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## **ETHICS IN THE LETTER FOR SHAREHOLDERS**

Elisabeth ALBERTINI – IAE de Paris Sorbonne

Olivier CHARPATEAU – Université Paris-Dauphine

Bruno OXIBAR – Université Paris-Dauphine

**Abstract:** This paper proposes a qualitative study of the ethical values that chairmen use in the letter included in the annual report of 52 listed French firms. An in depth study of the European and North American ethical and moral philosophy enables us to build a grid of concepts within the letters. The aim of the paper is to define what kind of ethical values the chairman discloses and if the nature of values communicated to the shareholders depends on the economical environment. Therefore, we scrutinized the evolution of ethical values between 2007 and 2010. Results show that being a listed firm doesn't induce a common use of ethical values in the letters. The letter contains several different concepts of ethics but the most important remains the financial one. But some firms disclose only one ethical value, some show substitution of values, and some an increase and an enrichment of the nature of ethical values. Our observation enhances the identification of some stereotypes of ethical values configurations that are independent from activities or size. We discuss the results and link them to practical situations and some theoretical propositions in the corporate social responsibility field.

**Keywords:** Ethical values; Philosophy; Corporate Social Responsibility; Chairman's letter; Qualitative research

# 1 Introduction

Every year, the annual report includes a letter of the CEO. The CEO presents how they interpret previous results and how they consider the next year. The letter has a target: the shareholders. It seems logical that the CEO expresses some financial and strategic information to the shareholders (Bournois et al., 2006). But according to the stakeholder theory, the firm doesn't interact only with the stockholders. According to this theory, the firm faces several responsibilities and has to report to numerous entities that depend on it or that are impacted by it (Clarkson, 1995). The shareholders have to support a decrease of the profits he/she will earn in order to reward the others stakeholders. Where and when the CEO explains it? How can he or she justify it? The main question is to know if the CEO, through his letter, discloses others values than financial one and takes in account all stakeholders rather than only shareholders. Corporates are not disconnected from any moral aspects (Sen, 1993-2008). All processes of the firm can be interpreted in a moral sense or an ethical sense because they are supposed to serve human beings. So that, philosophical grid can be an appropriate grid of analysis of the letters.

We can also justify our approach from a strategically point of view. The letter targets shareholders. They are individuals. And as human beings they can be sensible to some ethical values. It is relevant to speak of these values in a strategically approach since ethical values are very stable in a group or in an individual. Sociologists (Flament et al., 2003) and psychologists (Kohlberg, 1981; Kohlberg et al., 1969; Rest, 1986) showed in several studies that ethical values are very stable in long run.

Introducing the annual report, presenting the main facts of the past year and outlining future strategy, the Chairman's letter is an essential means of communication between directors and shareholders (Bournois et al., 2006; Kohut et al., 1992). While letters to shareholders directly communicate facts about firm, they also reveal implicit beliefs about the organization and its

relationships with the surrounding world (Fiol, 1989). Furthermore, rhetoric has an important impact on the perception of the content of the letter by shareholders (Lin et al., 2012).

The perceived importance of corporate social responsibility (CSR) has emerged in recent years in line with a growing recognition that it offers companies the opportunity to develop a competitive advantage (Porter et al., 2006; Porter et al., 2011).

Indeed, improvements in CSR performance are due to improve the corporate financial performance (Orlitzky et al., 2003). Therefore, firms integrate these CSR activities into their strategic processes in order to increase the shareholder value on a long-term period (Perez et al., 2007).

Companies face increasing institutional pressures for more transparency in their management and governance practices (Perego et al., 2009). The recent 2008 economic crisis and the collapse of some most famous global financial institutions have enhanced this societal demand (Arjaliès, 2010). Hence, more and more companies disclose information related to their sustainable activities through different frameworks (Global Reporting Initiative, Carbon Disclosure Project, ISO certification).

When the firm faces some strong difficulties, value communications enable to reach more stakeholders, describe firms with other characteristics than only financial one and to propose a multidimensional oriented strategy (von Groddeck, 2011).

Since the source of the ethical values for the present research are central occidental philosophers, we consider that ethics is the individual values that lead the behavior of an individual vis-à-vis his or her personal perception of what is good or bad.

This paper has two aims. First, identify what kind of philosophical ethical values the CEO's used in their letter to the shareholders. Second, explore the evolution of these values over a four years period of time including an economical crisis.

To answer our research question, we realized a content analysis of the Chairman's letter to shareholders of French listed companies from 2007 to 2010. A content analysis may be briefly defined as the systematic, objective analysis of message characteristics (Neuendorf, 2001). Its goal is to provide knowledge and understanding of the phenomenon under study (Bolden et al., 2000). Content analysis can be used to identify the intentions and other characteristics of the communicator, reveal the focus of individuals, groups, institutional or societal attention, and describe trends in communication content (Weber, 1990).

The remainder of the paper is organized as follows: the next section reviews the background literature on ethical values. Then we present the methodology used to analyze the content of the CEOs' letters while results are presented in the fourth section. The paper concludes with a discussion of the implication of this study in the broader context of the ethical value literature.

## **2 Literature**

The study of the value used by an individual or an organization in its communication can be framed by several typologies. As we study the letter of the CEO and as this letter can be considered as an individual point of view, we needed an individual classification. We considered that ethics is an individual set of values that leads to an individual in self-behavior. It enables us to study the streams and identify the values they disclosed and the interaction with others they consider as good. Ethics is not only the compliance to the general acceptance of behavior considered as normal but also all kind of personal moral values that can be understood as a minority norm (Le Blanc, 2004). It is an individual point of view. Therefore, we decided to use an analysis grid grounded in moral philosophy. Three main arguments can justify our conceptual approach. First, rhetoric seems to be a good way for explaining and

understanding some applied philosophies (De George, 2006; Rorty, 2006). Rhetoric, as a part of philosophical methodology, is relevant for understanding how managers organize and define priorities of actions (Chanal et al., 2007). Second, we assume that CEO or communication department or external consultant write the letters for shareholders. But in all cases since the CEO signs the letter, he or she accepts all the terms included in it. Thus, it means that the letters reflects personal values and related behaviors (Kohut et al., 1992). Philosophy and psychology have been the same field of research until the early 1800's. At this time philosophy became in charge of questioning the world and psychology in charge of the pathologies. Third, several previous research in management used philosophical framework for relevant explanations of relation between culture and economics (Hofstede et al., 1988), for enhancing ethical codes in a specifically philosophical context (Hwang et al., 2008), for justifying sustainable strategies (Piatek, 2008).

Since the letters come from French firms, we limited the literature to European philosophy and Anglo-Saxon philosophy. We added this last stream because we considered that most of the firms have an economical set of aims and missions of which values are merely described in English or American literature.

The moral philosophy discusses the values that an individual can use in order to behave and what kind of relationship he or she can develop with other people. Then ethics becomes an interesting framework of analysis for the letters of the CEO. What are the values that top manager propose to the shareholders? Are they only centered on financial values? Do the top manager try to open the portfolio of values to other values? Does he try to explain and justify some new values for themselves or from a strategically point of view or from a reactive point of view?

## **2.1 Philosophical approach**

We describe in this section the main philosophical streams in ethics. We summarize the concepts, related to these streams, that we used during the codification of the letters.

### **2.1.1 Social virtue**

Aristotle (4th century before JC) considered that ethics is a social virtue. If he argued that ethical reasoning methodology is universal, he claims that the result, ie the behavior, depends on the situation. The virtue depends on the education of an individual and the context of decision. It implies that there is no universality of ethical values. According to Aristotle, there is no good or bad decision, but a virtue. This one is the ability of an individual to behave at the best in order to reduce negative consequences of its decision for others.

### **2.1.2 Responsibility**

Kant posits that ethical is a external concept since good or bad behaviors are defined by God (Blondel, 1999). If this reference is external, individual has however the ability to choose or not to comply to it (Kant, 1792). The first element that Kant claims is that an individual is responsible of his or her acts. Since he or she has promised something, he or she has to realize it whatever could be the consequences. Then we consider that all expression of engagement, involvement and responsibility is a value related with Kant philosophy. The second element that Kant claimed is the universality character of ethics. From his point of view, it should exist a set of fundamental values that could be applied worldwide.

