To the Graduate Council:

I am submitting herewith a thesis written by James Gaut Ragsdale entitled "A Neo-Aristotelian Criticism of the President's Messages in Southern Railway Company's Annual Reports, 1970-1975." I recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Arts, with a major in Speech and Theatre.

G. Allan Yeomans

G. Allan Yeomans, Major Professor

We have read this thesis and recommend its acceptance:

Robert W. Hale

Norma C. Cook

Accepted for the Council:

L. Evans Peel

Vice Chancellor
Graduate Studies and Research

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A NEO-ARISTOTELIAN CRITICISM OF THE PRESIDENT'S MESSAGES IN SOUTHERN RAILWAY COMPANY'S ANNUAL REPORTS, 1970-1975

A Thesis

Presented for the

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James Gaut Ragsdale

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ABSTRACT

Traditionally corporate annual reports have been solely a channel of communication between a corporation and its stockholders. During the last fifteen years, however, companies have designed their annual reports to appeal to larger and more diverse audiences, including employees, prospective employees, business schools, and customers. Available research indicates that the most frequently read section of a report is the president's message. Because of the high readership rate of the president's message, and the fact that the annual report is often the only communication between a corporation and the public during any given year, many corporations view the president's message as a significant opportunity to communicate with individuals interested in their operations. Since little is known about the function of the president's message or the vast audience it is now designed to appeal to, the purpose of this thesis was to study this important section of the corporate annual report.

Employing a neo-Aristotelian methodology, the study sought to discover, describe, and explain, the constituents and persuasive rhetorical elements of a president's message. Southern Railway Company's annual reports from 1970 to 1975 were selected for study since the president's message in each of these reports was presented by the same individual and each message reflected a consistent pattern of development typical of annual reports belonging to other corporations regulated by the Securities and Exchange Commission. A personal interview with the

Senior Editor of Southern Railway's annual report provided additional insight into the development and function of a president's message.

The findings of the research indicate that a significant number of corporations are unaware of the nature and characteristics of the audience receiving their annual reports. The problem has been compounded since companies now try to reach more diverse audiences. Feedback from annual report readers would aid in the identification of the characteristics of report audiences, but unfortunately, and like Southern Railway, many corporations fail to assess the impact that their annual reports have on readers. The result is that millions of annual reports are mailed to readers each year, yet few attempts are made to evaluate the effectiveness of these reports. Concerning the writing of the president's message, research indicates that it is a common practice for the department responsible for producing a corporation's annual report to compose the president's message. Southern participated in this practice, but unlike some corporation presidents, Southern's president did spend time editing the final drafts of a message.

If corporations continue to employ annual reports as a primary channel of communication to reach the public, then additional research is in order to identify and describe the actual audiences they want to reach. Once audiences are identified, methods of evaluation need to be developed to determine if the president's message and the annual report itself is designed for, and reaching its intended audiences.

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CHAPTER I

PURPOSE OF THE STUDY

Introduction. An increasingly important dimension of corporate communication efforts is the president's message of the annual report. No longer is the corporate annual report solely for the disclosure of financial information. Financial statements, once the sole material contained within an annual report, now share top billing with photographs, articles, and the president's message to the stockholder. What available research exists suggests that although an individual spends little time reading an annual report, he does generally read the president's message and manages to find out whether his stock was profitable the previous year. The importance of the president's message is further enhanced when one considers that management increasingly is recognizing the annual report as a communication instrument. Perhaps the most timely example of this is the printing of Bank America's annual report in six different languages in order to attract foreign business and investors.[1] Ironically, little attention outside Finance and Accounting has been given to the annual report or the presidents' message. Most information devoted to annual reports appears in business periodicals such as Business Week, Fortune, Financial World, Barron's, and Institutional Investor. Typically these publications print articles

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[1]"Business Bulletin," Wall Street Journal, 15 Aug. 1974, Sec. 1, p. 1, col. 1.

in the spring describing and explaining the newly published corporate annual reports. Business Week, for instance, in April 1976 described the current crop of annual reports in an article entitled, "More Meat in the Annual Reports." The attention given to the annual report by respected and recognized journals such as the Journal of Accountancy and Accounting Trends and Techniques in Published Corporate Annual Reports tends to deal exclusively with technical financial and accounting matters.

Justification and Scope of the Study. With annual reports becoming more of a medium to communicate with various audiences, and with the president's message being the component of the report that is most read, it is justifiable that serious study be undertaken to learn more about this significant part of corporate communications. In an attempt to learn more about the president's message, this thesis will focus on Southern Railway Company's annual reports from 1970 to 1975. Southern Railway has been selected for the following reasons: First, the president's messages to be studied encompass the years of Mr. W. Graham Claytor Jr.'s presidency at Southern Railway. This will allow the study to concentrate on the message content over a period of time of one individual in his communication with an annual report audience. Second, the period chosen for study embraces messages delivered over an extended period and within the various stages of a complete business cycle. Mr. Claytor's selection is based on the similarities of his responsibilities with other corporation presidents. Like his peers in other large corporations, Mr. Claytor is the chief advocate of his company's policies and the individual who is ultimately accountable and responsible for the

continued success of the organization. With the similarities between Southern Railway's president and other corporation presidents, by focusing Claytor and Southern, it is possible to gain additional knowledge on how other corporation presidents prepare, develop, and measure the acceptance of their president's message to annual report readers.

The importance of determining the various stages of a business cycle rests on the fact that, as president, Mr. Claytor was charged with the responsibility of managing a large industrial corporation as responsibly, efficiently, and profitably, as possible in a dynamic economic environment. The economic environment to a significant degree influences all three areas of responsibility, especially efficiency and profitability. With the economy influencing the efficiency and profitability of Southern, it is reasonable that the economy could well influence the president's discourse in addressing Southern's stockholders. It is probable, for instance, that mediocre earnings one year could well be influenced by inflation, and that the president's message would emphasize the effects of adverse economic conditions such as inflation on earnings. While Chapter III will consider this issue in more detail, the present task is to survey and determine the stages of the business cycle during the last six years of Mr. Claytor's nine year presidency.

While molecular approaches such as the level of retail sales, wholesale price fluctuations, and stock market prices for a given period are means of measuring economic activity, they tend to be highly variable and unfit to determine the stage of a business cycle. What does offer insight are the lead articles in Fortune magazine's "Annual Directory

of the 500 Largest Organizations." A review of the lead articles from 1970 to 1975 provides useful information concerning the economic environment that Southern operated in during Mr. Claytor's tenure. The articles tend to substantiate the notion that Claytor's presidency witnessed the best and worst of economic times:

> Not very surprisingly, the 500 largest industrials had a bad year in 1970 . . . . Unemployment climbed from 3.6 percent in December, 1969, to 6.2 percent in December, 1970, but labor costs rose sharply anyway.[2]

> Like the U.S. economy as a whole, the 500 largest industrials staged something of a recovery last year 1971. Their sales growth accelerated, and their profits, which fell sharply in 1970, came back almost to the 1969 levels . . . .[3]

> The U.S. economy had a great year in 1972—and so did the 500 largest industrials. Their combined sales increased by 10.9 percent, the largest year-to-year gain since 1968 . . . . The remarkable 18.9 percent increase in the combined profits of the 500 was the largest year-to-year gain since 1959, when business was also recovering from a recession.[4]

> The performance of the 500 largest industrials last year 1973 was mind boggling. In a year when the economy was setting a blistering pace, the 500 were breaking all sorts of records; their combined sales showed the sharpest year-to-year gain (19.6) in the history of the list since 1955 and so did their profits (up a breath-taking 39 percent).[5]

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[2]Charles G. Burck, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1971, p. 170.

[3]Marilyn Wellemeyer, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1972, p. 188.

[4]Peter Vanderwicken, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1973, pp. 220-21.

[5]Deborah DeWitt Malley, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1974, p. 230.

> Oil, inflation, and recession had—not surprisingly—a lot to do with the record turned in by the 500 . . . in 1974. Combined sales of the 500 rose by 25 percent—a record. Most of the gain, it happens, was illusory. The government's index of the price of manufactured goods rose by a numbing 19.3 percent; thus the sales gain in real terms was 5.7 percent—a bit below the twenty year average for the 500. And the comparable figure for non-oil companies among the 500 declined by 4.7 percent.[6]

> Once again last year [1975] the record of the 500 largest industrials in the U.S. featured an ironic contrast between operating results and stock market performance. The operating results were most dismal; gripped by recession, the 500 suffered the most severe earnings drop in seventeen years.[7]

Another reason for selecting Southern Railway is that its annual report is typical and representative of other annual reports of companies that are publicly held. Southern is "typical" in that its annual report adheres to the same SEC accounting and disclosure standards as do other publicly held companies. The best enunciation of these standards came in 1949 when Financial World stated that a modernized annual report should have the following: cover design, management section, president's message, income statement, and a simplified financial statement.[8] Sampling from Forbes and Fortune's annual directories of the 500 largest industrials organizations during the period of Mr. Claytor's presidency reveals homogeneity of the structure of the annual report. By comparing two corporations from each of the

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[6]Bro Uttal, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1975, p. 208.

[7]Susie Gharib Nazem, "The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, May 1976, p. 316.

[8]John F. Lyons, "Through the Years," Financial World, 30 Oct. 1974, p. 107.

five divisions comprising the 500 (retailing, commercial banking, utilities, transportation, and insurance), uniformity across all corporations, regardless of division, becomes evident. For example, Manufacturers Hanover, a commercial bank, has a format identical to New York Life, an insurance company, for the years 1969 and 1971. Similarly, a transportation company, Greyhound, has the same format as does the Jewel Companies, a retailing company, for the years 1973 and 1975. This sampling indicates that each of the corporations included a president's message which was placed at the beginning of the annual report, and each averaged about a printed page in length with an accompanying picture of the president.

The format of the president's letter, like the design of the surveyed reports, also possessed common elements. For instance, each of the messages sampled offered an initial greeting to the stockholder followed by a discussion of the corporation's profitability and a discussion of the corporation's future. The remainder of this chapter will discuss the methodology for analyzing and describing the president's message that will be employed in the study.

Methodology. The neo-Aristotelian methodology appears to be an effective means of initiating a study of the president's messages for two primary reasons. First, given the lack of prior research on the topic, a neo-Aristotelian methodology provides a conventional, yet effective, tool for analysis. By its very nature, the neo-Aristotelian approach offers a means to explain and describe the composition of the messages' content. Second, the completed study, having employed such a

methodology, should raise questions that indicate the need for additional research on the topic from other communication methodologies and perspectives.

Neo-Aristotelian criticism has been the dominant mode of criticism in the United States for the past half century.[9] Influenced by Aristotle's Rhetoric, Herbert A. Wichelns first delineated the characteristics of the genre of criticism in his 1925 essay entitled, "The Literary Criticism of Oratory." In this essay he outlines the elements of a speaking situation that must be considered in a rhetorical study. These factors are: the personality of the speaker and what he is thought to be; a description of the audience; the nature of the proofs employed to persuade the audience; the arrangement and style of the speech; the delivery of the speech; and finally, the effect of the speech on its immediate audience.[10] From these elements set forth in Wicheln's essay, neo-Aristotelian criticism has developed into a methodology by which the critic evaluates the speaker's effectiveness in achieving his intended purpose on the immediate audience. This method of criticism places crucial importance on the audience. The critic must ascertain whether the speaker employed the most suitable arguments for achieving the desired audience reaction. The critic must also determine

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[9]Edwin Black, Rhetorical Chriticism, 2nd. ed. (1965; rpt. Madison: Univ. of Wisconsin Press, 1978), p. 27.

[10]Herbert A. Wichelns, "The Literary Criticism of Oratory," in Studies in Public Speaking in Honor of James Albert Winans (New York: Century Company, 1925); rpt. The Rhetorical Idiom: Essays in Rhetoric, Oratory, Language and Drama, ed. Donald C. Bryant (Ithaca: Cornell Univ. Press, 1958), pp. 38-39.

the nature of the audience since the audience conditions the speaker's choice in selecting arguments, ordering them, and expressing them.[11] With this analytical method of criticism, the critic must evaluate the speaker's arguments and premises and judge their truthfulness and applicability. In addition to the audience and the nature of proofs offered by the speaker, the critic must also analyze and evaluate the speaker, his style, and delivery.[12]

The methodology will be used solely to discover, describe, and explain the persuasive rhetorical elements in Southern Railway's president's messages from 1970 to 1975. This approach distinctly differs from those efforts in neo-Aristotelian rhetorical criticism to measure the effectiveness of the discourse on the immediate audience. In fact, the emphasis on the measurement of effectiveness has been cited as a problem with the methodology. Edwin Black has noted that "There is little disposition among neo-Aristotelian critics to comprehend . . . discourse in a larger context, to see it, as for example the movement study would, as a part of a historical process of argument. To the

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[11]Marie Kathryn Hochmuth, "The Criticism of Rhetoric," in A History and Criticism of American Public Address, ed. Marie Kathryn Hochmuth et al., III (New York: Longmans, Green and Company, 1955), p. 11.

[12]For additional information on neo-Aristotelian criticism see Robert L. Scott and Bernard L. Brock's Methods of Rhetorical Criticism: A Twentieth Century Perspective (New York: Harper, 1972), pp. 3-27. J. A. Hendrix, "In Defense of Neo-Aristotelian Rhetorical Criticism," Western Speech, 32, No. 4 (1968), 246-52. Albert J. Croft, "Functions of Rhetorical Criticism," Quarterly Journal of Speech, 42, No. 3 (1956), 283-91. Lester Thonssen, A. Craig Baird, and Waldo W. Braden, Speech Criticism, 2nd ed. (New York: Ronald, 1970). Wayne E. Brockriede, "Roward A Contemporary Aristotelian Theory of Rhetoric," Quarterly Journal of Speech, 52 (1966), 33-41.

neo-Aristotelian, the discourse is discrete and its relevant effects are immediate."[13] Since this thesis seeks to discover rhetorical elements rather than measure the effectiveness of the discourse on an immediate audience, the aforementioned problem is alleviated.

Regarding the differences between oral and written discourse, the study is not concerned with the differences between the two modes of communication, rather it is interested in studying those elements and principles that are common to both. "In spite of our habit of thinking of writing and speaking as separate processes, the practice of persuasion is essentially one, in that the same principles apply . . ."[14] Therefore, this thesis seeks to determine the persuasive elements in the president's messages; once these elements have been determined and analyzed, it is probable that research designed to measure the effectiveness of the message on an audience will be in order.

While measuring the effectiveness of a president's message on an audience is not the purpose of this thesis, the audience will necessarily be considered. The importance of defining and describing the audience resides in the audience's ability to provide an additional perspective to analyze the content of the president's annual message. The immediate audience, the stockholders of Southern Railway Company, like most stockholders of publicly held companies may be divided into two groups:

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[13]Black, p. 33.

[14]Hoyt W. Hudson, "The Field of Rhetoric," in Historical Studies of Rhetoric and Rhetoricians, ed. Raymond F. Howes (1961; rpt. Ithica, New York: Cornell Univ. Press, 1965), p. 7.

the individual stockholder and the institutional stockholder or buyer. The institutional stockholder is characterized by those individuals who buy and sell stock for their respective pension fund, insurance company, mutual fund, and/or banks or trusts. The individual stockholder buys and sells stocks on their own initiative through a broker. No dollar limit or volume of stock can be employed to characterize the individual investor. A small town garage mechanic with an income of $12,000 a year may own fifty shares of a stock in contrast with a lawyer whose income is $50,000 a year and who owns hundred-share lots of many stocks.[15] One characteristic that has marked the small investor in recent years is the decline in the number of shares traded by the individual investor in relation to the institutional investor. Since 1960 the individual investor's percentage of trading volume has gone from a high of 68.6 percent to 40 percent in the early 1970's. These statistics tend to be misleading. Stock market expert Louis Rukhauser has noted "that the total volume of individual trading did not recede, but rather it increased dramatically in terms of numbers, not percentages." Both types of investors remain important to any corporation, especially when one considers that the individual stockholder accounts for at least 40 percent of an average twenty-million share day on the New York Stock Exchange.

Although many generalizations and misconceptions exist concerning stockholders, one trait that applies to both is the common underlying

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[15]Joseph A. Livingston, The American Stockholder (New York: Collier Books, 1967), pp. 25-26.

[16]Louis Rukhauser, How to Make Money in Wall Street (Garden City, New York: Doubleday, 1974), pp. 12-13.

motive for each stockholder—return on investment. Regardless of the type of investor, return on investment is usually sought in one of three ways: First, through dividends; second, through dollar growth from the stock itself; and finally, through a combination of the first two. Although stockholders are not a homogeneous group, their common goal of profit serves to create an interested audience for the president's message. Therefore, the remainder of this study seeks to discover the rhetorical strategies and persuasive elements employed by Mr. W. Graham Claytor Jr. in his efforts to persuade audiences that Southern Railway, operating in an unsure economy, was a successful and growth oriented company.

CHAPTER II

LITERATURE REVIEW

Introduction. The purpose of this chapter is to survey literature on annual reports and to assess the development of Southern Railway's annual reporting in conjunction with the trends, regulations, and traditions concerning annual reports that have been reported in the literature. The survey will begin with a brief history of annual reports, followed by an examination of the development of the structure and purpose of the annual report. The survey will then concentrate on various controversies and concepts that have been reported in the literature. The chapter will conclude by focusing on Southern's annual report and how its development has been affected by government regulation and trends noted in the literature.

