

STRATEGY ISSUES IN CORPORATE COMMUNICATION. A COMPARATIVE STUDY FROM THE OIL INDUSTRY

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Abstract: Corporate communication is more and more strategy oriented. Displaying the present situation of the company, its financial position and accounts is not enough; it is also necessary to assess its perspectives through a forward-looking approach on the business. The presentation of strategy issues through the annual report represents an essential response to the information needs of more and more educated investors, but it also raises many concerns of protection from competition. This situation gave us the opportunity to study elements of strategy communicated through financial reporting in oil industry, which is one of the most sensitive to strategy issues. Our case study is based on parts of the 2006 annual reports of Petrom SA and OMV mother company, with elements of an international comparison.

Keywords: corporate governance, strategy, annual report, financial communication, textual analysis.

1. INTRODUCTION

Corporate governance is a complex concept, not as new as thought (Berle and Means talked about the modern corporation and private property since 1932), but fashionable after the latest scandals (Enron, as a proverbial example, the “dot-com” series, etc.) that affected not only the financial markets, but also the accounting and audit practices and the corporate communication strategies, in relation with the demands of the market regulators (especially the Security Exchange Commission of USA), and as a voluntary response of the company to investors’ needs.

The interest of our research lies in studying the strategic content of the corporate communication for two companies from the oil industry, acting on different financial markets, and closely linked by group relations – Petrom SA, and its main shareholder (51,01% in February 2006), the Austrian company OMV. In order to perform our analysis we used the 2006 annual report of the two companies. The annual report represents the main vehicle used by a company to transmit financial and non-financial information to its shareholders and stakeholders. It was therefore used as a basis for different researches on risk reporting, intellectual capital reporting, corporate social responsibility, etc.

We used two ways to analyze strategy issues presented in the annual report – first, we identified the elements explicitly presented in the annual reports and we performed a quantitative and qualitative analysis of these issues. Secondly, we extracted from the two annual reports three documents, (1) the statement of the chairman of the executive board of OMV, (2) the statements of the president of the board of directors of Petrom, and (3) the statement of the chief executive officer of Petrom. The three statements are directly addressed to shareholders and they present more subjective information, provided directly by the main actors involved in managing the business. Previous research assessed that the statement of the

directors to the stockholders (or shareholders) represents a key element of the corporate communication strategy (Kohut, 1992). Clatworthy and Jones (2006) also cited an experiment made by Kaplan et al. (1990), involving US MBA students, which showed that individuals' expectations of future corporate performance and equity investment decisions were significantly influenced by impression management strategies in the president's letter.

Another interest of our comparison lies in the fact that the president of the board of directors of Petrom was, at the time of the analysis, the same person as the chairman of the executive board of OMV, namely Wolfgang Ruttenstorfer. This fact, which appears due to the group structure and organization, offers us the opportunity to compare two documents provided by the same person, but from different positions, to the shareholders of the company. The methodology used in this part of our research is computer assisted textual analysis.

2. CONCEPTUAL FRAMEWORK AND METHODOLOGY

The main pillars of our conceptual framework are the corporate governance concept and the agency theory.

Perceived as an art to manage the managers, „corporate governance concerns the institutional and behavioural device that regulates the relationships between the managers of a company – or, in a wider meaning, of an organization – and all parts interested in the future of this organization, and especially those who possess legitimate wrights in relation with it.” (Perez, 2003).

OECD is an organization directly involved in creating and promoting corporate governance principles. From its point of view, „corporate governance represents a system to manage and controll a company. Corporate governance implies a set of relations between the management of the company, the board of directors and the shareholders and the stakeholders. Corporate governace also provides the structures used to assess the companies objectives and to determine the means needed to achieve these objectives, as well as the ways to controll results” (OECD, 2004).

These two definitions selected from the many existent show a management approach on corporate governance. They also emphasize the relationships between managers, board of directors and the shareholders and stockholders of the company.