### **2.1.3 Sustainability**

In 1987, the World Commission on Economic Development (WCED) provided the definition of sustainable development: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." This definition assumes that all people must be able to maintain a reasonable quality of life indefinitely. However, more recent conceptions of sustainable development now recognize that it relies on the intersection of three important principles related to the environment, social equity, and economics. These three principles require that society protects its environmental resources, fairly treats everyone independently of initial endowments and produces the adequate amount of resources to maintain a reasonable standard of living. Sustainable development is a participatory process that creates and pursues a vision of community that respects and makes prudent use of all its resources – natural, human, human-created, social, cultural and scientific (Hawken, 1993). These definitions are in line with the original proposal of ethics by Spinoza (Spinoza, 1677-1965). Hence the author exposes that research of happiness should be done via introspection about what selfish needs are. If an individual can define the real most important needs and avoid all the others, he or she should reduce the negative impacts on the others individuals. It could then enable an individual to achieve its goals and to the others to achieve theirs too. Spinoza did not explicitly address the case of future generations. But we can transpose his ethical system in long time scale. Therefore, trying to permit the future generations to achieve their own goals by reducing to the essential the present expectations is a perfect transcription of the ethical principal of Spinoza.

#### **2.1.4 Financial values**

Economical and financial values can be assumed as ethical values. The question of the link between economics and human beings has very often been an issue for philosophers and economists. We can consider three main streams. The first includes economists and non-



economists. Aristotle or Kant, defined economics as a tool among all the tools humanity can use in order to achieve happiness (Sen, 1993-2008). Smith (1776) had the same point of view and introduced some theoretical concepts as the invisible hand that could, with some restriction, create an optimum of value repartition. The second considers the economics as the central tool that enables to achieve individual goals. According to Mill (1843; 1871) and Bentham (1834), the aim of each one is to die as latter as possible and to remain in good health. Therefore society relies on knowledge and technologies, yet existing without any capitalization. Then the economical system is the best way to promote large social improvement. We will consider that any part of a letter presenting economical or financial result as the contribution to a societal improvement of technology or knowledge belongs to utilitarianism stream. The third stream presents the financial values as an end. Economics and all those components are natural rules that can't be broken. The firm has to reach financial goals whatever could be the different of consequences (Friedman, 1970; Jensen et al., 1976). Therefore, any use of financial information disconnected from any other values presented in the others philosophical streams is related to Friedman's philosophy.

Hence, depending on the degree of independency between economy or finance and social system presented in the letter, we relate the discourse to one of the three streams.

### **2.1.5 Ethics of necessity**

We identify two types of necessities.

According to Morin (2004), individuals cannot survive alone. Hence, paying attention to them is not a moral intention but a reasonable behavior. By extension, a firm as a small group of individuals cannot survive without the existence of other stakeholders. Firm depends on others structures and need to be aware to their expectations. From this point of view, ethical disclosure in the letter could present a description of the complexity of the firm environment

explaining why the firm has to enlarge stakeholders' scope. It is a systemic approach. If a letter contains a systemic justification of the decisions, we attribute the Morin concept.

Another necessity can lead the firm. The firm could act under the strict stakeholders pressure and that some of them could represent a threat for the performance of the firm (Freeman, 1984). Ethics consists on taking in account one or several stakeholders not for their existence (ontology) but because doing nothing is risky.

### **2.1.6 Ethics of fear**

As the studied firms have invested extensive amount of money in research and development programs, it seemed interesting to address the Jonas' ethical perspective. He claims that two main arguments should lead manager to renew the way to use technologies (Jonas, 1990). First, it is impossible to imagine all the consequences of a new technology expect for a long time of tests. Second, society has reached an evolution stage that permits to develop technologies with impacts on the human being in a long run that is longer than life duration of their inventor. It's impossible to seek his responsibility. Then Jonas claims that any new technology should be stressed with a long and strong research program before implementation.

### **2.1.7 Legal system**

Compliance to the legal expectations can represent an important stream of ethical philosophical approach. Rawls argued that an optimal legal system should permit to everyone to get all the needed rights. In the meantime this system reflects common practices and behaviours (Rawls, 1971). It means that being compliant is the best way to be coherent with social expectations since an optimal implementation of justice is good in the Rawls philosophy. We can extend this proposition to the firms. Some of them could justify their actions for some

stakeholders by the fact that the law expects those actions. The firm won't extend over the law since this one is the best that could be done.

**2.2 Structure of the analysis grid**

For each stream of ethical philosophy we defined some concepts that are related to. For example, in Kant, we defined the concepts of “universality”, “rationality”, “god”, “involvement” and “promise”. We didn't use a wording system that counts the occurrence of each word.

The Table 1 shows the streams used and the main concepts studied within the letters.

Table 1 Table of concepts and their representations in the letters

<b>Philosophical author</b>	<b>Concepts</b>
Aristotle	Virtue; Ethics as a social construction; ethics comes from education; Contextual reasoning; Human beings as a goal and not a mean.
Freeman	Being aware of stakeholders' expectations. It a necessity for the strategy.
Friedman	Financial result as the objective of the firm.
Jonas	Ethics of fear; Managing the risk that technology could generate others or future generations
Kant	Rationality; Engagement; Involvement; Promise; God; Universality; World wide
Mill; Bentham	Profits & Technology as means to reach the societal aims
Morin	Complexity of the society. Necessity of taking in accounts other people.

Rawls	Legal system as the most effectiveness system
Smith	Economy as a constructed system for human beings
Spinoza	Reducing personal expectations in order to enable others to achieve their own expectations; Delayed in the future, it can be assimilate to sustainable development
Ethics (word); Value (Word)	If not explicitly explained as related to a set of ethical values presented in this table.

We decided to split sustainable development from corporate social responsibility for two reasons. First, it seemed evident that Spinoza was the only philosopher who had developed ideas that could include future expectations. At the opposite, several authors could have justified a thin or a large conception of corporate social responsibility if we exclude sustainable development. Second, the letter reading has raised an important number of expressions dealing with sustainable development and not necessarily with other types of corporate social responsibility

### **2.3 Location of the disclosure**

We have proceeded to a content analysis of the Chairman's letters to shareholders located at the beginning of the annual reports of our sample companies.

The annual report is a particularly important source for studying organizational behavior, including firm strategies and responses of firms to their organizational fields. Not only, annual reports are formal, public documents responding to compulsory legislation, but they also serve as a mean to assess the visibility and meaning of a company (Hopwood, 1996). The Chairman's letters define the vision that business leaders desire to share with their recipients.

These letters can be a subtly revealing medium for understanding how a company works and the vision it has of itself, as well as the vision it wants to present to others (Bournois et al., 2006). The information conveyed in letters to shareholders narrates the successes and failures of the CEOs, organizational subunits and the entire company. Although the text in annual reports is written by public relations people, the CEOs spend considerable time outlining the content of the report, sketching out much of it, and proofreading and changing most of it to his taste (Kohut et al., 1992).

The letters are a particularly useful data set for semantically examining beliefs about boundaries, because (1) they share the common purpose of conveying a positive corporate image to an important constituency, (2) the CEO approves the image that is conveyed, and (3) their production is ruled by a fairly rigid set of conventions governing what must be addressed and in what form. These corporate messages are like folktales in that they tell many stories that can be reordered to extract a set of recurring structures that reflect underlying values (Fiol, 1989).

### **3 Design**

#### **3.1 Sample**

Our sample consisted of 52 listed companies of the SBF 120 (represents the 120 most important listed firms in France). This index is based on the 120 most actively traded stocks listed in Euronext Paris. It includes all the 40 stocks in the CAC 40 (Continuous Assisted Quotation) index plus a selection of 80 additional stocks listed on the Premier Marché and Second Marché under Euronext Paris. We have chosen the largest of the listed companies since they receive more media attention and public scrutiny than smaller companies (Adams et al., 1998). A well-known, listed company is more likely to take external expectations into

account than a smaller listed company. We have selected 52 listed companies of the SBF 120 index for two reasons: First, the companies have to be continuously listed in the SBF120 during from the duration of the study (from 2007 to 2010). Second, the annual reports must present a Chairman's letter. In some annual reports, the company board president's statement replaces the Chairman's letter, thus the company was excluded of our sample. Our sample is composed of 29 industrial companies, 16 companies in the service sector, 6 companies in the banking and financial sector and one company is an holding.

As the recent 2008 economic crisis has led to the collapse of some global financial institutions, the societal demand from stakeholders for transparency in corporate governance has increased. Therefore, we have studied the chairman's letter one year before the economic crisis (2007), the year of the economic crisis (2008) and two years after (2009 and 2010) in order to explore the evolution of the ethical values disclosed by the CEO in their letters during this particular period of time.

### **3.2 Study design: Content analysis**

In order to describe the ethical values presented by the CEOs, we realized a content analysis of the Chairman's letter for our sample companies from 2007 to 2010.

