relevant for shareholders and potential investors as UK and Germany are the biggest economies in Europe.

### **5.3 Suggestions for further research**

Since this study did not find any qualitative differences between equity based and creditor based countries it may be more interesting to study differences in the use of accounts from an industry perspective. Some findings that we have made hint that industry plays a bigger part in explaining differences in how accounts are used. For example, mining companies have a tendency to use excuses, both reactive and proactive, that emphasise unfavourable market prices for raw material. The study on banks during the financial crisis by Brühl and Kury (2016) also provides a foundation for future research with a focus on industry.

Another research approach that may be interesting is to take bigger consideration to the context when classifying companies according to what kind of failure has occurred. In our study, for example, Volkswagen had deeper underlying issues within the company causing a reduced dividend. Future research could classify companies according to such crisis and then analyse the use of accounts to get a deeper understanding for the use of language in financial communication.

Furthermore, one interesting finding was that CEOs who were recently appointed are more inclined to use reactive concessions than CEOs who were already appointed when the failure event took place. Future research could thus focus on whether a new CEO is decisive for what types of accounts are being used in the letter to shareholders. Also, a broader view on the financial communication and in particular impression management from new management would be interesting to investigate further.



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# APPENDIX 1

*In Appendix 1 all identified accounts will be listed. The list will be organised by company, and it will also be presented which country they belong to, if they had a new appointed CEO during 2014/2015 and which industry they operate within. The different types of accounts found in the CEO letter and the chairman’s statement will be separated in the presentation.*

Company	Country	New CEO 2014/2015	Industry
Tesco	UK	Yes	Grocery retailer

**Accounts CEO letter**

Reactive excuses

“Clearly, for a number of years, the global retail market has been highly competitive. We are losing market share in our critical home market and the growth momentum we had enjoyed internationally had faltered” (Tesco, 2015, p. 3)

Reactive concessions

“In addition, or perhaps as a result of this lack of growth, we had significant internal challenges.” (Tesco, 2015, p. 3)

“These losses were largely the result of a series of one-off charges representing our past performance” (Tesco, 2015, p. 3)

**Accounts chairman’s statement**

Reactive concession

“On behalf of the Board, I would like to express sincere regret for the impact of the commercial income issue on this company, and would like to assure you that we have moved swiftly and decisively to address this serious matter.” (Tesco, 2015, p. 2)

Company	Country	New CEO 2014/2015	Industry
Rolls-Royce Holdings	UK	Yes	Motor vehicle design

**Accounts CEO letter**

Reactive excuse

“The combination of some difficult market conditions, sustained engineering investment and high fixed costs led to underlying profit before finance charges and tax 11% being lower at £1,492m.” (Rolls-Royce Holdings, 2015, p. 8)

### Reactive concession

“As we grew as an organisation we embedded costs and complexity in the business which, in periods of significant investment and product transition like now, are impacting our performance.” (Rolls-Royce Holdings, 2015, p. 11)

### Proactive excuses

“The long-term positive market trends for our leading power systems remain unchanged despite some near-term uncertainties that are expected to impact small aerospace engine production volumes and service activity on older widebody engines over the next couple of years.” (Rolls-Royce Holdings, 2015, p. 10)

“On a constant currency basis, Group revenue for 2016 is expected to be marginally lower than that achieved in 2015, partially reflecting the pricing and volume effects in Civil Aerospace and the continued weakness in offshore marine markets.” (Rolls-Royce Holdings, 2015, p. 14)

### **Accounts chairman’s statement**

#### Reactive concessions

“Warren’s recent review of operations, unanimously supported by the Board, highlighted a number of areas where, over time, costs have grown in an unsustainable way. This clearly needs to change.” (Rolls-Royce Holdings, 2015, p. 5)

“We have done much to address the root of these problems and this work is being continually reinforces to ensure we all meet the high standards expected of us” (Rolls-Royce Holdings, 2015, p. 5)

#### Mystification

“Subject to short-term needs, we intend to review the payment so that it will be rebuilt over time to an appropriate level. This reflects the Board’s long-standing confidence in the strong future cash generation of the business.” (Rolls-Royce Holdings, 2015, p. 5)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Anglo American	UK	No	Metal, commodities