Historical Development. Early development of the annual report relates to the absence of standards to be followed for reporting company financial information. A widely cited example is Lackawanna Railroad's reply in 1866 to a New York Stock Exchange request for financial information. The treasurer of the railroad replied, "'The Delaware, Lackawanna and Western Railroad Company make no reports and publish no statements and have done nothing of the sort for the last five years.'"[1]

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[1]N. Loyall McLaren, Annual Reports To Stockholders, (New York: Ronald, 1947), p. 4.

Although the reply was harsh, the literature reveals that Lackawanna's practice of limited or no financial disclosure was common. The only two companies generally cited as providing adequate disclosure before the 1920's were United States Steel and General Motors. However, their reports consisted primarily of income statements and balance sheets, which are regarded as narrow in scope by today's standards.

Profession and regulatory developments are recognized as being influential in the development of annual reports during the 1930's. Three of these influences are the American Institute of Accountants, the Federal Reserve Board, and the Securities and Exchange Commission. The Journal of Accountancy and McLaren were the first to acknowledge the influence of these three factors.[2] McLaren is generally recognized as the best writer on the history of annual reports. He surmised that the American Institute of Accountants realized increased public interest in corporations when they revised a 1917 article in 1936 to suggest that financial statements be prepared for both credit purposes and for annual reports. The 1917 article first appeared in a Federal Reserve Board publication and is recognized as being a "significant forward step in the development of financial statement technique."[3] An additional factor treated by McLaren and others was the influence of the New York Stock Exchange's listing requirement. Companies seeking to have their stocks traded on the New York Stock Exchange were required to file certain accounting

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[2]McLaren, pp. 7-60.

[3]McLaren, p. 18.

data with the Exchange. Since this requirement was not made retroactive, it allowed existing members to continue disclosing as much or as little information as they desired. With the exception of the Securities and Exchange Act of 1934, these factors exerted the most influence on the development of the annual report.

Structure and Purpose. The two factors that have primarily influenced the writing on the structure of the annual report are Financial World and the Securities and Exchange Commission (SEC). SEC rulings have always played a significant role in determining what is written about the structure of the annual report. The SEC's role is similar to an important work in English or poetry where a review or certain work will generate a new school of thought or citicism. Let the SEC issue a ruling that alters the structure of the report and a preponderance of writing will result. Soon after the SEC ruled in 1974 that reports had to contain a management analysis section, articles on the subject began to appear. Barron's, a respected weekly financial magazine, for instance, discussed what changes the new section would bring in "Good Reading For Investors."[4] Likewise, Business Week discussed the ruling in an article entitled, "More Meat in the Annual Report."[5] This influence on the literature has existed since the agency was created. "In October 1934, the Commission adopted a rule requiring that substantially all corporations . . . file financial statements with

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[4]Steven S. Anreder, Barron's, 23 Feb. 1976, pp. 5, 16.

[5]Business Week, 26 April 1976, pp. 78-79.

the Commission . . . ."[6] This ruling had the effect of sanctioning the components and the structure of the annual report. While many writers have pointed out that the ruling did not mandate all accounting rules, they did acknowledge that the rulings made through the years had "built up a substantial body of precedents."[7] Because of these precedents, the literature now considers the major components of an annual report to consist of a president's letter, an operations section, financial statements, and a management section.

While writing about the structure of the annual report is largely dictated by the SEC, the literature on its purpose is quite different. Recent writing stressed the many uses of the report. The 1972 winner of Financial World's Annual Report Survey conveyed this idea when he said, "Like most companies, we use the annual report as a principle corporate communications document . . . distributing it to a number of diverse audiences."[8] The winner's comment reflects the changing purpose of the annual report. The purpose of annual reports before 1925, for example, was primarily to disclose basic financial information. Even though General Motors and United States Steel were recognized for excellent disclosure practices, the data they released was only basic accounting information. The purpose of the corporate report has changed. Discussion

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[6]McLaren, p. 7.

[7]McLaren, p. 7.

[8]Robert L. Strickland, "Lowe's Annual Reportsmanship," Financial World, 25 Oct. 1972, p. 102.

of Financial World's influence, later in the paper, will provide additional information on the purpose of the reports.

Financial World. Financial World's Annual Report Survey, like the SEC, had a profound effect on corporate report literature. The yearly awards for outstanding annual reports given by Financial World influenced other publications such as Institutional Investor and Business Week to conduct surveys of the reports. Financial World achieved this influence and status by initiating and continuing the Annual Report Survey. Growth of the contest was rapid, growing from 250 reports in 1941 to over 1,000 in 1943. In order to maintain objectivity in judging, the magazine announced in 1944 that "the competition from then on would be judged by an independent board of experts to insure objectivity and expertise in picking competition winners."[9] This decision led to the creation of the first five-member board which became known as the Haney panel, whose "philosophy . . . in picking winners in the competition played an important role in the evolution of today's annual-reporting standards."[10] In commenting that the report should be prepared for the stockholder, employee, customer, and the general public, the panel had, in effect, told the contestants what the purpose of the annual report would be. While the idea of various audiences for the report had been suggested during the 1940's, the Haney panel, with the power to judge, sanctioned the idea. The panel's comment not only determined the audience for the

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[9]John F. Lyons, "Through the Years," Financial World, 30 Oct. 1974, p. 74.

[10]Lyons, p. 74.

document, but also induced changes in the literature as to who the report was for and what its purpose was.

Several years later, Financial World established standards for receiving a "Merit Award," which in turn affected the literature.

> At that time Financial World said a "modernized" annual report should have: cover design . . . highlights page . . . table of contents . . . management section . . . president's letter . . . simplified financial statement . . . stockholder information . . . .[11]

These components comprised the structure that the panel required before any report could qualify for a "Merit Award." Others had suggested these components, but Financial World, with its power to judge and award, was the influence in the literature. The standards set for the "Merit Award" had the effect of filling gaps, especially in the narrative section of the annual reports, and complementing rulings made by the SEC on corporate disclosure practices.

Aunt Jane Concept. A controversial topic in the literature is the concept of Aunt Jane. Aunt Jane is "the mythical lady who owns the stock but can not be bothered to read or understand anything pertaining to it . . . ."[12] The source of the myth comes from the continuing debate of how technical the financial language should be. The annual report initially disclosed only accounting information and it still remains a document whose primary purpose is to convey such information.

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[11]Lyons, pp. 75, 107.

[12]J. Hervie Haufler, "The Case for a Planned Annual Report," Financial World, 30 Oct. 1963, p. 83.

Therefore, relating technical information to the layperson is an inherent problem in reporting financial results. McLaren touched on the problem when he mentioned that the SEC in 1934 wanted annual reports to be understood by the average stockholder.[13] Elmo Roper, in a report about what information the public wanted disclosed, expressed the following:

> Today there is a general necessity for some type of communication between the average run-of-the-mill stockholder and the company because the companies are going to the public more and more for needed money . . . . I believe that the original annual report directed to the uninformed stockholder should contain some simple statements on earnings, and on dividends . . . .[14]

Persistence of the issue is noted when William Chatlos observed in 1971 that technical words and phrases should be avoided where possible.[15]

Recent information reveals that Aunt Jane is more sophisticated about and interested in financial disclosure than earlier writers had suspected. Writing in The Atlantic Monthly, Ripley acknowledged the problem of writing for Aunt Jane when he said, "a prime argument which raises its head at the outset of all discussions of shareholders . . . is that the shareholder . . . is hopelessly indifferent to the whole business."[16] This remark is consistent with the definition of Aunt Jane

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[13]McLaren, pp. 7-18.

[14]Elmo Roper, A Report on What Information People Want . . . About Financial Conditions of Corporations, (n.p.: Controllership Foundation, 1948), p. 105.

[15]William E. Chatlos, "Investors," Handbook of Public Relations, ed. Howard Stephenson (New York: McGraw-Hill, 1971), p. 141.

[16]William Z. Ripley, "Stop, Look, Listen," The Atlantic Monthly, 138 (1926), 385.

in that she does not care to be bothered with the document. As early as 1926, shareholder indifference is recognized as a prime argument for discussion.[17] Nearly twenty-five years later, the SEC tried to adopt an understandable language that could convey technical information to the average stockholder. It is evident that previous writing about the annual report not only realized the problem of how to write for the shareholder, but was also unable to resolve the issue. While recognizing her persence, writing since the early 1960's has questioned the validity of such a concept. Haufler wrote an article entitled "The Case for a Planned Annual Report," which marked a shift in the attitudes about Aunt Jane.[18] He reported that General Electric (GE), after interviewing its own stockholders during a ten year period, determined that the average stockholder was not the Aunt Jane type at all. More specifically, the average shareholder had about ten other investments but made a serious effort to read and absorb the GE report. The reader would also spend about ten minutes reading the text, picking up the major points and was apparently able to grasp their essence.[19] GE's research reflected the increased criticism of the unquestioned acceptance of Aunt Jane. Another article reported that Kodak shareholders were quick to learn and had "gained sophistication in the ways of the business world, and it had

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[17]Ripley, pp. 385-87.

[18]Haufler, pp. 83-84.

[19]Haufler, p. 83.

become necessary to provide more information in greater detail . . . ."[20] Similarly, the winner of the 1973 Annual Report Survey felt "that those who read the company's annual report were increasingly knowledgeable and sophisticated."[21] A recent survey conducted by the Securities and Exchange Commission revealed that 91 percent of 4,400 stockholders surveyed said they read annual reports, and 77 percent said they read them "very" or somewhat thoroughly.[22] These surveys indicate that stockholders can read annual reports and that Aunt Jane is indeed becoming a myth, if not already so. This author believes that people like Aunt Jane exist, but not in any great numbers. Since World War II, large numbers of middle income individuals have chosen to purchase stocks, and this factor tends to raise the educational level of the shareholder audience. Also, most companies have made an effort to present an understandable annual report.

Readability. With Aunt Jane, the issue of technical language, and the influence of the Haney panel, it is understandable that information exists concerning the readability of the document. Since 1949, three studies (experiments) employing the same methodology have been conducted to measure the reading ease of the annual report. These studies are

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[20]Bill Benney, "Behind Eastman Kodak's Success," Financial World, 26 Oct. 1966, p. 101.

[21]Howard L. Sherman, "1973 Annual Report Awards," Financial World, 31 Oct. 1973, p. 99.

[22]"SEC Survey Shows Investor Reliance on Annual Reports," Journal of Accountancy, Oct. 1977, p. 14.

important because they were the first, and apparently the only ones, conducted to measure the reading ease of the annual report. Secondly, the results seem to have been blindly accepted as factual and reliable. Because of these reasons, it is necessary that a critical examination of the experiments be conducted.

These studies have been conducted three times since 1949. While this survey examined only the 1974 experiment by Robert Dolphin and Robert A. Wagley, their work included a thorough summary of earlier studies.[23] The initial experiment examined annual reports from twenty-six companies. The 1961 study looked at twenty-five of the same companies. In 1974, the study used reports from sixteen of the original companies. In each instance, the focus was to measure the reading ease and human interest of the annual report. The New Flesch Readability formulas were used to determine both elements. To calculate the reading ease, a one hundred word sample was selected from every other page and examined to determine the average length of sentences and number of syllables per word. Dolphin and Wagley acknowledged that a human interest rating was difficult to calculate for annual reports because it was based on "the number of personal words and the number of personal sentences in a given piece of written material . . . ."[24] Nonetheless, they calculated a human interest rating. To adjust for a lack of personal words and

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[23]Robert Dolphin and Robert A. Wagley, "Reading the Annual Report," Financial Executive, 45 (1977), 20-22.

[24]Dolphin and Wagley, p. 21.

sentences, the authors suggested that photographs and other visual aids would enhance human interest.

The findings and conclusions of the 1974 study were not surprising. The reading ease of the annual report had declined significantly since 1949, but the human interest rating remained consistent. These findings led the authors to conclude that annual reports did a poor job of communicating information to the average reader. The findings and conclusions are not surprising to this author, especially when considering the methodology employed. Given the myth of Aunt Jane and the issue of how much technical information should be used in the report, some method of ascertaining reading ease and comprehension of the annual report needs to be developed. The use of the New Flesch Readability formulas as the proper methodology is certainly questionable. Why use the human interest rating if it is recognized as being a less than suitable measure for the annual report? As for using visual aids and different layouts as a means to indicate human interest, what about the abundance of literature suggesting the improper use of visual aids? As far back as 1926, Ripley questioned the value of annual reports "emblazoned with gilt or colored reproductions of one thing or another, on large sheets of heavy glossed paper . . . tied together with fancy string . . . pleasing to the eye."[25] Despite numerous authors charging capricious use of the visual aid, Dolphin and Wagley championed it as a human interest factor. It is conceivable that a report could have a high human interest rating

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[25]Ripley, p. 385.

yet be deficient in communicating financial information to the reader. The other aspect of the methodology, the reading ease rating, implied that multi-syllabled words and long sentences made the annual report difficult to read. While this may be a credible assumption, did the authors think that a report with simple sentences, comprised of a few syllables, would have made it more comprehensible? This points to the weakness of the methodology. It is both reading ease and comprehension that should be measured. This survey did not locate other methodologies to conduct such a measurement. There is a need for research in the development of a testing instrument that will accurately determine reading ease and comprehension for annual reports and other written financial material.

Another concern about these experiments is that the results from each study have been published in Financial Executive. On three separate occasions since 1949, information has been printed which indicates that annual reports can not be understood and that they are uninteresting. The publication of such data only serves to confirm attitudes about the Aunt Jane concept and that annual reports are written primarily for analysts. These attitudes may or may not be correct. This author regrets that attitudes are being reinforced and possibly changed by questionable measuring techniques that have gained acceptance.

Truthfulness. There are specific incidents throughout the literature depicting the lack of honesty in financial disclosure. The United States Dry Goods Company, for instance, went bankrupt in 1925 without any indication of financial weakness mentioned in the financial

reports of the corporation.[26] Only twice since annual reporting began has the subject of truthfulness surfaced in the literature. The initial period began immediately after World War II. Although the exact cause of this attitude was not known, one contributing factor was a report which surveyed individuals to determine what they wanted to know about corporate annual reports and financial disclosure.[27] Invariably a respondent made a favorable remark about annual reports. A business executive indicated that "'most reports were truthful—95 percent of them anyway.'"[28] After the results of the report became published, others cited it as being credible and worthwhile. Some writers accepted the conclusions concerning the truthfulness of the annual report blindly. Other factors also contributed to the truthfulness attitude, such as belief in a capitalistic society. However, it was the Roper report that exerted the most influence. Now, thirty years later, the literature reflects a distrustful attitude concerning annual reports. The basis of this feeling was best stated by SEC Chariman, Roderick M. Hills, when he said, "'our disclosure policies overall are not as relevant as they could be . . . . We disclose too much and too little. Too much of the irrelevant and too little of the material.'"[29] The disclosure of too much information may be related to the numerous stories and articles that are now included in an annual report. To insure that articles contained within an annual report, which are often written by financial public relation experts, are responsibly

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[26]Ripley, p. 393.

[27]Roper, pp. 5-120.

[28]Roper, p. 7.

[29]Anreder, p. 5.

written, the SEC has made it clear that it is going to keep a closer eye on public relation firms and that some of them could wind up defendants in security cases.[30]

Recently an investor relations firm, Georgeson and Company, reported that "a great many stockholders complained that they were not getting accurate information . . . ."[31] Ironically, the current writing discusses the need and willingness of management to communicate with shareholders. In Annual Reports, Lewis says that the annual report has a multitude of purposes for "corporate executives who have an almost desperate need in this era of rapid change to accurately identify their company."[32] Although this author was unable to locate the first appearance of management's willingness to communicate, given the threat of constant change, it is reasonable to assume that it is a recent development. The bankruptcy of the Penn-Central in 1970 was an instrumental factor in changing attitudes about the truthfulness of the annual report. The railroad's annual report failed to indicate the seriousness of the transportation giant's difficulties. More research is needed in this area because management looks increasingly to the annual report for communication with stockholders, employees, customers,

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[30]G. Christian Hill, "Financial Public Relations Men Are Warned They're Liable for Their Client's Puffery," Wall Street Journal, 16 March 1972, p. 31, col. 1.

[31]Fred C. Foy, "Annual Reports Don't Have To Be Dull," Harvard Business Review, 51 (1973), 57.

[32]Richard A. Lewis, Annual Reports, ed. Walter Herdez (Zurich, Switzerland: Graphics Press, n.d.), p. 12.

and investors, yet the literature reveals that these groups distrust the information they receive from the document.

Southern Railway's History of Annual Reporting. A review of Southern's annual reports from the 1930's through 1975 reveals a report that has developed in a manner consistent with other corporate annual reports. Examination of Southern's reports on a five year interval during the 1930's and 1940's indicates that the report was financially oriented.[33] Beginning in 1948, the railroad adopted the report format and structure suggested by Financial World's Haney panel. Southern still adheres to this basic format; subsequent changes in its reports since 1948 have been primarily variations and additions to the narrative section.

