



Home > Outputs > Measuring and assessing tone at the top using annual report ...

Measuring and assessing tone at the top using annual report CEO letters

Research output: Book/Report > Book

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CEOs have a strong influence on the tone at the top of companies. How they exercise this influence has the potential to affect the quality of financial reporting. Consequently, it is important that auditors and other users find a way of examining and evaluating the tone at the top and the resultant risks to which companies might be exposed. The authors contend that the CEO letter to shareholders in annual reports is one of the most important of the mediums used by corporate leaders to communicate their attitudes and values. They argue that by analysing the text of such letters, auditors and other interested parties can gain insight into the tone at the top of major corporations. This book demonstrates two complementary methods for undertaking this analysis. First, through the use of the text analysis software package DICTION to analyse the CEO letters of FTSE 100 companies and the top 100 FORTUNE 500 companies. Second, through conducting a close reading or forensic examination of selected company letters (General Electric, Enron, BP and New Century Financial) to understand their inherent ideology, rhetoric and use of metaphors, and to highlight any silences.

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Documents

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The CEO's annual report is an update on an organization's performance over the preceding year. It is typically published in a booklet form and offers a breakdown of revenues and expenditures as part of a financial overview. It includes a summary of major developments effecting the organization, as well as goals and objectives for the coming year. While a CEO's annual report is commonly issued to share holders of a publicly traded company, a business of any size can create an annual report as a means of giving a status report to investors, employees or any other interested parties. Measuring and Assessing Tone at the Top Using Annual Report CEO Letters. Researchers: Joel Amernic Russell Craig Dennis Tourish. Measuring and Assessing Tone at the Top Using Annual Report CEO Letters. by. The authors of this study contend that the CEO letter to shareholders in annual reports is one medium used by corporate leaders to communicate their attitudes and values. They argue that by analysing the text of such letters, auditors and other users can gain an insight into the "tone at the top" of major corporations. This study demonstrates two methods of undertaking this analysis. Firstly, the use of a text analysis software package to analyse the CEO letters of FTSE 100 and the top 100 FORTUNE 500 companies. A good shareholder letter should define the company and its strategy, be candid, educate, tell a story (the investment thesis story), and entertain. Wells Fargo's ranking remained consistently at the top and while Bank of America's was lower, it was still in the middle of the pack back during the financial crisis. Those whose Candor & Culture rankings were the lowest—Wachovia and Merrill Lynch—did not survive the economic crisis. Educate: At the very least, management teams should want the investor to walk away from the letter more informed about its industry and company. I also used AnnualReports.com, which does a great job of amalgamating recent annual reports, however; many companies are not available on that website. As far as I can tell, there is no simple way to search for them. "Tone at the top" is a term that originated in the field of accounting and is used to describe an organization's general ethical climate, as established by its board of directors, audit committee, and senior management. Having good tone at the top is believed by business ethics experts to help prevent fraud and other unethical practices. The very same idea is expressed in negative terms by the old saying "A fish rots from the head down". Tone at the top is the ethical climate generated by an organization's leadership. The tone set by management has a significant influence on the employees of the organization. The behavior and actions of the employees will naturally gravitate toward what they witness in their supervisors, line managers, and upper management. Conversely, a negative tone at the top projects a more narrow focus on the bottom line and meeting selfish personal goals within the organization. If the organization's leadership fails to set a positive tone, employees at all levels will be more inclined to commit wasteful or fraudulent activities, because ethical conduct is not shown to be a concern or priority within the organization.