In brief, a content analysis may be briefly defined as the systematic, objective, quantitative analysis of message characteristics (Neuendorf, 2001). Its goal is to provide knowledge and understanding of the phenomenon under study (Bolden et al., 2000). This research method uses a set of procedures to make valid inferences from text about the sender of the message, the message itself or the audience of the message. Content analysis can be used for identify the intentions and other characteristics of the communicator, reveal the focus of individual, group, institutional, or societal attention, and describe trends in communication content

(Weber, 1990). It is relevant with study of values included in discourse such as religious values (Haniffa et al., 2007).

Following recommendations by Miles and Huberman (1994) each letter was examined comprehensively so that the researchers became familiar with the different information.

We started coding the letters using *ex ante* constructed codes derived from the literature and adding new codes emerging from the letter analysis with respect to our research question in order to incorporate important new elements to our theoretical framework. A code is assigned to a fragment of text when researchers identify a phenomenon present in it as a theme. Coded text length for this study ranged from one sentence to multiple paragraphs. Multiple codes can overlap at any given passage of text when multiple phenomena are found. These *ex ante* codes were used in a multiple coding process including the three researchers in order to identify whether any codes were ambiguous or required amendment, clarification or removal. This multiple coding process reinforces the inter-coding reliability measure.

To facilitate the categorization process, we have used QSR NVivo qualitative software, designed to carry out the administrative task of organizing the data efficiently (Welsh, 2002). Using software in the data analysis process can add rigor to qualitative research (Richards et al., 1991). It facilitates data management, coding and retrieving text and theory testing and has become a widely used tool of qualitative research (Crowley et al., 2002).

We consider that the number of times an ethical value is quoted in the Chairman's letters enhances its strength. In other words, the sentences or paragraphs were coded regarding our ethical value framework and not regarding the number of words referring to this value. We assume that a chairman underlines his commitment to a specific ethical value if this value is often quoted in the letter. The length of the sentence or paragraph presenting the value is not

considered to estimate the strength of the message. The NVivo software enables us to study the whole letter in order to understand the meaning of the sentences coded.

## 4 Findings

### 4.1 Ethical values repartition of the period

We display the number of occurrences of concept for each main stream for each year (Table 2).

Table 2 All values over the four years

	2007	2008	2009	2010	Total
Friedman	211	193	197	195	796
Freeman	64	53	85	82	284
Spinoza	58	45	59	76	238
Jonas	28	18	26	38	110
Kant	17	22	9	10	58
Value (word)	8	6	10	5	29
Ethics (word)	1	4	8	7	20
Rawls	4	4	4	1	13
Mill	1	2	4	5	12
Smith	0	1	4	5	10
Morin	1	2	2	4	9
Weber	1	3	2	0	6
Aristote	0	0	0	0	0

The most cited values are those of Friedman, Freeman, Spinoza and Jonas representing the concepts of finance, stakeholders, sustainability and precaution principle.

Six values are almost never quoted in the letters: Aristotle (0), Weber (6), Morin (9), Smith (10), Mill (12), Rawls (13).

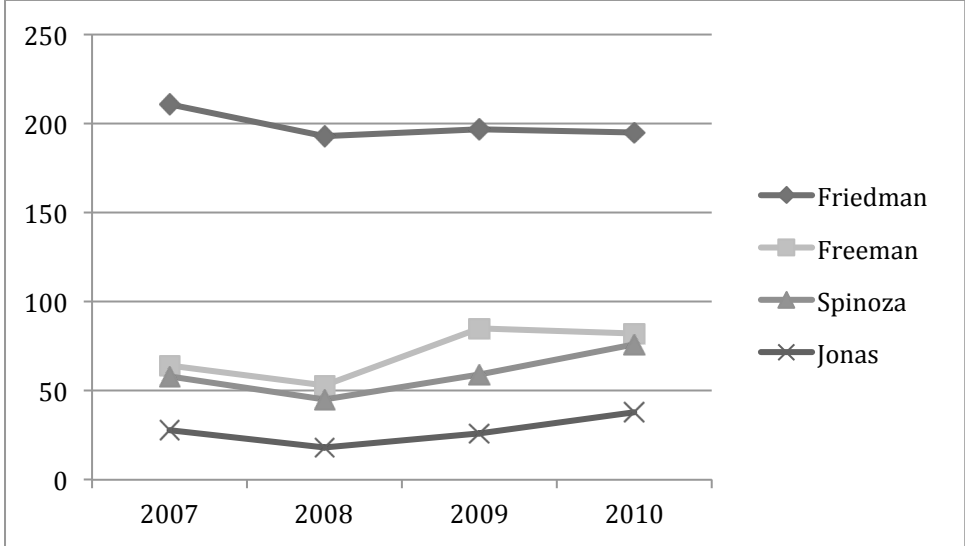
The results highlight the stability of the value over the studied period unless a slight decrease in 2008 (Figure 1). We just notice a knee in 2008. This is coherent with the assumption that value could be influenced by economical contextual environment. Financial values decrease



slightly in 2008 and remain at this level in 2009 and 2010. In the meantime the other ethical values increase after 2008. Yet no other values rise at the level of the economical values of Friedman.

However, if we consider jointly the three main values after Friedman’s ones, they represent the same intensity as the Friedman’s values. In other words, it means that at the global level of analysis, there is no substitution effect between values. New values have complemented each other in the letters.

Figure 1. Top 4 most cited values



**4.2 Ethical values repartition of the period**

Some firms almost never express any ethical values as we defined them. One uses two of them only the last year. It is impossible to define if this represents a new way of communication or just an opportunity. Another presents only one value in 2007 and none the others years. We can consider that ethical values don’t seem to be an important part of the discourse shareholders oriented.

### 4.2.1 Financial value

Some firms almost only disclose financial values. These firms have three different ways to present/organize their value communication.

First, firms (Figure 2; Figure 3) decrease their communication on financial values during the crisis and do not reintegrate them as soon as the economic downturn is merely over (2009-2010).

Figure 2. Example #1 of financial values decrease

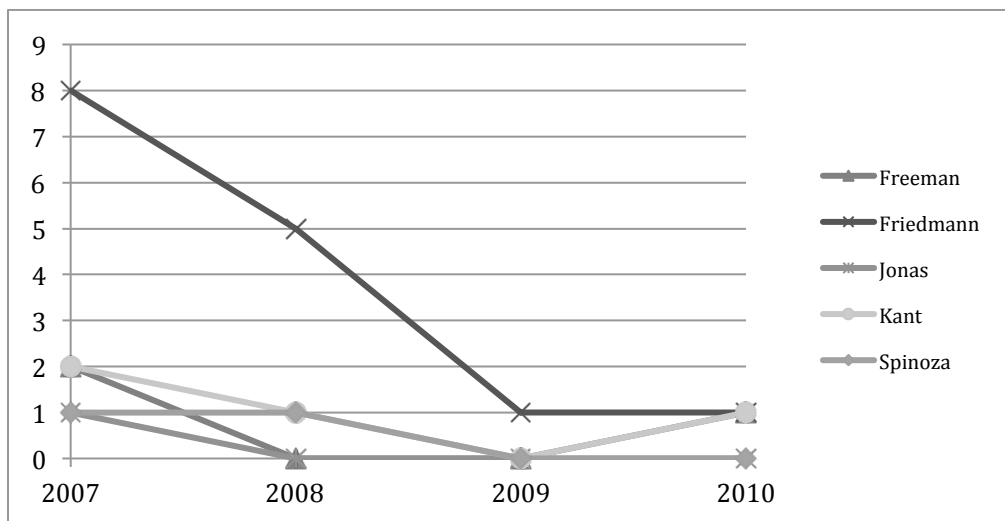
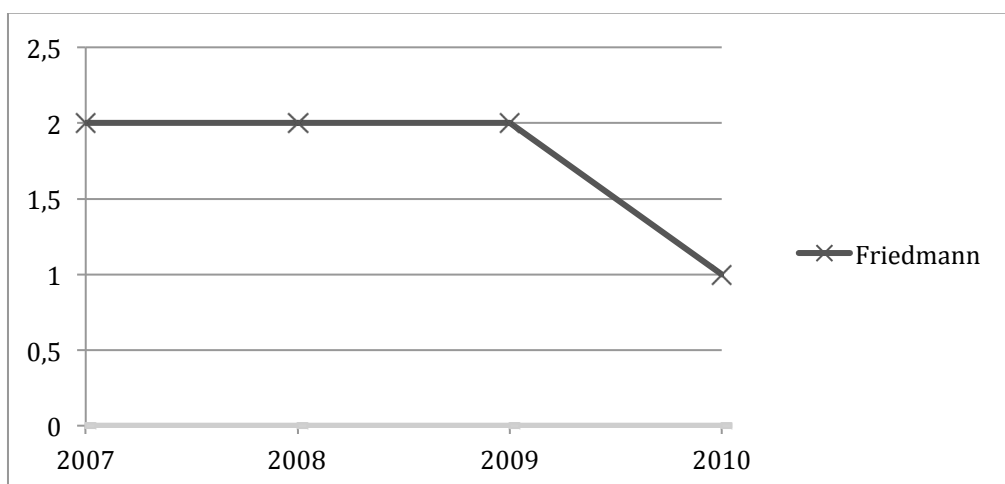
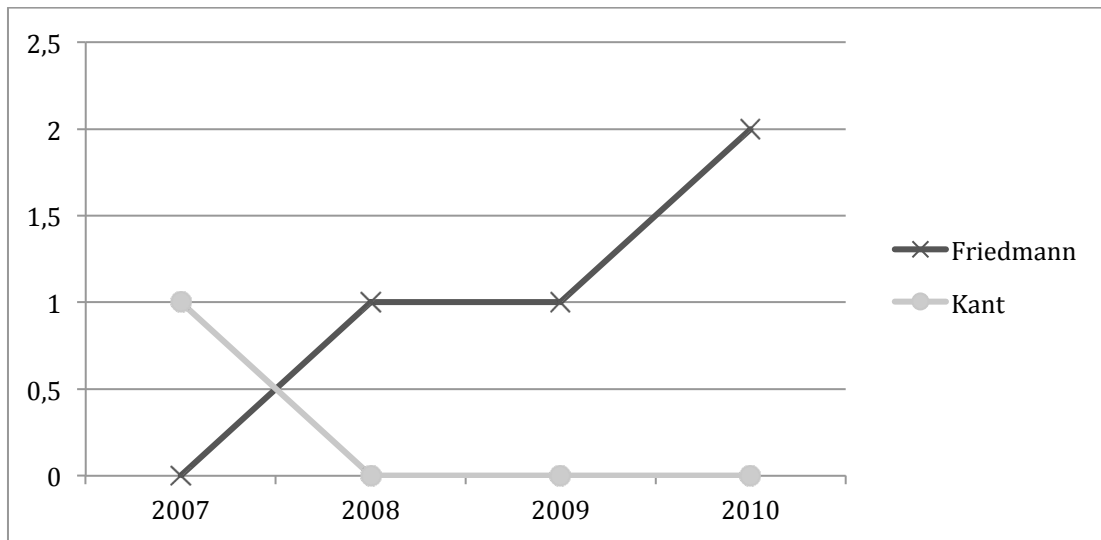