Compared to other railroads of the 1930's and 1940's, Southern's reports were similar if not identical to other railroads.[34] During the 1940's, however, companies in other industries were beginning to disclose nonfinancial information in the annual report. General Motors (GM) and General Electric's (GE) annual reports provide examples of the trend

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[33]The reports selected for examination were: Southern Railway Company Annual Report 1931, by Southern Railway Company (Washington, D.C.: n.p., 1932); Southern Railway Company Annual Report 1936, by Southern Railway Company (Washington, D.C.: n.p., 1937); Southern Railway Company Annual Report 1941, by Southern Railway Company Washington, D.C.: n.p., 1942); Southern Railway Company Annual Report 1946, by Southern Railway Company (Washington, D.C.: n.p., 1947).

[34]Santa Fe Railroad and Union Pacific Railroad's annual reports for 1931, 1936, 1941, and 1946 were compared with Southern Railway Company's annual reports for the identical years. The reports were compared on the similarity of the financial reports employed and the similarity of the narrative sections of the three railroads.

toward additional information. The cover of General Motors 1948 report, for instance, featured GM automobiles enduring the rigors of its "proving ground" in Michigan.[35] The report's president's message was not located in the initial part of the report as it is today, rather it was located on page twenty-seven just before the financial statements. The various articles appearing on the first twenty-six pages tended to cluster around two themes—the profitability of the corporation and the diversity of the products manufactured by GM. The themes or philosophy of these articles are best characterized in the section entitled, "General Motors Products:"

> Pictured here are representative General Motors products for 1949. Behind these products stand 40 years of progress in research, styling, engineering and efficiency in manufacture. Such progress results in "profits for the customer in the form of greater value, gains for employees in the form of more and better jobs at good wages and returns for stockholders in the form of dividends."[36]

Like General Motors, General Electric's narrative section in their 1948 report extended beyond the traditional scope of providing solely financial information.[37] These two companies' reports provide a striking contrast to Southern's reports during this same period as the railroad's report remained a financial document.

The late 1950's reflects Southern's initial attempt to shift to a more informative corporate annual report like those of GE and GM. This shift resulted when Southern combined its quarterly public relations

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[35]GM: Annual Report, 1948, by General Motors Corporation (Detroit, Michigan: n.p., 1948).

[36]GM: Annual Report, 1948, p. 23.

[37]General Electric Annual Report, 1948.

brochure with their 1958 report.[38] The public relations brochure employed a magazine format and typically included articles on the railroad's operations, patterns of growth, and job-related activities of employees. The combination of the two documents resulted in a larger, longer, more informative narrative section. With the inclusion of the public relations material, no longer did Southern's annual report focus strictly on financial matters. Southern had joined the company of corporations already providing annual report readers with financial, managerial, product, and personnel information.

Railroad Regulation. Railroads are regulated by the Interstate Commerce Commission, a federal regulatory agency established in 1887. The regulation of the industry is extensive. From the regulation of safety policies, to changes in schedules and routes, to the setting of rate structures, the ICC has input. Not until 1920, after a decade of hearings and public debate, did the ICC receive jurisdiction over the financial and accounting operations of railroads. The purpose of the additional ICC control was to prevent the recurrence of various financial scandals that had eroded public confidence in railroad investment over the years.[39] The result of the act was to bring about the adoption of

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[38] Southern Railway Company Annual Report 1958, by Southern Railway Company (Washington, D.C.: n.p., 1959).

[39] I. L. Sharfman, The Interstate Commerce Commission: A Study in Administrative Law and Procedure, Vol. 1 (New York: The Commonwealth Fund, 1931), 190; for additional information on ICC regulations and their development through the years see James Edward Lane, "A Comparison of Accounting Procedures Prescribed by the Interstate Commerce Commission For Railroads with Generally Accepted Accounting Principles," Thesis, Indiana University 1959, pp. 6-23.

accounting and reporting standards that railroads were required to uphold. Of the various regulations comprising the act, two of the most significant were the requirement of an income statement and balance sheet to be submitted on an annual basis by each railroad and the listing of company executive officers and board members with the commission.

The Securities Act of 1934, which created the Securities and Exchange Commission (SEC), allowed for the continued financial regulation of the railroads by the ICC. Although the SEC acquired regulatory control relating to railroads, SEC guidelines and policies had to be consistent with existing ICC rules and policies regarding financial concerns.[40] Since both agencies usually followed general accounting guidelines accepted by the accounting profession, the SEC offered little if any input into the accounting practices of railroads. The SEC did, however, focus its regulatory powers on the disclosure of financial information rather than on accounting methods and procedures. Admittedly, during the SEC's early years financial disclosure required by the agency was much less stringent than current requirements, but the SEC always had the right, if it so desired, to conduct both announced and unannounced investigations to determine violations of disclosure policies. Perhaps this is one of the reasons that the SEC has been characterized as the "'iron hand within the velvet glove.'"[41]

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[40]Louis H. Rappaport, SEC Accounting Practice and Procedure (New York: Ronald, 1956), p. 17.

[41]George L. Lefler, The Stock Market (New York: Ronald, 1951), p. 342.

In a cooperative move to become more consistent with the nonrailroad accounting requirements of the SEC, the ICC in 1974 allowed railroads to adopt "generally accepted accounting principles" for all accounting practices except depreciation and deferred taxes. This action removed all remaining inconsistencies of accounting regulations except depreciation and its treatment in relation to deferred taxes. Depreciation is treated differently because the enormous capital expenditures for fixed assets (locomotives, boxcars) make depreciation by the "generally accepted" method of item-by-item basis a very complex process and difficult to calculate. Therefore, depreciation is treated and employed for tax purposes as a single, undivided account. The result of the ICC change is that little if any difference now exists between the accounting and disclosure procedures of railroads and other publicly held corporations.[42] Southern's annual report, because it is a railroad, will not differ significantly in its disclosure of financial information from that of other corporations reporting under SEC guidelines.

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[42]Personal interview with Dr. John Boquist, Associate Professor of Finance, Indiana University School of Business, 6 Feb. 1979.

CHAPTER III

SOUTHERN RAILWAY'S ANNUAL REPORT AUDIENCE

Introduction. Southern Railway Company discloses financial and managerial information to the public and its stockholders through various channels. The most significant means of conveying this information is through the annual report. Within the annual report, it is the president's message to the stockholders that receives the dominant share of a reader's attention. The purpose of this chapter is to examine the audience that receives Southern's annual report: discovering those traits, differences, and interests that characterize the readers of the president's message. First, those characteristics that aid in audience analysis will be identified. Then, the two groups constituting Southern's primary audience will be described. The remainder of the chapter will focus on Southern's secondary audience and the prevailing attitudes affecting it and other railroads.

Audience Characteristics. Like speeches delivered in public, the president's message has an audience. Regardless of the nature of the communication, whether it is written or oral, the advocate must deal with complex beliefs and attitudes of his/her audience.

> The key to understanding this complex is a careful analysis of the audience. Though it may be impossible to study a prospective audience at firsthand, an analysis of similar and

> familiar groups will be helpful: it is possible to make fairly safe generalizations.[1]

Since little is known about the annual report's primary auditor, the stockholder, the president's message must rely on generalizations and secondary information in analyzing his audience.[2] Of the five parameters for analyzing an audience listed by Bryant and Wallace in their Fundamentals of Public Speaking (age, sex, economic status, education, and attitudes), attitudes best offer significant insight into the nature of an annual report audience. Economic status and education are beneficial indicators only for general interpretations since they are measured in macro levels. These two provide only population characteristics, not individual measures. High economic status, for instance, is a characteristic of stockownership. As of mid-1971, U.S. individuals owned an estimated 780 billion dollars in stock with 10 percent of families with the largest personal income accounting for 71 percent of dividend income and 74 percent of market value.[3] Little data exists on sex and age range of stockholders except that women are often listed as owners of stock (over 50 percent) because of tax implications and that retired people constitute a significant share of stock owning individuals in

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[1]J. Jeffery Auer, "The Persuasive Speaker and His Audience," The Psychology of Communication (New York: Meredith, 1963), pp. 286-309; rpt. in The Rhetoric of Our Times, ed. J. Jeffery Auer (New York: Appleton-Century-Crofts, 1969), pp. 255-56.

[2]Marshall E. Blume et al., "Stockownership in the United States," Survey of Current Business, 54, No. 11, (1974), 16.

[3]Blume, p. 17.

America. Two parameters that do offer aid in audience analysis and description are attitudes and values.

With the limited amount of firsthand data about stockholders, the advocate must make assumptions about the audience he is to address. Complicating the matter is growth and diversity of audiences reading the president's message. "One of the big problems any investor relations director faces in producing an annual report . . . is that there are so many outside audiences to please."[4] Regardless of diversity, the advocate must attempt to analyze his audience. Given the scarcity of information about annual report audiences, it is probable that assumptions about the attitudes of the audience are a source of identifying and characterizing the audience. Southern Railway addresses many audiences with its report and president's message, and it deals with the problem of diverse interests by identifying the dominant segment of the total audience and focusing on its attitudes.

By focusing on those who own the stocks—institutional and individual investors—rather than customer, employees, and a whole host of others, Southern's president reduces much ambiguity associated with addressing a multi-segmented audience.[5] The primary advantage of limiting the scope

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[4]"The Best Annual Reports of the Year," Institutional Investor, 12, No. 5 (1978), 119.

[5]Personal interview with Albert S. Eggerton Jr., Senior Editor, Stockholder Relations, Southern Railway Company, 2 Feb. 1979. The interview was conducted in Mr. Eggerton's office at Southern Railway's corporate headquarters in Washington, D.C. The interview lasted from 11:45 a.m. to 2:00 p.m. After the interview Mr. Eggerton and I had a "working lunch" at a local restaurant where we continued our discussion. During the first forty-five minutes of the interview, Mr. Eggerton

to stockholders is that during the preparatory phase the advocate may more safely assume that common attitudes exist among individuals who are members of the restricted audience. To what degree the limited scope of the total audience ultimately alienates the other segments is unknown.

Since attitudes cluster and tend to be consistent with other held attitudes, the advocate can begin to identify the parameters of his audience. The advocate, for example, can reasonably assume that the widely held attitude among stockholders that stock owners should receive an adequate return on investment is consistent with other attitudes common to ownership of stocks. Excessive government regulation, fear of inflationary effects, and high interest rates, for example, are probably attitudes that are shared by the corporation and investor alike. A knowledge of audience attitudes affords the advocate the opportunity to gauge the degree of partisanship, neutrality, or hostility from slight to vehement in an audience. "Rarely will . . . an audience be solely partisan, neutral or in opposition."[6] When the advocate knows to what degree his audience is partisan, neutral, or in opposition, he possesses critical information that helps him develop the proper strategies in order to persuade his audience.

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discussed the method of preparation of Southern's annual report. The remaining time was spent in an open question and answer session between Mr. Eggerton and myself. Given Mr. Eggerton's previous relationship with Mr. Claytor and his responsibility for Southern's annual report, his interview remarks will be quoted and paraphrased extensively in the remaining sections of the study.

[6]Donald C. Bryant and Karl R. Wallace, Fundamentals of Public Speaking, 5th ed. (Englewood Cliffs, New Jersey: Prentice-Hall, 1976), p. 213.

Mr. Claytor, Southern Railway president, was aware in 1973 that the issue of passenger service stimulated interest in all three types of stockholders. Knowing this information allowed him to tailor his message to the partisan supporters of discontinued passenger service and not neglect the attitudes held by neutrals or opponents of the issue:

> We have had during 1973 a modest increase in traffic and in fares, but passenger service is still operated at an out-of-pocket loss, and with steadily rising costs the amount of that loss continues to increase. I am happy to say, however, that our customers continue to find our service to be of high quality, and we do not intend to relax our standards in spite of increasing costs.[7]

Initially Claytor informed the partisans that passenger service would continue to be unprofitable: this served to reinforce the partisans' existing attitudes concerning costly passenger service and thus may have encouraged them to act. The comment also acknowledged the presence of neutrals when he explained why passenger service was unprofitable and why it would continue to be so. The additional information served to convince the neutrals that the company's policy on passenger service was right and inevitable. Claytor recognized that opponents usually change their attitude on an issue, if at all, over a period of time.[8] Knowing this he informed opponents of the discontinuance of passenger service that, yes, passenger service was unprofitable, but as long as their company ran such a service, high standards would be enforced. This explanation did two things: First, it attacked the notion that passenger

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[7]Southern Railway Company Annual Report 1973, by Southern Railway Company (Washington, D.C.: n.p., 1974), p. 4.

[8]Bryant and Wallace, p. 218.

traffic had declined because of poor service to riders; and second, it gave the opponent information in a nonauthoritarian manner that may have been conducive for his/her reconsideration of the issue.[9]

In summary, of Bryant and Wallace's five traits for analyzing an audience, the attitudes trait is the one that is most beneficial to an advocate in preparing the president's message. The attitudes an audience holds toward the various propositions of the advocate can be considered as being partisan, neutral, or in opposition. If the advocate can estimate the degree to which an audience is partisan, neutral, or in opposition, he gains insight as to how best to tailor his message to the audience. For instance, in its message preparation, Southern assumes the primary audience to be stockholders who primarily possess partisan or neutral attitudes toward the railroad: partisan because the investors have a financial commitment and interest in the company and neutral because they possess insufficient information about certain issues confronting the railroad.

An Alternative Method for Assessing an Annual Report Audience. Harold D. Lasswell and Abraham Kaplan's concept of a classification of values offers another and perhaps more accurate method for assessing an annual report audience. Rather than examine differing parameters of an audience, the classification system allows one to focus on the audience's values. With knowledge of those values most common to an annual report

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[9]"Summer of Discontent for Commuters," Business Week, 2 Aug. 1969, pp. 74-76.

audience, the advocate possesses additional and possibly more relevant information than data gained from surveying solely parameters of an audience. The importance of knowledge received from values rests in the fact that values provide for the basis of judgment and action. Values function (1) to govern conduct, or seek that which "ought" to be pursued, and (2) to inspire conduct that should be desirable in a society by its members.[10] Values not only guide individuals in their actions, but also inspire them toward the pursuit of worthy goals—the pursuit of the good. Therefore, if an advocate is aware of the values most common and central to his audience, then he will be better prepared to develop a message that appeals to and suits his audience.

The classification of values is divided into two categories, welfare values and deference values. Welfare values are those values "whose possession to a certain degree is a necessary condition for the maintenance of the physical activity of the person."[11] Welfare values include well-being, wealth, skill, and enlightenment. Well-being is concerned with the health and safety of the individual. Wealth is a value that is associated with goods and services accruing to the individual in anyway possible. Proficiency related to arts, crafts, trade, or profession is the subject matter of skill. Enlightenment is

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[10]Ralph T. Eubanks and Virgil L. Baker, "Towards an Axiology of Rhetoric," Quarterly Journal of Speech, 48, No. 2 (1962), 162-63.

[11]Harold D. Lasswell and Abraham Kaplan, Power and Society: A Framework for Political Inquiry (1950; rpt. New Haven: Yale Univ. Press, 1965), p. 55.

a value concerned with learning and education in personal and cultural affairs.

The other category, deference values, is comprised of those values "that consist of being taken into consideration (in the acts of others or of the self)."[12] Power, respect, rectitude, and affection, comprise deference values. The value of power is concerned with decision making processes. Status, honor, and recognition, all attributes of social class distinctions, are dimensions of respect. Rectitude is a value concerned with moral values and virtue, and is that value which provides for a system of law in our society. Finally, affection is the value concerned with friendship.

The eight values and two categories comprising the classification system, according to Lasswell, are manifested through institutions found in society.[13] Provided below are the values and related institutions:

VALUE	INSTITUTION
Welfare Values	
Well-being	hospital, clinic
Wealth	commerce
Enlightenment	education, research
Skill	occupations
Deference Values	
Power	government
Respect	social class distinction
Affection	family
Rectitude	home, church[14]

[12]Lasswell and Kaplan, p. 55.

[13]Eubanks and Baker, p. 164.

[14]Eubanks and Baker, p. 164.

An example of values being expressed through an institution would be Southern's appeal to the value of wealth when it addresses annual report readers. Of Lasswell and Kaplan's eight values, the value of wealth is the most predominate one in Claytor's messages. Evidence of this is seen primarily through the discussion of profitability and growth in each president's message. Even when Claytor discussed issues such as recession, inflation, and excessive governmental regulation in his 1974 and 1975 messages, the discussion focused on the adverse effects on profitability caused by these factors. By emphasizing increased dividends, record earnings, and the potential growth of the area served by Southern, Claytor offered the messages' readers proof that Southern was an institution that pursued the value of wealth.

Other values were also present in Claytor's president's messages. The appeal to the value of well being was evident in the 1973 and 1974 messages. In these messages Southern's president informed his audience that the railroad's best interests would be served by taking an active interest in the reorganization plans of the Northeastern railroads. Evidence of the values of affection and rectitude were also evident in the messages. For example, Claytor always acknowledged Southern employees for their loyalty and dedication to the organization. While these values appeared consistently, they did not receive the emphasis that the value of wealth received. Each message studied, for instance, began with an overview of the previous year's profit and income. The body of the message typically continued discussion of profit by looking at those operations and activities that made the railroad profitable.

Recognition of Southern employees and their dedication to their work, however, always came in the final two paragraphs of a president's message.

