

# ISSA Proceedings 2006 - Strategic Maneuvering In Banks' Annual Reports



## *Introduction*

This paper wants to show that the pragma-dialectical approach, and particularly the technique of strategic maneuvering, can be interestingly applied to banks' annual reports. The paper considers the way how banks strategically maneuver their stakeholders, both actual stakeholders and potential ones by using annual reports. As regards the methodology adopted for my research, I considered annual reports having a time interval ranging from 2000 until 2005; the texts were originally written in three different languages (Italian, English and German) representing three areas: the Italian-speaking area (Italian banks), the English-speaking area (British and American banks) and the German-speaking area (German, Austrian and Swiss banks).

This paper is divided into three main parts: in the first part I will stress the presence of an *argumentative discussion* in a *written text*. In the second part the focus will be on the interaction of both dialectic and rhetoric in banks' annual reports: the dialectical tools will be examined, and examples from different annual reports will be provided. These will better illustrate how logicity and reasonableness are used in the texts, and what forms they take in them. Then, I will consider rhetoric and I will analyse the different tools used by banks to win their counterpart over; again, examples will show the role played by emotions in a kind of text often considered as a bureaucratic document dominated by standard rules, and with nothing to offer except for numbers. As regards the examples, some words will be highlighted in italic to prove what is explained in the paragraphs. The third and last part will be devoted to conclusive remarks.

## *1. Subjects involved in banks' annual reports*

Even if annual reports are written texts, and we clearly perceive only the banks' "voice" (Heath 1994, p. 21), we can recognize that an interaction takes place in them: banks try to convincingly inform the readers about their identity, activities, results and future perspectives by answering some questions silently formulated

by stakeholders such as:

1. What is the banks' identity?
2. What were the positive and negative incidents last year?
3. How did you get the results you are writing about?
4. How did you face bad results?
5. How are you going to face future difficulties?
6. What are your aims for the future?

As a consequence, we can find two macro subjects constantly interacting throughout the text: banks on one side and stakeholders on the other side. I have used the term "*macro subjects*" because these are composed of different minor subjects and have a high degree of complexity due to differences in interests, competences and goals: banks are made of people working at different levels (the CEO, the Board of directors, managers, employees, etc.), while stakeholders are divided into shareholders, (small) savers, legislators, mass media, competitors, the public administration, analysts, etc. With reference to the distinction made by the School of Amsterdam between the protagonist and the antagonist, we can say that banks are the protagonist, while stakeholders are the antagonist. The protagonist tries to provide the antagonist with the information required, it arranges standpoints and arguments to convince the counterpart that it is worth the stakeholders' trust; the antagonist, on the other side, tries to get useful data and information to remove its doubts and to act profitably. Consequently, the two parties strive to reach their own purposes in an advantageous way; that is why strategic maneuvering is extremely important in annual reports. The analysis of the argumentative strategies used by banks will show that annual reports are conviction tools whose power goes beyond diagrams and numbers. In the following paragraphs I will focus my attention on how dialectic and rhetoric interact in annual reports.

## *2. Banks' exploitation of strategic maneuvering*

In the last paragraph I underlined the fact that annual reports are only apparently monological texts, because actually both banks and stakeholders take part in an argumentative discussion. This discussion is dominated by strategic maneuvering, and I will show how banks exploit this technique to orient the readers' mind towards certain conclusions.

In their annual reports, banks reconcile dialectic and rhetoric, i.e. rationality, rules, "reasonableness" (van Eemeren & Grootendorst 1992, p. 5) on one side,

