

From Shareholder- to Stakeholder-Oriented in Banks after the Crisis

A Case Study in China¹

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Abstract

This study is examining the Executives' letters to shareholders in annual reports of Chinese listed companies with some methodology of managerial semantics. It focuses on the perceptions and practices of the governance orientation before and after the recent global financial crisis, whether the company is more stakeholder-oriented governed or more shareholder-oriented governed, from Executives' attitudes, which represent the attitudes of the top management team. Such perceptions and practices happen to experience a changing process due to the recent global financial crisis, especially in the banking industry. It is then tested whether more concern is given to the interest of stakeholders after the financial crisis than before, compared with the concern given to the interest of shareholders, and it is illustrated how this is reflected in the governance process. Since the banking industry was in the center stage of the recent financial crisis, some comparative studies between the banking industry and the non-financial industries are conducted to make the findings solid. The main research methodologies include content analysis, framing, metaphor and accounting-related rhetoric.

Key words: Stakeholder-Oriented Governance; Shareholder-Oriented Governance; Executives' letters to Shareholders; Managerial Semantics

Motivation for this research

The recent global financial crisis has raised a lot of discussion on some key topics on corporate governance, among which is the orientation of the governance mechanism. Traditional governance theory only considers the interest of shareholders. However, it will lead the corporation to take excessive risk that the goal of corporate governance is solely to maximize the shareholder's value. Since the financial leverage in the banking industry is very high, the banks are more likely to take excessive risk within the shareholder oriented governance framework. After the recent financial crisis, we see explicitly from quite a few reports and speeches that more attention should be paid to the interest of stakeholder other than that of only shareholder, because balancing the interest from all stakeholders can prevent the

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corporate from being too radical in chasing profit. This trend can be found between lines of letters to shareholders by Executives of the corporations.

Few studies examine the recent stakeholder governance evolution in China from the perspective of managerial semantics, especially by the way of analyzing the Executives' letters to shareholders included in the annual reports of companies. These letters can be good media not only for companies who would like to convey their important information including their perceptions and practices of the governance mechanism to their shareholders and to the public, but also for investors and the public who would like to have a better idea of those companies. Although these letters are signed by the Executives as usual, they can reflect the concerns by the top management teams as a whole.

Recently in China, many banks have voluntarily published annual statements of their chairmen of the boards or those of their CEOs. However, these statements are still quite different from the letters by Executives of their foreign counterparts. Obviously among the many differences, the statements by Executives in Chinese banking are quite short, which conveys far less information. But we see this effort as a good tendency which can lead Executives of more and more Chinese companies to make such statements periodically, communicating their strategic thinking, including the corporate governance mechanisms with their shareholders and the public effectively. This brings a large opportunity to study the statements by the Chinese Executives.

When we analyze the annual statements by Executives in Chinese banking, it will be helpful to compare them either with those of other industries. With such comparison, it can be tested whether the banks are more likely to change their governance orientation to stakeholders than the non-financial companies.

Contents of the extended abstract

This extended abstract is started with a survey of existing literature especially in the field of the managerially semantic analyses, followed by a brief introduction of the research methodology. The description of the sample is then presented.

Literature

The work of literature review has begun since we had such an idea. Most of the managerially semantic analyses are focused on the words from large US companies' leaders. These studies are mainly based on the letters to shareholders by chairmen of the boards or by CEOs within the annual reports and also on some letters and statements by them under some specific scenarios. These literatures, although not many, are heuristic for our research, especially the methodologies that they provide. Few studies considering the Chinese companies with such methodologies have been found yet.

Amernic and Craig (2007) have well shown the linguistic arts of CEOs in 8 famous international corporations, including Enron, Microsoft, and GE etc. They scrutinize CEOs' words in their letters to shareholders as well as their speeches or statements made in public, from the aspects of ideology, rhetoric and metaphor. They make the conclusion that, "CEOs' words are crucial means to publicize company's strategic view, influence the public policies

and expectations.” Besides, their opinion about accounting also inspires us, “Accounting is actually just a seemingly objective job, with some ideological contents hidden behind.”

Prasad and Mir (2002) study the CEO’s annual letter to shareholder in US petroleum industry from 1970 to 1980, and analyze the turbulent relationship between the industry and the OPEC at that specific time. They deploy the methodology of critical hermeneutics and find out behind the line of words, the unstable relationship between these petroleum companies and OPEC at that time of Oil Crisis. Jones and Shoemaker (1984) also try such effort to distinguish the actual meaning from the CEO’s words. Devinney and Kabanoff (1999) use the methodology of content analysis to illustrate how a firm’s attention to a region (reflected in the number of references to a region) relates to its investment decisions and performance in that region, with the sample of some Australian organizations. Thomas (1997) has also discusses the similar topic from a different rhetoric perspective.

Research Methodology

Those previous studies above are helpful from many aspects, especially from the aspects of methodologies. Based on them, we create a framework for our own managerially semantic analysis of the top management team’s words, which briefly includes analysis towards content, framing, metaphor and accounting-related rhetoric (Klaus, 1980; Entman, 1993; Eubanks, 1999; Moore, 1994). With these methods, the key words in the letters are coded from different aspects such as frequency, order, strength, based on which the statistically comparative studies can be applied in time series or in cross sections.

Description of the sample

The sample contains both banks and non-financial companies in China, which are almost all public listed, because of the data availability. We first begin this explorative study with different types of banks in China as a major part of the samples, to find out some expressions reflecting the perceptions and practices of stakeholder governance by these banks and their top management teams. Till 2008, 12 banks, including 1 policy bank, 5 state-owned commercial banks, 5 joint-stock commercial banks and 1 city commercial bank, have published statements by their chairmen of the boards or by their Executives, together with their annual reports. So we can gather comparatively enough data from the banking industry of China.

As has been discussed, the orientation of corporate governance in the banking industry is likely to change, compared with other non-financial industries, since the banking industry has been widely and deeply struck by the recent financial storm. So it will be helpful to take a look at the non-financial companies. Since it is not a compelling request by the regulatory authority, many listed companies, other than banks, haven’t yet published their top management teams’ statements periodically, while publishing such statements are found to be voluntarily prevalent in banking industry of China. A single industry in the non-financial sector may not provide enough data, so as many as data are collected from the non-financial companies, regardless industrial concentration. Then the data are comparable between the banking industry and the non-financial industries.

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