The agency theory, enounced by Jensen and Meckling in 1976, offers a new vision on the organization, with significant consequences on corporate communication. „The private corporation or firm is simply one form of legal fiction which serves as a nexus for contracting relationships and which is also characterized by the existence of residual claims on the assets and cash flows of the organization which can generally be sold without permission of the other contracting individuals.” (Jensen and Meckling, 1976).

The agency relationship appears when „a person (or a firm) delegates to someone else partially or totally the management of its own interests.” (Raimbourg, 1997). We should add to this theory the general context of asymmetric information. As shown in some studies (Marois and Bompoin, 2004), the agency theory is meaningful only with the condition of imperfect and asymmetric information between the parts (the agent has a superior knowledge on the task to be accomplished). The relationship between management (agent) and shareholder (principle) is a classic example of agency relationship.

All this elements, closely related to our research, allow us to use this classic framework to sustain our findings on the corporate communication of Petrom and OMV.

As for the methodology, we have chosen to use the textual analysis, as it is commonly used with significant results in analyzing the narrative parts of financial reporting (Beattie, McInnes et al., 2004). Sydserff and Weetman (2002) presented a comprehensive literature review of the methodology used in analyzing narratives from annual reports. The main purposes of content analysis quoted by the authors are analyzing the structure or the themes of the narrative parts, also in relation with financial performance. Clatworthy and Jones (2006) also bring consistent contribution to research on narratives, with their work on chairman's statements, which appears to be the most read part by investors of the financial reporting. As for our study, we are interested in evaluating (with a quantitative and qualitative approach) the place of strategy issues in the annual reports of the two companies, therefore we have a fundamental thematic approach. We are also interested, and here lies the originality of our approach, in highlighting the complex relationships between lexical fields related to the concept of strategy in management statements addressed to the shareholders of the two companies. We used, for this second part, computer assisted techniques (especially the software Tropes Zoom, special edition 7.0.0).

3. RESULTS

We have divided the results of our analysis in two parts – first, we presented the results of the structure analysis of the two annual reports, in order to assess the place of strategy issues directly communicated to shareholders and other interested parts. In Table 1 we have presented several interrogations on the structure of the annual reports and we made some quantifications of the strategy elements presented in it. Secondly, we have presented the results of comparisons and textual analysis of the three statements addressed to shareholders by managers and directors of the two companies. This part is highly significant for corporate governance approaches.

The statement of the chairman of the executive board of OMV clearly stipulates the main strategy elements for the group (maintaining the focus on sustainable, profitable growth; extending the leadership in Central and Southeastern Europe; growing the oil and gas production to 500,000 boe/d; expanding the gas business). As we can see, only one element is set like a quantitative target and the other remain general statements. The statement of the chief executive of Petrom does not present explicitly strategy issues, but indicates the means to achieve companies' goals, namely "the essential contribution of the most important resource, the people". This encourages us to deepen our analysis using textual analysis. As many studies recently focused on using graphics and images in annual reports (Frownfelther-Lohrke and Fulkerson, 2001) we should also indicate the fact that one particular image in Petrom's annual report contains the word "strategy" written on a puzzle piece.

Table 1. The results of the structure analysis

Results	Petrom	OMV
<i>What are the main parts of the annual report?</i>	Statement of the president of the board of directors Statement of the chief executive officer Board of directors Managing committee Our strategy in action Petrom's participations Directors' report Glossary Independent auditors' report	At a glance Company Business segments Directors' report Consolidated financial statements Notes
<i>Is there a special section for strategy issues?</i>	"Our strategy in action"	"OMV Group objectives and strategy"
<i>If so, what is the place and the weight of this section?</i>	This section is a main part of the annual report. It covers 4 pages, which represent 3% of the whole annual report, and 5% of the annual report excluding the independent auditors' report.	This section is the first part of the chapter "Company". It takes 6 pages, which represent 4% from the whole annual report, and 9% of the annual report excluding the financial statement and notes.
<i>Are there any other parts dedicated to strategy issues?</i>	The directors' report contains 3 pages of outlook for 2007.	The statement of the chairman of the executive board presents elements of strategy, as we will explain it further on. The directors' report also contains 2 pages of outlook for 2007.

