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Original Paper

Legitimating Financial Deficit in Corporate Annual Reports: Evidence in the U.S.

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Abstract
Over the last decade especially in the wake of the COVID-19 pandemic, large companies have confronted overwhelming financial challenges, evidenced by revenue shortfalls and, in certain sectors, deficits. What's worse, such under-performance poses a serious legitimacy threat on the companies' right to survive and succeed in the context of heightened public scrutiny of corporate activities and results. Thus, this paper examines and analyzes 50 CEO statements of annual reports published by 21 Fortune Global 500 U.S. companies which were identified in deficit of the year. The study presents the way in which the companies attempted to divert or downplay their deficits via the strategies of Image Enhancement, Deflection, Mitigation and Admission. The findings of this study contribute to apprehending the linguistic and rhetorical elements tactically deployed by the companies for impression management, legitimacy repair and also crisis communication.

Keywords
legitimation strategies, discursive strategies, corporate discourse, negative disclosure, annual reports

1. Introduction

Amidst the global economic downturn, especially impacted by the COVID-19 pandemic, a considerable number of businesses worldwide are struggling and incurring substantial losses. Even some of the companies that have been on the *Fortune* Global 500 list for a decade are not exceptions. However, to a large extent, corporate financial losses can severely damage the reliable, responsible, and desirable images that companies have long established, as well as their legitimacy, which is crucial for their survival and success. How to skillfully use rhetoric in annual report disclosures to manipulate the image of the company in the minds of readers, particularly shareholders to resolve the legitimation crisis, has become particularly important for businesses facing increasing public scrutiny.

However, previous research has primarily focused on discourses relevant to politics and media

(Leeuwen, 1999; Manosuthikit, 2021; Oddo, 2011; Rojo & Dijk, 1997; Reyes, 2011; Vaara et al., 2006; Vaara & Tienari, 2008; Yu & Yan, 2021). Even in the corporate context, studies exploring organizational legitimacy have predominantly focused on corporate social responsibility (CSR) reports (Haffar & Searcy, 2020; Hahn, 2014; Hahn et al., 2021; Lin, 2019, 2021; Thelisson et al., 2021). Thus, relatively less is known about how the leading companies strive to repair image, and rebuild trust through discursive legitimation strategies in their annual reports (AR) in times of deficit. To bridge this gap, this paper thus attempts to investigate the communicative strategies employed by 21 U.S. companies to legitimize their financial deficits in CEO statements within annual reports.

This empirical study makes several contributions to the literature on legitimation, annual reports, and corporate discourse. Firstly, it extends previous legitimation discursive studies, which have focused on news media and political texts (Manosuthikit, 2021; Vaara, 2014; Zhu & McKenna, 2012), to the realm of corporate disclosure. Secondly, it provides a deeper understanding of the discursive strategies CEOs employ to de-emphasize or mitigate potential consequences once their financial deficits become known to the general public. Thirdly, it assists shareholders in gaining a clearer understanding of the promotional and persuasive language used in statements for impression management. Lastly, it offers valuable material for business practitioners and business English majors to identify and master the strategic use of language in business contexts.

Specifically, this paper examines 50 CEO statements in the annual reports in which the net earnings/income/revenue is negative. Following are two questions guiding this research:

Q1. What are the strategies the U.S. companies used for legitimizing their financial deficits?

Q2. How are the legitimation strategies manifested linguistically and rhetorically in these CEO statements?

The remainder of this paper is organized as follows: The second section gives a brief introduction of CEO statements within annual reports and reviews previous studies on legitimation strategies in corporate reports. The third section discusses the corpus and method used in this research. Building on this, the fourth section elaborates on the categories and subcategories within the adapted legitimation framework and presents our findings in detail. Finally, the last section presents our conclusions.

2. Literature Review

2.1 CEO Statements within Annual Reports

Annual reports (AR) are an integral component of corporate public discourse, mandated for all publicly listed companies. They serve as a comprehensive disclosure tool, providing both financial data and non-financial narrative texts that complement the numerical information. These reports are addressed to a broad audience, including shareholders, the stock market, and the wider society, and are instrumental in constructing the corporate image.

CEO statements, typically positioned at the forefront of annual reports, are of considerable interest across various disciplines such as accounting, management, and applied linguistics. These statements embody the company's past financial performance, future plans, and corporate missions, and are considered a valuable source of information for shareholders and investors in making investment decisions. Linguists have explored the social construction function of these statements, analyzing theme contents, discursive strategies, and linguistic means within their social context to understand the discursive construction of the corporate identity or image.

2.2 Legitimation

In the business context, a company's survival and success largely depend on the intangible "social contract" (Deegan & Rankin, 1996) or "social license" (Gunningham et al., 2004: 313) it holds with society. In other words, the company's practices and activities should be perceived as legitimate—namely, appropriate, proper, and desirable. In this case, corporate disclosure serves as a communicative strategy for the companies in times of legitimacy crisis to rebuild trust and repair image (Deegan & Rankin, 1996).

Thus far, academic research has predominantly focused on CSR reports—one type of corporate disclosure employing legitimation strategies. This focus is evident in the literature, where companies are examined for their attempts to justify deviant or undesirable behavior or decisions (Haffar & Searcy, 2020; Hahn, 2014; Hahn et al., 2021; Lin, 2021; Thelisson et al., 2021).

