



CEO Communication during Strategic Change: A Regulatory Focus Perspective

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Abstract

The study examines CEO communication in times of strategic change based on regulatory focus theory that describes individuals' promotion and prevention focus. While promotion-focused individuals strive for maximizing gains, prevention-focused individuals strive for minimizing losses. As CEO communication is especially relevant during strategic changes, when fundamental processes and beliefs are affected and employees need sense-making and meaning-making contributions, the paper analyzes the regulatory focus of CEO letters to shareholders in annual reports and links it to the intensity of change that the organization is currently executing. The paper first develops existing analysis tools further and examines regulatory focus of CEOs as well as the type of change qualitatively from annual reports. Secondly, the paper ties the intensity of change to the CEO regulatory focus quantitatively. Results indicate a persistence of both promotion as well as prevention elements in CEO letters to shareholders. While controlling for contextual variables of the organization, the findings furthermore show a positive association between a more promotion-focused CEO letter to shareholders and the intensity of the organization's change.

Keywords: CEO Communication, Strategic Change, Regulatory Focus Theory, Promotion Focus, Prevention Focus

1. Introduction

Vast investments are yearly transacted to produce companies' annual reports to persuade stakeholders of the organization's business activities (Higgins and Bannister (1992)). As the uncertainty of the business environment amplified over the last decades due to increased competition and regulatory policies (Kohut and Segars (1992)), corporate communications became a field of interest for both organizational businesses as well as research scholars. Starting in the 1980s, especially the communication aspects of the organization's CEO gained attention in research exploring strategy and change processes. Studies analyzed CEO communication in terms of causal reasoning (Bettman and Weitz (1983)), communication outcomes as share price activity (Higgins and Bannister (1992)) and communication effectiveness (Segars and Kohut (2001)).

Recently, a persistent individual attribute from psychology research, namely individuals' regulatory focus, emerged into the field of management literature. This was achieved through linking CEO regulatory focus to existent management topics as entrepreneurship (Brockner et al. (2004)), executive compensation (Wowak and Hambrick (2010)) and alliance development (Das and Kumar (2011)). All in all, results from these researches indicate a high relevance of

CEO's regulatory focus on the firm activities and performance. However, neither study considered CEO communication during strategic change under the aspect of CEO's regulatory focus so far (Gamache et al. (2015)). Thus, this paper intends to fill an existing gap in management literature about regulatory focus theory and CEO communication.

Regulatory focus theory (Higgins (1997)) distinguishes between two variant and independent motivational orientations that influence the process of self-regulation (Petrou et al. (2015)). Promotion-focused individuals are concerned with attaining desired end-states via "eagerness strategy", which means striving for maximizing positive outcomes, whereas prevention-focused individuals are concerned with attaining desired end-states via "vigilance strategy", which means striving for minimizing negative outcomes (Higgins (1997); Lanaj et al. (2012)). One might see the link between regulatory focus theory and existing management research when combining promotion and prevention focus with often examined organizational outcomes as goal setting, change implementation behavior and employee engagement (Sonnenshein and Dholakia (2012)). Regulatory focus theory was therefore described as highly relevant personal attribute of individuals, which has to be examined further, especially in the context of CEO communication (Gamache et al. (2015));

Petrou et al. (2015)). This paper answers calls in literature that claim additional research by linking CEO communication and regulatory focus theory with additional contextual factors as for example change processes.

Change management is one of the major research streams in management literature (Sonenshein and Dholakia (2012)). Particularly strategic changes, which affect the organization fundamentally in terms of structure, processes and routines (Rajagopalan and Spreitzer (1997)), need high managerial attention in both planning and implementation. CEO communication was found to facilitate the strategic change process considerably when used appropriately (Segars and Kohut (2001)). To the best of my knowledge, CEO regulatory focus in corporate communications during strategic change was never examined in literature before. In order to expand research, this paper is designed to answer the following questions: first, "To what extent is regulatory focus theory already persistent in management literature?"; secondly, "Does CEO communication vary in terms of promotion vs. prevention focus?"; thirdly, "Is CEO regulatory focus in CEO communication adapting to different forms of change, proposing an association between CEO regulatory focus and the intensity of change of the organization currently executing?"

The paper is structured with the objective of empirically studying CEO regulatory foci in annual reports and interpreting them according to the respective type of change. In covering three diverse research streams ("CEO regulatory focus", "CEO communication" and "strategic change"), the paper first introduces and interconnects the literature on these topics by focusing on regulatory focus theory and communication during change. Two hypotheses are developed in the following part to set the scene for the analyses part. Subsequently, the empirical study initially presents the sample design and afterwards executes the qualitative and quantitative analysis. After elaborating on the results of both types of analyses, theoretical as well as practical implications are discussed in the shed light of the under examined topic in literature. The paper concludes with limitations and future research directions.

2. Literature Research

I was prepared with some background reading by the Institute of Leadership and Organization, at which this bachelor thesis is written. These papers should work as a starting point for my analysis and thereby provide some initial authors and keywords to work with in the later literature research. From those readings, I determined that it is necessary to first get an overview of the literature and present the most relevant issues to the reader.

In order to get a broad range of input and to guarantee not to miss out any important contents, I initially decided to conduct a four-method research, including all relevant literature research tools: online public access catalogue (OPAC) of Ludwig-Maximilians-Universität's library, the database 'Business Source Complete' via EBSCOhost, Google Scholar and Thomson Reuter's 'Web of Science'. All four tools were used

to search for four different keywords and slight combinations of them in order to find applicable scientific articles and papers: "Regulatory focus", "CEO communication", "communication during strategic change" and "corporate communication".

I used these keywords especially because my paper is conceptualized to consist of two main theoretical parts: "CEO communication during strategic change" being the first main part, linked with the "regulatory focus theory", which represents the second main part. Thus, my research mainly concentrated either on management literature, which concerns CEO communication, or on psychological literature of regulatory focus theory or a combination of both. The aim of my theoretical background is to integrate regulatory focus theory into management literature in terms of CEO communication. I furthermore tried to examine relevant authors in the field in order to get a broad overview of the theoretical foundation (e.g. Higgins (1997) for regulatory focus theory). Thomson Reuter's 'Web of Science' especially helped in the literature research process by providing an overview of citations of the resulting papers. The number of citations may indicate the importance of papers in the literature and a high number of citations for papers of one author may indicate a high relevance of this researcher in the research community. Thus, examining important authors in the fields of "CEO communication" and "regulatory focus theory" got a lot easier.

Since the management literature was linked with regulatory focus theory at a relatively late date (for explanation see 3.1.2), I secondly also conducted a manual research in various international journals of management literature since 2010 that seem relevant for this paper (detailed overview of examined journals see appendix A). Thirdly, I constantly checked the reference lists of the encountered articles for other relevant articles to conduct a "snowball method", where necessary. This was especially important for regulatory focus theory and for the use of CEO communication in annual reports.

As a result of this research, a list of articles was created, which initially contained 65 items. After redundant results were deleted, 53 papers and articles were left to work with. To further specify the results in terms of relevance, I added the information of number of citations (based on the numbers provided by Thomson Reuter's Web of Science) and the rating of the journal they were published in. Only articles in English language were included, since English is the language of all relevant journals and publications. Multiple articles that were not part of this initial list were added and consulted later on, when examining certain aspects in depth. Likewise, some articles of the initial list proved not to be relevant to this paper so that they were not taken into further consideration. Thus, such a literature research list may work as a profound initial starting point, which adapts during the research and writing process.

3. Theoretical Background

3.1. Regulatory Focus Theory

3.1.1. Basis Principles

Regulatory focus theory (Higgins (1997)) distinguishes between two variant and independent motivational orientations that influence the process of self-regulation (e.g. Stam et al. (2010); Petrou et al. (2015)). **Promotion-focused** individuals are characterized by motivational orientations that concern possible gains of an activity in their self-regulation. They are driven by growth opportunity and their 'ideal selves' and include their wishes, aspirations and positive world-view in attaining desired end-states (Petrou et al. (2015)). In short, promotion-focused individuals are "sensitive to [...] the presence and absence of positive outcomes" (Lanaj et al. (2012): 1001).