### **Accounts CEO letter**

#### Reactive excuses

“The global economic environment and its effects on prices presented the industry with significant challenges during 2015.” (Anglo American, 2015, p. 12)

“Weaker prices accounted for a \$4.2 billion negative impact to underlying EBIT...” (Anglo American, 2015, p. 12)

“At the Sished iron ore mine in South Africa, the sharply deteriorating iron ore price during 2015 caused us to take a fresh look at the already revised mine plan, with a focus on reducing operating costs further.” (Anglo American, 2015, p. 12)

“We of course recognise the current challenging environment in which to deliver disposals.” (Anglo American, 2015, p. 13)

“The world economy continued to struggle in 2015, with output growth falling short of expectations yet again. There were signs of encouragement in the advanced economies, mainly reflecting some improvement in Europe. But emerging economies, particularly in the large commodity producers, suffered from effects of China’s market slowdown”. (Anglo American, 2015, p. 14)

#### Reactive concession

“However, I am deeply saddened to report that we lost six of our colleagues during the year, reminding us in the most acute way how much work we still have to do to ensure our people go home safely from work every day.” (Anglo American, 2015, p. 12)

#### **Accounts chairman’s statement**

##### Reactive excuses

“In 2015, the world economy continued to struggle, with most emerging economies slowing sharply. Russia and Brazil fell into deep recessions.” (Anglo American, 2015, p. 4)

“...this had major impact on the prices of our mined products and mining equities, which continued their steep fall, accelerating towards the end of the year.” (Anglo American, 2015, p. 4)

“Anglo American’s own basket of commodity prices, which declined by 9% in 2014, decreased by a further 24% in 2015 with our share price slumping to record lows.” (Anglo American, 2015, p. 4)

“In light of the commodity price environment, the Company has ceased or is ceasing production at a number of operations.” (Anglo American, 2015, p. 4)

“However, given the sharply deteriorating commodity price environment in the second half of the year, and the need to conserve cash and reduce debt, regrettably we had to take the unavoidable step of suspending dividend payments.” (Anglo American, 2015, p. 4)

#### Reactive concession

“We make no apology that safety performance is at the front end of our agenda at every Board meeting, with our goal being to achieve zero injuries. In 2015, our group regrettably

recorded six fatalities. However, this level, while six too many, equals the record low figure reported in 2014.” (Anglo American, 2015, p. 5)

Proactive excuses

“Given that no mining company in today’s market can rely on an early uplift in prices, we have acted to create a new Anglo American with a deleveraged balance sheet.” (Anglo American, 2015, p. 4)

“Given the current extremely low price levels for our products which may persist for some time, we are targeting a significant reduction of our net debt to below \$10 billion in 2016, and to less than 2.5 times EBITDA in the medium term.” (Anglo American, 2015, p. 4)

Following the plunge in mining commodity prices from 2012, the outlook for raw materials remains challenging as China’s continuing slowdown unfolds and policymakers try to re-balance and restructure the economy away from its heavy reliance on infrastructure investment.” (Anglo American, 2015, p. 5)

“In addition, the potential for higher US interest rates and a stronger dollar could present stiff headwinds for the global economy, especially emerging economies.” (Anglo American, 2015, p. 5)

Relativisation

“Given that no mining company in today’s market can rely on an early uplift in prices, we have acted to create a new Anglo American with a deleveraged balance sheet.” (Anglo American, 2015, p. 4)

Company	Country	New CEO 2014/2015	Industry
Melrose Industries	UK	No	Investment bank

**Accounts CEO letter**

Reactive excuses

“Despite a challenging year with difficult end-market conditions...” (Melrose Industries, 2015, p. 7)

“Despite Chinese Government’s commitment to switch from coal to gas-fired power generation, the move in favour of gas has been slower than anticipated. As a result, the development of this business is between 18 months and two years behind original projections.” (Melrose Industries, 2015, p. 7)

### Proactive excuse

“Whilst it is anticipated that the end-market for Brush will remain challenging in 2016...”  
(Melrose Industries, 2015, p. 7)

### Mystification

“Switchgear revenue was lower this year than in 2014, mainly due to a greater proportion of large “direct current” projects, which are more susceptible to order placement delays than the standard Switchgear product.” (Melrose Industries, 2015, p. 7)