Specifically, in terms of practicality, Hahn (2014) examined the legitimation strategies employed by companies to maintain a "true and fair" view when disclosing "bad news," with the intent to advance disclosure criteria, such as the GRI guidelines. Hahn et al. (2021) further considered the pragmatic effect of CSR disclosures, specifically the perlocutionary act, by observing whether these disclosures conveyed a sense of legitimacy that influenced investor behavior, such as disinvestment. With regard to legitimation dynamics, Thelisson et al. (2021) contributed a legitimacy-as-process perspective to a merger case through real-time and longitudinal analysis, identifying three legitimation strategies: public legitimation, private legitimation, and hybrid legitimation, as reflected in CSR reports. Additionally, Lin (2021) expanded on the legitimation strategies proposed by Van Leeuwen (2007) by applying an integrated framework to investigate the linguistic and rhetorical features in CSR disclosures between the UK and China. Lin identified four main categories of legitimation strategies: denial, deflection, mitigation, and admission, and also analyzed two crucial motives for cross-cultural differences in discursive efforts: face (mianzi) culture and power-distance. In contrast, Haffar & Searcy (2020) observed that sampled Canadian companies' experiences with tension were either implicitly referred to or strategically omitted in their reports, due to their perceived non-relevance to shareholders or the legitimacy threat posed to the organization.

These studies have all examined CSR reports through the lens of legitimation strategies, albeit with a strong emphasis on different aspects. This examination has prompted a reflection on the potential for applying legitimation strategies to analyze CEO statements within annual reports. However, there is relatively limited knowledge regarding whether and how legitimation strategies are employed in CEO statements within annual reports. To be more specific, in contrast to the extensive research on CSR reports, annual reports, particularly the CEO statements within them, have remained relatively under-explored. This is evident in previous studies of annual reports, which primarily focused on aspects such as readability (Bradbury et al., 2018), textual affect (Huang & Yao, 2022), narrative strategies (Laskin, 2018), and impression management and retrospective sense-making (Jones et al., 2020). A limited number of studies, including those by Breeze (2012, 2021), have attempted to examine CEO statements through the lens of legitimation theories. Specifically, Breeze (2012) examined the strategies employed by the five leading oil corporations to legitimate themselves and the entire sector following the Deepwater Horizon incident. However, in a subsequent study, Breeze (2021) shifted his focus to the banking sector, investigating how the five UK-based banks sought to maintain their legitimacy. This was the case in which both studies took CEO statements as research objects and examined the legitimation strategies manifested through linguistic and rhetorical characteristics. However, little is known about whether and how large corporations seek to legitimize their financial deficits across CEO statements within their annual reports. Therefore, this paper aims to bridge the gap in the existing research.

3. Corpus and Method

3.1 Corpus

This preliminary research was conducted on a corpus of 50 CEO statements published by 21 U.S. companies that have been on the *Fortune* Global 500 list over the recent decade (2015-2024). The leading companies were characterized with solid economic performance and significant global influence. Despite powerful strength, each company has incurred a deficit according to the *Fortune* Global 500 loss-making companies sub-list at least one year over the period 2009-2023 (the discrepancy in periods arises from the fact that the *Fortune* Global 500 rankings are determined by reference to the companies' financial performance, total revenue or income in particular over the year).

The sample statements were extracted from the corporate annual reports, which are comprehensive financial documents that provide insights into a company's core business, financial performance (profit or deficit), and even growth potential. All reports were available from the companies' websites. Initially, the PDF versions of the respective annual reports for the fiscal years 2009-2023 were downloaded. By locating and examining the net income/earnings (loss) represented in one of the three sections ("(Consolidated) Statement of Income or Earnings" or "Financial Highlight"), the years when the companies suffered a deficit were then determined. If the corresponding amount was noted in parentheses, it indicated that the company had a deficit for that year given that parentheses are widely accepted as an indicator of negative numbers in the accounting community. Subsequently, a further review of the deficit-related data for accuracy was conducted. In this course, 55 reports indicating a deficit were identified, among which, three reports on Form 10-K, however, were missing the statements and another two indicated the deficits largely resulted from the costly acquisition or integration. Five reports of limited value for further content analysis were then excluded. As a result, a corpus comprising 50 annual reports was compiled.

In general, a report typically contains two types of statements (one issued by the CEO and the other by the President or Chairperson). The statements issued by the CEO were chosen because they are often granted the highest level of power, privilege, prestige, and status within a company, thereby lending their voices greater authority and trustworthiness. Consequently, CEO statements are considered the most emblematic of corporate communications. These statements were then converted into Word documents for further analysis. After performing text preprocessing, the sample statements were imported into LancsBox 6.0, a text analysis software, to explore further information. Table 1 is a supplement to the foregone information about the corpus.

Table 1. Sample CEO Statements

Metrics	Values
Total corpus types	8,323
Total corpus tokens	89,651
Type/token ratio	9.28%
Most high-frequency years	2020, 2022
Total number of sectors	14

3.2 Method

3.2.1 Identification of Finance-related Expressions

To identify finance-related expressions, all sample statements were read through. Subsequently, extensive searches using software tools, specifically “MAXQDA 2022” and “LancsBox 6.0” were conducted to locate all finance-related keywords. This process was supplemented by manual searches for synonyms and hyponyms of the term “finance”. In this context, a list of keywords related to finance was compiled, including “finance”, “financial”, “financially”, “income”, “profit”, “profitable”, “revenue”, “earnings”, “margin”, “return”, and “cash”. Concurrently, the list was expanded by identifying additional keywords.