While **prevention-focused** individuals also try to achieve their desired end-states, they regulate themselves from different motivational esteems. Opposite to promotion-focused individuals, prevention-focused individuals concentrate on minimizing possible downsides of their activity and on reducing risks that may emerge (Petrou et al. (2015)). They are driven by their 'ought selves', which rely on duties, responsibilities and obligations (Petrou et al. (2015)). In short, prevention-focused individuals are "sensitive to [...] the presence and absence of negative outcomes" (Lanaj et al. (2012): 1001).

Concerning promotion and prevention focus, one may see overlaps to the approach and avoidance orientation of individuals (Stam et al. (2010)). In fact, literature argues that approach and avoidance orientation underlie the regulatory focus theory (Higgins (1997); Stam et al. (2010)). Table 1 is summarizing the self-regulatory principles of the approach vs. avoidance orientation (Higgins (1997): 17).

Importantly, promotion as well as prevention foci are strategies to attain desired end-states (Higgins (1997); Stam et al. (2010); Lanaj et al. (2012)), but the underlying affective, cognitive and behavioral processes differ (Gamache et al. (2015)). Approach oriented individuals are concerned with approaching pleasure, whereas avoidance oriented individuals are concerned with avoiding pain. Thus, in spite of attaining desired end-state in both orientations, approach oriented individuals strive for approaching matches to their desired end-states and avoidance oriented individuals strive for avoiding mismatches to their desired end-states (Higgins (1997)). The regulatory focus, which these individuals incorporate for this process of self-regulation, is then called promotion-focus for approach oriented individuals and prevention-focus for avoidance oriented individuals. As a result, promotion-focused individuals explain their behavior in terms of accomplishment (match of desired end-state) and non-fulfillment (mismatch of desired end-state). Prevention-focused individuals in contrast concern about safety (match of desired end-state) and danger (mismatch of desired end-state) (Higgins (1997)).

Concerning the example of a CEO trying to increase business performance (meaning the desired end-state, which

is the same for both mechanisms), the aim can either be achieved by focusing on the promotional opportunities of business (growth, increasing profits, expanding business operations etc.) or by focusing on the possible downsides and threats (minimizing losses, reducing risks, cost efficiency). Higgins et al. called these strategic means in achieving the desired end-state, depending on the regulatory focus of the individual, eagerness vs. vigilance strategy (Higgins et al. (2001)). Promotion-focused individuals use the eagerness strategy to maximize gains and to ensure again non-gains, meaning minimizing non-gains (Higgins et al. (2001)). Prevention-focused individuals are motivated by the vigilance strategy, while riveting on maximizing non-gains and ensuring again losses, meaning minimizing losses (Lanaj et al. (2012)). Thus, in short, promotion-focused individuals are concerned with gains and non-gains, while prevention-focused individuals are concerned with non-losses and losses.

Therefore, Förster et al. (2003) described the motivational orientations of promotion and prevention to be independent rather than being opposites in a continuum (Förster et al. (2003)). Supporting this thesis, the relationship between promotion and prevention focus was found to be relatively small (Lanaj et al. (2012)). Consequently, individuals' scores of promotion vs. prevention focus seem to be independent and for that reason, a high score on both foci may be possible as well as a low score on both or a combination of both. Imagining the example of the before mentioned CEO, the CEO may as well focus on growing business and increasing profits as well as on reducing risks and minimizing losses. In this case, the CEO would have a high score on both foci. (Higgins (2000): 4) comes to a precise summary of the above mentioned points:

"In sum, regulatory focus theory distinguishes between promotion and prevention orientations. A promotion orientation is concerned with advancement and accomplishment, with the presence and absence of positive outcomes. Eagerness (approach) means fit a promotion orientation. A prevention orientation is concerned with safety and responsibility, with the absence and presence of negative outcomes. Vigilance (avoidance) means fit a prevention orientation."

For the sake of completeness, the difference between personality research in general and regulatory focus theory is mentioned in this paragraph. The work of Gamache et al. (2015) shall work as explaining example of the clear distinction in meaning. They distinguished regulatory focus theory from personality research or self-evaluative traits and consequently argued that regulatory focus theory may be differentiated from personality research in three aspects: First, regulatory focus works through motivational processes (e.g. meaning-making, sense-making) that are supported by strategic means like eagerness and vigilance strategy; secondly, it takes the desired end-state as given and does not intend to change the goals, but it is rather explaining how individuals try to attain these goals (promotion vs. prevention focus); and thirdly, regulatory focus seems to have a higher impact on behavior than other personality traits as extraversion and agreeableness (Lanaj et al. (2012); Gamache et al.

Table 1: Self-regulatory Principles of Approach vs. Avoidance Orientation (following Higgins (1997): 17)

Self-regulatory principle	Approach orientation	Avoidance orientation
Regulatory anticipation	Approach anticipated pleasure	Avoid anticipated pain
Regulatory reference	Approach regulation in reference to desired end-states	Avoidance regulation in reference to undesired end-states
Regulatory focus	Promotion Strategically approach matches to desired end-states (and mismatches to undesired end-states)	Prevention Strategically avoid mismatches to desired end-states (and matches to undesired end-states)

(2015)).

3.1.2. Relevance of Regulatory Focus Theory in Management Literature

Regulatory focus theory originally stems from psychology literature. This may not only be seen by the name of the journals, the articles were first mainly published in, but also in the underlying psychological process of self-regulation. The origins of regulatory focus theory stem from self-discrepancy theory, which emphasizes on internalized 'selves' that individuals are constantly comparing with (Higgins (1997)). The score of self-discrepancy may be described as adding the matches between the actual self and the desired self and subtracting the mismatches (Higgins (1997)). Based on this theory, it becomes more obvious how regulatory focus theory emerged later one, with Higgins being one of the most significant contributors, publishing mainly in psychological magazines like 'American Psychologist' in 1997 and 1998 and 'Journal of Personality and Social Psychology' in 1996, 1997, 1998, 2000, 2003 and 2005. Although Higgins may thus be described as the main contributor of regulatory focus theory, others expanded this field of research significantly. Lookwood, Jordan and Kunda (2002) described how either a promotion or prevention focus will influence the inspiration of positive or negative role models on individuals' motivation. Others focused on how the individual regulatory focus influences the achievement orientation concerning the history of success of individuals (Higgins et al. (2001)). Förster et al. tried to order the relatively new concept of regulatory focus theory into classical motivational esteems (Förster and Higgins (2005); Förster et al. (2001)). Value to the broad body of literature was also added in describing the link between goal-attainment and regulatory focus theory more precisely (Shah et al. (1998)) and with concentrating on the role of interdependence in constructing the distinct self-construal (Lee et al. (2000)).

Apparently, the concept of regulatory focus is building upon both theoretical and empirical psychology literature, but came to attention in the management literature later on with major impact, starting with marketing research (Tuncdogan et al. (2015)). As this theory was also applied to finance and economics, the attention in strategic management literature was arising as well (Tuncdogan et al. (2015)). Although it has to be stated that this theory is relatively new to

the management literature, the general attention to this topic in management research is high. As the research interest of linking regulatory focus theory with management processes raised, some studies focused on the effect of regulatory fit on adaption to change (Petrou et al. (2015)), linking leader's exploration-exploitation activities to regulatory focus theory (Tuncdogan et al. (2015)) and introducing regulatory focus theory into the broad field of leadership style research (Stam et al. (2010)). All of these publications added value to the broad field of research because they tried to explain common phenomena (e.g. the adaption processes on change or leadership style consequences) in combination with regulatory focus theory. One may therefore see the interesting transition of psychological themes into the management literature over time (Gamache et al. (2015)). All in all, due to the rising interest of the management literature on regulatory focus theory, the importance of explaining CEO communication in the shed light of promotion vs. prevention focus is substantiated.