The welfare value of wealth employed by Claytor is available to the same interpretation as other seven values. The "ought" or maintenance function associated with wealth is the premise that income is necessary to maintain physical subsistence. The desirable goal resulting from wealth, according to our society's interpretation, is the accrual of material goods and services. In a recent speech, President Carter acknowledged America's seemingly endless desire for goods when he said:

> In a nation that was proud of hard work, strong families, close-knit communities and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does but what one owns.[15]

Even a cursory examination of America's retail advertising reveals the emphasis on accumulation of goods and services. Only several years ago, for instance, Sears urged Americans to "trade up with America," or interpreted, to purchase more and better material goods. Frequently, newspapers print banking advertisements that inform readers of the dividends that accrue to investors. Certainly dividends are a form of material goods and services. Banks, like many other commercial concerns, promote the value of wealth. The regulative function of wealth is not the primary concern of banks' advertisements; rather, their appeals are designed to promote the idea that the accrual of income is desirable. Accordingly, the value of wealth may be viewed as a value achieved

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[15]"Transcript of President's Address to Country on Energy Problems," New York Times, City Ed., 17 July 1979, Sec. A, p. 15, col. 2.

through commercial interests and also a value that is promoted through commercial interests.

The implication of the classification of values system in the assessment of an annual report audience rests in its ability to identify better the nature of annual report readers than existing methods do. As previously mentioned, Southern Railway has little information concerning the readers of its annual report, and Southern's lack of knowledge is not atypical. Although empirical research does not now exist to support this claim, there is general agreement by those responsible for the production of corporate annual reports that comprehensive information concerning annual report audiences is absent.[16]

Given the lack of audience information, an advocate's time might be better managed if he focused on the assessment of probable values common to his readers rather than concentrating solely on parameters or characteristics of an audience. Knowledge of an audience's values should aid the advocate in identifying issues important to annual report readers, since values can supply the criteria for choosing among alternative courses of conduct.[17] While different values possess different meaning and importance to report readers, due to the financial interests of the reports, a cautious assumption can be made that the value of wealth is central to most annual report readers. The value of respect also may be central to annual report readers since stockownership is viewed by some as a status symbol. The role of status in stockownership and its affect

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[16]Eggerton, interview.

[17]Eggerton, interview.

on annual report readers is unclear however and needs further research. Wealth, however, is a central value to the majority of readers, given the salience of return on investment to stockholders. Therefore, the advocate should consider the influence of the value of wealth on his audience when he is preparing an annual message.

The classification system is also appealing in that it is easily complemented by Bryant and Wallace's method of audience analysis. If, for instance, the value of well-being and the value of respect are supported by information received from the knowledge of an audience's age or income range, then the advocate possesses additional assurance that his annual message is suited for the proper audience. The classification system possesses value for the critic because it provides a means to evaluate a message's content. If a corporation argues that it is concerned about the well-being of its employees, yet the corporation's discourse reveals an emphasis on the discussion of profits (value of wealth), then the critic would have grounds to reject such a claim.

In conclusion, Lasswell and Kaplan's classification of values system offers another, and perhaps more useful method of assessing an audience. With the lack of information existing on annual report audiences, the classification system finds its utility in its ability to identify common values possessed by an audience. Knowledge of an audience's values aids an advocate in shaping his message to an audience.

Institutional and Individual Investors. Those who own stocks may be and generally are divided into two groups, the individual stockholder and the institutional investor. Over the last fifteen years it seems that these two groups have competed with each other to determine who dominates market trading activity. Prevalent articles note the demise of the individual investor and how the institutional investor continues to become a dominant factor in the buying and selling of stocks. Both types of investors still play a significant role in stock transactions. A possible explanation for the exaggeration of the dominance of institutional investing is that its growth was a new influence on the market in the 1960's and that its growth reflected a decline in the percentage of individual investors. Since institutions tend to trade in blocks of 100's, 500's, and 1000's. Large transactions and those doing the transacting tend to draw more attention than the more numerous and usually smaller transactions of the individual trader.

Institutional growth has lead many financial journalists to speculate that the market exists primarily for the institutional investor and that the individual owner or "the little man" is no longer influential in market trading activity. This is simply not the case. Institutions held 328.2 billion or 40.2 percent of total stock outstanding at the end of 1975. The percentage of total stock outstanding held by other domestic investors (individual investors) was 53.9 percent in 1975.[18] These statistics indicate that both are significant forces in the stock

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[18]"Stockholdings of Institutional Investors and Others," Statistical Bulletin, Securities and Exchange Commission, 35, No. 5 (1976), 252.

market. More importantly they indicate that each group is an integral part of the total audience reading the president's messages: one group is no more important or influential than the other. Each group relies on the annual report as a source of financial information.

The influence of institutions is considered to be significant: some have indicated that not only are the stock exchanges dominated by these high volume traders but that annual reports have designed for them. Foy makes this point in a Harvard Business Review article:

> A majority of corporate annual reports to shareholders really are not written for shareholders. Much if not most of what's in them is there because market analysts, investment advisors, and professional investors have asked for the information.[19]

Because of the large volume of stocks they buy and sell, institutional investors are to a certain extent the severest critics of them all.[20] They may be characterized as partisans since they own the stock, but on any given issue confronting the company, the institutional trader may be partisan, neutral, or oppositional. As the advocate prepares his message he is probably safe in assuming that he and the institutional investor hold similar attitudes toward major issues affecting business and its profitability, but that any one of the three levels may characterize an institutional investor's attitude on any particular corporate policy or position. Perhaps the best statement on what an institutional investor wants from the narrative section of the annual

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[19]Fred C. Foy, "Annual Reports Don't Have To Be Dull," Harvard Business Review, 51 (1973), 49.

[20]"The Best Annual Reports of the Year," (1978), p. 119.

report is found in the financial journal, Institutional Investor. In narrative sections that precede and follow financial sections analysts look for: (1) hard facts about company operations, including candid information about advertising expenditures; (2) commitments to research and developments; and (3) clear explanations of accounting practices and informative footnotes.[21]

The individual investor is also a dominant factor in the stock market and may well be the most important segment of the president's audience. "Projections indicate there will be nearly 40 million shareowners in 1975 and nearly 50 million in 1980."[22] Thus, it is evident, that despite strong growth in institutional trading, the individual shareholder continues as an important and rapidly growing influence in the stock market. Beyond these statistics the individual also looms as being important to the corporation because the corporation needs a constituency. The two forces that the corporation has traditionally relied on have been weakened: First, the courts, which used to regard a corporation as a kind of social property; Second, the corporations' lobbyists who could persuade legislators against anti-business sentiments now compete with effective lobbyists for consumer, environmental, and labor groups.[23] Because of the changes, the corporation now seeks people

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[21]"The Best Annual Reports of the Year," Institutional Investor, 8, No. 2 (1974), 9.

[22]"Individual Investors Show Muscle," The Exchange, 33, No. 6 (1972), 10.

[23]Irving Kristol, "The Shareholder Constituency," The Wall Street Journal, 14 Aug. 1974, Sec. 1, p. 10, col. 5.

who are loyal and who will quickly rally to its defense. "In just about all instances it is the stockholder to whom the corporation will naturally turn."[24] The individual stockholder is attractive as a constituent because his sheer numbers alone possess potential political clout and the individual may be more likely to be supportive of a company's problems than an institution whose primary goal is the attainment of a certain return on investment. Rather than be bothered with a company's problems, the institution simply trades for another stock yielding a similar dividend rate with the same or better growth potential. While the same course of action is available to the individual, they tend not to be as volatile traders as the institutions. Implied in the building of a constituency is the concept that the shareholder will need to be candidly and fully informed of how the company is doing and why.[25] Perhaps this growing need for a constituency is one of the reasons that the annual report's president's message has become an increasingly important source of communication from the corporation during the last fifteen years.

Southern Railway Company and Its Stockholders. Southern Railway considers its annual report to be its most important source of communication with its shareholders and the public. Each year it usually prints 65,000 annual reports. The stockholders receive 35,000 of the total with the remaining going to customers, employees, Congressmen,

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[24]Kristol, p. 10, col. 4-5.

[25]Kristol, p. 10, col 5-6.

newspapers, libraries, recruiting efforts, public and community officials within Southern's geographical-operational system.[26] Obviously the total audience is large and diverse. When asked how Southern focuses on the various segments of the annual report audience, Albert S. Eggerton Jr., Senior Editor of Stockholder Relations at Southern Railway, and the individual who is responsible for the annual publication of Southern's report since 1970, offered the following explanation: "We write the annual report for those individuals or institutions who own our stock. For the others that read the report, we assume that they have some interest or reason for doing so."[27] Eggerton's statement indicates that Southern's primary focus is on the two groups that comprise its stockholders, individual and institutional investors. Since Southern's stockholders, probably spend different amounts of time reading the report, Eggerton pointed out that he tries to create a report that will appeal to a majority of its readers. First, the amount of reading time spent on the annual report is divided into three intervals: the "ten minute skim" the "thirty minute to an hour, thorough knowledge reader," and the "one-to-two hour, write for additional information reader."[28] Typically, the "ten minute reader" reads the president's message, looks at the headings of the other articles in the narrative section, glances at the pictures and reads the captions, and looks in the financial section to determine if his/her company was profitable the previous year. The

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[26]Eggerton, interview.

[27]Eggerton, interview.

[28]Eggerton, interview.

second classification of reader spends up to an hour reading the report. He/she reads the president's message, reads a majority of the articles appearing in the narrative, looks at the picture, and spends ten to fifteen minutes reading the financial section of the report. After he/she finishes, he/she knows Southern Railway rather well. He knows the product, the philosophy, the profitability, and the Railroad's potential.[29] The individual who spends in excess of an hour reading the report is scarce and the best informed. It is not unusual for this person to write Southern and request the 10-K report that Southern submits to the SEC and, also, the complete statistical report. This individual knows Southern very well.

Regarding the remaining audiences, Eggerton acknowledged their presence and noted that Southern made an effort to deliver its annual report to these other segments, but he stressed that the report was intended for Southern stockholders. "After all," he said, "it is their company and they need to know what's going on."[30] He added that his philosophy held that if the information that the owners receive is informative, concise, and well-written, then others who read the report will benefit. When asked if Southern's stockholders could be labelled partisan, neutral, or oppositional, Eggerton indicated that it would be difficult to put such a label on the stockholders given the dynamic nature of the stock market, in that the audience is constantly changing because of the trading of Southern stock. However, after a call to

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[29]Eggerton, interview.

[30]Eggerton, interview.

Joseph W. Doarty, Director of Stockholder Records, Eggerton determined that out of 35,000 shareholders, only a 10 to 12 percent turnover is experienced per annum among shareholders. Doarty informed Eggerton that this percentage is considered to be low, and that it has been very stable over the last decade.[31] Also, indications are that the same 10 to 12 percent tend to turnover annually. So the activity of trading is not widespread and Southern apparently has a high percentage of stockholders who own the stock for investment purposes.

When asked if Southern's stockholders tended to be loyal and long-term investors, Eggerton responded candidly that neither he nor others in similar positions knew much about the stockholder other than basic information usually found in financial magazines and journals. His admission substantiates information referenced earlier concerning the lack of comprehensive knowledge about characteristics of stockholders. Southern's 1972 annual report made an attempt to determine if the material contained in the report was what the shareholder wanted. Only seventeen replies were received. However, the request was on the last page of the report and it was not designed in a manner that was conducive to an easy reply. Eggerton acknowledged that given a different format the return rate could have been much higher. No additional effort since 1972 has been made in Southern's reports to gain additional descriptive information about their stockholders.

Given this lack of information about Southern's primary audience, the question arises, how does Southern ascertain the effectiveness of

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[31]Eggerton, interview.

its report. Eggerton indicated that Southern placed emphasis on how its report was judged against other transportation companies in annual surveys of reports conducted by various financial periodicals, especially Financial World and Institutional Investor. The emphasis on these two periodicals appears to be self-serving since Southern is usually rated excellent by each publication. However, Financial World, as indicated previously, is respected, and cited in the literature for its efforts in establishing standards for annual reporting. Likewise, Institutional Investor conducts its annual survey emphasizing informative reports for institutional investors and analysts. Their 1978 survey confirmed that some companies have been able to produce consistently informative, useful reports. "Six firms—Continental Oil, Eastman Kodak, Ford, General Mills, Clark Equipment and Southern Railway have been rated tops in their industries every year we have conducted this survey since 1971."[32] An additional dimension provided Southern is Financial World's selection panel which concentrates on annual reporting for the individual investing. Therefore, Southern receives feedback on how well it is doing in providing financial and informative material to the two main segments of its annual report audience. Given Southern's lack of knowledge on its primary audience, it is within reason to assert that their annual report is tailored, in part, by what the judges at Financial World or Institutional Investor want rather than the stockholders. While this assertion may make the critic of oral or written communication uncomfortable, one must remember that the panels require that specific criteria

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[32]"The Best Annual Reports of the Year," (1978), p. 121.

reflecting the needs of the audience must be met by a company's annual report if it is to receive any recognition. Therefore, Southern's goal to achieve excellence in annual report surveys sponsored by well-known financial publications indirectly benefits readers of its annual report.

Southern's consistent achievement in annual reporting indicates that it prints a quality report. However, there are several areas of opportunity for improved relations with its audience that Southern's report neglects. First, if indeed a high percentage of Southern's stockholders, say 80 to 90 percent, own their stock as an investment rather than a growth stock, an opportunity exists for cultivating a partisan constituency. Also, since Southern's stock is not regarded as a risk stock, it is likely to attract retired individuals.[33] Since many of these individuals depend on dividends to supplement pensions and Social Security benefits, they would probably possess an interest in the company's affairs and could be encouraged to support the company in its efforts and policies. Finally, if such a stable stockholder "bank" exists, Southern should attempt to gain additional information about it. The additional knowledge may prove to be useful to the president in learning more about the nature of his audience.

Influences on Southern's Secondary Audience. In 1974 Graham Claytor found it necessary to defend the state of the railway industry, considered by many to be in a state of decay. "That may be the impression that the media gives," Claytor stressed, ". . . . but nine of

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[33]Blume, p. 18.

the ten largest railroads in this country are paying dividends. The industry is not in a state of collapse."[34] Clearly the perceived and the real situations of the railroads were inconsistent and Claytor held the media partially responsible. Like most complex issues, the blame does not seem to belong solely to any one factor, but there is evidence that the media did contribute to the widespread notion that America's railroads were doomed. Two factors appear to have contributed to the negative attitudes surrounding railroads: First, the decline of passenger traffic in the middle and late 1960's; and second, the financial collapse of the nation's largest railroad in June 1970, the Penn-Central.

Declining Passenger Traffic. The nation simply turned away from the train as a source of travel in the late 1960's. "By the end of 1967, only 650 regularly scheduled intercity trains were left in the U.S., compared with 20,000 in 1929."[35] Americans resorted to the car, plane, and bus to meet their travel needs. As the statistic indicated, the decline of passenger service was swift; but the thought of no more iron horses carrying people across the land became sentimental and something the Americans did not want to vanish. Consequently, the middle and late 1960's experienced a flourish of articles, primarily in the lay press, bemoaning the demise of passenger service. The titles of the following articles not only indicate the end of passenger traffic but imply the impending doom of the railroad industry:

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[34]"The Five Best-Managed Companies: The Skills of Survival," Dun's Review 104, No. 6 (1974), 46.

[35]"Way To Run A Railroad," Newsweek, 6 May 1968, p. 79.

Article		1968 Subscriptions
"Passing of the Long Trains"	Life	7,417,712
"Is Passenger Traffic Riding Into Hisotry?"	Business Week	535,529
"Last Chance for the Passenger Train"	U.S. Report	1,580,536
"Way to Run a Railroad"	Newsweek	2,090,563
"Five Tips for Reviving the Rails"	The New Yorker	473,275
"Anyone Here Remember Trains"	Saturday Review	490,784
"Unloved Passenger"	Time	3,710,574

These articles appeared between 1965 and 1968, and appealed to various audiences. The circulation figures listed to the right of the article and its publication in the above passage are a means of revealing the widespread distribution of the publications and the great potential they possessed for influencing the attitudes that people held toward railroads.[36] After all, most people identified railroads with passengers, and if railroads did not transport passengers, then it logically followed that the American industry was doomed.

The content of the articles reveals the nature of the information being conveyed to a broad readership throughout the United States. A 1968 Newsweek article entitled "Way to Run A Railroad?" discussed the decline of passenger traffic.[37] To capture the decline visually, the narrative section was complemented by a picture of the famous "California

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[36]Directory: Newspapers and Periodicals 1968, ed. Leonard Bray (Philadelphia: Ayer and Son, 1968), pp. 196, 529, 751, 759, 769, 774.

[37]"Way To Run A Railroad," pp. 79-80.

Zephyr." The picture was captioned, "Fading out like a rose garden in September." Ironically the article made no mention of the railroad's profitable freight operation. Perhaps the best article that allows the demise of passenger traffic to generalize to the decline of the rail industry appeared in Life magazine in August 1968. The fourteen page pictorial article, entitled "Passing of the Long Trains," contained twenty-five pictures. The central theme of the article focused on the decay of America's railroads.[38] Three pictures showed empty rail stations; when people did appear, they were obviously and noticably elderly. Two of the pictures showed the St. Louis and the Portland, Oregon stations. These stations were once among the busiest in the nation. These were terminals with which thousands of people could once readily identify with, but the 1968 Life pictures offered a changing and different identification from earlier remembrances of the once active stations. Finally, ten pictures included railroad employees, all of which were in excess of fifty. These twenty-five pictures were accompanied by a narrative section by William McWhirter who reviewed the glory and the decline of America's passenger trains.