Ultimately, these keywords were used to efficiently locate finance-related expressions that were dispersed throughout various texts. As such, the focus of analysis was often on individual sentences or, occasionally, brief paragraphs. The textual evidence, marked by such keywords and patterns, is presented in Table 2.

Table 2. Finance-related Expressions in the CEO Statements

Categories	Textual evidence (from the data)
Broad sense (e.g. finance, financial, financially)	We decided to exit all of the financing platforms not related to GE industrial businesses. We completed the split-off of Synchrony, a leader in retail *finance*. (GE, 2015)
	With good execution and a bit of continuing good luck, Marketplace, Prime, and AWS can be serving customers and earning *financial* returns for many years to come. (Amazon, 2014)
	However, while the Postal Service is a fundamentally strong organization-in terms of the value we deliver to our customers and the role we play in the economy-we are not *financially* strong. (USPS, 2018)
Narrow sense (e.g. income, profit, revenue, margin, return, earnings, cash)	As a result, the homeowners business provides coverage to more than 7 million homes, and paid out over $11.4 billion in catastrophe losses while averaging $644 million of underwriting *income* annually over the last five years. (Allstate, 2022)
	Current and Lighting operating *profit* was $93 million, up from a loss of $56 million last year. (GE, 2017)
	Excluding the Cameron Group, *revenue* declined 34%. (Schlumberger, 2016)
	Our total stockholder returns outpaced our major competitors by a wide *margin* last year. (Chevron, 2016)
	During 2020 our business performance was affected by a significant decline in interest rates and by the pandemic, which both led to lower income and *return* on equity. (Prudential, 2020)
	Revenues for the year increased by 5.3 percent to a record $194.6 billion, with GAAP diluted *earnings* per share from continuing operations of ($0.57). (CVS Health, 2018)
	Despite the often difficult year, we generated $3.1 billion of operating *cash* flow, enabling both the return of capital to shareholders and future investment to support our strategic priorities. (Cardinal Health, 2022)

3.2.2 Identification of the Legitimation Strategies

After identifying finance-related expressions, the coding process was initiated, accompanied with referencing the legitimation strategies suggested in prior research to investigate how the U.S. companies legitimize their financial deficits. It's worth noting that the initial coding was performed without a predefined coding scheme. Following are elaborations of each step included in this process.

First, the finance-related contents were categorized with distinct colors in MAXQDA 2022 and each segment was then assigned a code with reference to previous research. In this process, segments categorized under the same code shared the same color. Also, each code was assigned a primary meaning (e.g., “performance comparison,” “positive evaluation” and “future promises”). Concurrently, a further attempt was made to identify more legitimation strategies that still remain unnoticed and find more codes to make sense of them.

Second, when the initial coding of all texts was finalized, a thorough review was conducted to identify any overlapping, redundant, or missing codes, leading to the following observations: (i) The code “beautification” (i.e., praises inconsistent with reality) could be perceived as an excessively positive self-assessment. Retaining the code “positive evaluation” was thus sufficient. (ii) Individuals in positions of authority, specifically CEOs in this context, were often observed demonstrating their expertise, confidence, sense of responsibility in the “future promise” section. Consequently, the code “authorization” was incorporated into the existing coding scheme. In such cases, the codes were revised and a preliminary coding scheme was compiled.

Finally, to bolster the reliability of coding results, the material was coded again following the scheme after three months, during which the introduction of new codes was observed unnecessary, indicating that the existing scheme was sufficient for representing the legitimation strategies employed by the companies.

4. Findings

The completion of the coding process facilitated an answer to the first research question, namely, “What are the strategies employed by the U.S. companies to legitimize their financial deficits?”. The strategies are as presented in Table 3.

Table 3. Legitimation Strategies Presented in the CEO Statements

1. Image Enhancement	
1.1 Selection of Earnings figures	Purposefully using non-GAAP terms
1.2 Commitment	Future promise/future-looking statements
1.3 Reassurance	Purpose-oriented statements; re-narrativism,
2. Deflection	
2.1 Performance Comparison	Comparing with competitors/the company’s previous results
2.2 Positive Evaluation	Excessive self-praise
3. Mitigation	
3.1 Authorization	Referring to personal authority
3.2 Normalization	Problems considered “ normal”/“natural”
3.3 Rationalization	Emphasizing the utility of a social practice; the way things are
3.4 Evasion of Responsibility	Attributing responsibility to external force
3.5 Corrective Action	Action plans to remedy the situation
4. Admission	
4.1 Partial admission	Implicitly/not fully admitting problems
4.2 Confession	Explicitly admitting problems

In what follows, findings pertaining to the second research question, i.e., "How are the legitimation strategies manifested linguistically and rhetorically in these statements?" are elaborated.

4.1 Image Enhancement

Although initially proposed by Cho (2009) to elucidate communication tactics in the context of environmental disasters within Corporate Social Responsibility (CSR) reports, the strategy of image enhancement (hereafter, IE) has also been found to be applicable to understanding the finance-related expressions embedded in CEO statements within corporate financial annual reports. IE focuses on promoting the company's image through discursive efforts. Generally, IE can be categorized into three types: selection of earnings figures, commitment, and reassurance. The following sections provide detailed discussions of each category.