3.1.3. Influence of Contextual Factors on Regulatory Focus

As stated above, each individual tries to achieve both: attaining desired end-states via maximizing gains and minimizing non-gains as well as minimizing losses and maximizing non-losses (Tuncdogan et al. (2015)). The difference resides in the individual score of promotion vs. prevention focus. The higher promotion-focused the individual is, the more it is concerning with gains and vice versa. Hence, it seems very necessary to describe contextual influence on the regulatory focus of individuals. In the following, I present different forms of regulatory focus and will especially concentrate on chronic and contextual factors afterwards (see e.g. Lanaj et al. (2012) for a complete review).

"Chronic" and "contextual" forms of regulatory focus are the two most important elements of an individual's regulatory focus (Stam et al. (2010)). In spite of the occurrence of the term "regulatory state" in some papers (Tuncdogan et al. (2015)), for reasons of simplicity and common use in the literature (Gamache et al. (2015)), the term "regulatory focus" is used for the emergence state of chronic and contextual factors. Concerning the chronic form of regulatory focus, several researchers suggested that personality traits influence the regulatory state of an individual (e.g. Lanaj et al. (2012); Tuncdogan et al. (2015); Gamache et al. (2015));

but nevertheless, regulatory focus is not the same as e.g. personality traits (see explanation in 3.1.1). Although Higgins et al. (2001) suggested that the chronic regulatory focus can stay consistent to a certain extent over time, researcher also stress the importance of contextual factors shaping individuals' regulatory state because of the possibility of overshadowing the chronic regulatory focus.

The immediate environment may also influence the regulatory focus (Higgins (2000); Lockwood et al. (2002); Gamache et al. (2015)), not only in influencing the chronic orientation from early times on, but also as temporary situational cues of the environment (Tuncdogan et al. (2015)). It is thus very relevant to incorporate the idea of today's empirical evidence that the cues of the environment play a significant role in influencing the individuals' regulatory state. The emergence of that state may significantly be shaped by **contextual** factors. These factors may be called contextual variables, contextual factors or situational factors (Gamache et al. (2015); Petrou et al. (2015); Tuncdogan et al. (2015); Stam et al. (2010); Higgins (2000)). In the following, for reasons of simplicity and common use in the literature, the terms "contextual factors" and "regulatory focus" are used in this paper. To sum up, contextual factors seem to have a major impact on the regulatory state of individuals. This bachelor thesis is therefore establishing the following research on this presumption.

3.2. Communication during Strategic Change

Since the title of this bachelor thesis consists of two theoretical backgrounds, the following paragraph presents the literature for communication during strategic change. After elaborating on the literature of regulatory focus theory, which was mainly conducted in psychology literature (see 3.1.2), this review will mainly concentrate on management literature, while trying to link these two different streams of research. Communication seems to be one of the most relevant tasks of management and because of that, strategically communicating change to internal and external stakeholders has a major impact on the meaning-making process of individuals, since it decreases ambiguity in people's perceptions of the environment and increasing the feeling of controllability (Bordia et al. (2004)). Organizational and strategic change is characterized both as necessary to survive in changing environment and adapting to the environment, new customer needs, technological advancement, changing workforce and government regulation (Bordia et al. (2004); Kotter and Schlesinger (2008)) as well as challenging and of high probability for failure, if not managed properly (Sonenshein and Dholakia (2012)). In spite of that fact, research knows surprisingly little about the way that management should strategically communicate strategic change (Sonenshein and Dholakia (2012)). Thus, one must differentiate strategic communication as a way of communicating a message properly to the recipients' needs and therefore incorporating means to create sense and meaning in individuals' perceptions versus strategic change as a special form of change in organizational settings.

3.2.1. Types of Strategic Change

Strategic change is defined as a fundamental change in an organization's alignment to the surrounding environment and therefore a change in the content of what an organization does (Rajagopalan and Spreitzer (1997)). The need to realign with modified competitive surroundings emerges from fundamental management knowledge of explaining company's right and need to exist, e.g. the resource-based view or institutionalization theory (Lee and Rhee (2007)). Strategic change research concentrated on two different schools: the "content" school that tried to explain the change in the alignment of an organization to environmental needs and standards versus the "process" school that tried to examine the management processes and practices in strategic change processes (Rajagopalan and Spreitzer (1997)). While the first school, the "content" school, concentrated on large samples using quantitative analysis methods to examine the strategic change, the second school, the "process school", used qualitative data to explore the psychological and cognitive processes in formulating and executing strategic change more in detail (Rajagopalan and Spreitzer (1997)). In recent studies, one might have found a more consistent and associated view of strategic change (e.g. Sonenshein and Dholakia (2012)), linking qualitative and quantitative analysis methods.

To differentiate strategic change from other, less fundamental changes in organizational environment, one should especially keep the item "strategic" in mind. Changes in organizations, which do not change the content of a strategy and the way the organization is strategically aiming for its goals, are characterized as less fundamental changes. For example, a change of the CEO in an organization might not be an indicator for a modified strategic change direction *ceteris paribus*. Thus, a CEO change in organizations per se is a change for the organization, but not necessarily a strategic one. But if the new CEO is not only new to the organization, but also developing a new strategic program, then this may be characterized as strategic change. (Rajagopalan and Spreitzer (1997): 50) stated:

However, organizational changes that do not result in changes in the content of a firm's strategy are not included within the domain of strategic change.

To describe the **type of change** more precisely, literature offers various tools to categorize different forms of change concerning speed, extent, schedule and proposal. Mintzberg and Waters (1985) ordered different forms of change into a planned vs. deliberate state-continuum and placed existing types of change into this continuum. This categorization should help others to examine change in terms of its controllability and intention. Klein (1996) used the Lewin-Model of different phases of change and described change in terms of chronology: unfreezing, changing and refreezing. It proposes that people first have to be sensitive to the need of change, before the actual change is taking place and is afterwards refreezed (Klein (1996)). But rather than providing a tool for concrete categorization for the different and com-

plex forms of change, these above mentioned authors focused on only one dimension (influenceability) or on the phases of change. Thus, the model of Balogun (2001) was used to extent the persistent description of various types of change: the tool provides a relatively simple solution to a quite complex issue. Balogun (2001) classifies change onto two distinct dimensions, the extent of change and the speed of that change, concluding in four main types of change. The extent of change means the influence of the change program on basic cultural beliefs and norms; whether they are influenced by the change or not, whereas the dimension of speed is the degree of simultaneous implementation of different change programs (Balogun (2001)). The extent of change may be transformational or realigned, whereas the speed of change may be incremental or big bang (Balogun (2001)). Although this tool facilitates the categorization of change into important dimensions, it is quite difficult for this type of paper to examine the influence of change on basic cultural beliefs from the annual report without access to internal data. Thus, in spite of using this tool, another from Ackerman (1986) is used. It distinguishes between three types of change: developmental, transitional and transformational. An overview of the meaning of these forms of change is provided in table 2.

It is obvious that the dimension of the tool of Ackerman (1986) is the **intensity of change**, meaning the radical nature of the change in terms of influencing organizational basics as structures, processes, cultural beliefs and strategies. The developmental state seems to be the most incrementally and therefore less intense one, while the transition state already changes an organization episodically (mid-intensely). The transformational type of change is heavily impacting fundamental practices in an organization and is therefore characterized as the most intense one. As this categorization enables to examine the CEO communication in annual reports in terms of what CEOs mention about the extent of change on basic organizational practices even without access to internal data, these three forms are used for the analysis of this paper.