### **Accounts chairman’s statement**

#### Proactive excuse

“The world economy remains uncertain. Across the manufacturing sector this uncertainty is leading to reduced business investment. Brush is not immune to these economic challenges.”  
(Melrose Industries, 2015, p. 6)

#### Justification

“The Board recognises that the Group has a different shape, owning one business and carrying no debt, and that prior to any new acquisition it is appropriate to rebase the annual dividend per share to reflect the current size of and shape of the Group.” (Melrose Industries, 2015, p. 6)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Sainsbury’s	UK	Yes	Grocery retailer

### **Accounts CEO letter**

#### Reactive excuse

“It is almost a year since I became your Chief Executive and we launched a thorough review of our business in the context of a UK marketplace changing fast than at any time in the past 30 years. These changes have impacted our profits and like-for-like sales and we have seen a 25 basis point decline in our market share this year as we compete with a growing discount sector and high levels of price competition.” (Sainsbury’s, 2015, p. 6)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Standard Chartered	UK	Yes	Bank

## **Accounts CEO letter**

### Reactive excuses

“It is clear that we have real challenges to fully realise our potential - challenges we created for ourselves and those produced by a difficult external environment.” (Standard Chartered, 2015, p. 6)

“The economic and geo-political backdrop for the Group clearly deteriorated over 2015 and has not improved into 2016. Chinese equity markets have been increasingly volatile, impacting sentiment around the world, and commodity markets have plumbed new lows. This combination of headwinds has had an impact on our performance, in particular in the second half of the year.” (Standard Chartered, 2015, p. 6)

### Reactive concessions

“It is clear that we have real challenges to fully realise our potential - challenges we created for ourselves and those produced by a difficult external environment.” (Standard Chartered, 2015, p. 6)

“However, the weakness in our performance in 2015 is also partly the result of deliberate management actions.” (Standard Chartered, 2015, p. 6)

“The challenging external environment is not an excuse for our performance. We are not unwitting victims. Rather, the external challenges increase our urgent need to take all necessary steps to address the structural and operational issues we have identified as critical to improving returns.” (Standard Chartered, 2015, p. 6)

“Overall performance has been poor with high loan impairments and weak income.” (Standard Chartered, 2015, p. 7)

“Returns have been impacted by loan impairments, income pressures and high expenses as a proportion of income. We are acting on concrete plans to address each component of the profitability challenge.” (Standard Chartered, 2015, p. 7)

“Our 2015 performance was severely impacted by a concentrated credit loss of \$94 million in the first half. We have reviewed, and will continue to strengthen, our credit process to avoid a repeat.” (Standard Chartered, 2015, p. 8)

### Proactive excuse

“Given current market conditions and the early stage of implementation of our strategy, we expect the financial performance of the Group to remain subdued during 2016.” (Standard Chartered, 2015, p. 8)

**Accounts chairman’s statement**

Reactive excuses

“While our 2015 financial results were poor, they are set against a backdrop of continuing geo-political and economic headwinds and volatility across many of our markets...” (Standard Chartered, 2015, p. 4)

“Our share price performance has also been disappointing, underperforming the wider equity market which has seen broad declines driven largely by the same macroeconomic concerns.” (Standard Chartered, 2015, p. 4)

“In light of recent performance and the newly announced strategic actions, including the 3.3 billion pounds rights issue completed at the end of last year, the Board confirms its previously announced decisions that no final dividend will be paid for the financial year ending 31 December 2015.” (Standard Chartered, 2015, p. 5)

Reactive concessions

“... as well as effects of deliberate management actions.” (Standard Chartered, 2015, p. 4)

“In light of recent performance and the newly announced strategic actions, including the 3.3 billion pounds rights issue completed at the end of last year, the Board confirms its previously announced decisions that no final dividend will be paid for the financial year ending 31 December 2015.” (Standard Chartered, 2015, p. 5)

Proactive excuse

“There remains a broad range of macroeconomic uncertainties and challenges in the global economy, including the rebalancing of china’s economy, the impact of lower commodity prices, and ongoing geo-political tensions.” (Standard Chartered, 2015, p. 5)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Centrica	UK	Yes	Energy, commodities

**Accounts CEO letter**

Reactive excuses

“Commodity prices continued to fall during the year, creating major challenge for our E&P and nuclear power businesses.” (Centrica, 2015, p. 5)