4.1.1 Selection of Earnings Figures

While all publicly listed companies in the US are required to comply with the Generally Accepted Accounting Principles (GAAP) in their financial disclosures, there are currently no legal provisions that specifically govern the use of GAAP terms in corporate annual reports. In other words, the use of non-GAAP terms does not contravene any legal or regulatory standards. However, it is crucial to distinguish between GAAP and non-GAAP terms to avoid potential misunderstandings, as these terms are calculated differently.

On this basis, the intentional selection of non-GAAP terms by certain CEOs may be an attempt to mask or embellish actual financial under-performance, which could appear more favorable when presented in non-GAAP terms. This deliberate choice may suggest an intent to enhance the company's image by showcasing more positive earnings figures.

> (1) We ***grew*** non-GAAP operating earnings, ***exceeded*** our non-GAAP EPS guidance range, surpassed our cost savings target, and strengthened our balance sheet. (Cardinal Health, 2020)

As demonstrated in example (1), upward-trending verbs like "grew" and "exceeded" precede explicit non-GAAP terms, such as "non-GAAP operating earnings" and "non-GAAP EPS guidance range." This is further complemented by subsequent verbs like "surpassed" and "strengthened," which collectively project an ostensibly robust corporate image to the intended readers. Moreover, the persuasive effect is amplified through the strategic use of promotional language, with a coordinated structure that pairs upward-trending verbs with non-GAAP terms.

> (2) In addition, Life and Retirement's adjusted pre-tax income* ***held steady*** at $3.5 billion in 2020, and the business achieved a ***solid*** 13.6 percent Return on Adjusted Segment Common Equity* for the year, as Life and Retirement continues to demonstrate its ability to thrive as a standalone company. (AIG, 2020)

In example (2), the positive modifiers "steady" and "solid" were strategically placed before or after the non-GAAP terms such as "Return on Adjusted Segment Common Equity" and "adjusted pre-tax income", effectively conveying a strong corporate image in financial performance despite the impact of the COVID-19 pandemic.

As demonstrated, CEOs can present their financial performance inspiringly by intentionally disclosing certain favorable non-GAAP terms, which are often paired with upward-trending verbs or, more specifically, positive adjectives.

4.1.2 Commitment

The employment of "future promise" rhetoric is a prevalent strategy in corporate communication aimed at bolstering a company's image. As Breeze (2021) noted, annual reports and CEO statements inherently contain forward-looking elements. In the analyzed sample statements, the term "future" appears 170 times. This frequency can be attributed to the fact that CEOs, representing their companies, often feel the need to project a more optimistic future to their shareholders through promise of what is to come, particularly in situations where there is a risk of overwhelming disinvestment that could potentially become unmanageable.

The examples that follow are forward-looking statements characterized by ambitious and future-oriented target plans. These are often strategically used to convey a promising future, irrespective of the feasibility of fulfilling these plans. In such instances, however, the promise made is often so vague, abstract, and devoid of detail, as illustrated in examples (3-5).

> (3) We take our responsibilities very seriously and ***are committed to delivering you a stronger, growing, and more profitable business***. (AIG, 2017)

In this example, the "future promise" strategy is enacted through a "predicate+double object" construction, exemplified by the phrase "are committed to delivering you a stronger, growing, and more profitable business." Here, the phrase "are committed to" signifies the company's unwavering dedication to generating profits for its shareholders. However, the subsequent adjectives—"stronger," "growing," and "profitable"—lack quantifiable benchmarks, as the specific thresholds for strength, growth, or profitability are not provided. As such, CEOs often subtly employ the strategy of future promise in their letters, particularly during years with negative financial outcomes. On one hand, the inherent ambiguity of promise provides CEOs with considerable flexibility in its fulfillment. On the other, such hopeful promise serves to mitigate the negative impact of financial under-performance by instilling a sense of optimism.

> (4) ***We believe*** the Alstom investment ***will generate a strong return***. (GE, 2015)
>
> (5) We are committed to supporting the dividend. ***My confidence*** in saying that comes from the financial strength and flexibility provided by the $27.5 billion in free cash flow we generated in 2020 and the ***$26 billion we anticipate this year***. (AT&T, 2020)

As demonstrated in example (4) and (5), emotion is strategically employed to bolster the persuasiveness of claims regarding future success. In example (4), the modal verb "will" (which suggests inevitability), coupled with the strong yet positive sentiment word "believe," creates an illusion that the once uncertain future success is now a foregone conclusion. In example (5), the intense but positive sentiment word "confidence" immediately follows the first-person possessive pronoun "my," thereby significantly enhancing the perceived likelihood of fulfilling the future promise through the CEO's expressed assurance. Moreover, in addition to the authoritative voice, the U.S. company also manages to alleviate potential concerns about promise fulfillment by highlighting its "financial strength". Collectively, these elements contribute to constructing a thriving and prosperous corporate image.

4.1.3 Reassurance

Reassurance, a discursive strategy aimed at alleviating readers' concerns, is evident in several statements. This strategy is observed to be enacted either by reaffirming the company's goals or objectives, particularly in relation to profit (as seen in examples 6-7), or by highlighting the company's ability to overcome ongoing risks and challenges through the retelling of its survivor narrative (example 8).

