THE CORPORATE IMAGE - THE REGULATION OF ANNUAL REPORTS IN AUSTRALIA

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The 1995 annual report from the New Jersey based Campbell Soup Company is a classic example of an emotion-packed book. This little beauty is called the 'art of winning'. Realising that Andy Warhol had done more to make the Campbell soup can an icon than all the paid-for advertising, the folks at Campbell launched a search for the next Andy Warhol. More than 10,000 Americans obviously wanted to be tall, have funny blond hair and hang out with Divine and other seriously weird people because they all sent in their imitation Warhols. So on the front cover of the 1995 Campbell Soup annual report is a lighthouse painted in Campbell's colours. But wait, there's more. Inside Campbell chairman and chief executive officer, David Johnson (who actually looks just a bit like Andy) has written a three page overview of himself … looks as though no one in the company or on the board was game to tell the Australian expatriate Johnson the truth about what he wrote:

> 'Our employees around the world are exultant', he writes 'The thrill of victory is a heady experience. But we also know the competition is madder and more determined.. Everyone wants to be number one. But success can be a curse. Knowing this, we are fired-up and calculatedly focused on winning again. We know the future is ours to shape. We control the levers of change. We stand on the shoulders of those who precede us.'
> 'I tell all employees there are no speed limits on the road to excellence. We can't be fined for speeding!'

It gets even better when Johnson comments on some of his winning strategies. 'We have used the cash to purchase businesses adding over $800 million to sales in fiscal year 1995 … along with strategic positioning and excellent profitability. Way to go!' (his emphasis)

J Connolly, 'Hyperbolic hitmen' *The Bulletin*, (April 16, 1996) 49

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> In analyzing the worst annual reports, it's clear even an average half a million dollar production budget can't buy quality. There's a faceless, politically correct blob of colour named 'Bob'. There's a CEO so in love with his own image that he approved no less than 10 photos of himself - one in the letter to shareholders and the remainder in the three pages of discussion with him. There's egotism, ignorance, subterfuge, questionable ethics, shabby design and enough hot air to fill the Goodyear blimp.
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> S Cato, 'The World's 10 Best and 10 Worst Annual Reports' (1995) 107 *Chief Executive* 36.

INTRODUCTION

Companies have long been concerned to project a good public image. In the phase of the growth of the corporate economy during the nineteenth century companies generally put on their best face when they were attempting to raise money from the public. This is understandable given that most fundraising occurred through share issues during this period.[1] Consequently the prospectus was a vital document in the life of the corporation. If the enterprise was to succeed it had to convince a sceptical public that this was their opportunity to make a handsome return on their investment. Prospectuses had lavish attention placed on their appearance and their content. They were often illustrated by leading artists of the day and were reproduced by the most advanced techniques available. They were the first documents to generally use lithographic and photogravure techniques. In addition the text of prospectus was often written by some of the finest literati of their day.

The use of design to send a range of coded messages to investors is perhaps illustrated by the example of a panoramic painting of the Swan River settlement. This was used to illustrate the prospectus of a land company promoting investment in West Australia. I have not been able to ascertain whether the painting was commissioned or not. Panoramas were, however, in vogue at the time and seen as an important vehicle for bringing the 'new' world to those in the old who were

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1 On this issue see R McQueen, *Company Law in Great Britain and the Australian Colonies 1854-1920: Towards a Social History* (PhD thesis, Griffith University, 1995). Capital raising was such an art during the nineteenth century that even the name of the company and the value and form of the shares were often topics of calculated judgments made by promoters depending on whom they intended to entice into subscribing for the shares:

> When floating a company likely to attract the interest of the 'industrial classes' promoters will use a name such as 'The Philanthropic Mutual Aid Co-operative Industrial Life Assurance Granting and Funeral Providing Society' … the title will be very long, to daze and deceive them, while the value of the shares would be placed at a pound, to give them the opportunity of losing their hard earned saving for the benefit of their more cunning but unscrupulous fellow men. On the other hand, should the prospectus be that of "The Jeremy Diddler Weal Consols Gold Mining Company" or "The Central African Navigation Company" formed for the purpose of conveying ships from Cape Colony to Buddo-juddo by land to save the expense of unshipping the freight, then the shares will probably be twenty or fifty pounds each to entice the credulous part of the monied *community*. (A Packer, *How the Public Are Plundered* (1878) 18-19).