“Given the above, and the low commodity price environment, Group adjusted operating profit fell by 12% compared to 2014...” (Centrica, 2015, p. 6)

“These impairments reset the Group’s balance sheet to reflect the current commodity price environment.” (Centrica, 2015, p. 6)

### Reactive concession

“In safety, we experienced a slight degradation in personal safety performance. We also experienced one Tier 1 process safety incident during the year and we are focused on improving our performance in this area.” (Centrica, 2015, p. 6)

“However, as previously reported we did face issues following the migration of customer accounts and associated data onto a new billing and customer relationship management system from multiple legacy systems in British Gas Business.” (Centrica, 2015, p. 6)

### Proactive excuses

“These steep falls in wholesale commodity prices will continue to have a material impact on the operating cash flows from our E&P and central power generation businesses in 2016 and beyond, if current levels persists.” (Centrica, 2015, p. 6)

“The lower commodity price environment will inevitably continue to have an impact on the earnings and operating cash flow from our E&P and central power generation businesses.” (Centrica, 2015, p. 9)

### **Accounts chairman’s statement**

#### Reactive excuse

“The Group has delivered a resilient performance for 2015, during what proved to be an incredibly challenging period for both the energy sector and the global economy.” (Centrica, 2015, p. 2)

#### Proactive excuse

“For 2016, continued weaknesses in commodity prices will provide challenges for the Group.” (Centrica, 2015, p. 4)

#### Justification

“In February, we took the tough but necessary decision to cut the dividend, having reduced capital investment. This was a further reason to review the Group’s strategic direction so that we could move into the next phase with confidence and certainty.” (Centrica, 2015, p. 2)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Antofagasta	UK	Yes	Copper, commodities

### **Accounts CEO letter**

#### Reactive excuses

“We are in the sixth year of the downturn in the copper market. While I entered 2015 with a degree of optimism that the year would see the low of the cycle, continued deterioration in the macro-environment has instead created further downward pressure on prices.” (Antofagasta, 2015, p. 8)



“Against the backdrop of a weak macro-environment, prices fell for all our products.” (Antofagasta, 2015, p. 8)

“This together with delays to the start of the commissioning of Antucoya and the expansion of Centinela Concentrates, the closure of the Michilla mine, heavy rains at Centinela and protest at Los Pelambres, all had an impact in lowering production compared to 2014.” (Antofagasta, 2015, p. 9)

#### Reactive concessions

“It is not acceptable that we still have fatalities and we are determined to achieve our target of zero fatalities.” (Antofagasta, 2015, p. 8)

“This together with delays to the start of the commissioning of Antucoya and the expansion of Centinela Concentrates, the closure of the Michilla mine, heavy rains at Centinela and protest at Los Pelambres, all had an impact in lowering production compared to 2014.” (Antofagasta, 2015, p. 9)

#### Proactive excuse

“World markets at the beginning of 2016 have been dominated by uncertainty and negative sentiment even though the fundamentals are a little changed... These years are going to be difficult for both Antofagasta and the wider industry and will require perseverance and discipline.” (Antofagasta, 2015, p. 10)

#### Relativisation

“However, we have used 2015 to reset our costs back to levels that we have not seen for some time.” (Antofagasta, 2015, p. 8)

### **Accounts chairman’s statement**

#### Reactive excuses

“Continued falls in commodity prices have highlighted the worst effects of more than a decade of bullish markets, a time when the industry appeared to have forgotten that the mining business is cyclical and cost control came a distant second to production growth.” (Antofagasta, 2015, p. 5)

“Alongside our peers we have suffered from the worsening macro-environment and deteriorating market conditions.” (Antofagasta, 2015, p. 5)

“At an operational level, heavy rains early in the year led to delays in the commissioning of our expansions of Centinela, while community action at the Los Pelambres mine saw interruptions to production.” (Antofagasta, 2015, p. 5)

“The impact of lower commodity prices on jobs and revenue generated by the mining sector to Chile is substantial.” (Antofagasta, 2015, p. 6)

“Early in 2015 we were faced with disruptions at our Los Pelambres operations as a result of a blockade by the local community...” (Antofagasta, 2015, p. 6)