Near the end of the decade passenger trains stabilized and the number of articles subsided. However, the "perfect marriage" between the Pennsylvania Railroad and the New York Central went sour in June 1970, and once again articles discussing the railroads' problems became

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[38]William A. McWhirter, "Passing of Long Trains," Life, 2 Aug. 1968, pp. 36-50.

abundant. Since the Penn Central served the heavily populated Eastern portion of the country, its demise became immediate news. People not only read about the railroad's problems, but they experienced them firsthand since they were often the ones to ride the poorly serviced commuter trains or to wait on deliveries from Penn-Central's freight operations. From June 9, 1969, the day Penn-Central Chief Officer stepped down and bankruptcy became evident, to December 22, 1969, The Wall Street Journal printed 169 articles related to the railroad's economic woes.[39] The Journal's circulation during the period was slightly in excess of a million copies per day.[40] During the same time period, The New York Times published 131 articles concerning the railroad's problems.[41] The Times daily circulation was near nine hundred thousand per day, increasing to 1.4 million copies on Sundays.[42] To what degree this news effected the attitudes of the public toward other railroads is difficult to assess, but it is reasonable to assume that the widespread information on the bankruptcy of the Penn-Central did not serve to reinforce positive attitudes toward the railroad industry. Another question that arises is how attitudes of institutional investors (many who lived in the geographical region served by the Penn-Central and

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[39]The Wall Street Journal Index: 1970 (New York: Dow Jones, 1971), pp. 394-96.

[40]1970 Ayer Directory: Newspapers, Magazines and Trade Publications, ed. Leonard Bray (Philadelphia: Ayer and Son, 1970), p. 1296.

[41]The New York Times Index: A Book of Record (New York: New York Times Co., 1971), pp. 1544-46.

[42]1970 Ayer Directory, p. 1295.

depended on it for services) were affected toward the rail industry as an investment. This is a topic that needs further research beyond the scope of this study but nonetheless remains important.

Complementing the New York papers were weekly magazines and articles that focused on the demise of the railroads. Usually these articles would introduce the topic by first discussing the bankruptcy of the Penn-Central and then other situations confronting the railroads. In "Are Railroads Doomed," for instance, the point was made that Penn-Central stock selling for as high as $86.50 a share in 1968 traded for $6.50 a share on June 22, 1970.[43] This was alarming news for prospective stockholders of railroads, if there were any left in 1970. The narrative section of the article was divided into six sections whose headings captured much of the negative mood surrounding railroads in 1970. The headings were: "Race with Inflation," "Profit Poor Industry," "Management Errors," "In the Lap of Congress," and "Comeback Illusion." Certainly these headings identified complex problems facing the industry but it is highly probable that the first five could have been applicable to the automotive, chemical, or steel industries. A more recent article, "More Aid From Taxpayers for Bankrupt Railroads," discussed Penn-Central and other financial riddled northeastern railroads. The article noted that that despite the 2.3 billion loaned to Penn-Central to keep it

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[43]"Are Railroads Doomed," U.S. News and World Report, 6 July 1970, pp. 12-13.

functioning, the rail still lost 198 million in 1974.[44] The large loss reflected a 5 percent increase over 1973.

Because of the lack of research little is known on how extensive and to what degree attitudes concerning the stability and profitability of railroads were affected. However, it can be asserted that the effect of the publication did influence readers and more than likely did so in a negative manner. Many railroads, particularly the northeastern rails, typified much of what was being said about railroad waste, inefficiency and decline, but many rails, such as Southern Railway, Union Pacific, and Santa Fe, remained stable and successful during this period. Clearly the concern confronting every successful railroad was how to address and alter those negative attitudes and perceptions that prevailed among the railroads' secondary audiences.

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[44]"More Aid From Taxpayers For Bankrupt Railroads," U.S. News and World Report, 3 March 1975, p. 77.

CHAPTER IV

SOUTHERN'S CHIEF ADVOCATE

For nine years W. Graham Claytor Jr. was responsible for the development and content of the president's messages presented to the readers of Southern Railway's annual report. Since Claytor was president of the railroad and chief advocate of its policies, it is prudent to study the available information providing insight into his character. Accomplishment of this task will be achieved by examining Claytor's past and exploring those incidents, factors, and traits that served to develop and enhance his ethos with his audiences. Finally, the study will conclude with an examination of Claytor's relationship with Southern, along with a brief history of the organization.

W. Graham Claytor Jr., Southern Railway President, 1967-1976.

Virginia born Graham Claytor, like many others during the depression, had to alter his career plans. After graduating from the University of Virginia with a major in math and physics, Claytor decided to pursue a career in law rather than electrical engineering. He entered Harvard Law School, excelled in his studies, and later became president of the Harvard Law Review in 1935. Like other bright young law students, he served as a law clerk. Claytor was fortunate to be able to clerk for two well-known personalities, United States Appeals Court Judge Learned Hand and United States Supreme Court Justice Louis D. Brandeis. Another

distinguished personality, Professor Felix Frankfurter, then nominated Claytor for the Appeals Court position.

Of Judge Hand, Claytor has said, "he was very down-to-earth, very human. And he was very much influenced by Justice Oliver Wendell Holmes," for whom he clerked.[1] It is probable that Judge Hand reinforced Claytor's penchant for brevity and organization. During an initial meeting between the two, Judge Hand stressed the importance of factual content and conciseness to the young lawyer: "'I have enough blankety-blank stuff to read," Hand told Claytor, "without reading what you write too.'"[2] "If I ventured an opinion," Claytor has related, "he might say, 'that is baloney too, I do not believe that.'"[3]

Much the same as Judge Hand, Justice Brandeis placed a premium on sound content and brevity. The Supreme Court Justice required Claytor to write a memorandum "of not more than two pages on each case" for all petitions for a certioria coming before the court.[4] Each memorandum required an analysis and summation of the pending case along with a recommendation by Claytor whether or not to hear the case. By no means did Justice Brandeis accept every opinion written by the young law clerk; but nonetheless, Claytor's responsibility for the memorandums did require keen decision-making ability and the skills to analyze and synthesize complex information. Given his exposure to these two judicial figures,

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[1]"Succeeding Where Others Flounder," Nation's Business, Oct. 1976, p. 30.

[2]"Succeeding," p. 31.

[3]"Succeeding," p. 31.

[4]"Succeeding," p. 31.

it is not surprising that in 1972 a Southern employee would express the following opinion of Graham Claytor:

> "There is no nonsense about him . . . he's the easiest boss in the world to see, but when you walk into his office you immediately sense he doesn't want to pass the time of day. He's not interested in small talk. He wants to get directly to the point, give you a fast reaction, and get to the next item of business."[5]

After completing his duties as a law clerk, Claytor joined the prestigious law firm of Covington and Burling in Washington, D.C.[6] While practicing general law at Covington he had the opportunity to work with Dean Acheson, who later became Secretary of State during President Truman's administration. Law practice was interrupted in 1942 when he joined the Navy with the rank of Ensign. The War's end allowed Claytor to return to general practice at Covington and Burling, a position he held until 1963. The retirement of Southern's Chief Legal Counsel, also a Covington partner, created an opportunity for Claytor to practice corporation law. At first Claytor refused, saying he would not work for a corporation, not even a railroad.[7] After checking with associates who divided their time between general practice and general counsel for a corporation, Claytor decided to accept the position of Chief counsel for Southern Railway. In his new position he spent two-thirds of his time with Southern and the remaining time with the law firm. He remained Chief Counsel until 1967 when he became president of Southern Railway.

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[5]"A Tough Lawyer Who Loves His Trains," Business Week, 18 Nov. 1972, p. 87.

[6]"A Tough Lawyer," p. 87. [7]"Succeeding," p. 32.

When asked how he came to be selected president, Claytor once replied, "'I Don't know.'"[8] His comment reminds one of Aristotle's comment on individuals possessing the "influence of power:" "They are dignified rather than overbearing; for their rank heightens their impressiveness, and so they tone their self-importance down . . . ."[9] But his importance was readily apparent. He was selected to manage a railroad worth 1.2 billion dollars whose income exceeded 400 million dollars in fiscal 1967. Former Southern president and predecessor to Claytor, William D. Brosnan knew exactly why Claytor was chosen:

> In addition to his duties as Vice President-Law, I took occasion to expose Graham Claytor to the various functions of the railroad. He showed an aptitude for operations and a ready understanding of the greatest challenge which the railroads face, which is to innovate services, equipment and pricing which will attract new business, hold existing business and recoup lost business . . . . He also showed an appreciation for the need for economical operation in order to make low pricing economically possible.[10]

Apparently Claytor's abilities were more than adequate; he was only the second noncareer, nonoperations individual to be appointed president of Southern Railway. During the interview with Eggerton, he offered two reasons for a nonoperations person being selected as Southern's president. First, Claytor was an able, experienced lawyer who could facilitate the streamlining of Southern's corporate structure. Second, his background

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[8]Robert E. Bedingfield, "Southern Railway Chief Broke A Pattern," New York Times, 4 Feb. 1970, Sec. III, p. 3, col. 3.

[9]Lane Cooper, The Rhetoric of Aristotle, 1932; rpt. (New York: Appleton-Century-Crofts, 1960), p. 140.

[10]Bedingfield, p. 3, col. 3.

and associations provided him with a broader range of experiences than an individual who had spent most of his career in railroad operations. Eggerton noted that Claytor's expertise was indeed valuable in handling mergers and consolidations between 1967 and 1975.[11] Regarding Claytor's background, Eggerton acknowledged that it was beneficial, but it was probably compromised by his inexperience in operations. This last remark tends to be supported because Claytor often acknowledged that he was unaware of all the activities taking place in a switching yard for a roundhouse. Despite his operations inexperience, Graham Claytor sought to establish himself as a capable president. As will be demonstrated, he clearly possessed the three constituents of ethical appeal: sagacity, moral character, and goodwill.

Shortly after becoming president, Southern's stockholders received notification of Claytor's appointment along with a biographical sketch of the new company officer. Certainly the biographical sketch with its information on Claytor's education and experiences as a law clerk helped establish the new president as an able and intelligent individual. Claytor was also able to develop the impression of intelligence or sagacity in his president's messages. Thonssen, Baird and Braden's Speech Criticism lists five means of establishing sagacity. Three of these—common sense, good taste, and familiarity with current issues—were effectively employed in Claytor's messages. His 1971 president's

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[11]Eggerton, interview.

message employed all three.[12] Common sense is witnessed when he acknowledged that Southern's profitable year in 1970 should not lead to a false sense of security. The railroad industry was encountering financial difficulties and Claytor stressed the point that Southern should take just as active an interest in legislation affecting railroads as the financial riddled eastern rails. He posited that legislation to aid certain railroads would inevitably affect all railroads in one way or another. Therefore it was prudent that Southern participate in Congressional hearings concerning the troubled railroad industry. Good taste was displayed when Claytor mentioned that although separate rail, coal, and dock strikes idled or slowed Southern's lines throughout the year, earnings were still at an acceptable level. Claytor could have easily blamed the only modest increase in earnings on the big greedy unions—a usual scapegoat for business. Rather than irritate the unions, to which his employees belonged, Southern's president displayed good taste by only mentioning the actual increase in earnings. Finally, throughout the message, evidence of Claytor's familiarity with the issues is apparent. Within two pages he discussed the following issues: a stock-split, increased dividends, union strikes, yearly revenue, ICC accounting principles, capital investments, operating expenses, mergers, simplification of the corporate structure, barge-rail opportunities, legislation for financially troubled railroads, and retirements.

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[12]Southern Railway Annual Report 1971, by Southern Railway Company (Washington, D.C.: n.p., 1971), pp. 4-5.

A second constituent of ethos is the goodwill a speaker or advocate establishes with his audience.

> To create good will . . . the speaker must know his audience so that he can present himself as a friend of what they consider good, an enemy to what they consider evil. He must present himself as one who has done some good service to them or to their friends.[13]

As already acknowledged in Chapter III, extensive data on annual report audiences is lacking, but one trait that seems to be common to most annual report audience members is their favorable acceptance of a return on investment. Knowing this, Claytor created goodwill by emphasizing the profitable aspects of Southern's operations. Again the 1971 Southern report provides useful examples. A two-for-one stock-split, mentioned early in the message, was certain to create goodwill; a person initially owning one-hundred shares would possess two-hundred shares after the split. Next he informed the readers that Southern was increasing its dividend which meant an increased return on investment to shareholders. Non-shareholders reading this information probably perceived Southern as a growing and profitable organization. Another section of the message described the 140 million dollar capital investment program in 1970. This information enhanced goodwill by indicating that sound capital investment would provide the rail with the necessary equipment and facilities to remain efficient and profitable. The goodwill created through the mention of the capital investment program was more implicit than the dividend increase or the stock-split, but nevertheless it was a

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[13]Lester Thonssen, A. Craig Baird, and Waldo W. Braden, Speech Criticism, 2nd ed. (New York: Ronald, 1970), p. 459.

source of goodwill. The conclusion of the annual message where Claytor expressed his "warm appreciation" to the stockholders for their confidence and support was another means of eliciting goodwill from his audience. The fact that Claytor provided information to the report readers served to link him with the good things and events that made Southern profitable and therefore established him as an individual who capably served Southern's stockholders in 1970.

To gain additional insight into the goodwill created by Graham Claytor, it is useful to examine his relationship with his peers and other individuals not specifically associated with his annual report audience. Claytor's display of goodwill or lack of goodwill toward others is a means to substantiate the sincerity of his actions and sayings presented to annual report readers in an effort to establish goodwill. Aristotle indicated that people like the following types of individuals: individuals who do and desire the same things as they do, individuals who are able to make fun of themselves, individuals who are straightforward, and individuals who treat others with respect.[14] Graham Claytor was able to demonstrate all of these qualities. Beyond providing Southern's stockholders with a substantial rate of return on their investment every year of his presidency, something both parties desired, Claytor was also a railroad enthusiast. Often during one of Southern's summer steam engine excursions for the public, he would climb aboard the steam engine and engineer the train by himself. "He's a

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[14]Cooper, pp. 103-104.

dandy engineer of steam locomotives," according to Mr. Eggerton.[15] At one time his backyard contained a model railroad with forty feet of track. With railroad as his vocation and avocation, he was able to identify with railroad buffs. Mr. Eggerton said that Claytor's ability to run a steam locomotive made him especially popular with longtime employees and railroad enthusiasts.[16]

Once when asked about his backyard railroad Claytor humorously replied that it suffered from deferred maintenance which was a way of making fun of himself. His ability to direct humor at himself, such as indicating that he did not know why he was appointed president or that he would never work for a corporation, was a source of goodwill in that he showed others that even a large corporation president could be personable. He also displayed his personableness to Southern employees by going out of his way to become familiar with people's names.[17] This certainly created goodwill since Claytor was the first president that many Southern employees had ever met. His friendliness toward others was also a way of showing respect to them. Finally, he was open with others. Meeting with financial analysts in New York on one occasion, Claytor told the analysts that he did not know when the economy would improve. Given the potential influence that financial analysts possessed along with the fact that Southern's earning were affected adversely by a sluggish economy, Claytor was being very candid with his audience.

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[15]Eggerton, interview.

[16]Eggerton, interview.

[17]"A Tough Lawyer," p. 87.

The third constituent of a person's ethos is moral character. Admittedly, moral character is not a trait that is as readily observable in a printed message as it is in the delivery of a speech. Except for the initial biographical sketch of Claytor which indicated that he possessed elements of virtue which comprise an individual's moral character, Southern's annual report readers received little insight into the moral character of the railroad's new president.[18] Unknown to many, for instance, was Claytor's wartime display of courage. As Commander of the "U.S.S. Cecil J. Doyle," he abandoned routine patrol on one occasion to join the rescue efforts in picking up the remaining survivors of the torpedoes "U.S.S. Indianapolis." Actual orders for him to take part in the rescue effort came an hour and a half after he, on his own initiative, had already set course for the disaster area. Claytor's action would probably be judged "noble" by Aristotle since his action was desirable in and for itself. Likewise, Claytor's leaving Southern to become the Secretary of the Navy in 1976 would be considered "noble" by Aristotle since it was an action that was done more for honor than money, and an action that served his country, not his own interests.[19]

In conclusion, Graham Claytor arrived at Southern Railway with impressive credentials. During his tenure as president not only was he able to maintain the railroad's efficiency and profitability, but also he was very successful at earning the respect of his peers and those who employed him—the stockholders.[20]

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[18]Cooper, p. 47.

[19]Cooper, p. 47.

[20]Eggerton, interview.