either not able to travel or could not afford to do so. Panoramas were thus an important and popular communicative vehicle in the nineteenth century; as popular in their day as a promotional or advertising medium as the Internet is amongst publicists in our own day and age:

> In the nineteenth century, the panorama became the mirror image of the Panopticon: spectators observing from a central tower a surface that revealed everything and said nothing. The act of showing a city's image was becoming the spectacle itself. … The panoramic eye was a peculiar nineteenth century product, combining a taste for spectacular illusion with the thrill of documentary realism.[2]

These panoramas were immensely popular. One of the most widely attended of the exhibits at the 1889 Paris Exposition was the giant moving panorama erected by the General Transatlantic Corporation, where a spectator could embark on a vicarious journey from Le Havre to Marseilles to almost any major destination in the world. At times there were even fights among the crowd to secure a place in the panoramic journey, yet the journey itself was really nothing more than a giant framework within which to mount a series of advertisements for the General Transatlantic Corporations travel 'products'.

The prospectus adapted and utilized the panorama to its own needs. The encoded 'message' of the panorama of the Swan River settlement referred to above has recently been analysed in the following manner:

> The Panorama view of King George's Sound, part of the colony of Swan River with its attention to minute detail and carefully drawn topography offers a seemingly accurate image of place. It is, however, a carefully constructed site of political social and economic narrative which is devised with specific outcomes in mind. [The Swan River settlement was] one of the commercially speculative colonies which were created to protect English interests against an increasingly aggressive French presence that required the attention and financing commitments of 'gentlemen' investors and settlers.
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> Dale's design was no doubt created with the idea of a commercial sale to the London Panorama operators for use in their experimental theaters which thrived on the spectacular view of exotic locations … Dale's view of King George's Sound offers the kind of information required by backers. His scene shows that in the developing colonial town roads have been created to assist easy passage of vehicles and goods. The cleared land spaces show potential for cultivation or pasture, the neat line of planting indicate such success already in progress. Fires in the distance suggest clearing beyond view and indicate expansion. Small outcrops of houses further from town further amplify this idea. The navigable waters, rendered calm by the surveyor's sweep, indicates no obstruction to shipping - therefore no loss of livestock, one of the anticipated growth areas of the western colonies … Importantly there is a strong sense of empire: the British flag flies proudly at the town's jetty point, while the mounted officer at the right-hand foreground indicates the totality of imperial security which will be offered the settler.

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2 M Christine Boyer, *The City of Collective Memory* (1994) 253.

> Most compelling is the evident success in dispersing aborigines to the furthermost position from the township, away from the lucrative and fertile flat lands into the higher country. The presence of Aborigines was an issue of concern for prospective investors who received conflicting reports of the settlers' peaceful pathways to colonisation … The framed up panorama as compared to the spectacular theatrical version, provides a narrative of linear progress. The [picture] is a thoughtfully coded message which most budding capitalists would understand.[3]

In the nineteenth century, it was not simply the graphical content of a prospectus which projected a corporation's image. In addition to whatever coded messages might be encapsulated in the pictorial content of the prospectus there was also always the written text, usually itself a matrice of encoded messages. Quite often this text was written by a professional, a Grub Street journalist between jobs or a novelist down on his (or her) luck. Some well known literati of the nineteenth century cut their teeth on writing copy of company prospectuses. One of the best chronicles of the literary content of prospectuses is provided by the Marmaduke Langdale and Thomas Glover Collections of Prospectuses held in the British Library. Most company prospectuses of the time were literary vehicles, abounding in description and coda. Many were so well written that one left the text feeling not just a desire, but an obligation to invest. For instance the City of Canterbury Cemetery Company reminded us of the decrepitude of most public cemeteries and thus the need to invest in shares (and a plot) in a private cemetery company such as theirs:

> However repulsive the truth, it is but too particularly apparent, that the graveyards in Canterbury are literally crammed to excess with mortal remains ... the feelings of the living are continually harmed by the conviction that their dead can find a resting place only amongst mouldering heaps of mortality which are amalgamated with and in fact form the soil.[4]

Another variety of company which spent some time and money on the formulation of its prospectuses were mutual guarantee undertakings; these were the sorts of enterprises lampooned by Dickens in Martin Chuzzlewit. The Fidelity Guarantee Society, which was effectively an insurance undertaking 'guaranteeing' against losses occasioned by embezzling clerks:

> The profitable nature of such a business is clearly proved by the very small proportion of unfaithful clerks, and other confidential servants, out of the immense number of persons so employed in the metropolis, and other places through the kingdom.

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3 J Engberg, 'The Colonial Corridor' in *Colonial Post Colonial*, Museum of Modern Art at Heide Templestowe (1996) 13-14.

4 'Thomas Glover Special Collection of Nineteenth Century Prospectuses', British Library, 1890 e 1, No 8 City of Canterbury Cemetery Company.

> The Statistics of Crime, published by authority, prove the complete safety with which the fidelity of any given number of persons may be assumed; they also prove that a very moderate rate of premium would be entirely sufficient.[5]

At the same time as prospectuses were being lovingly produced, utilizing the latest in printing technologies and typography,[6] the annual report was a sad looking document. Indeed, annual reports in common form were not required by law until early in the twentieth century in Australia at various dates, the earliest being the Victorian *Companies Act 1896*, in the UK by the *Companies Act 1928*, and in the USA by the *SEC Act 1934*). Consequently it was generally only reputable enterprises that spent any attention on these documents and even then they were often oblique in the manner in which they presented information, due to the then prevailing fear that too comprehensive a disclosure of information would somehow benefit one's competitors. They were generally brief, with a cursory report from the Chairperson of the undertaking, followed by indifferently accurate annual accounts. They were printed on poor quality paper and used the cheapest printing techniques available. Only the most informed and astute of investors read these documents with any attention, whilst the rest consigned them to the rubbish bin. Even after annual reports became compulsory, they were often dry and unimaginative in form. It was only in the period following the Second World War that their potential as public relations documents started to be realized, and then at first only in the United States.

This paper examines the twentieth century reverse of fortunes for these two vital corporate documents. It traces how, as the prospectus became more and more regulated in its content and form it gradually became less hyperbolic as a document, full of dry reportage and detailed accounting information. The paper also charts the manner in which those charged with responsibility for the prospectus altered as it came under closer and closer public scrutiny. From an aesthetic document, the province of writers, artists and marketeers, who had pioneered many of the modern techniques of advertising, it came to be largely the province of lawyers and accountants.

At the same time as the prospectus was losing its aesthetic charm (while at the same time becoming, at least arguably, a much more informative document for prospective investors) the annual report started to assume a different guise. This process was at first quite slow. Before the 1950s there was a convergence in the general appearance and presentation of prospectuses and annual reports. Company documents went through a phase of uniform dullness. However, after this interregnum the annual report, despite the requirements that it contain certain specified information, started to become the public document of an enterprise which expressed its 'personality'. Companies began to employ graphic designers and

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5 Ibid, No 19.