Special attention should also be given to all research and development disclosures. These disclosures have a double opposite effect, and therefore represent strategic and sensitive information. The information on research and development is used by investors to assess the value of the company and have a forward-looking perspective. At the same time, this could be useful information for competitors, in a business intelligence perspective. The amount and the content of this disclosure is a stumbling block for strategic corporate reporting. In this respect, we should consider that competition is also an actor of corporate communication. For some industries, the judgment of the market relies on their innovation capacity. The company becomes a « tightrope walker » in communicating its perspectives to the market, without exposing too much their strategy. (Léger, 2003)

The three documents that we analyzed in this second part of our study are (1) the statement of the chairman of the executive board of OMV, (2) the statement of the chairman of the board of directors of Petrom (which is the same person as for 1, but in a different position), and (3) the statement of the chief executive of Petrom. We have identified the differences in style,

which are important to set the involvement degree of the author, and we have extracted, using special software, the main lexical fields of the three texts (Table 2). We have also presented the main relationships between the lexical fields directly related to strategy concepts.

Table 2. The main results of the textual analysis

Entity	<i>OMV(1)</i>	<i>Petrom(2)</i>	<i>Petrom(3)</i>
Corpus	Statement of the Chairman of the Executive Board	Statement of the Chairman of the Board of Directors	Statement of the Chief Executive
Style	Narrative	Enunciative	Enunciative
Position	-	Author involved	Author involved
Verbs	Action: 57,5%	Stative: 43,1% Reflexive 20%	Factive: 51,3%
Primary reference fields	Business, energy, Europe, money, time, location, social group, behavior, substance, success, middle east, environment	Business, time, Europe, money, behavior, economy, social group	Business, time, Europe, social group, location, production

As we can see, there are differences in style even between (1) and (2), which are written by the same person, at the same moment. The explanation lies in the position from which the statement was made – (1) comes from an executive position, and (2) comes from a supervisory position (confirmed by the type of verbs used). The primary reference fields are close, but document (1) offers a wider view, also due to the fact that it comes from the annual report of the mother company. The executive position is also more open to stating strategy issues. Document (3) is an exception, as we already showed above, because the main focus of the annual report of Petrom remains the restructuring process.

Document (1) is very rich in references related to strategy (we have identified, using special software, references such as strategy, project, planning and goal, involved in complex relationships with other references). The most occurring references related to strategy issues are “energy”, “gasoline”, “Europe”, “Turkey”, “growth”.

Document (2) contains practically no reference to strategy. It focuses on explaining the past evolution of the company and on creating a confidence climate for the shareholders.

Document (3) is also rich in references related to strategy (we have identified project, development and objective, with multiple relationships to lexical fields such as “reorganization”, “modernization”, “centralization”, “procedure”, “efficiency”, “erp software”, “employee”, “sea”, “Russia”). This demonstrates that the focus is put on company restructuring, as a resource for further development and performance, but there are also regional sources of development.

4. CONCLUSIONS

Our study intended to show what are the strategy elements communicated through financial reporting. The companies chosen come from the oil industry, which is very sensitive to strategy issues, and they are also linked by group relationships, but they are acting on different financial markets. The analysis performed showed that the differences in structure

are not significant, and both companies dedicate a special part, even if not equal in weight, to enouncing the general strategy. The textual analysis of the statements of the management and directors showed that the executive position is more open to stating strategy issues. The corporate governance framework used allows us to conclude that informing on strategy elements represents an imperative demand for the management of a company. It has the purpose to reduce the information asymmetry between the manager as agent and the shareholder as principal, but it involves a double concern, of credibility and protection from competition. Our study could be further developed in longitudinal or transversal research aiming to identify ways to communicate strategy through company annual report.

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