Southern Railway Company. Graham Claytor was the seventh president of Southern Railway since the company was organized in 1894. Virginia born Samuel Spencer was the first president, and unlike Claytor he was "widely experienced in railroad operations and financing."[21] His experience proved useful as Southern came into existence from the reorganization of the Richmond and Danville Railroad System (R&D). Financial difficulties resulted in foreclosure of R & D's various mortgages. Several new purchasers, including Mr. Spencer, reorganized the R & D as the Southern Railway Company. The new system owned lines in East Tennessee, Virginia and Georgia. Approximately 4,400 miles of track were operated by the new railroad of which two-thirds were owned outright. Southern also had controlling interest in the Alabama Great Southern, Georgia Southern and Florida and it possessed part ownership in the Central of Georgia Railroad. From 1894 to 1916, the railroad increased its trackage to nearly 8,000 miles. During this period of expansion the railroad concentrated on two priorities. First, Southern's management concentrated on operating the new system more efficiently than the previous conglomeration of independent lines. An equally important priority was the streamlining of the corporate structure of the new and growing organization. This was no easy task since "more than 125

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[21]Albert S. Eggerton Jr., Out of the Past and Into the Future, by Southern Railway Company (Washington, D.C.: n.p., 1977), p. 17. Since available literature on Southern Railway's history is scarce, I will rely heavily on Mr. Eggerton's article for historical facts and figures.

railroads . . . have been combined and recombined to form today's Southern Railway."[22]

Southern's service area remained virtually unchanged from 1916 to the mid-1960's. In 1960 the railroad began to purchase smaller rails located in the South and complete consolidations where it did not own controlling interest. The last consolidation came in 1974 when the Norfolk Southern became wholly owned and operated by the parent company. Lawyer Graham Claytor was an architect of this recent transaction. With the inclusion of the Norfolk system Southern's service area came to 10,500 miles of track.

Growth of the railroad has benefited from the economic growth of the region it serves.[23] The economic expansion of the South during Southern's early years was slow because of two primary factors. First, the region had been a two crop (cotton and tobacco) area before the Civil War and the region was slow to increase its agricultural base after the war. Second, the South's railroads were severely damaged and worn after the Civil War. The necessary money to replace and rebuild the railroads was difficult to obtain during the reconstruction of the South so the railroads' return to full-scale operation was slow. Capital formation was more difficult in 1894 than it is today for several reasons. Most important is that the channels of borrowing money were simply not as well developed as they are today. Also, many lenders were

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[22]Eggerton, Out of the Past, p. 2.

[23]"Southern Railway: Standout in a Troubled Industry," Financial World, 12 Aug. 1970, p. 5.

hesitant to lend money in the war-torn, unstable South. One must remember that America was far different in 1894 than it is today; the country boasted a population of 68 million and produced a gross national product of only 30 billion in 1894.[24] The year that Southern received its corporate charter from the state of Virginia (1894) was the same year that Coxey's Army marched on Washington, D.C., and the Pullman strike took place.

The 1950's ushered in the modern era for Southern Railway. This period was marked by the increased growth of the region and Southern's commitment to modernization. The railroad became "absolutely comitted to improving the productivity of labor."[25] Harry A. DeButts, president of Southern from 1951-1962, realized that labor was the most uncontrollable expense the railroad had and an expense that would continue to increase in the future.[26] The way of combating the accelerating expense was to modernize plant operations and to improve the productivity of existing personnel. Perhaps Eggerton's remarks made during the interview best sum up this policy:

> We wanted to get people out of jobs that machines could do quicker and more efficiently. We want people at positions where the human element can excell and produce; this isn't just small talk or what—human relations gibberish—this is something we're serious about.[27]

Eggerton's comments seem to echo the intentions of DeButt's two

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[24]Garland Reeves, "Southern Founded 1894: Tempestuous Year," The Birmingham News, 2 Nov. 1969, Sec. F, p. 2, col. 3-4.

[25]"Succeeding," p. 31.

[26]"Succeeding," p. 31.

[27]Eggerton, interview.

successors, Brosnan and Claytor—that efficiency leads to increased productivity which leads to increased profitability. A closer examination reveals that this almost ingrained interest in increasing the productivity of labor may have its roots in the way Southern is allowed to generate income.

The ICC regulates the amount of money a railroad can charge for its services. With all railroads being subject to rate controls, a primary means of increasing profitability is to lower costs. Beginning with DeButts in 1951, Southern adopted its philosophy of increased mechanization and the promotion of increased output of labor. The two have been instrumental in allowing Southern to become and remain a profitable railroad.[28] Evidence of this effort to additional mechanization came in 1953 when Southern completely switched from steam to diesel locomotives. Diesel locomotives required less maintenance and could therefore spend more time on the road. With less maintenance required the railroad was able to reduce its shop facilities and personnel which represented a lowering of costs. Another way Southern sought to lower costs was to streamline its operational structure. This was achieved, in part, through the implementation of a microwave radio communications system. This system replaced telephone pole lines on 4,200 miles of the system. More importantly, it possessed the capability to place people all across the railroad in immediate contact. The system "aids train operations, helps classification yards work in closer coordination and feeds data

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[28]"Southern Railway: Standout," p. 5.

constantly into the computer center and control center in Atlanta."[29] Lowering costs through streamlining either through operations or the corporate structure seems to be ingrained into Southern's management philosophy, and it is understandable when one remembers that the present unified railroad represents over 125 railroads that have been merged into one within eighty years. These numerous consolidations served to reduce duplication of costs and services which resulted in lower operating costs for the railroad.

In conclusion, Southern Railway Company has expanded through the years to become a major railroad in the United States. This growth has been aided by the economic growth of the Southern region and the railroad's commitment to modernization of its physical plant. Of the seven presidents since 1894, all have stressed the need for efficiency of operation and the streamlining of the corporate structure. Graham Claytor embraced these traditional management principles of Southern and they were ultimately reflected in his annual message to the stockholders.

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[29]Eggerton, Out of the Past, p. 19.

CHAPTER V

CONTENT ANALYSIS OF PRESIDENT'S MESSAGES

Introduction. The president's message is the most frequently read section of an annual report. Most readers will focus on two sections of a report while reading it. First, they will read the president's message to receive a general overview of the company's operations. Second, they will scan the financial section of the report to determine the organization's past financial performance.[1] Therefore, often the only communication between a company and its shareholders occurs when the individual shareholder reads the annual report's president's message. Considering that the shareholder represents only one segment of the total annual report audience, the importance of the president's message assumes added significance. The purpose of this chapter, then, is to study the manner in which Graham Claytor developed his president's messages to communicate with and persuade the readers of Southern Railway's annual report. The task will be accomplished by examining the messages' content, arrangement, major premises, supporting arguments, and style. Hopefully the examination will provide a better understanding of the importance of a president's message in communication with an annual report audience.

Content. The SEC requires all publicly held organizations to provide their shareholders with an annual report of the previous year's

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[1]J. Hervie Haufler, "The Case for the Planned Annual Report," Financial World, 30 Oct. 1963, p. 83.

financial results. Usually this information is presented to stockholders in various forms of income statements and balance sheets which are located in the financial section of the annual report. Appearing at the beginning of an annual report is the president's message. It serves to review the company's financial results from the previous year, to discuss current company operations, and to comment on the future direction of the organization. In the past, discussion of a company's past, present, and future centered solely on financial issues. During the last fifteen years, however, Southern's president's messages like many other organizations have included additional aspects of corporate operations. Claytor's 1972 message, for instance, included such wide ranging issues as profitability, regional growth, and personnel development. This represents a significant change from the president's message found in the 1952 report, which was a one page discussion of financial and accounting matters.[2]

The content of Southern's narrative section is determined after a theme is selected. The theme is chosen by asking the railroad's vice presidents to select a theme from a list of possible topics. Albert S. Eggerton, Senior Editor and the individual responsible for Southern's report, decides the topics to be surveyed by the vice presidents. He noted that topics occur to him at various times during the year and in September he circulates a list of possibilities to find out which one is

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[2]Southern Railway Company Annual Report 1952, by Southern Railway Company (Washington, D.C.: n.p. 1953), pp. 4-5.

best suited as a theme.[3] With the theme decided, work begins on preparation of the president's message and articles for the narrative section. Not surprisingly, Graham Claytor relied heavily on Mr. Eggerton in the preparation of his president's messages. Mr. Eggerton's comments provide insight into Mr. Claytor's method and approach to preparing a president's message:

> Claytor believed in delegation of duties. If your responsibility was marketing, you did marketing. If it was the annual report, which was my area, you did the annual report. Now don't think he wasn't involved in process and didn't know what was going on—he did. I worked with Graham Claytor since he came here. In fact we worked together on speeches the first year he arrived. It was a professional relationship . . . . In 1970 after I assumed responsibilities for the annual report, I began to work with him even closer because of the president's message. Usually I would inform him in writing of the theme or direction we wanted to develop for the upcoming report. Later we would meet and I would go back to my office and immediately sketch out the first draft. We would usually correspond in writing several times before the final draft was ready. When I thought we had achieved the final draft I would meet with him and iron out any differences. By this time the changes were minimal.[4]

The approach Claytor used to prepare the president's messages is similar to the method Justice Brandeis required of him when he was drafting memorandums for pending court cases. Claytor has acknowledged that he would often communicate with Brandeis "'almost entirely in writing about a case.'"[5] Regarding Claytor's reliance on Eggerton for

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[3]Personal interview with Albert S. Eggerton Jr., Senior Editor, Stockholder Relations, Southern Railway Company, 2 Feb. 1979.

[4]Eggerton, interview.

[5]"Succeeding Where Others Flounder." Nation's Business, Oct. 1976, p. 31.

drafting the messages, once again his past provides insight into his acceptance of the practice. "Near the end of the term, we assigned opinions that were pretty routine—open and shut. Opinions that I had drafted in one or two of these came out essentially as the court's opinion."[6] Since drafting of a president's message is a fairly routine procedure it is reasonable to assume that Claytor delegated the task to those individuals who were responsible for and expert at developing Southern's annual report. Obviously this method of preparation raises the issue of speech or ghost writing.

Speech writing is an issue that has long been discussed and debated by speech critics.[7] The practice of speech writing has a history that is easily traced to the logographers of ancient Greece and Rome. For the present study it is useful "to look behind the derogatory label to discover the actual relationship between the speech writer and speaker. . . ."[8] As previously indicated, Mr. Eggerton aided Mr. Claytor in his speech preparation for seven years before working with him on the president's messages. Mr. Eggerton acknowledged their relationship as

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[6]"Succeeding Where Others Flounder," p. 31.

[7]For additional references on the practice of speech writing see: Russell Windes, "Adlai E. Stevenson's Speech Staff in the 1956 Campaign," QJS, 46 (1960), 32-43; Richard H. Rovere, "The Minds of Barry Goldwater," Harper's, Sept. 1964, pp. 37-42; Joseph E. Persico, "The Rockefeller Rhetoric: Writing Speeches for the 1970 Campaign," Today's Speech, 20, No. 2 (1972), 57-61; Felix Gilbert, "The Farwell Address," Washington's Farewell Address: The View From the Twentieth Century, ed. Burton Ira Kaufman (Chicago: Bacon, 1969); Marie Hochmuth Nichols, "Ghost Writing, Implications for Public Address," in her Rhetoric and Criticism (Baton Rouge: Louisiana State Univ. Press, 1963), 35-48.

[8]Lester Thonssen, A. Craig Baird, and Waldo W. Braden, Speech Criticism, 2nd ed. New York: Ronald, 1970, p. 333.

being professional. When asked to describe what he meant by professional, he said that their dealings were cordial, direct and open.[9]

J. Jeffery Auer, who in recent years has concentrated his own research on the practice of speech writing, suggests that it is crucial that the critic determine the speech writer's background and relationship to the person responsible for the delivery of the message.[10] Dr. Auer's suggestion is worthy of consideration because, regardless of its moral and ethical considerations, speech writing is an inevitable practice; therefore to learn more about the message we must learn more about the speech writer. Since Albert Eggerton served as speech writer and the person responsible for drafting Southern's president's messages during Claytor's presidency, it is important to examine his background.

When Eggerton first began aiding Claytor with the preparation of his speeches in 1963, Claytor was Vice President of Law and Eggerton was Editor of Ties, Southern's employee magazine. He had been associated with Ties since 1947 when he joined the railroad as Assistant Editor of the magazine. Before joining Southern, Eggerton earned a degree in journalism and had worked as a general reporter for a newspaper. At Southern he remained associated with Ties until 1970 when he became Senior Editor responsible for the publication of Southern's annual report.

Information on Eggerton's background does not reveal his specific contribution to Claytor's messages. However, knowing that Eggerton had

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[9]Eggerton, interview.

[10]Personal interview with J. Jeffery Auer, Professor of Speech Communication, Indiana University, 13 Feb. 1979.

been a Southern employee for twenty-three years and that he had known and worked with Graham Claytor does allow for realistic predictions regarding his influence on Claytor. It is probable, for instance, that Eggerton's drafts reflected the traditional Southern Railway philosophy of productivity and efficiency of operations. A degree of certainty can be attached to the assumption that working together, the two were able to develop and agree upon a style that they felt would be suitable for annual report readers. Perhaps the most significant outcome of knowing the relationship between Claytor and Eggerton is just being aware that it even existed. People generally accept the inevitability that public figures and business executives are burdened with responsibilities and that in order to discharge satisfactorily their duties they must delegate responsibility.[11] Such was Graham Claytor's situation. As president of an organization whose 1970 revenues exceeded 600 million dollars, he simply had to delegate responsibility. The president's message was a task he delegated to an experienced individual whom he had known since joining Southern. Although he delegated the task, he actively contributed to the development of every president's message. Each year, from the very inception of the message, when the report's theme was determined, through the usual three or four drafts, until the final meeting with Al Eggerton—Graham Claytor was involved.

Arrangement. Claytor's president's messages were developed in a traditional and logical order. His brief introductions sought to

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[11]Thonssen, Baird, and Braden, p. 332.

ingratiate him with the audience primarily through the use of personal pronouns. In five of the messages, he employed either "your company," "you," or "we," to identify the reader with Southern Railway. He was especially inclined to use "your Company" in the initial paragraph where he typically discussed the company's financial success from the prior year. In 1971, for example, he began by saying: "This has proved to be an excellent year for your Company, a year of outstanding performance in a difficult time."[12] The length of the 1971 introduction was only a paragraph which was usual since his introductions never exceeded two paragraphs. The conclusions were also brief, usually two paragraphs in length. The concluding remarks were ritualistic, focusing on thanking the audience for its support of Southern Railway, and leaving the audience with a favorable impression of the railroad. In each president's message he thanked the audience for their support by employing variations of the phrase, "continued support and confidence." He customarily acknowledged the dedication of Southern's employees to the railroad. The 1973 report provides an example of the ritualistic nature of Claytor's conclusions:

> I would like to express here the warm appreciation of the Board of Directors for cooperation of another and a valuable kind. The dedication of Southern Railway people and the continued confidence of our stockholders have played an important part in making this an outstanding year for the Company.[13]

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[12]Southern Railway Company Annual Report 1971, by Southern Railway Company (Washington, D.C.: n.p.,1972), p. 4.

[13]Southern Railway Company Annual Report 1973, by Southern Railway Company (Washington, D.C.: n.p., 1974), p. 5.

The arrangement of the messages remained constant until 1974. Listed below are the arguments and their order of appearance in Claytor's messages from 1970 to 1973.

I. Profitability of the railroad.
   a. use of earning and revenue statistics
   b. discussion of dividend and stock performance

II. Growth of the railroad.
   a. explanation of the reinvestment program
   b. discussion of the expansion of the Southern region

III. Southern operates in a dynamic economy.
   a. mention of the difficulties encountered by the rail industry
   b. impact of increased costs and wages on the railroad

IV. Excessive regulation of railroads.
   a. stringent ICC regulation
   b. discriminatory states taxes

From 1970 through 1973 the body began with a discussion of the company's profitability. Since many readers would be concerned with the amount of return they would receive on their investment, it was logical that profitability was discussed initially. This placement of the profitability argument early in the message revealed Claytor's assessment of his audience. Since the four years prior to 1974 were very profitable, he sought to emphasize the benefits of the successful years to the shareholders. The discussion of profitability was usually followed by examples of the organizations growth and its functioning in a dynamic

economy. Sequencing supporting materials in this fashion enhanced the image of Southern as a successful and profitable railroad. Accordingly, in the first fifteen to twenty paragraphs the readers learned that Southern had been profitable the previous year, that the region it served was expanding which benefited the railroad's growth, and that the growth and profit had been achieved in a dynamic economy. Completing the discussion of the issues found in the body was the topic concerning government regulation near the end of the message. While some mention of ICC, SEC, or state regulations routinely appeared early in the body, Claytor would offer a more thorough explanation of governmental regulation near the end of the message. Finally, Mr. Claytor's messages did not explicitly focus on the theme of the railroad's report. His messages did, however, contain information that was related to the theme. In 1974, for example, the theme of the narrative section centered on Southern employees and their dedication to the organization. Claytor's only reference to the theme came in the last paragraph when he made his habitual statement thanking the employees for their contribution and dedication to Southern.

The sluggish economy during 1974 and 1975 served to rearrange the body of the president's messages. All the issues and major arguments usually found in the messages were discussed but not with the evenness that had characterized previous messages. Listed below are the arguments and their arrangements for the 1974 and 1975 Southern reports:

I. Profitability of the railroad.
   a. absence of supporting statistical data in the body of the message
   b. reference to the narrative section for a thorough explanation of financial results.