6 Many of the prospectuses included in the Marmaduke Langdale Collection, particularly those for railway companies, are a *tour de force* of printing techniques and must have cost a small fortune to produce.

contract certain aspects of the design of the annual report out to advertising agencies. This trend began to become pronounced in the 1950s, particularly in the United States of America. One of the leading historical surveys of annual report design comments in this respect:

> Despite the greater emphasis on visual communications, annual reports remained largely financial documents until the late 1950s. Many annuals were still designed in-house, with only the cover produced by a professional illustrator. Visuals included line art, industrial and product photographs, the simple use a second color as a decorative element and frequently, an illustrated full- color front cover … By the late 1950s, more corporations began to realize that the use of graphic design in communications could be a powerful means to establish a distinct identity, as well as to present information in an orderly manner. A handful of designers forged a new definition of annual reports through highly innovative visual elements … these pivotal works profoundly influenced young graphic designers and demonstrated the exciting range of possibilities for the genre ... by the 1970s, the annual report emerged as possibly the most important corporate marketing piece - a visual statement of management goals and philosophy and often a direct expression of the chief executive officer's personality and vision.[7]

In the United States a watershed was represented by the Litton and General Dynamics[8] annual reports in 1959. The 'look' of these documents had become more important than their 'content'. They utilised the most striking typography imaginable, were printed on coated paper stock and were aesthetically challenging in their overall construction. These documents, whilst perhaps little read by all but the most diligent of investors, were highly influential as 'art works' and inspired many later developments in graphic design. By the mid-1970s in the United States it was almost obligatory to lavish huge sums on the preparation of the annual report, which was seen as performing a pivotal role in defining a company's style and in validating its professionalism. The sections of annual reports mandated by statute began to be consigned to the end of these documents, printed on different paper stock (inferior in quality) and identified as such as only for the 'expert' reader whereas the bulk of these reports were being signalled as for the general reader, replete with pictures, graphs and readable copy.

This inversion of priorities in reportage has been adversely commented upon by many expert commentators:

> The issue of a [company's annual report] provides … an annual opportunity not only to give an account of its progress but to take into its confidence - and 'behind the scenes' - a highly influential audience. To many members of this audience, however, the reading of the annual balance sheet will be difficult; comparatively few people posses the training necessary to appreciate the customary arrangement of accounts. Realizing this, some leading international companies go to great lengths to present

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7 D Hirasuna, 'After the SEC Act of 1934: New Rules, New Image' in L Clagett and D Hirasuna, *A Historical Review of Annual Report Design* (1988) 16-17.

8 For a brief discussion of the story behind the design of the 1959 General Dynamic annual report see: (1958) 14(79) *Graphis* 420-426.

> and interpret their accounts in a manner that is intelligible to the layman. Unfortunately, very many companies still adhere to the rigid dispositions of figures determined by the accountant or the company secretary, and these are set in print in a style which gives neither relief to the eye nor concession to the unfigured.
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> These companies are usually large users of publicity material which they are only too happy to place in the hands of the expert. Their annual accounts would benefit from similar treatment. There are certain basic requirements of the Companies' Acts which need to be observed, but once the accounts have been certified there is much to be said for giving a designer or typographer the opportunity to translate them by his special alchemy into an array of figures inviting to the eye and intelligible to the mind.[9]

Thus, despite the apparent purpose of an annual report - as sanctioned by statute – to provide stakeholders with a clear appreciation of the company's financial performance in the previous year (and possibly its future prospects) the annual report is now generally perceived by corporations as their principal public relations document and their vehicle to explain (and excuse) any contentious aspects of corporate performance which have attracted public attention and/or criticism. The informational aspects of the document are seen by those charged with the preparation of annual reports as secondary in nature. It was thus no accident that the Coles Myer report for 1995 contained on its cover a homely picture of customer relations, with the staff member pictured innocently offering a perfect lettuce to a customer. Given that the year had seen a huge public brawl between elements of management and allegations of losses on related party transactions one perhaps would not expect to see the board of directors appearing on the front cover. What is interesting though is the fact that there is long discussion of 'corporate governance' in the body of the report. It is revealing to see why at least one industry source considers that the annual report is regarded as a more reflective and important document by top management than other corporate documents, such as prospectuses:

> The annual report is the preferred communication document of [those] in top management because they have primary control over it (unlike prospectuses, often written by lawyers). An indication of management's own feeling about the annual report is that most companies print two to three times as many annual reports as they have shareholders. In addition to its primary function of meeting legal requirements and informing shareholders, the annual report is used regularly for such purposes as recruiting employees, selling products and services, attracting acquisitions, and increasingly as a 'corporate calling card' when dealing with foreign businessmen.[10]

Nevertheless, despite the dramatic changes which have occurred in recent years in both the perception of the role and the content of annual reports little detailed study has been undertaken of the possible effects of these changes, particularly in

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9 E E F Boer, 'The presentation of company accounts' in *The Accountant* (1989).