3.2.2. CEO Communication

Strategic communication is described as one of the most fundamental activities of managers and CEOs in organizations (Segars and Kohut (2001)). Communicating change in a strategic way is not always easily to conduct, is frequently neglected and often fails (Sonenshein and Dholakia (2012)). Many authors stress the importance of a strategic aligned communication in the successful change progress (Segars and Kohut (2001); Bordia et al. (2004); Kotter (2007); Sonenshein and Dholakia (2012)). They emphasize “communication during change [...] to play a vital (if not the most essential) role in change implementation” (Sonenshein and Dholakia (2012): 4).

Several studies examining change communication showed the significance of especially CEO communication during the strategic change process. For instance, Eggers and Kaplan (2009) compared the influence of CEO communication and other organizational communications on individuals' adap-

tion to change based on the analysis of the CEO communication in annual reports, the letter to shareholders. They showed that the attention of the CEO to the change process has a major impact on the incumbents' adaption to change. Others like Segars and Kohut (2001) suggested a model for the design of effective CEO communication in annual reports. They named the letter to shareholder the “perhaps [...] most strategic [form of communication] in conveying the wellbeing and future direction of the enterprise” (Segars and Kohut (2001): 1). The CEO shareholder letter is not only a marketing tool for describing the positive events of the organization during the year (e.g. growth, positive performance), but also tries to link positive performance to the leadership abilities and the negative outcomes to the challenging environment (Bettman and Weitz (1983); Segars and Kohut (2001)). Thus, a CEO shareholder letter is both a report about the financial data in the past year and explanations for them as well as an instrument for sense-making and meaning-making for external and internal stakeholders and for achieving commitment to the CEO and top management teams' (TMT) activities (Segars and Kohut (2001)).

However, one might not neglect the fact, that the annual report is often described as tool for shareholders and less for other stakeholder groups (as the often used title “letter to shareholder” also suggests) (Segars and Kohut (2001)). In spite of that, empirical studies examining the CEO letter to shareholder stress the importance of annual reports also for the organization internally and particularly for the employees, who play the most vital role in implementing a strategy (Sonenshein and Dholakia (2012)). Other studies also studied the CEO shareholder letter empirically and suggested an influence of the strategic communication manner in CEO shareholder letters on various outcomes. For example, the study of Higgins and Bannister (1992) found a relationship between the “CEO credibility” on the share price of the organization (Higgins and Bannister (1992)). In sum, several studies were undertaken to explore the CEO shareholder letter and its relevance, antecedents and consequences for various variables, including organizations' share price (Higgins and Bannister (1992); Segars and Kohut (2001)), causal reasoning of the past year (Bettman and Weitz (1983)) and general effectiveness (Segars and Kohut (2001)). This shows the high relevance of studying especially the CEO letter to shareholders in the context of strategic communication means.

3.2.3. Regulatory Focus Theory and CEO Communication

Regulatory focus theory through its mechanism of eagerness and vigilance strategy may have an impact for strategy research (Gamache et al. (2015)). This is because psychological and personal attributes were ascribed to have an impact on the way of CEO communication (Kohut and Segars (1992)). Since regulatory focus theory is influenced by the personality of a CEO, research should link regulatory focus theory to CEO communication. Kohut and Segars (1992) state that the shareholder letter should be seen “as downward communication to the firm's shareholders outlining past operating results and identifying new areas of potential corpo-

Table 2: Types of Change (following Ackerman (1986))

Type of Change	Meaning
Developmental	- Mainly continuously planned or emergent change - Incrementally influencing persisting elements in organizational settings
Transitional	- Mainly discontinuously planned, episodic or radical change - Aims at adjusting organization to achieve a specific goal that is defined by management
Transformational	- Extremely radical change - Aims at fundamentally changing organization to a new organizational setting that is defined by management - Often radical change of structure, processes, culture and strategies

rate growth and profitability.” (Kohut and Segars (1992): 8). Especially the last part of this sentence illustrates the link between the strategic means of a CEO shareholder letter and the regulatory focus, since it can be seen as highly relevant communication instrument to stakeholders. “Identifying new areas of potential corporate growth and profitability” reminds to be the desired end-state in the regulatory focus theory that is communicated through the CEO shareholder letter. Hence, the link between regulatory state of the CEO and its way of communication seems quite interesting.

As the principle idea of this paper is empirically analyzing CEO communication in annual reports in terms of regulatory focus of the CEO, the wide existing body of literature of CEO communication was also examined especially in terms of possible links to regulatory focus theory. As Gamache et al. (2015) state in their paper, some theoretical work was done in terms of linking regulatory focus theory to strategic topics like increasing commitment, sense-making and meaning-making or explaining new strategic directions. Surprisingly, very little empirical work was undertaken to explore the impact of regulatory focus on these various outcomes (Gamache et al. (2015)). They only found three studies that examined the relationship of managers’ regulatory focus on strategic outcomes. The first one of Brockner et al. (2004) focused on the regulatory focus of managers in entrepreneurial processes and stated that promotion-focused individuals are equipped with the abilities of creating new ideas, whereas promotion-focused individuals are concerned with non-losses in terms of minimizing errors (Gamache et al. (2015)). These results fit to the conceptualization of regulatory focus theory. Secondly, Wowak and Hambrick (2010) studied different risk attitudes of promotion versus prevention-focused individuals in CEO compensation (Gamache et al. (2015)). Thirdly, Das and Kumar (2011) examined regulatory focus of managers in the due diligence process for alliances (Gamache et al. (2015)). Promotion-focused individuals were faster in decision and long-term oriented, while prevention-focused individuals were more careful in terms of information sharing and proposed with attitudes that helped them in decreasing partner conflicts (Gamache et al. (2015)). Empirical studies undertaken in this field were contradictory in their propositions for entrepreneurial business performance (Gamache et al. (2015)).

Thus, Gamache et al. (2015) themselves conducted an empirical work about the CEO regulatory focus and its influence on acquisition activity of the enterprise. Their findings suggest that the regulatory state of an individual, meaning its promotion or prevention focus, has an impact on both the quantity as well as the size of acquisitions (Gamache et al. (2015)). This work is important to the wide body of literature as it links regulatory focus theory to strategic outcomes and measured the significance of this study on a larger scale quantitatively. The year of publication indicates the progress of research in linking originally psychological theories to management literature and sets the focus for the following analysis.

As my literature research did not find more than the three above mentioned empirical studies in this field, I state that to the best of my knowledge, this empirical work is the first one, combining a qualitative with a quantitative analysis of CEO regulatory focus in shareholder letters in annual reports connected with change variables. I strive to extend the research in exploring the CEO regulatory focus qualitatively and to include various contextual variables, especially strategic change variables. The goal is to be able to predict the importance of strategic change in the CEO regulatory focus in his shareholder letter in the annual report.

3.3. Hypotheses

As the extensive elaboration on the theoretical foundations on strategic change and CEO communication in annual reports linked with regulatory focus theory indicates, this paper tries to integrate the regulatory focus of a CEO with the type of strategic change, the organization actually undergoes. In the following, two hypotheses are presented that are empirically examined in the analysis part. They are kept short and simple as the literature review already focused on the main theoretical foundations.

First, the regulatory focus of CEOs is investigated in terms of the extent of promotion vs. prevention focus. This is because research proposes that every individual uses both promotion vs. prevention focus in their usual communication (Tuncdogan et al. (2015)). Since CEO letter to shareholders in annual reports are a special form of communicating as the CEOs are representing the whole organization and especially their board members in their letters, it is questionable if

their focus is different to non-official individual communication. As companies are usually striving for achievement and improving their financial strength (Tuncdogan et al. (2015)), they can be seen as both maximizing gains and minimizing non-gains as well as minimizing losses and maximizing non-losses. Therefore, promotion and prevention focus are necessary for CEO letters to shareholders to convince them about the organization's strength and performance. Thus, combining regulatory focus theory and CEO communication literature, the following is proposed:

Hypothesis 1: CEO communication in annual reports contains both promotion as well as prevention focus elements.