II. Adverse conditions caused by a dynamic economy
   a. effects of recession on rail freight
   b. inflationary effects on wages and materials

III. Recession, inflation and government regulation.
   a. pending legislation favorable to the rail industry
   b. request for relief from existing ICC regulation

IV. Anticipating rail industry growth
   a. Train II system
   b. Railbox program.

From the outline it is evident that Claytor chose to focus on certain issues in his last two messages. In the 1974 message, for example, after referring readers to the narrative section for a thorough explanation of profitability and growth, Claytor focused his attention on two concerns that were adversely affecting the economic environment in which Southern operated.[14] Likewise, in the 1975 message, after the usual single paragraph introduction, he addressed two critical issues confronting the railroad—recession and government regulation. No longer were supporting examples arranged in a step-by-step process as

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[14]Eggerton, interview.

they had been from 1970 to 1973. Rather the arrangement can be compared to a hub and its spokes. The hub represented the central issues of recession and regulation while the spokes represented the interrelatedness of the central issues with other issues and premises important to the company. The problem of recession, for example, received Claytor's primary attention in 1974 when he developed the message to relate the serious consequences that recession had placed on corporate profitability and growth.[15]

Claims. The explanation and support of Claytor's major claims dominated the body of a president's message. Since this portion of the message was generally confined to twenty-six to twenty-eight paragraphs, the supporting materials were presented in an organized and logical manner. Before discussing the lines of support employed by Claytor, it is important to examine the message's major claims. A review of all six president's messages yielded five major claims.

1. Southern Railway Company is a profitable railroad.
2. Southern Railway is growth oriented and positioned for a successful future.
3. Southern Railway operates in a dynamic economy.
4. Southern Railway's competitive efforts are hampered by excessive governmental regulation.
5. Southern Railway's management is efficient.

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[15]Southern Railway Company Annual Report 1975, by Southern Railway Company (Washington, D.C.: n.p., 1976), pp. 3-4.

These five claims are nowhere specifically stated in the president's messages. This is not an unusual occurrence as the claims in much discourse, whether oral or written, are not explicitly stated.[16] Claytor supports his claims or propositions primarily through the inductive mode of the example. The subsequent paragraphs will examine the lines of support employed by Southern's president to substantiate the five major claims.

Lines of Support. To support the proposition that Southern was a profitable railroad, Claytor usually cited the company's earnings from the previous year. Figures representing operating income, net income, after taxes, and pre-tax income were used to substantiate his claim. The 1971 report best typifies this method of proof that Claytor employed exclusively from 1970 until 1972:

> Southern Railway Company and its consolidated subsidiaries had operating revenues of $647,405,000 in 1971, highest in the Company's history and a gain of $44,832,000 or 7.4 percent over the preceding year.
>
> Net consolidated income after taxes was $72,715,000, another record high for the Company and an increase of $16,953,000 or 30.4 percent over 1970. . . .
>
> Southern income before federal income taxes—one of the best indicators of how well the railway is performing—rose by 22.4 percent or $16,930,000 to a total of $92,419,000 in 1971.[17]

Except for 1974 and 1975, Claytor also employed the dividend rate as a means of support. Profitability was discussed these two years but

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[16]Edward P. J. Corbett, Classical Rhetoric for the Modern Student, 2nd ed. (New York: Oxford Univ. Press, 1971), p. 49.

[17]Southern Annual Report 1971, p. 4.

without the extensive facts and figures as mentioned in the preceding quotation. Since these were two years that experienced lower growth, it is likely that the figures, and especially the percentages, would not have been as spectacular as they were in the early 1970's. Claytor was wise to use facts and figures because the "argument from example is most effective when the instances can be followed by statistical data."[18] The profitability proposition is critical because individuals invest to receive a return on investment, and unless a company is profitable, investment return is unlikely.

Claytor supported the growth claim in a comparable manner to the claim dealing with profitability. He selected three issues to support the claim: the reinvestment program development of the Train II program and the Railbox system, and Southern's merger with the Norfolk Southern. The first issue, the Southern reinvestment program, was mentioned in every message studied. Again he relied on statistical data for support. In the 1970 and the 1971 reports he cited the precise amount allocated for new capital outlays. The remaining years he enhanced the significance of the reinvestment program by mentioning the amount spent over several years. For example, he noted that 1972 was the fourth consecutive year that Southern had spent over $100 million on new equipment. The equipment was needed because the growth of the region dictated the need for new and up-to-date facilities and equipment. The regional growth premise was one of the few claims supported by an enthymeme. The enthymeme was simply

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[18]Donald C. Bryant and Karl R. Wallace, Fundamentals of Public Speaking, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1976), p. 195.

that the South was growing and expanding economically and Southern Railway served the South. The implied claim was that any railroad that served the South would grow and be profitable.

He returned to the example as a means of support in 1974 and 1975 when he discussed Railbox and Train II. Railbox was a nationwide pool of 10,000 boxcars created to help ease freight shortages. Train II was an industry-wide computer system designed to provide railroads with timely information on car movements and locations. These programs provided the annual report readers with additional information indicating that the railroad was growth oriented. It was prudent for Claytor to use several examples because not every example will seem equally strong to an audience, but when linked together they may offer enough information to convince the audience.[19] The final issue employed to support the growth oriented claim was the merger of the Norfolk Southern with the Southern Railway Company. Beginning in 1970, the merger was mentioned in the next four messages. In the 1973 message Claytor informed the audience of the reasoning behind the merger:

> One consideration that strongly influenced our decision to acquire the Norfolk Southern was our belief in the industrial development of the area directly served by this line. We had practical confirmation of that belief in 1973 when Volvo . . . announced plans to build a $100 million automobile assembly plant . . . on the Norfolk Southern at Chesapeake, Virginia.[20]

The proposition dealing with governmental regulation is supported by a combination of effect-to-cause and cause-to-effect arguments.

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[19]Bryant and Wallace, p. 201.

[20]Southern Annual Report 1973, p. 4.

> In the effect-to-cause pattern, some present or past condition is accounted for by an event or condition which preceded it . . . . In such situations, the cause to be established is an educated guess. It cannot be taken as a fact.[21]

Evidence of this method was prevalent in each president's message. The 1972 message suggested that tight regulatory controls over freight rates hampered increased revenues.[22] This represents an effect-to-cause relationship because the control of freight rates is a phenomenon that supposedly caused revenues to be adversely affected. The stated cause in only an educated guess and cannot be taken as fact given the numerous variables that can affect revenues. It would be simplistic to assume control of freight rates would represent the major effect on Southern's revenues.

When Claytor discussed at length the problems and possible solutions confronting the railroad, he was employing cause-to-effect argument. This type of argument involves predictions about the future. Evidence of the cause-to-effect argument was apparent when the railway president questioned the cause and effect related to transportation subsidies:

> Government spends many billions of dollars each year on transportation facilities and subsidies. Only about half of 1 percent of that involves railroads, and most of this small amount goes to Amtrak or to other forms of passenger service. The more than 99 percent remaining goes to benefit transportation modes that compete with railroads.[23]

The subsidy program, according to Claytor, made it extremely difficult

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[21]Bryant and Wallace, p. 198.

[22]Southern Railway Company Annual Report 1972, by Southern Railway Company (Washington, D.C.: n.p., 1973), p. 4.

[23]Southern Annual Report 1975, p. 3.

for railroads to compete with other modes of transportation. He supported his statement by claiming that "all railroad traffic is regulated, but less than half of truck tonnage moves under regulation, and only 15 percent of water traffic is regulated."[24] He later offers solutions to the problems facing the rail industry. He cites the Railroad Revitalization and Regulatory Reform Act and the United States Railway Association (USRA) as being causes that would bring about financial improvements for the railroad industry. When discussing the promise of the Railroad Revitalization and Regulatory Reform Act, he used analogy as a means of support. It was the only use of analogy found in all six messages. "Such aid," he said, "can properly be regarded as treatment for the critically ill, but unless a cure is found for the disease the relief will only be temporary."[25]

In discussing Conrail, a part of the United States Railway Association's plan, he suggested that the act provided solutions to long existing and extensive problems. The new plan would allow 6,000 miles of marginal rail lines to be deleted from service. The act would also provide over two billion dollars to improve passenger service in the Northeastern section of the country. Most important, the Conrail legislation would provide "some relaxation of the regulation of railroads by the Interstate Commerce Commission . . . and protection of railroads from discriminatory state property taxes."[26] Claytor ended

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[24]Southern Annual Report 1975, p. 3.

[25]Southern Annual Report 1975, p. 3.

[26]Southern Annual Report 1975, p. 3.

the discussion by explaining the probable effects of the new federal legislation:

> With this legislation on the books, America can start moving to solve the complex problems of transportation in the Northeast and Midwest and certain other areas throughout the country.
>
> The prospect that there will be solutions not only to the problems of the bankrupt railroads but to some of the problems that affect all railroads is an encouraging one.[27]

Examples were used to support the claim that Southern Railway operated in a dynamic economy. Each president's message offered statistical proof that the environment in which Southern functioned was subject to constant fluctuations. Wage and material cost increases and an eighteen-day strike were cited as evidence of a dynamic economic environment in the 1971 report. The following year, which was very profitable for Southern, found little mention of the economy in the president's message. But 1973 proved to be very different. Claytor cited a 100 percent increase in the cost of diesel fuel, automobile industry layoffs, "out-of-pocket" losses from passenger service, and "combined inflationary pressures," as factors affecting the railroad's financial performances.[28] With the economy faltering in 1974 and 1975, Claytor stressed the impact of the adverse economic environment on Southern. The 1974 message provides the best indication of this emphasis.

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[27]Southern Annual Report 1975, p. 3.

[28]Southern Annual Report 1973, p. 4.

> There seems to me no question but that the two dominant trends—and our principle concerns—are recession and inflation.
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> Throughout most of 1974, Southern's revenues held up reasonably well in the face of emerging recession. . . . Automobile traffic, however, gave early signs of trouble when it declined by 27 percent in the third quarter of 1974. . . . Southern's fuel costs almost doubled within a twelve month period ended in October, 1974, a dollar increase of some $26 million, despite no significant increase in fuel consumption.[29]

The efficiency of Southern's management was the final claim found in the text of the president's messages. Of all five claims, this one was the least evident. Almost craftily, Claytor implied that the railroad's success, in part, was the result of a sound and efficient management team. This claim was often supported while providing proof of another claim. The discussion of growth and the reinvestment program offered a prime example. While mentioning in the 1970 report that Southern had allocated in excess of one-hundred million dollars for reinvestment for the first time in the organization's history, Claytor almost casually interjected that the investment program resulted in a $9.7 million dollar tax-credit to the company. This information told the audience that not only was the railroad maintaining and improving its service area, but also it was doing so with full tax-saving benefits.

The reinvestment program was mentioned in five president's messages. An underlying assumption of this program was that Southern was profitable enough to allocate large sums of money on an annual basis to maintain and improve its physical plant and equipment. The implication

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[29]Southern Railway Company Annual Report 1974, by Southern Railway Company (Washington, D.C.: n.p., 1975), p. 4.

was also present that only an efficient management could implement and maintain such a costly program. The discussion in the 1971 message of a tax-free Norfolk Southern merger mentioned the possibility of the consolidation being tax-free. The ability to complete a corporate merger with minimum tax cost would be a sure indicator of efficient management. Finally, Claytor acknowledged in the 1975 report that the company had idled 117 locomotives, 10,700 freight cars, and 2,350 employees in eaction to the recession.[30] This reaction to economic conditions also indicated a responsive and efficient management.

In conclusion, Graham Claytor asserted and sought to support each of the five major claims. Each year he discussed the claim most salient to the primary audience—profitability. Simply put, he knew the stockholder. He knew that their primary interest in Southern centered on the profitability of the corporation and its ability to provide a better than adequate return on investment. The remaining claims were arranged to enhance the image of Southern's financial success. An economic downturn during 1974 and 1975, however, resulted in a rearrangement of the format of the messages. Rather than give equal treatment to each claim, Claytor focused on those claims pertaining to regulation and the economic environment. Finally throughout each message, and carefully veiled, was the claim that the railroad achieved a large degree of its success from an efficient management.

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[30]Southern Annual Report 1975, p. 4.

Corroborating Evidence. Evidence validating Mr. Claytor's claims is abundant and generally available. The profitability claim is easily substantiated by the statistics and figures provided in the messages since the figures are the identical ones submitted to the ICC and the SEC for review. Two other sources providing proof of Southern's profitability are the periodical Financial World and the Wall Street Journal newspaper. The August 12, 1970, issue of Financial World wrote the following concerning Southern's profitability:

> Its profits for both the second quarter and the first half were at new peaks for these periods, and there is little doubt that results for the year as a whole will surpass record levels achieved in 1969.[31]

The Wall Street Journal published nine articles in 1974 and six articles in 1973 that dealt exclusively with Southern's increased net income and quarterly dividends.[32]

Proof for the claims dealing with growth and the dynamic economy was also ample. Even newspapers were able to provide verification. The Birmingham News featured a complete section on Southern Railway in November 1969. One article noted that Southern had produced a twenty-eight minute film entitled "Industry With A Southern Accent," in order to attract industry to the region.[33] The film was produced to inform

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[31]"Southern Railway: Standout in a Troubled Industry," Financial World, 12 Aug. 1970, p. 5.

[32]In order for an article to be selected its title had to specifically mention an increase in revenue, income, or dividends. The selections were taken from The Wall Street Journal Index 1974, p. 531; and The Wall Street Journal Index 1973, p. 501.

[33]Rural Industry Assisted," The Birmingham News, 2 Nov. 1969, Sec. F, p. 12, col. 2-3.

Southern community leaders how to attract industry to their area. The Wall Street Journal also provided support of the growth claim by printing at least two articles per year on Southern's reinvestment program. Another business related publication, Dun's Review, acknowledged the growth of the region that Southern served:

> Southern's early preparedness and aggressive marketing have allowed it to take advantage of the South's economic resurgence not only in furniture, but in textiles, lumber, chemicals, pulp and paper. And the railroad itself helped create a new industry when it introduced the "Big John" hopper car, which can carry more than 100 tons of feed grain.[34]

Closely related to the growth claim was the dynamic economy proposition. Without doubt the economic environment Southern functioned in between 1970 and 1975 was volatile one. The "Fortune 500" quotations found in Chapter I adequately verify this proposition. Perhaps the best single statement of the dynamic economy that Southern confronted in 1974 is found in the Dun's Review article. It should be noted that this article was centered on what Dun's editors considered to be several of the best managed companies in the country.

> Considering the year in which they did it, the five companies chosen by Dun's as the nation's best-managed in 1974 may deserve a place in Guinness Book of World Records. Rarely has the economic area been so hostile. What with rampant inflation, roofbusting interest rates, the frustrating scarcities of capital, a material and vast wasteland that was Wall Street, it was a struggle for many companies to survive, let alone excel.[35]

Affecting Southern and the economy were the poor auto sales in 1974.

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[34]"The Five Best-Managed Companies: The Skills of Survival," Dun's Review, 104, No. 6 (1974), 46.

[35]"The Five Best-Managed Companies," p. 44.

Claytor mentioned this in his message and one periodical substantiated Southern's assertion by writing that the U.S. auto industry was sick and hardly a region of the country or major industry would go unscathed.[36]

While the efficiency of Southern's management was a claim that was obscure in the president's message, the opposite holds true concerning external proof of the claim. As previously mentioned, in 1974 Southern Railway was named one of the five best managed companies in the United States. A 1976 article in the Wall Street Journal credited Southern's control of labor costs as the reason for being one of the "most efficiently managed railroad systems in the U.S."[37] The article also cited Southern's efficiency in regards to its low damage claims-cost compared to other railroads. Southern's average was $.82 per hundred dollars compared to $1.82 for the rest of the industry. The reason given for the significant differences was Southern's smooth and automatic freight yards—both products of the reinvestment program.[38] A 1970 Financial World article also indicated a soundly managed and growth oriented company:

> Industrial development in the road's territory has been brisk; last year alone, new expanded plants in the area added a potential $18 million to annual freight revenues. Growth on this scale, plus unusually high operating efficiency,

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[36]"When A Giant Industry Falters—Impact on the U.S. Economy," U.S. News and World Report, 9 Dec. 1974, p. 21.

[37]John D. Williams, "The Southern Railway Shows A Modern Road Can Cut Costs and Succeed," Wall Street Journal, 30 Aug. 1976, p. 1, col. 6.

[38]Williams, p. 1, col. 6.

> promise further earnings gains in the future, qualifying the common stock as an attractive long term investment.[39]

To support the excessive governmental regulation claim, Claytor resorted to "half-truths."

> In half-truths, everything that is said is true, that is verifiable as a fact; but because not enough is said, the total picture is distorted. Such omission of details conceals or distorts the context of the situation.[40]

Claytor employed "half-truths" by implying an inequity existed between railroads, trucking, and water transportation. The percentages he presented were not incorrect, according to Transportation Professor, Dr. Joseph R. Hartley, but they should never be applied to considerations of equity among differing modes of transportation.[41] Dr. Hartley explained that although only 15 percent of water transportation is regulated in this country, the existence of over a thousand operators ensures competitive rates for water transport customers. The reason only half the trucking tonnage is regulated is because of farm-produced goods, which probably constitutes about half of all trucking, is not regulated.[42] However, all interstate carriers are regulated and they comprise about 38 percent of the amount of tonnage that is regulated. Dr. Hartley did acknowledge that the rail industry is over-regulated, but that some degree of regulation should continue to exist to prevent

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[39]"Southern Railway: Standout," p. 5.

[40]Corbett, p. 85.