and emotions on the other side. My aim is to show how “People engaged in argumentative discourse are characteristically oriented toward resolving a difference of opinion and may be regarded as committed to norms instrumental in achieving this purpose – maintaining certain standards of reasonableness and expecting others to comply with the same critical standards. This does not mean, however, that these people are not interested in resolving the difference *in their own favor*. Their argumentative speech acts may even be assumed to be designed to achieve precisely this effect” (van Eemeren & Houtlosser 2002, pp. 134-135). Banks go through the three stages of strategic maneuvering recognized by the School of Amsterdam: the adaptation to the audience demand, the choice of the best topics and the use of the most effective stylistic devices (van Eemeren & Houtlosser 2002). Adaptation is due to the fact that banks answer the stakeholders’ questions thus satisfying the counterpart’s curiosity; in doing this, banks choose the most exhaustive topics, i.e. those topics that answer the questions in a way so that readers can be totally satisfied. The use of presentational devices cannot be ignored: logicity is an essential component of the conviction process, but we must remember that conviction can be made easier by exploiting linguistic tools that attract the readers’ attention and strike their emotions.

### 2.1 *Dialectic in banks’ annual reports*

The domain of dialectic is that of rules, logicity, reason: its aim is to help the parties end the interaction in one’s favour following certain norms. As regards banks’ annual reports, some instruments such as

- (1) background knowledge between banks and stakeholders,
- (2) presentation of standpoints and arguments both in a “*retrogressive*” and in a “*progressive*” order (van Eemeren, Grootendorst & Snoeck Henkemans 2002, pp. 39-40),
- (3) justifications, reasons, explanations, clarifications,
- (4) connectors

are exploited in the whole text. These dialectical tools are extremely important because they help readers have a clear idea about the banks’ identity and activities before reading the rest of the text (background knowledge). To sound credible, standpoints must be supported by arguments, and banks provide readers with arguments that can appear before (progressive order) or after the standpoints (retrogressive order); furthermore, banks’ statements must be justified and reasons must be provided, so that the readers can be more easily

convinced. Toulmin (Toulmin 1975) and the School of Amsterdam (van Eemeren & Grootendorst 1992), just to name some examples, consider justification as one of the most important argumentative functions. Moreover, the text should not be obscure, and explanations as well as clarifications should be provided to clarify the most difficult passages. Finally, connectors are important to orient the readers' mind towards certain conclusions: by using particles like "and", "or", "while", "nonetheless", etc., the protagonist logically links different textual parts thus determining the meaning of the whole text. In the next paragraphs I will go through the different dialectical strategies.

### *2.1.1 Background knowledge between the parties: how banks introduce themselves*

Banks introduce themselves in the first pages of annual reports providing information about their mission, values, activities and results so that readers can have an idea of the banks' identity, structure and of who the targets of their activities are:

(1) "Headquartered in Frankfurt am Main, Germany, we are the largest bank in Germany, and one of the largest financial institutions in Europe and the world, as measured by total assets of € 992 billion as of December 31, 2005. As of this date, we employed 63,427 people on a full-time equivalent basis, operating in 73 countries out of 1,588 facilities worldwide, of which 53% were in Germany. We offer a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world" (Deutsche Bank 2005, p. 2).

### *2.1.2 Putting forward standpoints and arguments*

Banks want the readers to get closer to the banks' position: that is why they put forward standpoints that must be supported by convincing arguments. In some cases standpoints are put forward before arguments, so that the addressees understand the banks' opinion first, and then they are convinced by the arguments provided; in other cases, arguments are stated before, so to prepare the ground for the standpoint. Anyway, the banks' standpoint must be backed, before or afterwards, by arguments that clarify the banks' position making it more acceptable:

(1) "This past year was a successful one for Goldman Sachs, reflecting both a robust market environment and strong performance across all our major businesses" = standpoint. "For 2005, net revenues increased 21% to \$24.8 billion

and net earnings rose 24% to \$5.6 billion. Earnings per diluted common share (EPS) were up 26%. Our return on average tangible common shareholders' equity was 28%" = arguments supporting the standpoint, giving it credibility (Goldman Sachs 2005, p. 3).

In this case a retrogressive argumentative order takes place; an example of progressive order is as follows:

(2) "Because hedge funds are not bound by the restrictions of the Investment Company Act of 1940," = argument supporting the standpoint

"they can use strategies and instruments that "long only" mutual funds cannot. In doing so, they seek to mitigate risk while optimizing market returns" = standpoint (Goldman Sachs 2005, p. 4).