10 R Lewis and W Herdeg, 'Annual Reports: Conception and Design of Annual Reports' (1977) *Graphis* 11.

Australia. In this changed environment it is crucial to determine if the annual report is still adequately performing its function as a transmitter of core corporate information. What implication may these changes have for our regulatory approaches to the annual report? In the following we will examine the manner of preparation of the annual report, the regulation of these reports and the way in which these reports are 'consumed' by the various publics for which they are intended. A number of key players in the preparation and regulation of annual reports have also been interviewed to ascertain current perceptions of the role of these documents and the possible need for re-evaluating the manner in which they are regulated.

The Annual Report in the Twentieth Century as a Vehicle of Corporate Image

The statutory requirement that a corporation provide an annual report to its shareholders was included in the first 'modern' English *Companies Act*, that of 1844. However, when the 1856 *Companies Act* was enacted this provision was deleted, on the basis that it had proved to be both unpopular and a 'failure'. Unpopularity stemmed from the then prevailing belief that the public release of detailed accounts would provide corporate competitors with privileged information, which might undermine the viability and competitiveness of the reporting corporation. It should be remembered that this provision was introduced in a vastly different commercial environment than that prevailing today. Most English businesses were not incorporated (and indeed this situation prevailed until late in the nineteenth century). Thus corporations' principal competitors were generally not other corporations, but rather partnerships which had no reporting requirements cast upon them at all.

The unworkability of the annual reporting requirements in the 1844 Act related to the then prevailing notion of 'small' government. To work, mandatory reporting requirements need an effective watchdog. The Registrar of Companies office in the 1840s was certainly not such a body. It had only one permanent member of staff (the registrar) and did not perceive that it had a regulatory function. In these circumstance the mandatory requirements of the Act were more honoured in their breach than by conformity on the part of corporations.

After the deletion of reporting requirements by the 1856 Act no mandatory requirement to provide shareholders with an annual report in common form existed until the passage of the 1928 *Companies Act* (however in Victoria such a requirement was introduced in the 1890s as a partial response to the malpractices which had occurred during the 1880s corporate boom).

At the same time the prospectus gradually become more and more regulated as a document, culminating in the mandatory provisions as to the form and content of prospectuses contained in the *Companies Act* of 1896, which was the legislative response to the recommendations of the Davey Committee. Prospectuses also became less important over time as corporations became less reliant upon public raisings of capital to finance their activities. Private borrowings, reinvestment of profits and so forth became more common techniques of financing consolidation and expansion. As a consequence of these developments the prospectus became a far more legalistic document, less concerned with corporate image and far more concerned with presenting the 'facts' about a corporation. This, of course, does not mean that prospectuses have ever completely abdicated the role of public relations document. However, it does mean that other documents associated with a corporation began to take on the mantle of the public relations face of an enterprise more thoroughly than had previously been the case. The most important of these displacements was that occurring with the annual report. Much of the hyperbole previously contained in a prospectus now found its way into the annual reports of enterprises, as did also the elaborate graphics previously only associated with prospectuses.