> (6) Our ***objective*** is to better manage growth, profitability and risk. (AIG, 2017)
>
> (7) Our capital management strategy is directed by our ***goal of long-term, profitable growth***. It is ultimately my responsibility to create value for you, our shareholders, and I take this responsibility very seriously. (AIG, 2017)

In examples (6) and (7), the company explicitly stated its goal of generating profits in concise and refined language, indicating a clear focus on creating value for shareholders. This clarity suggested a strategic orientation towards sustainable profitability, which served to alleviate investors' concerns regarding future returns. Consequently, the company's image was significantly enhanced in the eyes of these investors. Notably, in example (7), the CEO's use of the first-person pronoun "I" in his statement further elevated the company's image, leveraging his authoritative position.

Example (8) illustrates the strategy of re-narrativizing the survivor narrative (Breeze, 2012) as a form of reassurance.

> (8) You saw this sort of balancing again in 2008-2009 as we ***endured the recession*** provoked by the mortgage-backed securities ***financial crisis.*** We took several actions to manage the cost structure and efficiency of our Stores business, but we also balanced this streamlining with investment in customer experiences that we believed could be substantial future businesses with strong returns for shareholders. (Amazon, 2022)

In this instance, Amazon's CEO emphasized the company's resilience and success during the financial crisis of 2008-2009. The CEO deliberately linked the company's survival and achievements to its agility and crisis response by underscoring effective "actions," particularly the strategic "balanced streaming" approach. This was aimed at bolstering a fearless and adaptive corporate image amidst a challenging financial landscape. Notably, the consistent portrayal of such an image metaphorically conveyed the company's robust ability to tackle current challenges. Consequently, this narrative can also serve to reassure shareholders.

4.2 Deflection

The deflection strategy is executed by diverting readers' attention towards more favorable or optimistic outcomes. In the sample statements, CEOs strategically distanced companies' financial under-performance from readers' view to protect the companies' interests. This shift in focus allowed companies to maintain their legitimacy. Two common approaches were employed in this context: one involved excessive self-praise regarding companies' past achievements; the other consisted of performance comparisons with competitors and companies' previous results.

4.2.1 Positive Evaluation

The strategy of positive evaluation constitutes a subset within the broader spectrum of languages of evaluation, with a particular emphasis on employing affirmative language to assess performance or outcomes. In this context, affirmative language manifests as an intensified form of self-praise by numerous companies aiming to shape readers' perceptions. However, it is not uncommon for such self-praise to be exaggerated or even misleading. Evidence supporting this strategy is presented below.

> (9) Consistent with our ***AA financial strength rating***, we have maintained a ***strong capital position***, a high-quality and well-diversified investment portfolio, and highly liquid assets, which totaled $4 5 billion at the end of the year. (Prudential Financial, 2022)
>
> (10) Allstate ***successfully manages capital and has the financial strength*** to navigate challenging operating environments, fund growth and reward shareholders. (Allstate, 2023)

It's noteworthy that, despite undisclosed deficits in the CEO statements, companies in examples (9) and (10) sought to direct investors' attention towards their "financial strength" and "well-managed/strong capital." This strategy created an impression that the deficits had minimal impact on their financial stability.

Furthermore, when excessively positive self-praise is employed as modifiers for terms such as "financial performance," "financial results," or "profitability," it becomes evident that such statements contradict the actual facts. Consequently, these evaluations, which are misaligned with reality, may be interpreted as a deliberate attempt by the company to put a positive spin on its deficits.

> (11) I also want to thank our hard-working, diligent, and committed colleagues whose focus and dedication over the last few years allowed us to make remarkable strategic, operational, and financial progress, which has positioned AIG for ***long-term profitability*** and industry-leading performance. (AIG, 2020)

In example (11), it's evident that the expression "long-term profitability" contradicted the identified financial deficit of the company. Such a positive evaluation appeared to be misleading.

> (12) 2015 I am very pleased to report excellent results for fiscal 2015, and I commend our highly engaged associates for the ***outstanding financial and operational performance*** we achieved this year. (Cencora, 2015)

Similarly, in example (12), the use of highly intensified positive adjectives such as "outstanding" seemed contradictory when applied to "financial and operational performance," especially given the company's financial deficit. It's widely acknowledged that profit or deficit should be a key criterion in evaluating financial and operational performance. Therefore, such excessive self-praise could potentially mislead shareholders.

4.2.2 Performance Comparison

The performance comparison strategy, which serves to implicitly and tactically emphasize positive aspects, is realized by comparing the company's performance with that of its competitors and its own previous results.

> (13) Our total stockholder returns ***outpaced our major competitors*** by a wide margin last year. In fact, we're ***No. 1*** in total stockholder return ***relative to our peers*** for any cumulative holding period going back 25 years. (Chevron, 2016)

In example (13), the company highlighted its superior performance over its competitors in terms of total shareholder return, using expressions such as "outpaced our major competitors," "No. 1," and "relative to our peers." Particularly noteworthy were the use of the comparative verb "outpaced" and the inherently comparative term "No. 1".

> (14) Our revenues for the full year were ***up 14% to $136 billion***, and adjusted earnings per share from continuing operations were ***up 25% to $4.96***. (Cencora, 2015)

In example (14), the company highlighted its improved financial performance compared to the preceding year, which was marred by defaults. This improvement was evident through the use of the "preposition + percentage" construction, indicating a 14% increase in revenues to $136 billion and a 25% rise in adjusted earnings per share to $4.96.