### 2.1.3 *Justifications, reasons, explanations, clarifications*

Justifications and reasons link different parts of the discourse and make banks sound more trustworthy because through them banks show that they are able to say why they have acted in a certain way. The examples provided in paragraph 2.1.2. represent justifications and reasons. Explanations and clarifications make the text clearer and help the comprehension process so that stakeholders can make decisions with a higher degree of awareness:

(1) "These limitations and the nature of the VaR measure *mean* that it should not be viewed as a guarantee of the Group's ability to limit its market risk. The Group cannot be certain that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in twenty business days" (The Royal Bank of Scotland Group 2000, p. 26).

### 2.1.4 *The use of connectors*

Connectors are small particles that play a fundamental role in the comprehension process. They are used by the protagonist to guide the counterpart's mind towards certain conclusions and not towards others, thus moving the stakeholders' position closer to the banks' position. "And" puts two or more elements on the same level; "or" underlines the exclusion of one or more possibilities; "however" "despite" and "while" introduce something different from what can be expected after reading the preceding statements; "consequently" indicates the consequences of what was stated before:

(1) "A favorable capital markets environment will stimulate *both* corporate activity *and* demand for invest management services. *Consequently*, non interest income is expected to grow slightly faster than interest income, *while* an upturn

in volatility could prove favourable for *both* commission *and* trading income” (Deutsche Bank 2005, p. 39).

## 2.2 *The rhetorical component in banks’ annual reports*

Besides dialectic, another component is necessary for banks to convince the antagonist that their statements are valid and trustworthy, i.e. rhetoric. Dialectic and rhetoric must be present at the same time in annual reports, otherwise the conviction process would be much more difficult or even fail: dialectic provides logical elements and passages, so that the addressee is able to follow the discourse and to logically reach a conclusion. I would say that dialectic can be compared to a *thread* that links premises and conclusions providing the right stages and connections.

Rhetoric aims at establishing the victory of one of the two parties as if a fight took place, and in argumentation a real fight takes place between the parties: one party, i.e. the protagonist, has some opinions, thinks that these are better than the counterpart’s ones and tries to remove the antagonist’s doubts or to completely change its position. As regards the antagonist, its opinions can be slightly or totally different from the ones of the adversary, and also the antagonist wants the protagonist to move close to its position. No party wants to give up its opinions before establishing the adversary’s superiority: this superiority is accepted after a change in the other party has taken place. In order to achieve this change, dialectic must be supported by rhetoric, which provides an emotional side to texts apparently bureaucratic such as annual reports. The most frequently exploited rhetorical devices are:

1. a particular order of emotionally positive and emotionally negative elements;
2. the use of stylistic devices that are usually found in poetry, such as rhetorical questions, metaphors, and repetitions;
3. the use of expressions that emotionally link banks’ activities to stakeholders;
4. the accent put on the stakeholders’ happiness;
5. the banks’ attitude to social problems and participation in social activities;
6. banks’ authority and experience;
7. the concepts of growth and continuity;
8. the use of words related to war and fight.

### 2.2.1 *The arrangement of emotionally positive and emotionally negative elements*

In banks’ annual reports elements are usually arranged in a particular order: more often than not, positive elements occupy the last position after negative

elements. This is due to the fact that the last elements of a sentence are usually the ones that are more likely to be remembered: by placing the positive elements at the end of the sentence, the creation of a positive impression will be much easier, and also the readers' attitude towards subsequent information will be positive. If a sentence conveys a positive sensation first, but ends with a negative element, readers will more probably remember this negative part instead; the subjects involved in the discussion can thus adopt a particular order depending on their aims (Lo Cascio 1991). Anyway, negative results or incidents cannot be ignored: if banks omitted bad results, they would not sound trustworthy. Moreover, if banks want to convey the idea of being powerful, they also have to appear like subjects without fear of facing difficulties and with a strong willingness to defy crisis. Crisis communication can even be exploited "to win external audiences' confidence" (Heath 1994, p. 259). Some examples of strategic order of the elements are as follows:

(1) "Once again, Western Europe was the major economic area with the *lowest growth rates*. However, here too, there were *increasing signs* in the second half of the year that *the economy was picking up*" (Commerzbank 2005, p. 6).