“Turning to our financials, while lower metal prices impacted revenue and profit...” (Antofagasta, 2015, p. 6)

“The year 2015 was a time for managing the challenges that faced Antofagasta and the wider industry as a whole in what has been another year of brutal markets and operating conditions.” (Antofagasta, 2015, p. 7)

Reactive concessions

“We realised that we must change the way that we engage with our local communities in order to strengthen our relationships and find solutions that work for all sides.” (Antofagasta, 2015, p. 6)

“The safety of our employees, communities and operations always comes first in everything that we do and we continue to work hard to achieve our target of zero fatalities. However, I am saddened to report that during the course of 2015 Antofagasta had one fatality...” (Antofagasta, 2015, p. 7)

Proactive excuse

“As we look forward to 2016 we are under no illusion that the macroeconomic environment will improve in the near term. We are expecting another year of low copper prices.” (Antofagasta, 2015, p. 7)

Refusal

“...who were protesting about the perceived impact of the mining operations on the local water supply”. (Antofagasta, 2015, p. 6)

Company	Country	New CEO 2014/2015	Industry
Volkswagen	Germany	Yes	Automotive

**Accounts CEO letter**

Reactive concessions

“I welcome this opportunity, although I would have preferred to be addressing you in more auspicious circumstances: as a result of the irregularities relating to diesel engines which contradict the very essence of what Volkswagen stands for, we find ourselves in the midst of what is probably the greatest challenge in the history of our Company. On behalf of the Volkswagen Group I would like to apologize to you, our shareholders, that the trust you placed in Volkswagen has been broken.” (Volkswagen, 2015, p. 7)

“The present crisis has a very significant impact on the Company. This is reflected among other things by the financial key performance indicators for the last fiscal year.” (Volkswagen, 2015, p. 7)

Mystification

“Without the special items we would once again have been able to talk about a successful year overall. In light of this and given the Group’s unchanged financial strength, the Board of Management and the Supervisory Board will propose a dividend of €0.11 per ordinary share and €0.17 per preferred share to the Annual General Meeting of Volkswagen Aktiengesellschaft despite the negative consolidated result of the Volkswagen Group.” (Volkswagen, 2015, p. 7)

Proactive concession

“As far as Volkswagen is concerned, 2016 will clearly be a year of transition, a year when we lay the foundation for the future. I am firmly convinced that, with time, we will be able to say: no matter how grave the crisis was, it also opened doors for us.” (Volkswagen, 2015, p. 9)

**Accounts chairman’s statement**

Reactive concession

“Volkswagen does not tolerate any breaches of the law or other irregularities. The misconduct uncovered in fiscal year 2015 runs contrary to all the values that Volkswagen stands for. The trust of our customers and the public is and will remain our most important asset. We are sincerely sorry for betraying this trust” (Volkswagen, 2015, p. 17)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Porsche	Germany	Yes	Automotive

**Accounts CEO letter**

Reactive excuses

“While our company had benefited from the good Volkswagen figures in earlier years, in 2015 it was unable to avoid the effects of the emissions issue at Volkswagen AG.” (Porsche, 2015, p. 10)

“Volkswagen Group’s loss after tax for the fiscal year 2015 decreased as a result of the emissions issue to 1.36 billion euro. In particular as a result of this development our company’s loss from investments accounted for at equity came to 436 million euro.” (Porsche, 2015, p. 10)

“However, in the light of the developments in the Volkswagen Group and its greatly reduced proposed dividend, the executive board and supervisory board of Porsche SE consider a dividend per preference share of 1.010 euro to be appropriate.” (Porsche, 2015, p. 11)

**Accounts chairman’s statement**

Proactive excuse

“With regard to the investment in Volkswagen AG, the executive board of Porsche Automobil Holding SE currently sees a risk of further burdens on the proportionate profit/loss attributable to is as a result of the diesel issue and the uncertainties associated with it.” (Porsche, 2015, p. 27)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
RWE	Germany	No	Energy, commodities

**Accounts CEO letter**

Reactive excuses

“Unfortunately, the difficulties we faced were reflected in a significant decline in RWE’s share price, which we were unable to prevent.” (RWE, 2015, p. 3)

“However, to what extent the utilities should be obliged to cover any further cost increase that may largely be caused by political decisions is a matter for discussion in this context.” (RWE, 2015, p. 4)