> (15) During the early part of the pandemic, with many physical stores shut down, our consumer business grew at an extraordinary clip, with ***annual revenue increasing from $245B in 2019 to $434B in 2022.*** (Amazon, 2022)

In example (15), the company's financial performance was compared with that of a deliberately chosen year, highlighting an increase in annual revenue from $245 billion in 2019 to $434 billion in 2022. It's noteworthy that such comparisons were inherently subjective and can be manipulated to present a favorable outcome.

4.3 Mitigation

Companies tend to mitigate disappointing financial results by employing the following communicative strategies: 1) referring to authority (Authorization), 2) presenting the deficit as "normal" or "natural"(Normalization), 3) emphasizing the utility of a social practice or the way things are (Rationalization), 4) attributing responsibility to external force (Evasion of Responsibility), and 5) taking remedial action (Corrective Action). Each of these tactics serves to manage impressions on readers.

4.3.1 Authorization

The strategy of authorization can be vested in individuals due to their prestige, status, or expertise, or in impersonal forms of authority such as law, rules, customs, and regulations (Leeuwen, 2007). Personal authorization, also known as personal authority legitimation, is a common phenomenon in the sample statements. In these cases, legitimacy stems from the individual's status or role. The gloss of authority, especially for CEOs, is undoubtedly projected onto all facets of their leadership role within this context. As a result, their statements are accorded greater weight. Notably, statements articulated using the first-person pronoun "I" or the possessive determiner "my" are perceived as more potent and persuasive, given that they are uttered by the CEO, as illustrated in examples (16-17).

> (16) You have ***<u>my</u> word*** that ***our leadership team*** and ***<u>I</u>*** are committed to keep earning that confidence every day as ***we work*** to create value for you. (AT&T, 2020)

In example (16), the statement was imbued with obligation modality (Leeuwen, 2007) and conveyed a sense of authority through the use of first-person pronouns "I" and "we". The commitment phrases "my word" and the "subject + predicate" structure ("we work") reinforced this authority. Such linguistic choices may bolster shareholders' confidence in future returns, as the statements were attributed to the CEO's authority.

> (17) ***<u>I</u>*** believe AWS is one of those ***dreamy business*** offerings that can be serving customers and earning financial returns for many years into the future. (Amazon, 2014)

In example (17), the first-person pronoun "I" was also employed. However, a subtle distinction was the use of the endorsement "dreamy," which bestowed an honor or title upon the company, albeit with a strong undercurrent of personal conviction.

4.3.2 Normalization

The strategy of normalization, which involves presenting negative aspects as "normal" and "natural", is also an effective communicative tactic for mitigating the perception of financial deficits. This strategy is notably employed in the context of emphasizing the challenges or threats faced across the sectors/industries in which the company operates (example 18), as well as the fiercely competitive market environment and peer groups (example 19).

> (18) While Allstate has adapted to climate change and has a viable business protecting homeowners, ***the overall industry*** has generated losses of $23 billion in the last 5 years. (Allstate, 2023)

In example (18), the company used the concessive conjunction "while" to shift the focus from its own financial performance to the industry-wide losses, effectively contextualizing its deficit. As a result, the company's financial shortfall was perceived as a normal and expected consequence of the broader industry challenges.

> (19) While there were an ***unusual number of simultaneous challenges*** this past year, the reality is that if you operate in ***large, dynamic, global market segments*** with ***many capable and well-funded competitors*** (the conditions in which Amazon operates all of its businesses), conditions ***rarely stay stagnant for long***. (Amazon, 2022)

In example (19), Amazon's CEO highlighted the "challenges" inherent in operating within "large, dynamic, global market segments" and competing against "many capable and well-funded competitors." This context rendered the company's deficit understandable, acceptable, and ultimately forgivable. As a result, the potentially adverse effects of the deficit were likely mitigated to a large extent. It is also important to note that the term "challenges" functioned as a euphemism for difficulties or threats. By referring to the deficit as "challenges" rather than financial disasters or difficulties, the unfavorable impact was also somewhat reduced.

4.3.3 Rationalization

The strategy of rationalization entails legitimizing or justifying suboptimal financial performance by invoking logical or economic rationales, such as decreased interest rates, increased costs, and reduced core business activities, as Hahn (2014) noted in a business context. Leeuwen (2007) differentiated this strategy into two types: instrumental rationalization, which highlighted the utility—such as benefits, functions, or purposes—of a specific action or practice; and theoretical rationalization, which emphasized the perceived inevitability of "the way things are." Evidence for each type is presented subsequently:

(20) Despite the effects of the economic turmoil of the past year, the Postal Service remains a ***vital driver of the American economy***, is an ***integral part of every American community***, and ***delivers the greatest value of any comparable post*** in the world. (USPS, 2009)

In this instance, the Postal Service had underscored its critical role in generating employment, fostering connections across "every American community," and acting as a "vital driver of the American economy." This discourse, which could be characterized as educational or didactic according to Hahn (2014), had contributed to mitigating the company's financial under-performance to a certain degree.

(21) During 2020 our business performance was affected by ***a significant decline in interest rates*** and by the pandemic, which both ***led to*** lower income and return on equity. (Prudential Financial, 2020)

In contrast, the company in example (21) endeavored to justify its unsatisfactory financial results by attributing them to unfavorable external factors, such as "a significant decline in interest rates" and the inevitable "pandemic." In this instance, the negative outcome was presented as being understandable.