### 2.2.2 Stylistic devices in banks' annual reports

In order to make annual reports sound more interesting, to attract and to hold the readers' attention banks introduce stylistic devices that are usually supposed to be found only in poetry: rhetorical questions, metaphors and repetitions are the most exploited tools:

(1) "What if you have more important things to do than to go to your bank? Then we simply come to you": rhetorical question followed by the answer (Commerzbank 2003, p. 39);

(2) "Our people: the key to long term growth": metaphor (Deutsche Bank 2005, p. 43);

(3) "Our Group Division Private Clients and Asset Management (PCAM) *grew* underlying net revenues by 6% to € 8.5 billion in 2005. Underlying pre-tax profit *grew* strongly, by 16% to € 1.7 billion. Last year, net revenues from investment management *were up* 10% to € 5 billion. We *grew* assets by 16%, with asset *growth* coming above all from private clients rather than institutional clients. Last year's reorganization of Asset Management, comprising our mutual fund and institutional asset management business, clearly *moved us forward* and *improved* the quality of our earnings" (Deutsche Bank 2005, p. 4): here, we have a repetition of the same word and of the same concept that impresses the idea of

growth on the addressees' mind.

### 2.2.3 *Statements that emotionally link banks to stakeholders*

The use of particular expressions that deepen the relationship between banks and stakeholders is another important rhetorical device used in annual reports to stress the fact that banks would not achieve success but for their public:

(1) "In the end, *people are the company*. And the weight of thousands of actions and interactions among them *adds up* to what kind of company Merrill Lynch is, and what kind of company we aspire to be" (Merrill Lynch 2002, p. 8);

(2) "The SANPAOLO IMI Group means to use these levers to *bring changes to the relations between the Bank, businesses and families in the context of an authentic and mature model of a relating bank* able to promote growth and the financial consolidation of small and medium sized Italian companies in the pursuit of new competitive levels: a major factor in the development of the whole Italian system" (SanpaoloImi 2005, p. 10).

### 2.2.4 *Focus on the stakeholders' happiness*

Banks try to stress the fact that their activities are not carried on at the stakeholders' expenses and that even laymen, i.e. individuals with no experience, can trust them. A very important and often highlighted concept in annual reports is that of similarity between banks and stakeholders: if the latter are happy, also banks are happy, because their success depends on the stakeholders' approval. Moreover, if banks appear to be similar to common people, i.e. to have the same problems and the same aims instead of being abstract entities, they can gain the public's assent in an easier way (Cialdini 1989):

(1) "In all our measures *it was important for us not to overtax or place undue strain upon our relationships with customers* - in other words, *the very basis of our business* - but, on the contrary, *to build upon these*. More than ever, we are convinced that any promising business model for a bank rests upon *long-term relationships with its customers*. Put in contemporary terms, this means that we continue to see the consistent *relationship-banking approach* as *superior to deal-based transaction banking*" (Commerzbank 2002, Letter to shareholders).

### 2.2.5 *Banks and social activities*

Banks focus their attention not only on financial activities but also on social problems. They want the addressees to know that they are not interested solely in economic success, but that they try to improve social conditions. As a



consequence, activities such as sponsorships, the organization of exhibitions and the provision of scholarships are highlighted in annual reports:

(1) "During 2001, our social and socio-political activities focused on education, Europe and an open society. In addition, we demonstrated our commitment to art and culture in particular through the Dresden Cultural Foundation and the Jürgen Ponto Foundation" (Dresdner Bank 2001, p. 41).