Secondly, tracing back to chapter 3.1.3, contextual factors were found to have a major impact on the regulatory focus of individuals (Tuncdogan et al. (2015)). As main contextual factor in this bachelor thesis, change as influencing variable on the emergence of different regulatory foci was decided to be examined, since change seems to be a highly relevant element in organizational research (Klein (1996)) as well as the literature in change shows very little research in terms of regulatory focus (see 3.1.2). Also, the literature review suggests a relationship between the intensity of change (developmental, transitional and transformational) and the CEO regulatory focus. For example, Segars and Kohut (2001) propose a relationship between the type of change and the extent of promotion focus of CEOs (Segars and Kohut (2001)). The focus of this paper should therefore broaden the field in terms of striving to explain the focal CEO regulatory focus. In short, the emergence of the regulatory focus of CEO communication in annual reports is assumed to depend on the intensity of change (developmental, transitional, transformational), the organization is actually undergoing. The intensity of change may induce different motivational aspirations and ways for meaning-making in turbulent times (Sonenshein and Dhoklakia (2012)). CEOs may adapt their regulatory focus (un-)consciously to the focal situation to convince external as well as internal stakeholders of their leading role in the organization and the performance of the company.

Hence, it is presumed that transformational changes are accompanied with the highest promotion-focused communication (meaning more promotion-focused than prevention-focused communication), whereas developmental changes are accompanied with the lowest promotion-focused communication (meaning more prevention-focused than promotion-focused communication). Transitional changes will range in the middle between the two sides of the continuum. Thus, combining regulatory focus theory and strategic change literature, the following is proposed:

Hypothesis 2: The relation of promotion vs. prevention focus in CEO communication is positively associated with the intensity of change in organizations, meaning that the more intense and strategic the change is, the higher is the relation between promotion vs. prevention focus in CEO letters to shareholder letters in annual reports.

4. Empirical Study

4.1. Sample

To test the two above mentioned hypotheses appropriately, different samples were initially conducted to get a broad overview of the topic. To examine the CEO regulatory focus, analysis of CEO letters to shareholders in annual reports were found to provide one of the best platforms for qualitative research (e.g. Eggers and Kaplan (2009); Gamache et al. (2015)). Although analyzing the CEO letter to shareholders (often also called slightly different) is not without limitations as presented later on, these texts are useful when conducting qualitative research, meaning in-depth analysis of certain phrases and words. Annual reports offer a variety of information, not exclusively for shareholders and financial institutions, but also for other stakeholders like NGOs, government, business partner and also internal stakeholders like employees, who are interested in an overview of the business activities, the financial performance and other "hard facts". Hence, I decided on taking annual reports as basis of my analysis. Since researchers usually take major companies and very less small and medium-sized enterprises (SMEs) to conduct their research about CEO characteristics (Bettman and Weitz (1983); Kohut and Segars (1992); Higgins and Bannister (1992); Eggers and Kaplan (2009); Gamache et al. (2015)), annual reports from major companies were chosen as well. This selection facilitates the examination of CEO characteristics, since CEOs are very present in business news and therefore carefully decided on their way, extent and content of external communication. Thus, this procedure secures valuable insights into CEO characteristics. Further considerations were about the companies that should be included in the sample. For reasons of easier accessibility, only German companies from the "DAX" were included in the sample. DAX (abbreviation for "Deutscher Aktienindex" / German Stock Index) is the collection of the thirtieth largest German companies, measured by their annual revenue (in detail: measured on order book volume and market capitalization) (Deutsche Börse (2015)).

Since this paper is not only about examining CEO regulatory focus in annual reports, but also about linking the CEO regulatory focus with the context variable of change, an overview about the DAX companies provided an overview about internal change programs (see later on in qualitative analysis). To be able to control for different variables, it was decided to select companies from 2007 to 2012. This was done for several reasons: first, a six-year overview of data provides a feasible amount of primary data for both qualitative analysis in terms of in-depth examination as well as quantitative analysis. Secondly, as qualitative analysis also shows later on, 2008 was the year with first major influence of the world financial crisis on the performance of companies (Dragsted (2014)). The DAX went down by 40 percent in 2008 compared to 2007 (Deutsche Bundesbank (2015)). Thus, 2007 was the last year without major impact of external crisis on the performance of companies before the financial crisis. As the impact of the financial crisis was mitigated

from 2011 on (Dragsted (2014)), the year 2012 may be seen as the first after the crisis without major impact of external crisis on the performance of companies, with the DAX climbing about 30 percent in 2012 compared to 2011 (Deutsche Bundesbank (2015)).

With the above mentioned considerations in mind, a spreadsheet was created which contained all thirty DAX companies. The lines contained the thirty companies (ordered alphabetically) and the columns contained the years 2007-2012. Two analysis were undertaken from that point: the first was to study if all companies were consistently "member" of the DAX 30-group. This was done to create a sample with companies that are comparable in terms of stability and magnitude differences. Due to the inclusion of companies according to revenue, market capitalization and order book volume, changes in the DAX 30-group are possible anytime. From the 30 companies, only 19 were consistently member of the DAX 30-group over the examination period. For example, Continental, a supplier for the automobile industry, was excluded from the DAX from 2008-2011. Also, Postbank was excluded 2009 and was not included to 2012 (This information was detected by reading the annual reports.).

With 19 companies left, a second analysis was executed: it was analyzed if all of the 19 companies include a letter to shareholder in their annual reports in the years 2007-2012. Two of the 19 companies were thus additionally excluded from the sample, as they did not consistently include a letter to shareholders from the CEO. In the end, 17 companies were left for analysis. Keeping the qualitative part with time-intense in-depth analysis in mind, it was decided to focus on the companies in the sample from the finance and insurance industry, since they are usually described the ones with the heaviest impact of the financial crisis on their business (Dragsted (2014)), with major change programs most probable. These were "Allianz SE", "Commerzbank AG", "Deutsche Bank AG" and "Munich RE AG", the first and last being mostly insurance and asset management companies and the two in the middle being mostly financial and asset management companies. So in the end, the sample consisted of four companies, meaning their annual reports (in English) from six years (2007 to 2012), resulting in 24 data sets in total.

4.2. Qualitative Analysis

To explore the CEO regulatory focus empirically, the use of CEO letter to shareholders is described as appropriate and reasonable in literature. First, CEOs themselves use annual reports as important communication tool to external and internal stakeholders (Kohut and Segars (1992)). They use it as marketing tool to communicate both their board members' strength and ability to lead the organization as well as their own performance individually (Kohut and Segars (1992)). Secondly, shareholder and investors see annual reports as important influencing tool for their work; especially, not only the income and balance sheet, but also "soft" texts as the CEO letter to get to know the board management and their future directions (Kohut and Segars (1992)). Thirdly, annual reports provide a comparable set of data over years with the

annual report usually being published in the same period every year and merely containing the same paragraphs with only minor structural changes (Bettman and Weitz (1983)). Critics often claim that also interviews of the CEOs, articles or commentary should be included in analysis of CEO characteristics as well (Bettman and Weitz (1983); Gamache et al. (2015)). Although these other data may provide additional information, these are usually unstructured and shaped by the interviewer (Gamache et al. (2015)), thus needing precise examination and attention with minor opportunities to compare within one industry. Especially examining the CEO regulatory focus, it was decided to focus therefore on the letter to shareholders by the CEO (not the supervisory chairman). Interestingly, the analysis showed comparability in the format of letters (all companies used letters and not interviews or the like). (Eggers and Kaplan (2009): 468) summarized:

CEOs' comments in speeches, media interviews, or conference calls with analysts are ad hoc and therefore not available in comparable forms for all firms in all time periods.