“With the price base-load power currently just above 20 euros per megawatt hour on the forward market, nearly all of our stations are in the red.” (RWE, 2015, p. 4)

Reactive concession

“It goes without saying, that, as the owners of the power plants, the utilities must be held liable for their nuclear waste management obligations.” (RWE, 2015, p. 4)

Proactive excuses

“It is clear that the decline in wholesale electricity prices is increasingly affecting the Group’s operating result, which in 2016 will probably amount to 2,8 billion to 3,1 billion euros, clearly below the 2015 level.” (RWE, 2015, p. 5)

“Dividend payments in the years ahead will largely depend on the development of the economic and political environment, especially in the context of electricity generation.” (RWE, 2015, p. 4)

### Mystifications

“There is an old saying that goes, “may you live in interesting times”. It is not meant to express good wishes, but rather a curse, as in this context “interesting” is equivalent to “difficult” and “challenging.” (RWE, 2015, p. 3)

“With the price base-load power currently just above 20 euros per megawatt hour on the forward market, nearly all of our stations are in the red.” (RWE, 2015, p. 4)

“Due to these and other exceptional burdens, net income was unusually weak, amounting to -170 millions euros.” (RWE, 2015, p. 5)

“To come back to the saying I quoted in opening, there are many signs that times will remain ‘interesting’.” (RWE, 2015, p. 5)

### **Accounts chairman’s statement**

#### Reactive excuse

“Unlike almost no year before, the past financial year was characterised by the difficult framework conditions in the energy sector.” (RWE, 2015, p. 11)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Südzucker	Germany	No	Sugar, commodities

### **Accounts CEO letter**

#### Reactive excuses

“As we anticipated and forewarned, the difficult situation in Europe sugar and bioethanol markets has led to a turning point for Südzucker Group after years of record revenues and profits. Group revenues declined to 6.8 (7.5) billion euros. The slump in operating profit was worse by far. This was driven especially by the extremely low price levels for our sugar and bioethanol products, starting especially in the second half of the fiscal year.” (Südzucker, 2015, p. 14)

“This earnings development is also reflected in the dividend recommendation we together with the supervisory board will present for approval to you our shareholders at the annual general meeting: We propose a dividend of € 0.25 (0.50) per share.” (Südzucker, 2015, p. 14)

“One of the root causes is European sugar policy, which again and again presents companies with new challenges - for example, right now, the expiry of minimum beet price regulations and sugar production quotas in 2017, which has already increased pressure on prices and thereby price competition.” (Südzucker, 2015, p. 14)

“In addition, the EU Commission introduced measures that added sugar volumes to an already well served market, even though it was unnecessary.” (Südzucker, 2015, p. 14)

“At the same time, the volume of beets now growing in Europe far exceeds any previous volumes, which has led to record sugar production.” (Südzucker, 2015, p. 14)

“And finally, an extremely low world market price level has added pressure to EU prices.” (Südzucker, 2015, p. 14)

“This was caused among other things by the difficult situation in the European ethanol market, which is to a great extent due to the prolonged political process in the EU, which aims to increase the share of renewable energies in the transportation sector, in accordance with legislated climate targets.” (Südzucker, 2015, p. 15)

**Accounts chairman’s statement**

Reactive excuses

“Today, sinking sugar prices and EU Commission's decision to let minimum beet price and quota regulations expire without replacement in 2017 are presenting the European sugar industry with new challenges.” (Südzucker, 2015, p. 20)

Relativisation

“Let us look back a little. In 2006, EU beet cultivation and sugar production policies changed fundamentally, and conditions for beet farmers and sugar producers deteriorated dramatically. After this setback, the company was able to return to the path of success and drive revenues and profits to record highs over the past few years.” (Südzucker, 2015, p. 20)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
EnBW	Germany	No	Energy, commodities

**Accounts CEO letter**

Reactive excuses

“At the same time, the pressure on conventional generation is increasing: firstly, due to the CO2 targets agreed at the Climate Change Conference that are endorsed by the EnBW, and secondly, due to the reaction of the capital market - with an increasing number of investors withdrawing from fossil fuels.” (EnBW, 2015, p. 6)