Figure 3. Example #2 of financial values decrease



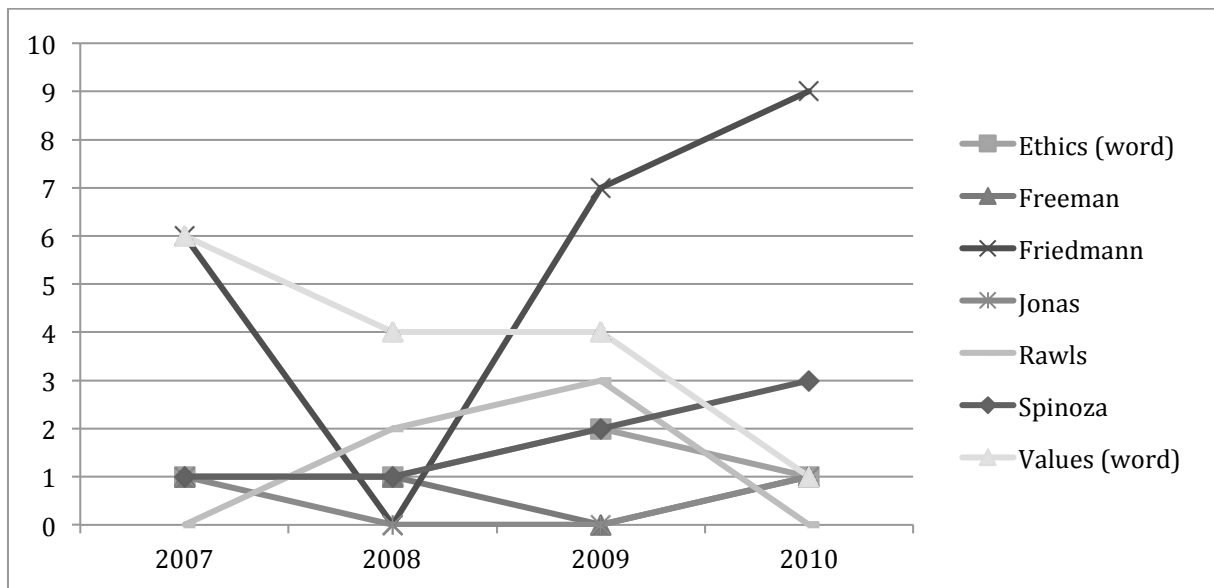
Some firms disclose Friedman's values increasingly over the studied period (Figure 4).

Figure 4. Example #1 of financial values increase.



Some firms avoid Friedman's values at the beginning of the economic downturn and reintroduce them after 2009 (Figure 5).

Figure 5. Example #2 of financial values increase.



During the economic crisis the Friedman's values are reinforced in the letter, and almost no other values are quoted (Figure 6; Figure 7; Figure 8).

Figure 6. Example #1 of financial values reinforcement during the crisis.

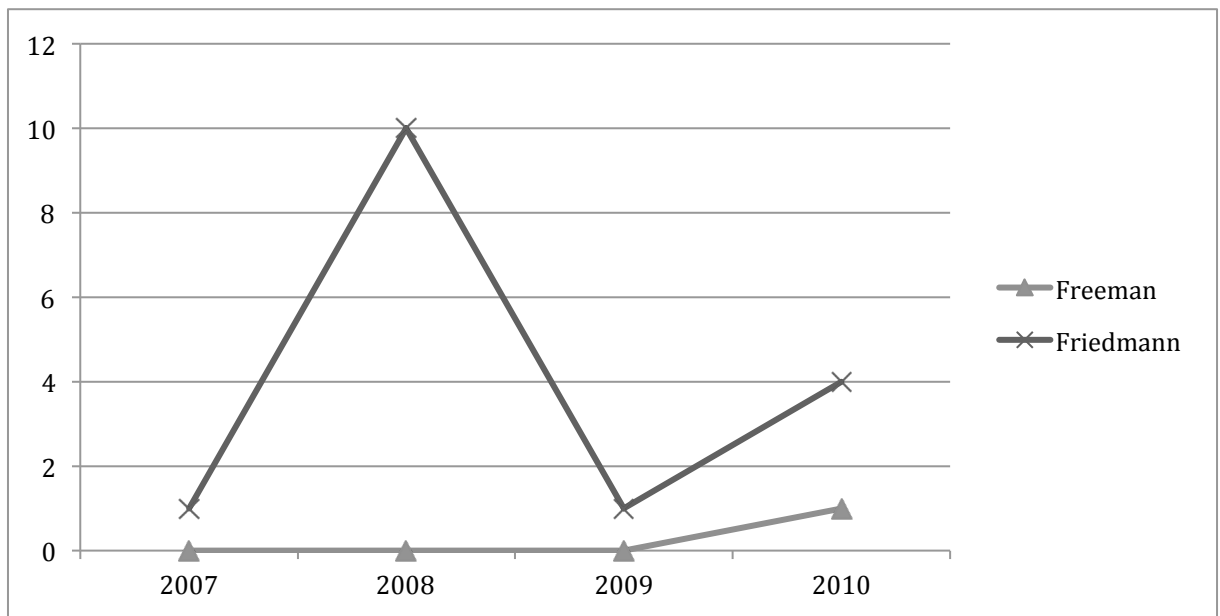


Figure 7. Example #2 of financial values reinforcement during the crisis.