(22) The underwriting loss was generated from ***auto insurance as costs to repair and replace cars and settle third-party liability claims increased*** by over 15% from the prior year. ***Increases in the estimates*** for auto losses from pre-2022 claims also negatively impacted 2022 results. (Allstate, 2022)

(23) Our 2009 fiscal year proved to be one of the most challenging in the history of the Postal Service. The deep economic recession significantly affected ***commercial mailing activity***, creating a ***large imbalance between Postal Service revenues and costs***. (USPS, 2009)

In example (22), the company's underwriting loss was attributed to changes in economic elements, specifically "increased costs" associated with repairing and replacing vehicles, settling third-party liability claims, and "increased estimates" for auto losses, which negatively impacted the "2022 results." In example (23), amidst an economic recession, the company's core business, "commercial mailing activity," was largely affected, leading to "a substantial imbalance between Postal Service revenues and costs." By highlighting the rising costs and the decline in the core business, which were beyond human control, the losses in both examples were portrayed as being acceptable.

4.3.4 Evasion of Responsibility

By employing the strategy of evading responsibility, companies often seek to absolve themselves from blame or responsibility for negative financial outcomes. In such cases, mandatory charges or data compilation methods are frequently used as "scapegoats".

> (24) We clearly have reason to be confident in our operating model's ability to drive profitable, long-term growth and enhance shareholder value. That said, 2018 was not free of challenges as ***we took $6.1 billion of goodwill impairment charge*** related to our long-term care business. ***As a result***, GAAP operating income for the year declined by 57.8 percent. (CVS Health, 2018)

In example (24), the company attempted to attribute its financial under-performance to a mandatory yet substantial charge, using the cause-effect logical connector "as a result" to link the two. Although this created a close interconnection between the charge and the under-performance, this may not necessarily be the case. It appeared that a company facing a deficit could absolve itself of responsibility for issues such as mismanagement by shifting the blame.

> (25) ***The GAAP earnings are 100% misleading*** when viewed quarterly or even annually. Capital gains, to be sure, have been hugely important to Berkshire over past decades, and we expect them to be meaningfully positive in future decades. But their quarter-by-quarter gyrations, regularly and mindlessly headlined by media, ***totally misinform investors***. (Berkshire, 2022)

In example (25), the company directly challenged the accuracy of GAAP, the accounting standard that U.S. publicly traded companies must adhere to when submitting their financial reports. The context was steeped in skepticism and criticism, emphasized by the use of the adverbs of degree "100%" and "totally," the adjective "misleading," and the verb "misinform," the latter two indicating an error with the prefix "mis". It's noteworthy that, in years when the company was profitable, the same standard was not accused of misleading or misinforming investors, according to previous CEO statements. This contrast suggested a clear attempt by the company to shift blame onto an external factor—the GAAP standard—in this case, rather than introspecting on their own flawed management practices or lack of foresight.

4.3.5 Corrective Action

The corrective action strategy aims to legitimize financial deficits by highlighting actions that have been foregone, are ongoing, or are planned to address the situation. This approach, similar to that observed in CSR corporate reporting (Lin, 2021), is prevalent in the sample statements.

As Hahn (2014) noted, the strategy can be divided into two types: one that is general and vague, and the other that is specific and concrete. Notably, evidence of this strategy was primarily manifested through clusters of specific and effective measures, articulated in active voice by the collective "we" (examples

26-27) or the agentive entity "the specific company" (example 28). Clearly, companies aim to mitigate the impact of bad news by suggesting that a turnaround is imminent through the incremental improvements inherent in these actions.

> (26) ***We implemented*** the most significant restructuring in 3M history, aggressively ***cut*** management layers and ***simplified*** our supply chains – helping us deliver robust cash flow. (3M, 2023)
>
> (27) ***We're also sizing*** our operations to reflect the new economic activity level brought about by the pandemic, and ***we're leaning*** into our cost and efficiency initiatives so that ***we have*** the cost structure in place to compete today and well into the future. ***We're continuing*** to evaluate our portfolio for opportunities to monetize additional non-core assets. ***We closed*** or announced nearly $5 billion of asset sales last year, including our stake in Central European Media, our Puerto Rico and U.S. Virgin Islands wireless and wireline operations, and our Crunchyroll anime operations. (AT&T, 2020)

In examples (26) and (27), the companies outlined their actions to address and prevent deficits using the collective "we" in active voice ("We implemented [...]; aggressively cut [...] and simplified [...]", "We're also sizing [...], and we're leaning into [...] so that we have [...]. We're continuing to evaluate [...]. We closed [...]".) As demonstrated in both examples, the corrective measures focused on segment restructuring, cost reduction, and streamlining the workforce with minor variations in verb tenses. Undoubtedly, the consistent use of active voice and the pronoun "we" in a coordinated structure fostered a sense of intimacy with readers, conveying the company's proactive and responsible stance in addressing and mitigating existing challenges.

> (28) ***The Postal Service reduced*** the number of employees and overtime; ***renegotiated*** with suppliers to ***obtain*** more favorable terms; ***reached*** an agreement with the National Association of Letter Carriers to ***expedite*** the adjustment of delivery routes; ***imposed*** a moratorium on new construction; ***made*** significant process improvements; ***provided*** retirement incentive for up to 30,000 employees; and ***eliminated*** non-essential programs and projects. (USPS, 2009)

Unlike examples (26-27), in example (28), the company detailed its responses to the deficit by outlining a comprehensive range of cost-reduction measures and benefit enhancements ("The Postal Service reduced [...]; renegotiated [...] to obtain [...]; reached [...] to expedite [...]; imposed [...]; made [...]; provided [...]; and eliminated [...].") Although presented in active voice, the use of the specific entity as the actor created a certain distance from readers, which might not be as effective as using the collective "we" in mitigating the impact of the deficit.