“The low wholesale prices on German electricity exchanges, which have fallen even more significantly recently, have made it almost impossible to operate power plants economically.” (EnBW, 2015, p. 6)

### Proactive excuses

“Due to the wholesale prices for electricity, which are not only consistently low but also continuing to fall, our operating result in 2016 will once again be below that achieved in the previous year.” (EnBW, 2015, p. 7)

“In the near and distant future, we do not anticipate any improvement in conditions despite historically low electricity prices.” (EnBW, 2015, p. 7)

### **Accounts chairman’s statement**

#### Reactive excuse

“A comprehensive examination of the energy policy of the German government and its effect on EnBW AG and the EnBW Group including, in particular, the resulting financial burden and deterioration in the general economic and financial conditions in the energy industry.” (EnBW, 2015, p. 11)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Carl Zeiss Meditec	Germany	Yes	Medical technology

### **Accounts CEO letter**

#### Reactive excuses

“With the above and other product innovations in this area, we consider ourselves well equipped to overcome the challenges in diagnostics, which, as reported, is under heightened price and competitive pressure” (Carl Zeiss Meditec, 2015, p. 6)

“Our customers all over the world are facing major financial challenges due to rising case numbers and limited public budgets.” (Carl Zeiss Meditec, 2015, p. 7)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Rocket Internet	Germany	No	Venture capital

### **Accounts CEO letter**

#### Reactive excuse

“Our stock price did not perform as we would have wished in 2015 and showed significant volatility. In particular, the recent uncertainties in the markets about the developments in China and emerging markets as well as in the broader Internet sector seem to have contributed to the recent development.” (Rocket Internet, 2015, p. 3)

### **Accounts chairman's statement**

#### Reactive excuse

“Key challenges of the year 2015 for Rocket Internet were significant macroeconomic changes, in particular the economic slowdown in emerging markets and the weakening of emerging market currencies.” (Rocket Internet, 2015, p. 35)

<b>Company</b>	<b>Country</b>	<b>New CEO 2014/2015</b>	<b>Industry</b>
Bilfinger	Germany	Yes	Industrial construction

### **Accounts CEO letter**

#### Reactive excuses

“Because of the energy transformation in Germany and the discussions about the future coal-fired power plants, business development in Power's home market collapsed. This historic upheaval on the German energy market has had a massive impact on the entire industry.” (Bilfinger, 2015, p. 7)

“In Industrial, we were able to maintain our leading position as a service provider for the process industry in Europe, even though a number of factors generally strained development of the segment: positive signals from the economic environment were absent, with the low price of oil in particular presenting us with major challenges: important market segments such as the chemical and petrochemical industries curbed their investments which meant that our capacities in a number of areas were not fully utilized.” (Bilfinger, 2015, p. 7)

#### Reactive concession

“The analysis also showed, however, that there are a lot of things we have to do better: our organization is too complex and does not operate profitably enough. We lack a cash-oriented culture and our internal processes are too slow. After many negative headlines in recent years, confidence in our company has suffered.” (Bilfinger, 2015, p. 6)

#### Proactive excuse

“One thing is clear: 2016 will be a transition year. We are at the beginning of a major change process which will keep us busy for some time” (Bilfinger, 2015, p. 7)

### **Accounts chairman's statement**

#### Reactive concessions

“2015 was another difficult year for Bilfinger in economic terms. One-time burdens from goodwill impairments, operating losses in the Power segment and restructuring expenses resulted in a net loss.” (Bilfinger, 2015, p. 10)



“The Supervisory Board worked intensively with the subjects and risks in this area and identified a need for improvement regarding the Company’s internal risk management system and control system including compliance.” (Bilfinger, 2015, p. 10)

“The Supervisory Board and Audit Committee had to date examined the efficiency of their activities annually. In the reporting year, on the basis of previous experience and relevant discussions, they determined that an annual examination, considering the expenditure, did not provide significant value added and resolved, effective immediately, to undertake a regular efficiency review every two years.” (Bilfinger, 2015, p. 12)

“They also discussed in detail with the Supervisory Board the internal control and risk management system, in particular as it relates to the accounting process. The Supervisory Board shares the opinion of the Audit Committee on the effectiveness of these systems and has identified need for improvement.” (Bilfinger, 2015, p. 13)