#### 2.2.6 *Banks' authority*

Authority is a fundamental rhetorical tool used by banks to reinforce their standpoints: if a bank is recognized as a competent and successful institution, it is easier for it to gain the stakeholders' assent. Consequently, banks provide information about the awards received by associations or magazines, and they stress also their expertise as providers of financial services:

(1) "Since 1972, namely, we have professionally managed the open-ended property fund hausInvest, which invests throughout Europe. Two years ago, we introduced a second open-ended fund, hausinvest global. For closed-end funds, we rely upon the *long years of experience* of CommerzLeasing und ImmobilienGruppe in Düsseldorf" (Commerzbank 2005, introduction).

#### 2.2.7 *The concepts of growth and continuity*

Growth and continuity are key concepts in annual reports: banks must prove they are able to improve the quantity and quality of their products and services, as well as to overcome difficult situations and to stay successfully on the market. Banks strive to convey the image of institutions with a high degree of stability, of entities able to protect their stakeholders from crisis or bad incidents and of subjects without fear of facing new challenges:

(1) "In our business with high net worth private clients we are well positioned for *further growth*. We intend to expand our market share in the more mature markets of Western Europe and North America. At the same time, we will strive to capture new clients in the emerging markets of Asia, the Middle East and Eastern Europe, and seize opportunities for growth in Latin America" (Deutsche Bank 2005, p. 5).

#### 2.2.8 *The use of words related to war and fight*

As already stated in paragraph 2.2., the argumentative discussion developed in annual reports can be compared to a war. Here I want to underline the fact that this war is developed at two levels: the first level involves banks and stakeholders and it is not overt. I would characterize it as *implicit* because banks *do not either*

*attack* their stakeholders, *or they do not force* them to accept their opinions. Rather, they *induce* the antagonists to get closer to the banks' positions by exploiting powerful devices such as the rhetorical ones. Anyway, in annual reports we can find also a war at a second level, i.e. an *explicit* war between banks and the competitive environment: a lot of words and metaphors related to war occur, because banks want to look like fighters that strive to achieve success despite difficulties:

(1) "UBS is one of the world's *leading* financial firms, serving a discerning global client base. As an organization, we combine financial *strength* with a global culture that embraces change. We are the world's *leading* provider of wealth management services and one of the largest asset managers globally. [...] Our global *physical presence* is complemented by our *strategy* of offering clients products and services via a variety of different channels" (UBS 2002, p. 1).

### 3. Conclusions

Strategic maneuvering spreads throughout banks' annual reports: norms are necessary for communication to be successful, but they cannot work without considering emotions or rhetorical elements that attract the readers' attention and make addressees feel part of the banks themselves. My analysis of strategic maneuvering in annual reports underlines that:

1. banks' annual reports are *interactive texts* despite their written nature;
2. in fact, they involve two parties, or macro subjects: the protagonist (banks) and the antagonist (stakeholders);
3. an argumentative discussion takes place in them with standpoints and arguments put forward by the protagonist in order to face doubts and contrary opinions silently advanced by the antagonist. Even if we cannot clearly hear the antagonist speaking in annual reports, the latter is always present: stakeholders are the centre of banks' attention because, like in a virtuous circle, stakeholders' satisfaction results in banks' success and the other way round;
4. all things considered, the pragma-dialectical model can be interestingly applied to annual reports. In particular, strategic maneuvering can be considered as a fundamental tool used by banks to gain the stakeholders' assent, no matter what geographical, cultural or linguistic areas annual reports represent. Norms and emotions find a balance in the whole text, even if two sections with differences in the use of dialectic and rhetoric can be distinguished: a "more formal" section and a "more informal" one (Mignini 2005, p. 1). The first section is highly informative, and its main parts are the risk management report, the financial

statements, the notes to the financial statements, the independent auditors' report, the information to shareholders. Here we have a prevalence of diagrams, numbers, information related to strictly financial operations, and we can say that dialectic predominates, at least at first sight; also rhetoric is present, but it is more difficult to detect if we read this section only once. The second section is more descriptive and it includes, among others, the letter to shareholders, the banks' profile, the description of the national and international economic situation and the social responsibility report. Despite this distinction, I would like to stress once again that neither dialectic nor rhetoric are mutually exclusive, but they cooperate to convince the antagonist throughout annual reports.

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