4.4 Admission

Although the vast majority of companies seek to de-emphasize or alleviate their financial deficits, a considerable number partially acknowledge under-performance in specific segments, as well as financial strains or stress (Partial Admission). In contrast, only five companies fully admitted to their deficits (Confession).

4.4.1 Partial Admission

The partial admission strategy often aligns with demonstrating fragmentary under-performance (example 29) or employing vague or imprecise language (example 30). However, it remains unclear from the text alone whether the companies are indeed experiencing a deficit.

> (29) Catastrophe losses, however, were 81% higher ($2.5 billion), resulting in ***an underwriting loss for 2023.*** (Allstate, 2023)

In example (29), the evidence cited "an underwriting loss for 2023" which represented only a segment of the company's financial results and was therefore insufficient to conclude that the company experienced a deficit in 2023.

> (30) However, ***profitability fell***, and we are focused on improving margins by driving better productivity and reducing cost. (GE, 2018)

In example (30), we could not conclude that the company was operating at a deficit based solely on the statement ("profitability fell"). This phrase merely indicated a decline in profitability and did not necessarily imply that it had become negative.

4.4.2 Confession

As demonstrated, companies may directly acknowledge their financial deficits by employing the confession strategy. Typically, a concise statement regarding the deficit is presented, either preceded or followed by a series of positive self-assessments (excluding example 34).

> (31) Coming out of the pandemic, the perfect storm of inflation, rising interest rates, supply chain disruption, labor shortage and intense weather led to a very challenging year for the association in 2022. ***This resulted in negative earnings for the year***, but I'm proud to report that in spite of that we maintained our very strong net worth. (USAA, 2022)

In example (31), the company acknowledged having "negative earnings for the year" prior to emphasizing its "strong net worth".

> (32) However, while the Postal Service is a fundamentally strong organization-in terms of the value we deliver to our customers and the role we play in the economy-we are ***not financially strong***. In fiscal year 2018 the Postal Service recorded ***a net loss of $3.9 billion***. (USPS, 2018)

> (33) Allstate rapidly responded to a difficult operating environment in 2022 to mitigate ***negative financial results*** while staying on course to build a low-cost digital protection company. Financial results were ***below expectations with a net loss of $1.4 billion*** that resulted from auto insurance underwriting losses and a decline in the value of public equity investments. (Allstate, 2022)

In example (32), the company initially utilized excessively self-praising language before disclosing its financial status, which included the term "net loss" and the negative judgmental phrase "not financially strong". In example (33), the company's "negative financial results" were presented within the context of corrective actions, and were accompanied by the negative sentiment phrase “below expectations”.

> (34) When I look back at 2017, there’s no doubt: GE had a very ***tough year***. Revenues were down 1% at $122.1 billion, and we delivered ***$(0.68) in earnings per share (EPS) on a GAAP basis***. Excluding charges for insurance-related items, U.S. tax reform, and industrial portfolio actions, EPS was at the ***low end of our reduced guidance*** for the year, at $1.05. (GE, 2017)

In contrast, the company in example (34) admitted its deficit by presenting numerical data (“$(0.68)”). This multi-modal approach complemented the textual admission such as “negative earnings”, “loss” and “deficit” by incorporating quantitative evidence.

5. Conclusion

To conclude, this study has delved into the intricate world of corporate discourse, specifically analyzing the legitimation strategies evident in the CEO statements of annual reports from *Fortune* Global 500 corporations facing financial challenges. The identification of four key strategies—Image Enhancement, Deflection, Mitigation, and Admission—sheds light on the sophisticated mechanisms through which corporations navigate and respond to legitimacy threats.

The implications of this research extend beyond the immediate scope of linguistic analysis, offering valuable insights to the broader community of scholars, business leaders, and policymakers. By understanding these discursive tactics, stakeholders can more effectively evaluate corporate communications, anticipate strategic messaging, and foster a more transparent and accountable business environment. This study also underscores the importance of critical discourse analysis in the business context, highlighting the power of language in shaping perceptions and maintaining organizational legitimacy. It serves as a foundation for future research to explore the nuances of corporate communication across different cultural and economic landscapes. It is also pertinent to emphasize the potential for this research to inform business practice. By uncovering the strategies used to manage corporate image and legitimacy, this study equips business practitioners with the knowledge to navigate their own communications more effectively. It also suggests that a more nuanced understanding of these strategies could lead to improved investor and public relations, as well as enhanced corporate governance.

However, it is crucial to acknowledge the limitations of this study, which confined to a specific geographical and cultural context—the United States. This focus may not capture the full spectrum of legitimation strategies employed globally. Furthermore, the study’s exclusive reliance on textual analysis limits its depth, as it does not incorporate the perspectives of those directly involved in crafting these statements.

To build upon this foundation, future research could expand the scope to include a more diverse and international corpus, encompassing a wider range of cultural and economic influences. Additionally, incorporating qualitative research methods, such as interviews with AR writers or CEOs, could provide a more holistic understanding of the motivations and considerations behind the use of legitimation strategies in CEO statements within annual reports.

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