Fourthly, the use of letters to shareholders may be criticized as many CEOs delegate the writing process to their communications or public relations departments. To respond to these critics, research provided evidence that the CEO is in fact significantly attributing and changing the CEO letter to shareholders in terms of "style, length and content" (Eggers and Kaplan (2009): 468) to his personal characteristics and adjusting to the firms circumstances and needs (Kohut and Segars (1992); Gamache et al. (2015)). Gamache et al. (2015) also provided references that the individual regulatory focus of different CEOs varies significantly. Consequently, taken together the four aspects, CEO letters to shareholders in annual reports can be taken as reasonable and appropriate basics for analyzing CEO regulatory focus. For that reason, the qualitative analysis is structured into two steps: the first one is about analyzing the regulatory focus of the CEOs and how this analysis was designed and executed, while the second part is about the qualitative part of exploring the type of change from the annual reports.

4.2.1. CEO Regulatory Focus

To conduct qualitative research, one should concentrate on in-depth analysis of issues in a mainly unstructured and explorative manner, which tries to get new insights into topics and conduct research with open mind (Bansal and Corley (2012)). As this paper tries to link regulatory focus theory with CEO communication during change, this approach was chosen for exploring the CEO regulatory focus and to explore the type of change in detail. Following Kohut and Segars (1992), a content analysis of the annual reports, especially the CEO letter to shareholders, was designed. This includes getting insights from the CEO letters, coding important contextual variables and try to explain them quantitatively with the relevant advantage that this form of research allows the exploration of unconscious behavior, compared to a self-described behavior in interviews or the like (Kohut and Segars (1992)). As this form of linguistic approach was

proven successful in literature for getting insights in regulatory focus of CEOs (Lanaj et al. (2012); Gamache et al. (2015)), this study used this form of counting the amount of specific words that represent promotion or prevention focus. "Microsoft Word" was used with its function for searching for words; the words were then added manually in a spreadsheet.

It is important to mention that Gamache et al. (2015) were, to the best of my knowledge, the first that defined specific words and published them in their article. Their words (nouns, adjectives, adverbs) were conducted from literature analysis. That means that they based their work on the definition of promotion (maximizing gains etc.) and prevention (minimizing losses etc.) and both thought about new words that fit to these definitions as well as conducting main phrases from literature. For example, in their listing they use the words "gain" and "promotion" for the promotion list and "duty" and "loss" for the prevention list (Gamache et al. (2015): 1270). To support the proposition that these words are ordered correctly in the right category promotion vs. prevention, they verified them via experts and undergraduate students. As my intention was to conduct an examination of CEO regulatory focus as well, these words firstly seemed appropriate. Although these words provide a well-founded starting point, my first analysis results showed that some words did not fit into their category one-hundred percent or that I was missing important words. As qualitative research is adapting in the process of exploring data (Bansal and Corley (2012)), I decided to use the words of Gamache et al. (2015) as foundation for CEO regulatory focus analysis, combined with detailed revision. The goal of this revision was to ensure objectivity in creating a second list of words and comparing it to the proposed one as well as to enhance data reliability. In doing so, I approached the letters to shareholders of the four companies open-minded with the aim of reviewing the existing list of words critically and exploring additional words from my literature review. So, I removed words from the list that did not seem to fit in their category one-hundred percent while depending on the context, in which they are mentioned as well as I added others.

I listed 15 additional possible terms for the promotion category and 34 additional for the prevention category, some of them from literature, the rest from CEO letters. For example, "empowerment", "flourish", "positive" and "virtuous" were defined as promotion words from literature (Cameron and McNaughtan (2014): 2) as well as "opportunity" (Segars and Kohut (2001): 541) and "success" (Lockwood et al. (2002): 1) as they collectively reflect the strive for achieving goals via maximizing gains and a match with the desired state (compared with the mismatch of undesired goals for prevention words). For instance, "opportunity" reflects the way of taking unexpected chances to achieve goals. From CEO letters, e.g. "appeal", "innovation" and "progress" were identified as promotion words, because they all reflect taking chances and striving for achieving goals with maximizing losses and minimizing non-losses. On the other side, "anxiety", "problem" (Cameron and McNaughtan (2014): 2) and "worry"

(Lee et al. (2010): 10) were taken from literature for prevention words, since these words show the CEOs attention to possible downsides and losses. As prevention-focused individuals strive to minimize losses and maximizing non-losses, these words were taken as relevant for further analysis. Furthermore, "disruptions", "volatility" and "uncertainty" may provide as examples for alternative prevention words, which were identified in CEO letters, as they reflect the possibility for negative performance of the company, which is a loss in the definition of regulatory focus theory.

After merging the lists from Gamache et al. (2015) and my research, I had 42 promotion and 59 prevention words. My aim at this point of analysis was to eliminate doubles and words that may not fit one-hundred percent into their category. For instance, "swift" and "velocity" were excluded from the list as the link between a certain word for "speed" and promotion focus could not be seen. It could also be a prevention word, if it is used in terms of e.g. "we try to swiftly minimize our losses". Another example would be "accomplish", which is also seen as duty in usual linguistic usage, e.g. "I did my duty in accomplishing the task.". Also, the list of prevention words were analyzed in detail and words like "adjust", "mitigate" and "reduction" were eliminated for reasons of ambiguity. These words do not solely reflect only one of the two categories; instead the context in which they are said is highly important. After renewal of the listing, it contained 30 promotion words and 48 prevention words in total. In the above mentioned shed light of high ambiguity, it becomes very clear, that the categorization into promotion vs. prevention with self-examined words is not an easy endeavor. Hence, the list was forwarded via email in an unstructured order (without the "promotion" or "prevention" as category) to another bachelor student of business administration for validity scrutiny. He was provided with the exact definition of promotion and prevention focus and was asked to order the words into either promotion or prevention category. As a result, a high overlap (96 %) was recognized which supports the confidence in the identified words. The words "competitive", "hope" and "stability" were identified as unclear and were ordered in the wrong category by the verifier. Thus, these words were excluded from the list. As final result, the list contains 29 promotion words and 46 prevention words. Since the first insight into the annual reports revealed more promotion words than prevention words and literature sees prevention words as more critical in use than promotion words (Petrou et al. (2015)); the surplus of promotion words is reasoned. The complete list can be seen in table B1 in appendix B.

4.2.2. Strategic Change in Annual Reports

To examine the type of change from the annual reports, I used the presented categories "developmental", "transitional" and "transformational". Keeping the definition of these types in mind, I approached the annual reports in an open manner to explore the type of change. Therefore, I especially concentrated on the first announcement of the strategy of the company (e.g. "3+" of Allianz, started in

2003; “Roadmap 2012” of Commerzbank, started in 2009) and compared the extent and influence of the change program on the CEO letters in terms of vividness and clear communication. Additionally, some annual reports contained a chapter called “strategy” (or named slightly different), which was also conducted as basis for examination of the type of change. With this two-way approach, I achieved a solid foundation for the categorization of change.

At the end of my qualitative research, I had two spreadsheets for each of the four companies: the first was containing the regulatory words and their amount of occurrence in the annual report over the years; the second was containing the type of change and other contextual variables as e.g. performance over the years.

4.3. Quantitative Analysis

With the qualitative analysis as foundation, I decided to conduct quantitative research in a comparatively simple manner with the aim to get first quantitative insights into the field of change and CEO regulatory focus. Therefore, the type of change was coded into “0-1-2”, with rising number reflecting the higher intensity of change. CEO regulatory focus was defined as metric variable in the following way: the accounted number of promotion words was divided by the total number of prevention words and this variable was called “CEO regulatory focus”. Thus, the higher the relation of this variable, the more promotion-focused was the communication and vice versa. The relative growth of the operating profit was used as contextual variable as it allows to control for the performance in the analysis; it was coded “0” for staying constant or a decrease and “1” for an increase compared with the year before. Because performance was found to have an impact on CEOs (Gamache et al. (2015)), this was thought to be relevant for controlling. As the goal of this paper is to analyze the relationship between change and the regulatory focus, IBM analytics software “SPSS” was used for correlation matrix as well as mean comparison and box plots. With the sample containing 24 items in the lines (six years multiplied with four companies) and being qualitative basically, I decided to disregard regression analysis for reasons of significance and missing prerequisites.