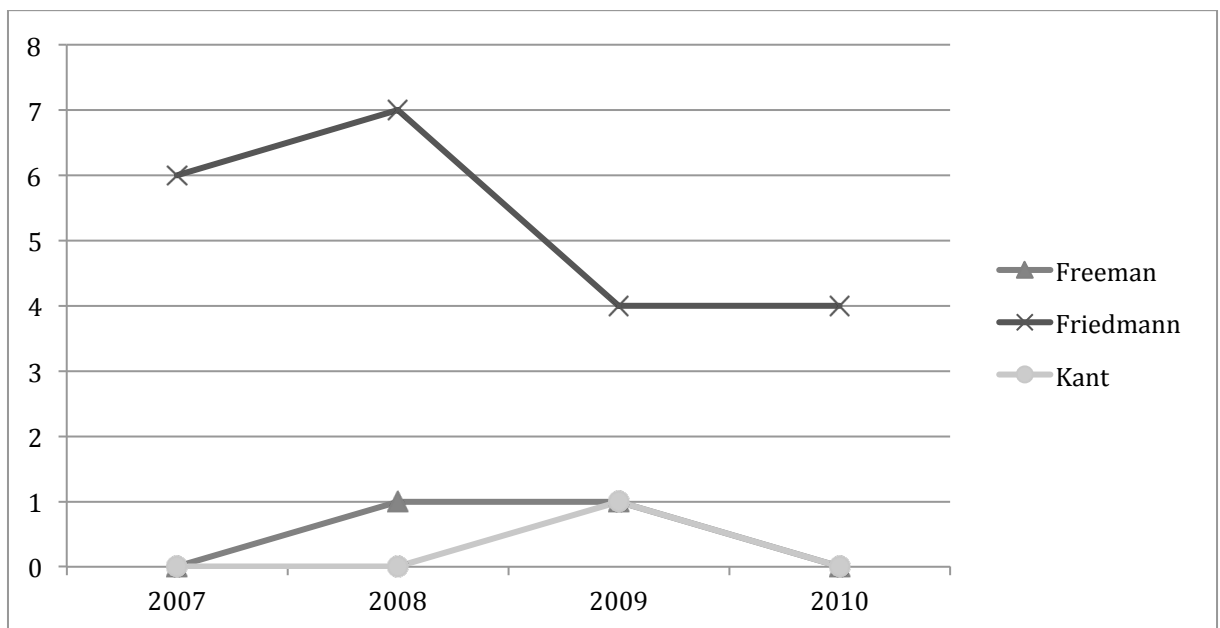
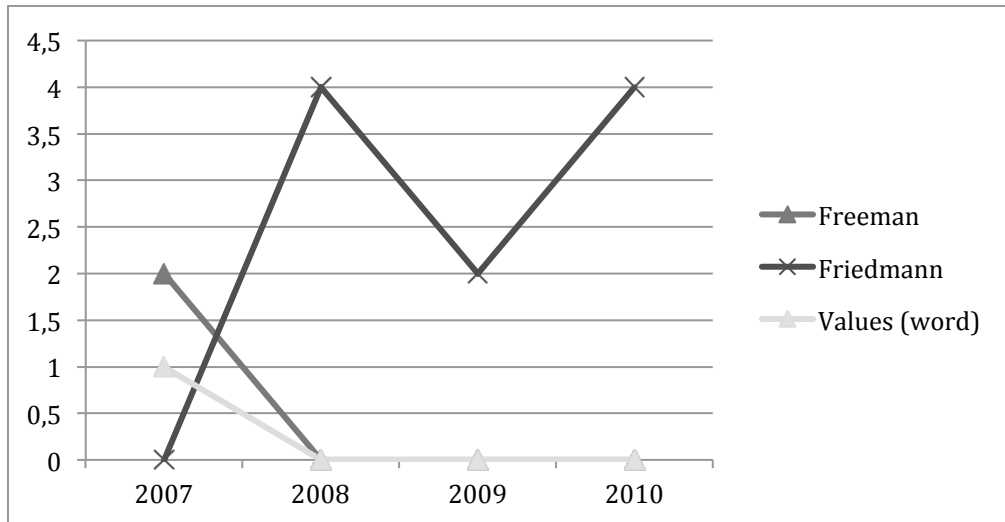


Figure 8. Example #3 of financial values reinforcement during the crisis.



#### 4.2.2 Substitution effect

We describe below letters where financial and non-financial values have opposite evolutions.

Some firms decrease the intensity of financial values and substitute them with corporate social responsibility values.

The firm substitutes financial values by Jonas values every year (Figure 9; Figure 10).

Figure 9. Example #1 of substitution finance/non-finance.

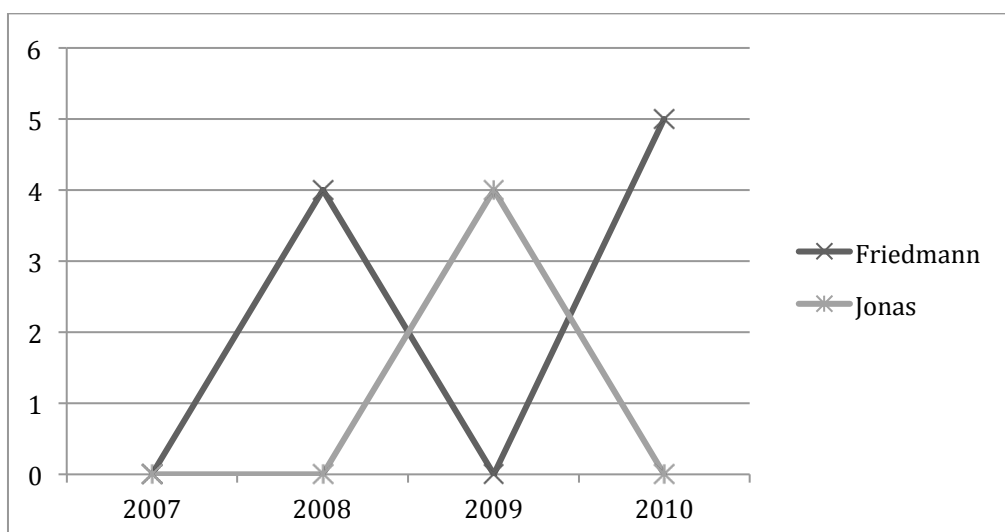
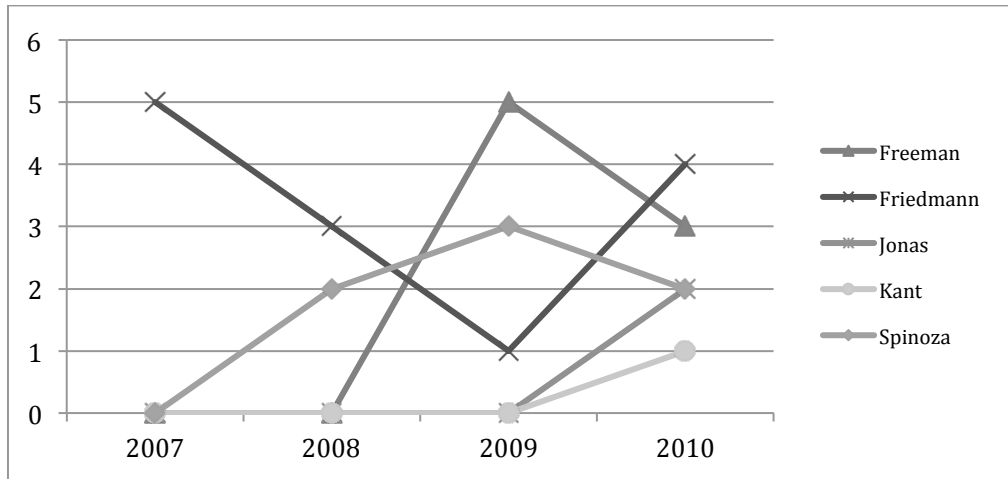


Figure 10. Example #2 of substitution finance/non-finance.



There is a regular decrease of financial values, until suppression. In the meantime other values as Jonas, Spinoza and the words “values” and “ethics” appear (Figure 11; Figure 12).

Figure 11. Example #3 of substitution finance/non-finance.