[41]Personal interview with Joseph R. Hartley, Professor of Transportation, Indiana University School of Business, 14 March 1979.

[42]Hartley, interview.

railroads from arbitrary rate-setting where they are the primary means of transportation in a geographical area. He cited as an example the coal fields of Eastern Kentucky where the L & N railroad is the only means of transporting coal to market. Finally, he qualified Claytor's remark made in 1974's message stating that the railroads are four times as efficient as the trucking industry. Claytor's remark is true but only for distance in excess of three hundred miles.[43]

Claytor's support for enactment of federal legislation to aid railroads was verified by external sources. Railway Age, an industry journal, actively supported both legislative measures in its regular "Watching Washington" column.[44] Another source of proof came in 1975 when acting Transportation Secretary endorsed the United States Railway Association plan to aid the financially troubled Northeastern railroads.[45]

In summary, the major claims found in Claytor's president's messages were generally substantiated by external proofs. The proposition that was most difficult to prove or disprove was governmental regulation. However, it should be mentioned that there is a current trend to deregulate the industry, spurred in part, by deregulation of the air-travel industry. The movement is for less regulation, not complete removal of regulatory policies. Only the claims concerning deregulation

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[43]Hartley, interview.

[44]"Watching Washington: USRA—More Time, More Money," Railway Age, 30 Sept., 1974, p. 12.

[45]Albert R. Karr, "Transport Unit Backs U.S. in Role in Rail Program," Wall Street Journal, 28 Feb. 1975, p. 4, col. 2.

found Claytor employing misleading supporting evidence. The remaining propositions were verified by substantial proofs.

Style. Style is closely interrelated with the other parts of rhetoric. "Its ramifications are elaborate, . . . extending deeply into the fundamentals of invention and losing themselves in them, so that what we arbitrarily call style becomes indistinguishable from the other elements."[46] Graham Claytor's messages reveal such an interrelatedness between style and the other canons of rhetoric. Focusing on style itself, the constituents of appropriateness, correctness, and clearness, are apparent in the railroad president's annual messages. Appropriateness, or the matching of a particular form of expression to a topic and to an audience, is a recurring characteristic of Claytor's style. Naturally complementing appropriateness is correctness, or that aspect of style that is concerned with the selection and the structuring of words. Perhaps Claytor's early legal training served to develop his skills for discriminating word selection and orderly arrangement. Related closely to correctness and appropriateness is clearness. This constituent of style is usually noticed by its absence from a speech. Claytor's messages were usually able to maintain intelligibility, which indicates the presence of clearness. The remaining discussion on these three components of style will focus on excerpts from Claytor's annual messages. The selection of various passages from these messages should provide insight

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[46]Thonssen, Baird, and Braden, p. 490.

into how Graham Claytor's style did or did not relate to his audience, to his message, and to himself.

Appropriateness. Appropriateness addresses the issue of whether or not a certain style fits its audience, its topic, and its speaker. Claytor's concern was tailoring his message to his audience. As previously mentioned, Albert Eggerton, Senior Editor for Southern's annual report, noted that readers of Southern's report could be divided into three groups: those who spend only five to ten minutes reading the report, those who spend up to thirty minutes with the report, and finally, those who spend an hour or more reading the report. Compounding the concern of developing a message that will appeal to the most readers while keeping time constraints in mind is the number of issues to be discussed in a message and how much attention should each issue receive.

Using one strategy, Southern's president attempted to resolve these concerns by creating a message that briefly covered a variety of subjects but with an emphasis on profit and growth. For those individuals who desired additional information, each message provided reference to other sections of the narrative where more detail was provided. The 1975 report provided the following example:

> Our narrative review of the year and the financial statements in this report describe in detail how Southern dealt with the challenge of 1975. They also tell what we are doing to prepare for the growth ahead.[47]

Claytor's strategy was appropriate in that a majority of the readers were accommodated. The 1975 president's message, for example, contained

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[47]Southern Annual Report 1975, p. 3.

only twenty-eight paragraphs.[48] Each paragraph averaged only three sentences. An individual who only spent five to ten minutes with the complete report found the brevity he was seeking in the president's message. The indepth reader was implicitly acknowledged by Claytor when he informed such readers where they could gain additional information in the narrative section.

The advantage to Claytor's strategy rests in the fact that individuals exposed to his messages were not part of a captive audience. Report readers could do two things with the message: (1) become familiar with the message on their own designated time; and (2) they would personally allocate the amount of reading time to be spent on the report. With a president's message that the reader could see was brief, reading was not as likely to be avoided as it would be by seeing an excessively long message. The shortness of the message was an appropriate measure for the written president's message. Those individuals who desired more information found the message appealing because it referenced them to additional information in the narrative section.

The design of the messages was appropriate in the sense that they refelected Claytor the individual. Each message studied revealed aspects of his personality; that of a well-organized, frank, and conscientious individual. Claytor's language provided insights of the traits. Consider the railroad president's remarks in the following passage:

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[48] Southern Annual Report 1975, pp. 3-4.

> Our traffic is substantially down at the beginning of the year, and it is doubtful that our business will recover to the 1974 level. Our wage and cost increases are going to be substantial, with at best only modest rate relief.
>
> There are, however, some bright spots in the picture. The current recession may have a favorable impact on both inflationary forces and shortages. This in due course should tend to have a moderating effect on the rate of decline in business activity that we are now witnessing.[49]

These sentences, located in the last two paragraphs of the 1974 message, inform the reader of an economic downturn which will undoubtedly effect Southern's earnings. Given the acknowledged fact that a prime motive in stockownership is a profitable return on investment, Claytor's remarks were succinct and frank. These remarks were appropriate because they suited Claytor's demeanor and they acknowledged economic conditions. While stockholders were no doubt dismayed with the prospects, they were likely also to understand that a sluggish economy would hamper most commercial organizations' profitability.

Correctness. Another category of style related to appropriateness is correctness. Correctness is primarily concerned with the selection and structuring of words in a speech. Claytor, although not the author of the first draft of the president's messages, would spend considerable time in subsequent drafts refining the language employed.[50] The importance of this aspect of style to Claytor resulted from his contention that Southern's annual report functioned as the yearly talk from Southern to its shareholders and other interested parties. Therefore the message

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[49] Southern Annual Report 1975, p. 6.

[50] Eggerton, interview.

had to be easily read, understandable, and convincing. Although Claytor's messages generally achieved these goals, he was particularly skillful in selecting words when discussing the topic of government regulation of interstate transportation. He was keenly aware of his audience when speaking of equity and subsidization for different modes of transportation. In order that all systems of transportation could return to a competitive market, he reasoned, subsidies for water and trucking operations should be lowered. Throughout his 1975 message where he discussed government regulation, he selected words which were often emotionally charged, such as; "burden," "taxpayers' expense," "equality of treatment," and "our list of priorities."[51] These words and phrases were employed to persuade the audience to accept the assumption that an unjust regulatory situation, penalizing railroads, existed.

In the body of the messages, Claytor typically chose words that would enhance his supporting evidence. In 1974's message, for instance, he mentioned that the "two-thirds of a billion dollars" spent for previous improvements would in no way meet the "long-term requirements for massive investments in equipment and right-of-way improvements."[52] Here he seemed to paint vividly the investment requirements for the reader. In discussing the issue of subsidization in the 1975 message, Claytor created a situation of the "haves-against-the-have-nots." He stated that "only about half of 1 percent of the total subsidies went to railroads" and

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[51] Southern Annual Report 1975, p. 3.

[52] Southern Annual Report 1974, p. 4.

that most of that small amount went for Amtrak.[53] The remaining 99 percent went to other competing forms of transportation. He developed this scenario of big versus little by using phrases such as "small amount" and "more than" along with the complementary percentages of 1 percent and 99 percent. Claytor's method of varying his choice of descriptive words and phrases reflected Quintilian's concept that the speaker should rely upon different arts and modes in the various sections of a message in order to inform or persuade her audience.[54]

The structure of Claytor's messages was designed to present concise and worthwhile information. Structure is critical because it is concerned with that aspect of correctness that moulds a message's content in a manner that is conducive to its audience.[55] Reading ease, a prime consideration of structure in an annual report message, was achieved by employing both long and short sentences. "Interspersing long with short sentences tends to enhance style, breaking as it does, the sameness of thought patterns."[56] The 1973 message provides an example of varied sentence length:

> Under a new law, a government-backed United States Railway Association will design a leaner and stronger railroad system from the properties of the seven bankrupt railroads in the Northeast. Federal grants will finance the planning and keep the bankrupt lines operating while this is done.[57]

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[53] Southern Annual Report 1975, p. 3.

[54] Thonssen, Baird, and Braden, p. 501.

[55] Thonssen, Baird, and Braden, p. 496.

[56] Thonssen, Baird, and Braden, p. 496.

[57] Southern Annual Report 1973, p. 4.

Like the messages' sentences, the paragraphs also display variation in length. The short paragraphs tend to stress or reiterate information. The 1973 message provides evidence of this:

> Having dealt with the immediate problem of the bankrupt lines, Congress will now be asked to consider a broader bill to revitalize the railroad industry as a whole.[58]

The longer paragraphs tend to define, to discuss, and to suggest action. The six sentence paragraph that followed the paragraph just quoted is an example of thorough development. The paragraph defined, discussed, and sought to persuade the enactment of the Surface Transportation Act.

Clearness. The last constituent of style that appears frequently in Claytor's messages is clearness. Clearness is really quite simple to define yet many times difficult to achieve in a speech; it is concerned with intelligibility and simplicity. Ambiguity arises in speeches for many reasons. A few common causes are: (1) a faulty arrangement of words, resulting in unclear construction; uncertain references in pronouns; extremely long sentences; use of the same word in different senses; and, the overreliance on technical words.[59] Of the messages studied, the clearness of each is to be commended. Only when Claytor discussed government legislation did the clearness of any given message diminish. Reference to the United States Railway Association in 1974's message, for instance, was vague and incomplete. After the initial introduction the Association was referred to as the U.S.R.A. without any

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[58] Southern Annual Report 1973, p. 5.

[59] Thonssen, Baird, and Braden, p. 499.

subsequent information about the association. Here he tended to place an overreliance on technical words. Given the complexity of federal legislation, it is possible that Claytor risked being vague at the expense of being boring through the use of too many details. Nonetheless, the discussion of the U.S.R.A. provided the reader with little information.

In conclusion, Graham, employing appropriateness, correctness, and clearness in the development of his style, created president's messages that could be read and understood by his audience.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Introduction. The president's message of the annual report is a significant channel of persuasive communication for corporate America in addressing the public and its shareholders. Evidence of this importance increases yearly as annual reports continue to appear in a variety of forms, styles, and mediums. Perhaps the best current example of the growing importance of the corporate annual report is Gulf and Western's (GW) 1978 report. Their annual report, in its entirety, appeared in every Time magazine published the week of February 5, 1979.[1] Having its 1978 report bound into just over five million copies of Time for 22 million readers indicates the GW was seeking to communicate with an audience larger than its traditional annual report audience comprised primarily of shareholders.[2] If typical annual report readership patterns held true for GW's recent report, then the president's message received a high percentage of the total attention given to the report by most readers. While typical patterns of report readership are suspect for a report appearing in a national publication, there is no existing evidence denying such patterns could occur. Also, given the location of the message in the beginning of the report, along with its brevity, it is

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[1]"Inside Gulf and Western: Gulf and Western Industries, Inc. 1978 Annual Report," Time, 5 Feb. 1979, G/W 1-G/W 64.

[2]Milton Moskowitz, "Gulf and Western Spent 3.3 million on Time Ad," Herald Telephone, 12 Feb. 1979, p. 36, col. 1-2.

reasonable to assume that the president's message was often read. Curiosity leads to the question of just what GW's president sought to convey in his message. Equally important questions are: who was his audience, and, was the message suited to the audience? The present study of Graham Claytor's president's message indicates that the first question can be answered without difficulty.

As Southern Railway's president, Claytor's intent was to communicate ideas and values in the president's messages that championed Southern's existence and its right to future growth. He sought to achieve acceptance of these ideas and values by developing five major premises. These premises advocated continuation of successful railroad practices and focused on the establishment of political and economic realities that would assure the railway's economic success. The premises were supported by well chosen arguments and persuasive stylistic devices. Routine discussion of profitability by Claytor at the beginning of a message using personal pronouns and statistical data is evidence of stylistic devices and arrangement.

The question of intent of a president's message is answered with ease. Unanswered are the two questions dealing with audience identification and the effectiveness of the president's message. The remaining paragraphs will discuss the issues these questions raise by reviewing the findings and implications of the present study. Hopefully, the review will provide direction for research that will answer issues that hamper GW and other corporations in the development of their annual report's president's message.

Methodology Review. Since the initial focus of the study was to describe and explain the elements that characterize the president's message, the neo-Aristotelian method of criticism was adopted. This means of criticism, it was reasoned, would help provide a logical and organized approach for the examination of a source of communication that had received virtually no scholarly attention previously. Fortunately neo-Aristotelian criticism has proved to be very useful for the study. The obvious advantage the methodology provided was a means to divide a president's message and its related parts into manageable, observable segments for analysis. By focusing attention on the speaker, the arguments, the lines of support, and the message, for instance, a thorough analysis became possible. Dividing the various components of the message also aided in the identification of issues and areas worthy of research. While the method proved useful in description and explanation of Graham Claytor's messages from 1970 through 1975 and in locating issues for additional research, it was unable to measure the effectiveness of the messages. From the outset mention was made that the focus of the study was to determine the persuasive elements of the messages, not to measure their effectiveness. What the neo-Aristotelian approach did provide, however, was the indication that serious research was needed on the audiences that read the president's messages, Mr. Eggerton openly acknowledged that Southern possessed minimal information on the audience receiving the railway's annual report.[3]

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[3]Eggerton, interview.

Given the amount of energy and resources expended each year for the development of annual reports, clearly there is a need for research to examine the validity by which a report's readability is determined. The Dolphin and Wagely studies mentioned in Chapter II using the "Flesch Readability Scales" have indicated that corporate annual reports are difficult and uninteresting to read. Their findings may be significant but they are meaningless if the measures are not sensitive to information related to financial matters. The Dolphin and Wagely studies apply the same scales to financial information that are used to measure the readability of essays and short stories. Since the Flesch scales are widely used and cited and given the possibility that they may be inappropriate for measuring the readability of financial information, additional research on the topic is appropriate.

Directions for Research. As previously mentioned, little is known about the individuals who read the president's message. With the increasing size of the audiences reading reports, it is even more crucial that research be conducted. The direction of audience research has many possibilities. One focus could be a journalistic approach. Annual reports have many apparent similarities to periodicals, such as methods of distribution (mail), lead articles (the president's message), and the use of visual aids. One possible study could be a comparison between the readership patterns of periodical readers and annual report readers. Another approach for audience analysis would be a study employing attitude surveys. Surveys may be helpful not only in determining audience identification with a speaker, but also as a source to measure the

effectiveness of a president's message. Gulf and Western, for example, spent 3.2 million dollars on its 1978 annual report without extensive knowledge of the total audience.

The study revealed three areas worthy of research: the preparation and writing of president's messages and annual reports; the readability of the president's messages and the reliability of the readability measures; and finally, the nature and composition of the audience reading president's messages. Perhaps the most surprising finding of the entire study was that Graham Claytor's messages were drafted by Albert S. Eggerton. Eggerton is the individual responsible for the publication of Southern's annual report. Many companies go one step further and have their entire report prepared by an out-of-house public relation agency. The Financial World issue that announces the winners of its annual report competition with advertisements by public relation firms boasting of winning reports that they prepared. It is prudent to determine whether the messages the shareholders receive are prepared by financial public relation firms or by the president and his associates of a particular company. Whether a difference in preparation between the two exists is unknown, but surely a reader would feel more comfortable with the information she receives if she knows the source. Research may be able to determine if such a difference exists.

Research concerning the readability of the president's message and the annual report needs to focus on the ease of reading and comprehension of the report by its readers. The initial question to be addressed is whether annual reports can be, and are, understood by the intended

reader. Companies simply do not know whether annual reports are being read, and if so, is the content being comprehended. As the situation now exists, a majority of companies distribute their reports to an audience that is ill-defined, if it is defined at all.

Conclusion. In conclusion, the president's message is becoming an increasingly important source of corporate communication. Since research began on this study, for instance, annual reports have been published in foreign languages, produced on videotape, and even more recently have been printed in a national weekly magazine. Unfortunately this rapid growth has not been accompanied by an increase of scholarly research on the topic. It is safe to assume that today most reports are never assessed to determine if they made the intended impact on their specified audience. Until more is known, corporations can only hope that their investment is not unwise and that the reader of the report receives sound and favorable information.

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VITA

James Gaut Ragsdale was born in Knoxville, Tennessee on November 20, 1950. He attended elementary schools in that city and was graduated from Bearden High School in June 1968. The following September he entered The University of Tennessee, Knoxville, and in December 1972 he received a Bachelor of Science in Business Administration.

After working for four and one half years as a pharmaceutical sales representative, he entered the Graduate School of The University of Tennessee, Knoxville, in September 1977. He accepted a graduate teaching assistantship in the Department of Speech and Theatre and began study toward a Master's degree. The degree was awarded in August 1979.

Mr. Ragsdale will continue graduate studies in the Department of Speech Communication at Indiana University, Bloomington, Indiana.