4.4. Results

Table 3 shows the results of counting promotion and prevention words in the focal company annual report’s CEO letter to shareholders. As it is indicated with the relation between promotion and prevention words, scores range from 1,86 (relatively high amount of promotion words compared to prevention words) to 0,23 (vice versa). It therefore supports hypothesis 1 with the exploration that every CEO letter to shareholders contains both promotion as well as prevention focus words and that the scores varies considerably.

Qualitative analysis also revealed another interesting observation, shown in table 4. The mean scores for promotion and prevention words varied across the years, but not only in

relative composition, as just seen in table 3, but also in absolute composition. Table 4 shows that in times of high uncertainty of the environment, the absolute scores for prevention words are higher than in times with lower uncertainty. This may especially be seen in years 2008 and 2009, when the financial crisis hit the four companies (e.g. Allianz, 2008; Deutsche Bank, 2008). The ambition for minimizing losses that could not be estimated yet, may have led to the usage of more prevention than promotion words in total. Consequently, years with minor uncertainty and a more positive outlook as 2007 and 2010f. (e.g. Allianz, 2007, 2010) show higher absolute scores of promotion words compared with prevention words. The year 2012 is exceptional; it shows higher scores of prevention focus than promotion focus, unless the profit raised again and the companies escaped additional major losses. This exceptive year may be explained with the persistence of the financial crisis that continued to threaten particularly financial institutes worldwide (e.g. Munich Re, 2008).

Additionally, standard deviation varies between promotion and prevention words over the years. Promotion words appear to be more constant in usage ($SD = 2,8$), while prevention words seem to emerge more volatile ($SD = 3,7$). To sum up, results indicate that prevention words become visible in times of ambiguity to make the audience sensitive to the possibility of negative outcomes of the company, whereas promotion words are relevant in all settings since the stress on positive outcomes are needed in positive and negative situations.

Besides, box plots and mean comparisons show a difference for CEO regulatory focus depending on the various types of change. As it can be seen in figure 1, graphical illustration shows that the CEO regulatory focus, plotted as dependent variable (on the y-axis), is influenced by the type of change (independent variable on the x-axis). The mean of the CEO regulatory focus varies between the types of change. Developmental changes result in the lowest score of promotion vs. prevention, meaning that developmental changes are usually accompanied by a tendency towards prevention focus (median = 0,97; mean = 0,90; SE = 0,11). Transitional changes result in a higher mean score, meaning that they are resulting in a tendency towards more promotion focus (median = mean = 1,04; SE = 0,17). Transformational changes are accompanied with the highest mean score of CEO regulatory focus, meaning that the tendency to communicate in a more promotion-focused way is higher than in transition states (median = 1,28; mean = 1,26; SE = 0,22) (the descriptive statistics table C1 can be found in appendix C).

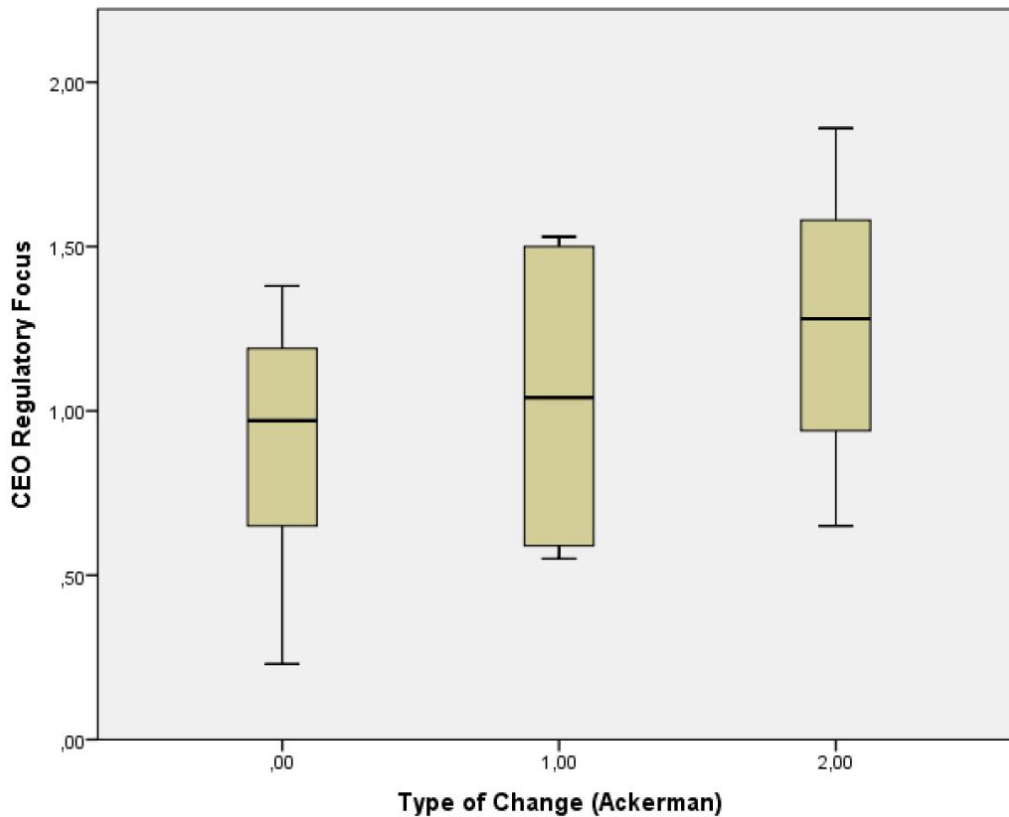
As mentioned before, other contextual variables may influence the CEO regulatory focus in annual reports, mainly performance. Therefore, it was decided to control for the relative profit growth compared with the year before. Thus, a comparison between the correlation between the two variables CEO regulatory focus and the type of change with a partial correlation between these two variables while controlling for performance may reveal the influence of performance on CEO regulatory focus. Table 5 shows the (bivariat) corre-

Table 3: CEO Regulatory Focus

CEO Regulatory Focus	2007	2008	2009	2010	2011	2012
Allianz	1,86	0,65	0,94	0,97	1,32	1,12
Commerzbank	1,22	1,15	1,28	1,08	0,59	1,58
Deutsche Bank	0,43	0,23	0,55	1,50	1,00	0,94
Munich RE	1,53	0,73	1,38	0,65	1,19	0,35

Table 4: Mean Promotion and Prevention Scores

Mean Promotion and Prevention Scores	2007	2008	2009	2010	2011	2012	SD
Promotion	26,3	21,0	28,8	26,3	24,0	23,0	2,8
Prevention	22,5	31,5	30,5	25,0	23,3	26,8	3,7

**Figure 1:** Box plots CEO Regulatory Focus

lation output, whereas table 6 shows the partial correlation output with the controlling variable performance.

While the correlation matrix shows the expected correlation with a score of 0,342, the partial correlation matrix, which controls for the performance of the company compared with the year before, shows only slightly less correlation of 0,336. It is very important to notice that as the significance level indicates (mainly due to the small sample size), just no significance can be observed as significance is slightly above the 10%-level. As a consequence, a reliable numeric interpretation of the score is not possible. However, as this research is qualitatively founded and should solely indicate a

possible correlation direction, this observation indeed shows a positive correlation between CEO regulatory focus and the intensity of change.

In short, there is a positive association between the CEO regulatory focus in letter to shareholders in annual reports and the type of change, the organization is actually executing, even when controlling for performance variable. The results therefore support hypothesis 2, claiming that the higher the intensity of change, the higher the promotion focus of CEOs.