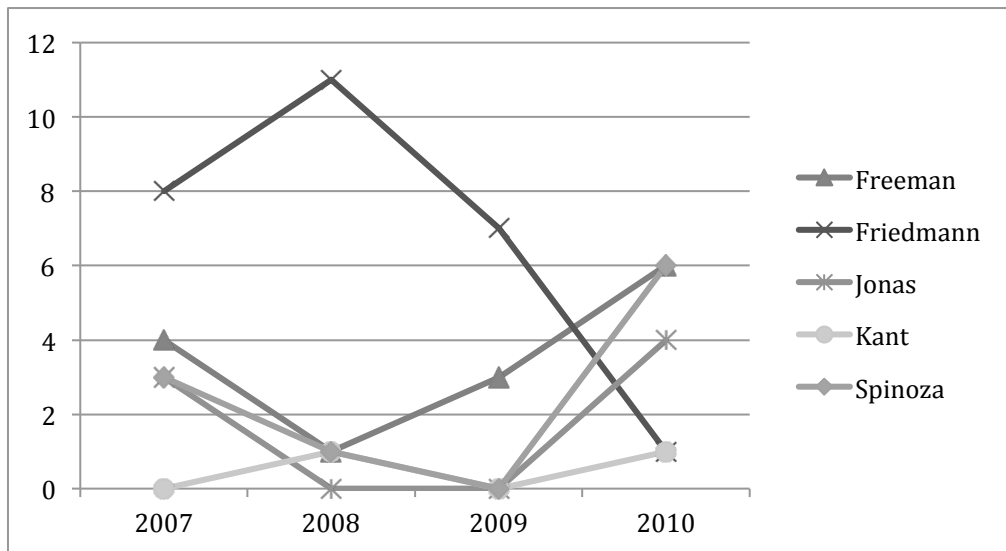
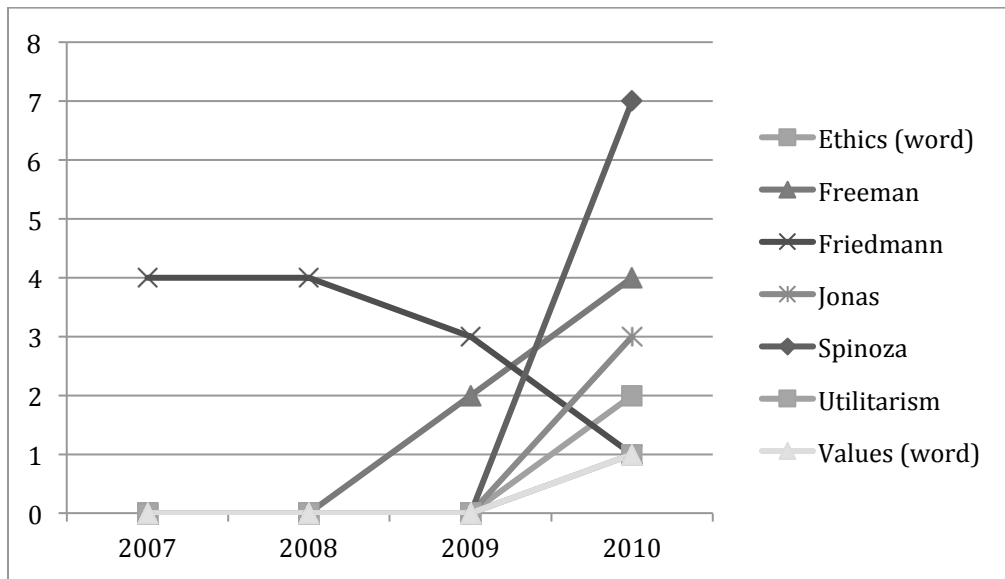


Figure 12. Example #4 of substitution finance/non-finance.

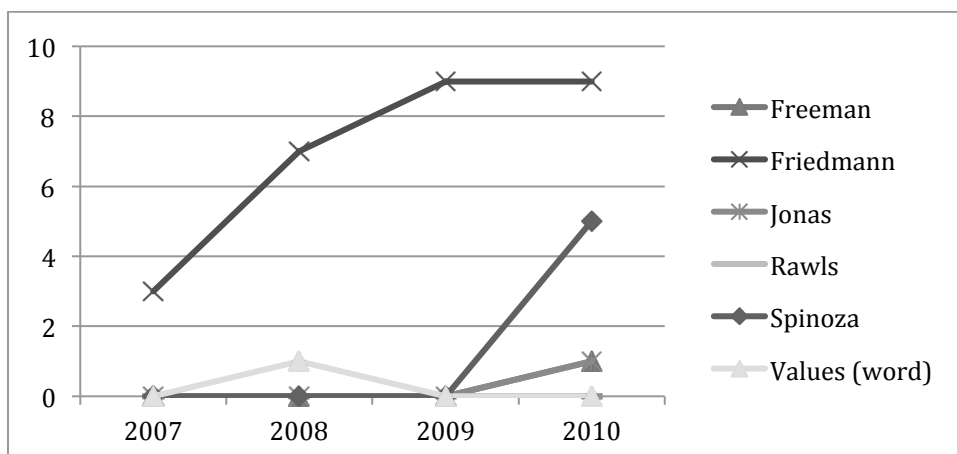


#### 4.2.3 Multi values:

We describe below letters with configuration including multiple values without substitution effect.

Unlike substitution effect, the increase of financial Friedman values is synchronized with introduction of other values (Figure 13).

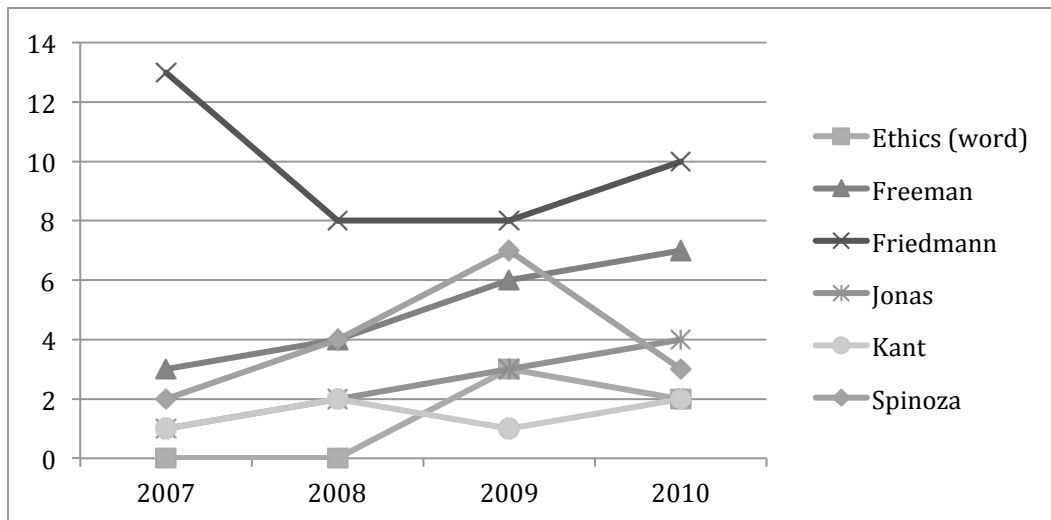
Figure 13. Example #1 of enrichment of values



This firm (**Erreur ! Source du renvoi introuvable.**) communicates all type of values to the shareholders. It represents an archetype of CSR communication since the CEO always uses the three dimensions of CSR (finance, social, environmental). But in this case, there is an important effect of the economic crisis. When the firm is strengthened by the economic crisis, the company suppresses all types of ethical values in the letter (2008). It's a kind of on/off ethical and CSR communication.

The values grounded in Spinoza, Jonas and Freedman ethical streams and the word “ethics” increase in 2008 as, in the meantime, the financial values of Friedman decrease (Figure 14). The values of Spinoza, Jonas, Friedman and the word “values” appear in 2008. Financial values stay in the letters after 2009. The others values are replaced by Freeman values. Spinoza, Jonas and the word “Values” are replaced by the concept of Corporate Social Responsibility of Freeman.

Figure 14. Example #3 of enrichment of values



## 5 DISCUSSION

This paper has two aims. First, to identify the philosophical moral values in the chairmen’s letter from listed firms in France. Second to observe the variations of these values when the economical environment changes.



## **5.1 Nature of the values in the letters**

Among the list of ethical values that we defined before the study, we have highlighted several values in the letters.

Friedman's values are the most cited. It confirms that the letter is written for shareholders. It also confirms that CEO think that shareholders are expecting a discourse including reinsuring notion of finance and economics. The CEO explicitly assumes the responsibility of profit maximization for the shareholder.

Freedman's values are the second most cited. It confirms that firm assumes an extension of its responsibility. The CEO has to manage other performances than the financial profit for shareholders and has to integrate corporate social responsibility in the corporate strategy.

Spinoza's values are the third most cited values. Several interpretations could explain these findings. First, in France firms have to comply with a large corpus of laws. Then the corporate disclosure enables the CEO to remind the legal context to shareholder leading the companies to display a part of profit for ecological compliance. Second, a kind of resource rarefaction awareness can explain such a disclosure. Last, it can be the comprehension of the possible impact of decisions and technologies. It would be a kind of extreme value of sustainability as Jonas noticed it in the precaution.

Rawls ethical values are few and stable. We studied only French firms. It could explain the lack of legal references. Thus being compliant with the legal rules represents a minimum for any firm. But as legal system is not in France synonym of conformity with moral expectations, legal values can't be enough as values communication.

If the firms use few values, it represents a simplification of the performance that it accepts to manage. Presenting financial values as central or unique means that the firms want to manage

only one performance, easy to measure and to justify. It is in opposition with Morin's point of view that posits that society is complex. But if the values are numerous, it means that chairmen accept the necessity to manage multiple performances even if they are interrelated in a complex system.

