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# CEO statements in sustainability reports: Substantive information or background noise?

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ABSTRACT

This paper examines the question of whether corporate sustainability reports can serve as accurate and fair representations of corporate sustainability performance. It presents the results of a sentiment analysis of CEO statements in corporate sustainability reports and corporate financial reports between 2001 and 2010. Making an analogy with corporate financial reporting it is expected that if corporate sustainability reports accurately reflect sustainability performance, then this should be reflected in the rhetoric used. The analysis shows that the rhetoric in the CEO statements of sustainability reports is indicative of impression management rather than accountability, despite increasing standardization of sustainability reporting.



## 1. Introduction

Corporate sustainability reporting has increasingly emerged as standard practice, especially among large OECD-based companies (Kolk, 2004, 2008; KPMG, 2011). Today, corporate sustainability reports constitute one of the main communication interfaces between these companies and their internal and external stakeholder groups. While corporate financial reporting is used by companies to communicate financial information, sustainability reporting is used to communicate on non-financial issues. Financial reports and sustainability reports are usually presented as separate standalone company reports.

Various theoretical viewpoints have been employed in the sustainability reporting literature to explain underlying motivations for sustainability reporting. Accountability theory and in particular legitimacy theory have been widely adopted in this context (Brown & Deegan, 1998; Deegan, Rankin, & Tobin, 2002; Gray, 2001, 2007). Accountability and legitimacy theories reflect fundamentally different perspectives on the aims and nature of sustainability reporting (Comyns, Figge, Hahn, & Barkemeyer, 2013). Accountability theory takes a societal view on reporting and supports the notion that the company has

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an obligation to provide an accurate account of its activities to society who, in turn have a right to this information (Gray, 2001, 2007).

Legitimacy theory takes a managerial view and supports the notion that sustainability reporting is a management tool used to legitimize company activities rather than a tool to inform a company's internal and external publics about its actual sustainability *performance* (Brown & Deegan, 1998; Deegan et al., 2002). From a company perspective sustainability reporting could even be deemed as successful if legitimacy was maintained regardless of the quality or accuracy of the report. As companies use sustainability reports to manage their relationship with society, they may present their activities in a positive light by glossing over bad news to positively influence the public impression of the company. Impression management is linked with the notion of legitimacy since legitimacy can be achieved if the public impression of company activities is a positive one regardless of actual company performance. Sustainability reporting may thus be used by companies as a symbolic action to manage public perceptions and so gain or maintain legitimacy (Hooghiemstra, 2000). It has been found that companies use concealment and attribution in reporting narratives where impression management strategies are being used (Merkl-Davies & Brennan, 2007).

Partly as a response to these criticisms, the increased dissemination of corporate sustainability reporting has been accompanied by numerous attempts to standardize and professionalize the field. Most notably, the Global Reporting Initiative (GRI) has impacted the way in which companies report through its successive wave of reporting guidelines. The GRI guidelines aim at standardizing reporting and improving accountability towards stakeholders. The professionalization of sustainability reporting and the widespread adoption of GRI guidelines should have supported a shift towards accountability rather than sustainability reports being an exercise in legitimacy or impression management.

One common element that is shared by both corporate financial and sustainability reports is the statement of the chief executive officer (CEO). The CEO statement is one of the most widely read parts of the company financial report (Clatworthy & Jones, 2003; Hyland, 1998). While the CEO statement in financial reporting has been viewed as an opportunity for companies to positively manage public impressions as it is not formally audited (Clatworthy & Jones, 2006), studies have found that the rhetoric used in these CEO statements does provide an accurate indication of company financial performance (Smith & Taffler, 1995, 2000). In the financial domain, corporate financial disclosure is commonly used as a means to evaluate corporate *financial performance* and as such financial reports can be considered as an accurate account of financial performance. In the social and environmental domain, the information provided in corporate sustainability reports is also increasingly used as a means to evaluate corporate *sustainability performance.* If sustainability reports are in fact accurate accounts of corporate sustainability performance, then a similar link between sustainability performance and the rhetoric used in sustainability report CEO statements should exist.

Research on CEO rhetoric used in corporate communication on sustainability issues is a relatively new area of enquiry and one of growing interest in social and environmental accounting research (Tregidga, Milne, & Lehman, 2012). Cho, Roberts, and Patten (2010) examined the rhetoric used in the corporate environmental disclosures of 10 K financial reports and found that the language used to convey environmental performance is consistent with impression management. This study is however limited to environmental disclosures in financial reports. Marais (2012) examined how CEOs respond to stakeholder pressure by analysing the rhetoric on corporate social responsibility used in CEO discourses. Mäkelä and Laine (2011) specifically examined the CEO statements in sustainability and financial reports of Finnish companies in terms of the type of discourse used. They concluded that while there are significant differences between the discourse in the two types of reports, both serve the same purpose namely to enforce a particular worldview by the company. The study by Mäkelä and Laine (2011) also highlights the usefulness of comparing rhetoric in the CEO statements of financial and sustainability reports.

By making an analogy with the rhetoric used in the CEO statements of financial reports, this paper aims to shed light on the question whether the relationship between the rhetoric in sustainability reports and sustainability performance holds. In other words, to what extent can corporate sustainability reports actually serve as accurate and fair representations of corporate sustainability-related performance?

The paper presents the results of a sentiment analysis of 548 CEO statements of corporate sustainability reports and corporate financial reports from 34 companies and three sectors over a ten year period. The analysis builds on previous research in the context of corporate financial reporting which has identified a robust relationship between corporate financial performance and the rhetoric that is used in corresponding corporate financial reports. Three hypotheses are developed and tested to determine whether the rhetoric used in sustainability reporting accurately reflects sustainability performance. The results indicate that sustainability reporting has not matured over the period of the study and that the rhetoric used in the CEO statements of sustainability reports is consistent with impression management rather than accountability of sustainability performance. The results highlight the need for increased accountability by companies on their sustainability performance.

We contribute to the existing literature by providing a longitudinal perspective on sustainability reporting, thereby shedding light on the impacts the increasing professionalization and standardization of sustainability reporting has had in terms of companies' willingness or ability to create balanced and realistic representations of their sustainability performance. We also make a methodological contribution. The use of sentiment analysis is a move away from the traditional content analysis methodologies frequently used in research on sustainability reporting (Parker, 2005; Tregidga et al., 2012). This approach offers new insights into sustainability reporting and opens up avenues for future research. In addition, we contribute to the currently limited but growing research in the area of the CEO rhetoric in corporate communication on sustainability issues and specifically on the link between rhetoric in CEO statements in sustainability reports and sustainability performance.