Table 5: Correlation Matrix

		Type of Change (Ackerman (1986))	CEO Regulatory Focus
Type of Change (Ackerman (1986))	Pearson Correlation	1	0,342
	Sig. (2-tailed)		0,102
	N	24	24
CEO Regulatory Focus	Pearson Correlation	0,342	1
	Sig. (2-tailed)	0,102	
	N	24	24

Table 6: Partial Correlation Matrix

Control Variables		Type of Change (Ackerman (1986))	CEO Regulatory Focus
Relative Profit Growth	Type of Change (Ackerman (1986))	Correlation	0,336
		Significance (2-tailed)	0,117
		df	21
	CEO Regulatory Focus	Correlation	0,336
Significance (2-tailed)		0,117	
		df	21
			0

5. Discussion

5.1. Theoretical Implications

My findings contain notable contributions for research on CEO communication during strategic change. With linking the psychological characteristics of an individual's regulatory focus to different types of change, these findings add new insights to the rising research that links psychology traits and traditional management research (Gamache et al. (2015); Tuncdogan et al. (2015)). To the best of my knowledge, this is the first paper examining the type of change and CEO regulatory focus qualitatively to reveal a positive correlation between these two variables when analyzed quantitatively. The paper was structured in terms of getting both in-depth insights into the regulatory focus of CEOs as well as exploring these phenomena in a quantitative way. It therefore introduced the basic principles of regulatory focus theory and communication during strategic change. It afterwards set the scene for examining CEO letters to shareholder in terms of regulatory focus of the CEOs, linking that with the current type of change of the organization. The paper contributes to the research on regulatory focus and CEO communication in four distinct ways.

First, through further developing existing analysis tools (Gamache et al. (2015)), the paper is able to broaden the view on regulatory focus of CEO communication in annual reports. The fundament for approaching regulatory focus with content analysis is the word definition for promotion and prevention focus. The thesis broadens and improved this fundament with a critical study on the words, eliminating and adding new words to both categories. Furthermore, the pa-

per supports the hypothesis that every CEO letter contains promotion as well as prevention focus and that the prevention focus varies more than the promotion focus. This supports existing literature that proposes that CEO regulatory focus can be examined successfully (Kohut and Segars (1992); Gamache et al. (2015)). Secondly, this paper also proves existing change types as useful for exploring change (Ackerman (1986)). With approaching annual reports qualitatively, I was able to classify the intensity of change to certain types. Thirdly, the quantitative analysis supported hypothesis 2 that proposed a positive association between the CEO regulatory focus and the type of change that the organization is currently executing. It moreover also responds to possible critics through controlling for the most important variable that may influence the CEO regulatory focus in annual reports, the performance of the company in the respective year (Bettman and Weitz (1983)). But even with controlling for performance of the organization, one sees a positive association between these two variables. Although this correlation may not be reliably interpreted numerically due to (just missed 10 %) significance level, it indicates not only the fact of existing correlation, but also the direction of this relationship. This shows the importance of this research as it started to answer calls in literature for more research on firm-level variables and strategic context variables of organizations (Lanaj et al. (2012); Gamache et al. (2015)). Fourthly, this study also contributes to research on communication during strategic change. Since communication is often described as the most important tool in change management (Klein (1996); Kotter (2007)), literature in this field should not only deliberate the content of management communication during change,

but also concentrate on the regulatory focus of CEO letters to shareholders. With management communication having a major impact on the success of change programs, including M&As (Klein (1996); Kotter (2007); Gamache et al. (2015)), the regulatory focus in CEO communication, not solely in annual reports, should be considered when designing strategic communication.

5.2. Practical Implications

The results also have important implications for managerial practice of CEO communication. First, managers should be aware of the fact that their CEO letter to shareholder is no longer addressing external stakeholders exclusively, but all relevant stakeholders of the organization, especially including employees. Thus, it is of high relevance for CEOs to communicate consistently and aligned via all channels, internally and externally. This approach may be called "Omni-channel communication", stressing the importance of focusing on one's communication while leading organizations. Nevertheless, the "soft" content of a CEO letter to shareholders (in comparison to the "hard" facts of financial data included) also impact the perception of investors of the change process (Higgins and Bannister (1992)) and should therefore be designed appropriately to serve all stakeholders' needs. Secondly, CEOs should keep in mind that their unconscious or conscious way of speaking is influenced by the intensity of change, which the organization is actually executing. Major changes as strategic acquisitions or merger phases are accompanied with a stronger promotion focus in CEO letters to shareholders. While promotion was found to be more stable in usage, particularly the amount of prevention focus varies. CEOs should therefore be aware of the importance of a balanced letter to shareholders. Thirdly, although external help as PR departments or consultancies are supporting the CEO in writing these letters (Gamache et al. (2015)), CEOs, or in general board members, should be aware of the fact that their communication in annual reports does not only have major influence on investors' decisions (Kohut and Segars (1992)), but also on employees motivation (Petrou et al. (2015)). The way of communicating, especially in turbulent times of transformational or strategic changes, is proposed to have a major influence on the meaning-making processes of employees (Sonenshein and Dholakia (2012)).

5.3. Limitations, Future Research and Concluding Remarks

As most other articles that undertake empirical research, this paper includes some limitations and future research directions. As my limitations directly point out future research, this paragraph should combine these two elements in three different topics.

First, one significant limitation of this paper is the small sample size that does not allow to reliably interpret the result numerically. However, this was not the actual aim of this paper. The idea of this paper was rather getting insights into CEO regulatory foci through examining annual reports qualitatively. Therefore, my quantitative analysis should merely

increase awareness for a possible positive relation between the intensity of change and the CEO regulatory focus and show an interesting direction for future research. That is why future research should test the hypotheses in a larger scale with the aim of significant results that can be also interpreted numerically afterwards. As well as testing the hypothesis, the list of promotion and prevention words should be tested for further validity. Although this list was tested by an external expert as well, a validity check in a larger scale would lend this list even more confidence. Additionally, the positive association between CEO regulatory focus and the intensity of change is very interesting, but needs more validity proof. It should not only be tried to replicate the results with another sample, but especially the direction of influence should be tested, possibly via regression models. It is not completely clear yet, which of the two variables influences which one or if there are backward effects from the one to the other. A model of influence should be designed in future work. Another possible study would examine CEO regulatory focus and the type of change and test various regression models with other contextual variables as moderators to check for different models empirically. This work should also include the question, whether regulatory focus of the CEO is chronic or manually induced (Lanaj et al. (2012)), which was not proved for reasons of accessibility to CEOs in this study.

The second topic concerns other contextual or moderating variables. Individuals' leadership style may play an important role in examining CEO regulatory focus (Hill et al. (2012)). Research should concentrate on exploring the effects of CEO regulatory on leadership style and vice versa, as well as studying leadership style as moderating variables in empirical models. The structure of the management team in terms of age, tenure and personal characteristics may also influence the emergence of CEO regulatory focus and play a vital role in explaining CEO regulatory focus under strategic change. Another important variable is the thinkable bias of cultural values and beliefs in this paper. As only German DAX companies were included in the sample, the study should be replicated with companies from other cultural backgrounds. Cultural values may play an essential role in explaining CEO communication to stakeholders because they influence personal characteristics and shape the way of thinking (Lee et al. (2000)).

Thirdly, regulatory fit should be included in future papers. Regulatory fit and corresponding theory (Lanaj et al. (2012); Gamache et al. (2015)) were not analyzed in this paper due to reasons of accessibility to CEOs. Future research has to analyze regulatory fit between message sender (CEO) and message receiver (investors, employees, other relevant stakeholders) to exclude conceivable bias in linking CEO regulatory focus and change. As change may be perceived differently by various message receivers, the fit between the message in terms of regulatory focus and the perceivers should be content of future examination.

In conclusion, my study contributes considerably to research in linking regulatory focus of CEO communication to change in organizations. I developed existing analysis tools

further and approached annual reports qualitatively to set the scene for analyzing hypotheses quantitatively. The results showed persistence of different regulatory foci in CEO letters to shareholders as well as it demonstrated a positive association between CEO regulatory focus and the intensity of change in organizations. I therefore believe that CEO regulatory focus is a topic of high interest for management research and will be continuously considered in future publications.

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