There are two level of analysis. If we consider all the letters as a single set of published values, non-financial ethical values are present in the chairmen disclosure. Therefore, it means that the CEO estimates that he has or he can communicate to shareholders different values. If we consider letters of each firm, the most important one is the finance.

But if we group non-financial values, the groups of financial and non-financial values are at a kind of equilibrium.

We observe that at a global level, firms are not compliant with the strict agency theory. The 52 most important French listed firms use multiple values and not only the financial one. If we consider them as a portfolio of shares, they communicate on the three dimensions of the corporate social responsibility. The others, as complexity (Morin), engagement (Kant), virtue (Aristotle) and economics ...are not present. It leads to an important question. Do they represent their forgotten roots of poor moral philosophy in terms of reasoning (Aristotle), engagement (Kant) and economics (Smith)? Chairmen don't need to refer to these fundamental streams of thinking even in the field of economics. However, they introduce ethical dimension in their disclosure when they use ethical non-financial values. It is consistent with Sen, Aristotle, Kant or Platoon who presented economics as a tool for humanity and not as a natural end.

We did not identify specific values depending on activity sectors. A health industry doesn't present more altruistic values than a bank or a food company in the letter to the shareholders. A bank doesn't disclose more financial values than the others. This result questions the validity of Socially Responsible Investment. Actually, companies do not become socially responsible upon the manager's decision. It's the shareholder's decision to classify a company as socially responsible regarding its activity.

## **5.2 Evolution of the values**

The letter describes strategic orientations. It is a long run scale. Therefore, the content should not change a lot each year. Psychologists and sociologists claim that the ethical values are grounded in long run within population or individuals. If our study states important changes in the letters, it could mean that there is a lack of consistence between the aim of the letter, the tools used and the target of the letter. It would highlight an instrumentalization of ethics or an ethical polity based on reaction.

The analysis of the letters shows that there is no common evolution of the values in the studied letters. We cannot identify a unique way of communicating ethical values in all the 52 firms we studied. CEOs communicate differently on the ethical values they consider important to reinforce relation with the shareholders. Being a listed firm doesn't imply a single value communication to them.

Except for two firms, the economical environment seems influencing the values in the letters. The year 2008 represents an important step in the period 2007-2010 with systematically a value nature variation or a value priority before and/or after this year. The nature of the communication to the shareholders differs depending on how the CEO estimates their expectations during strengthened economical periods.

Except for 9 firms, all of the letters display the Friedman financial values as one of most important. For some firms specific events or situations can explain the absence of financial values in the letter over the period.

- Electricity production firm: in the French context, this firm is a firm that was owned by the French State. For some cultural reasons and reputation reasons, it would be negatively perceived to promote financial values even in the shareholder targeted letter.
- Telecommunication firm: the 2008/2009 period of time is a fuzzy one for this firm. The firm has faced numerous professional suicides and organizational changes at the top management level. We can observe that disclosed ethical values are changing every year between 2007 and 2009. The corporate social responsibility becomes the most important one in 2010. Before this period, these values were present in the letter but randomly associated with utilitarianism, finance sustainable development. It seems that during the fuzzy period, the firm was seeking the best combination of values. The mediatization of suicides has certainly pushed the firm to promote accountability for stakeholders.
- Luxury firm: as a family business corporate, Firm's shareholders are looking for less profitability than stability of activity.
- Two construction firms: it can be considered as a legitimacy strategy. The "Grenelle 2" law (2010) has established environmental norms for the building sector in France. One firm has communicated about these norms two years before the law entered in application in order to justify to the shareholders new orientation in terms of resources affectation, and claims that the corporate invests in technologies (Mill's values) in order to build energy efficiency buildings (Spinoza's values). But it is only a

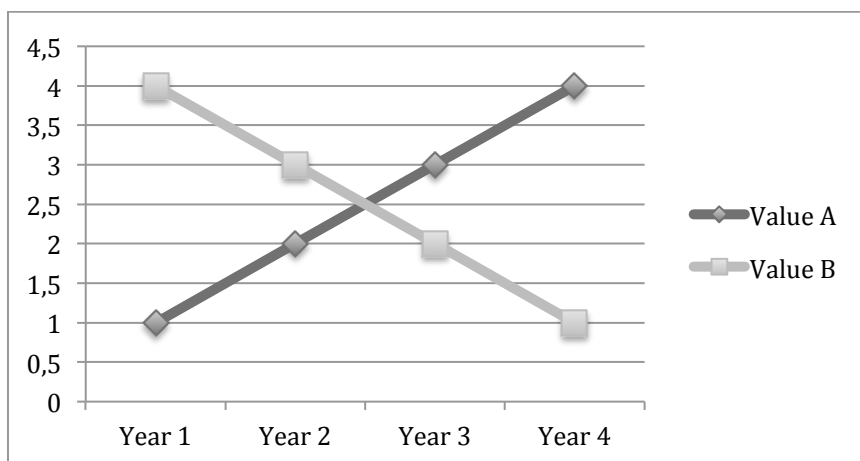
conformity behavior since all these values disappear in 2010, when all firms have to be compliant with the new law. The effect of the new regulation can explain the decrease of Friedman's values in 2010 and a strong increase of Spinoza and Jonas's values at the same time in building construction. The "Grenelle 2" regulation concerns transportation sector to a lesser extent. We state that no transportation firms seem having modified their values in the letter for the legal reasons.

### 5.3 Typology

The results of the empirical analysis enable to define a typology of ethical values evolution in the letters.

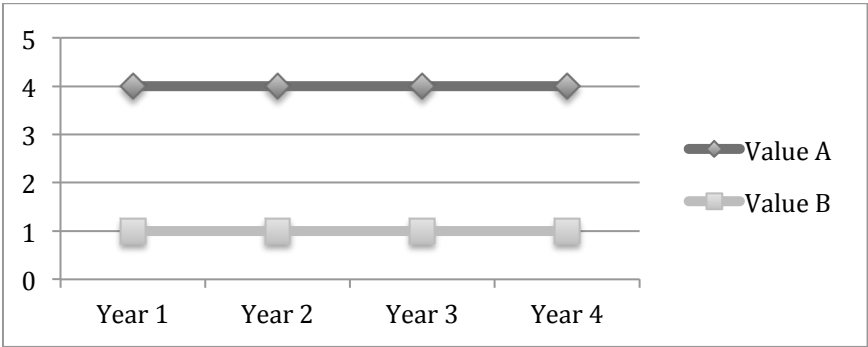
The first type is a substitution effect (Figure 15). The trend reverse seems to be consistent with the practices of value share. It seems impossible for the firm to communicate on financial values and in the mean time on non-financial values. It extends the proposition that firm can't create value for shareholder and for other stakeholders. It is a kind of zero sum game. This value reverse is a linguistic transposition of the accounting analysis of the performance. In this case financial value is at variance with non-financial values.

Figure 15. Generically configuration 1: substitution effect



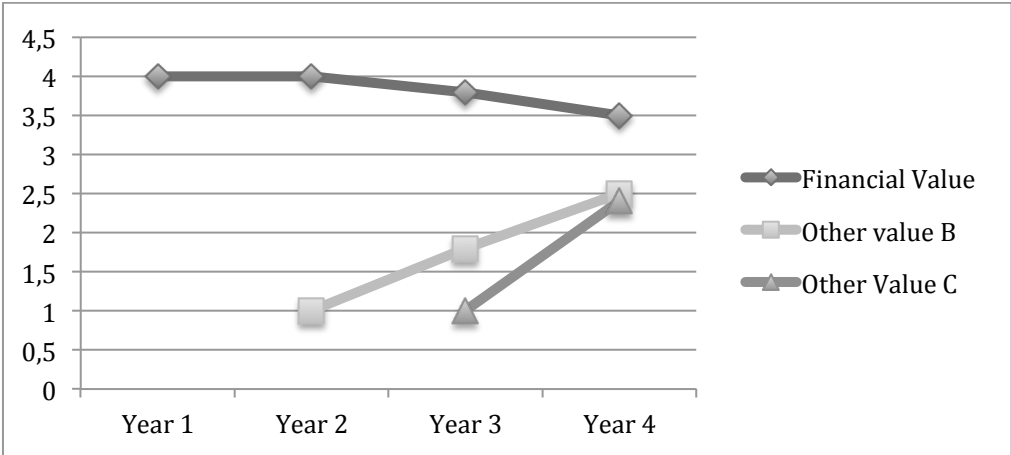
The second type is a continuous opposition of financial and non-financial values (0).

Generically configuration 2: financial domination



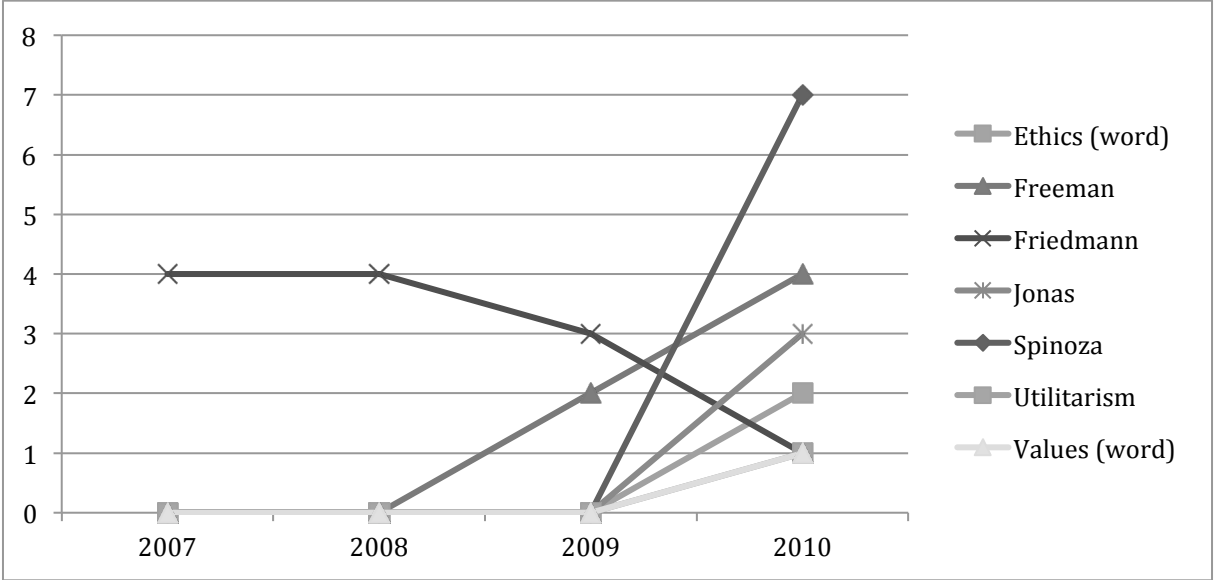
The third type is the enlargement of the values scope (Figure 16). There is no opposition of financial and non-financial values in the letter. It is not a zero sum game since non-financial values increase quicker than the financial one decrease. It is a linguistic representation of global performance of the firm. The chairman mentions that he can propose an improvement of value creation for different kind of values. This represents a coherent vision with corporate social responsibility that needs to fulfill simultaneously economical social and sustainable performances.

Figure 16. Generically configuration 3: balanced values



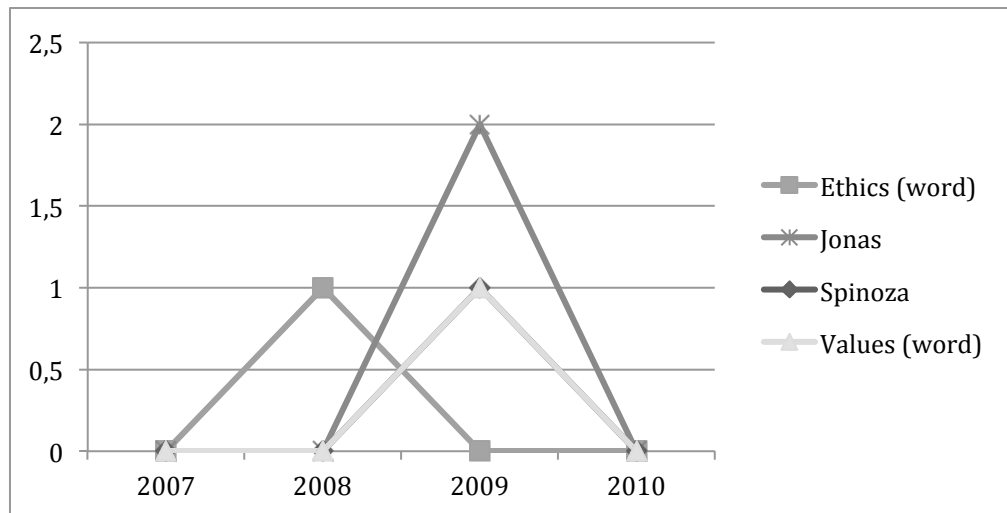
The fourth type deals with wording. We identified two words “ethics” and “values”. Firstly, it is used as the firm introduces real values in the discourse (Figure 17). It represents a kind of packaging of the values.

Figure 17. Generically configuration 4.1: wording



Secondly, the firm uses almost only the words “Ethics” and/or “values” (Figure 18). In this case the word is just a conative tools without any content. Therefore, we can consider them as a kind of ethic washing if they are not associated with other philosophical terms (Loughran et al., 2008).

Figure 18. Generically configuration 4.2: wording



We have also discovered that six firms never disclosed financial values in the letters. It is an important point since this letter targets the shareholders. Several arguments could explain these results. It's possible that the firm doesn't estimate necessarily to highlight financial facts in the CEO letter because the shareholders have two other ways to get information: the value of the market share and the dividend that they get each year. Thus, the letter reveals others values. Yet, the values disclosed are not stable and seem to appear randomly.

Our results show that 6 companies, on the 52 companies included in our sample, do not quote any financial values in the CEO's letter and disclose only ethical values. This finding is surprising as this letter, introducing the annual report, is written by the top manager to the shareholders. We can wonder why managers disclose only non-financial values in their letters?

Companies can use the financial report as a legitimizing tool to influence societal perceptions of the firms. Indeed, companies have to face increasing pressures from stakeholders (included shareholders). Therefore, they may try to maintain their legitimacy disclosing societal and ethical values in order to secure their resources (Cho et al., 2007).

Indeed, the legitimacy theory posits that companies operate in society via a social contract where it agrees to perform various socially desired actions in order to secure their resources.



Therefore, companies need to disclose enough social information for society to assess how this company is a good citizen (Guthrie et al., 1989). In legitimizing its actions via disclosure, the corporation hopes ultimately to justify its continued existence (Lindblom, 1994).

### **Theoretical contribution**

We have shown that studying management tools, as a letter, with a philosophical methodology is certainly efficient and enables to categorize the values that CEO shares (or discloses) with in communication with shareholders. The results highlight that there is no systematical link between economical performance and nature of values claimed by the CEO.

The results show that ethical values referring to Friedman are almost systematically in an opposite variation with the others values. According to Davis (2009) in the mean time the firms integrate corporate social responsibility performance in their management. Our results show that it is not the main evolution.

The permanent presence of the values all over the studied period could suggest that some theoretical models could be revisited since they should integrate duration of ethical communication as an indicator of corporate social involvement.

### **Practical contributions**

The synchronization or non-synchronization of values with economical environment could be used as a major signal of involvement of the firm in social responsibility. Since we know that ethical values are stable by individuals, apparition or disappearance of values in the letter each time that economical fluctuations arise show that ethical speech is not a belief but an instrument and in the worst situation a reactive discourse. Certificating firm could then use indicators such as stability of the ethical values in order to test the involvement of the in

corporate social responsibility that most of the main norms expect (ISO 26000, ILOHAS 18001, ISO 14001...)

Because resources and benefits are limited, looking toward letters in order to identify what the values and what are the stakeholders talked to the shareholders can permit to the first to define if political claims of the CEO in their favor is a reality or not.

### **Limitations**

The firm can disclose values via others media than letter to the shareholders. In order to evaluate what kind of ethical values the CEO uses for transmit values to the shareholders, it would be necessary to study all other kind of disclosure: financial statement, board of non executive directors, websites, institutional communication via financial newspaper and annual reports. We have used only one support to study the ethical values disclosed by CEO.

The second limit is related to the methodology used as it can introduce an interpretation biases.

Third limit, we did not check the capital composition. We don't know if the nature of values used in the letter depends on the type of shareholders like family, institutions, hedge funds, individuals or other firms.

### **Future researches**

Future research could investigate how ethical values are spread in letter in several others countries where sociologists identified different ethical or moral values as USA, Japan, China or Germany.

As there is an increase of corporate social responsibility practices, all the stakeholders scrutinize the external communication of the companies (Kemper et al., 2010). Future research could investigate the same database in order to define the stakeholders the CEO speaks about to the shareholders. Is there any correlation between the ethical values in the letters and the stakeholders depicted?

It could be interesting to investigate the relation between ethical values and financial performance in order to focus more on the central performance expected by shareholders.

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