The concept of the corporate annual report which is enshrined in the *Corporations Law* is that it is a mechanism by which certain basic information about the company can be communicated on an annual basis to shareholders and other interested parties. The annual report is regulated accordingly - on the assumption that it must contain certain specified information of interest to shareholders. If you simply read the *Corporations Law* or many of the standard company law textbooks you would consequently expect to find a sober document full of financial information and data on the board of directors. For instance, one of the leading loose leaf corporations services in Australia describes the annual report in the following manner:

> Companies have long been required to place on a public register at regular intervals information as to their management, membership and financial position. Incorporation creates an artificial person (the company) and persons seeking to deal with the company must be provided with sufficient information for them to identify and locate the company, to ascertain who are its directors and officers, and to be able to evaluate, at least in a limited way, the company's financial position. The Corporations Law requires every company to lodge an annual return in the prescribed form s.335 (1).[11]

Whilst this statement of the law is undoubtedly accurate, annual reports do much more than what is prescribed by the legislation. If one were naive enough to believe these legal provisions comprehensively described what one might actually find in an annual report then one would be in for a rude shock when faced with an actual corporate annual report. The readers, instead of finding a modest and legalistic document would find themselves instead faced with page after page of public relations copy, glossy photographs and fold out special supplements. They would find the financial and other data required by law tucked away in some obscure corner of the document.

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[11] K Reilly, *Butterworths Corporations Law Service* (s 3.8 'Annual Return', at para [8.005] 1996).

The recitation of the legal requirements would make it seem as if corporations would be reluctant to be expansive in annual reports. Indeed this is belied by the fact that when companies were given the opportunity a few years ago via changes in the legislation to produce 'short reports' very few, if any, took up the opportunity to produce such abbreviated reports due to the fact that they saw the annual report as their principal public relations vehicle to a number of different audiences and thus too important to truncate. Most annual reports hide the statutory information away at the rear of the document for only the most assiduous of readers to analyse. Most annual reports are not simply bare statements of the information required by the legislation, but rather are lavish documents largely devoted to projecting the 'corporate image' to a far broader audience than simply the shareholders of the enterprise.

The real purpose of an annual report, as viewed from the corporate perspective is revealed in the following advice contained in a respected annual report design manual:

> Let's agree: 'Your corporate annual report is the most important tool in your company's financial public relations campaign'. It is the showcase of your company. It tells the various publics a great deal about your company, its management its products its operations its future etc. An investment decision - to buy or sell your company's stock - is often based upon a review of the annual report.
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> Your annual report must deliver a message to many different audiences. It is more than just a financial report to your stockholders.[12]

Annual reports have turned into expensive public relations vehicles for corporations. At the height of his Quintex empire Christopher Skase produced an annual report which was leather bound, gold embossed and printed on parchment. Each annual report cost far more than $100 to produce and was indeed an impressive coffee table adornment for its recipients.[13]

Even public enterprises at times feel the need to produce a lavish annual report to impress. In 1994 the University of Melbourne produced a report which would have done Alan Bond or Laurie Connell proud at the peak of their business empires. These opulent documents cost about $70 a piece to produce.[14] Even the most staid

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12 Van Nostrand Reinhold Co Inc, *A Complete Guide to Preparing A Corporate Annual Report* (1985) 22.

13 For details on Skase's empire and the practices of other entrepreneurs of the time see T Sykes, *The Bold Riders: behind Australia's corporate collapses* (1994).

14 Interview by Michelle Sabto with Sharon McNamara, Kajetan Design Group (16 April 1996). We were asked to design a Rolls Royce document which was really to be used as a marketing tool as well, I mean the excuse was that it was an annul report as well. So no holds barred, we used as many production techniques as we could É and it was an extremely expensive report. But that was what was required; they asked us to do that so we did. Then they realised that it wasn't necessarily sending the right messages … they got feedback from people who received it, stakeholders, members of the public, government … just basically came back and said: it's all very nice, however, its not an appropriate way to spend money when there are students

of enterprises today feels the need to expend large sums on annual reports. In the United States the annual reports business is now worth something like $500 million annually. In Australia it is approaching a $100 million a year business. In a recent article John Connolly reported in *The Bulletin* on this phenomenal growth in the cost and complexity of annual reports:

There are usually two occasions each year when the directors of public companies become emotional. The first is when they produce the annual report and the second is when they have to go on public display for their annual general meeting. But it is annual reports that cause the most soul-searching and angst, not because they now cost on average $25 a copy to produce and mail, but because at annual report time every director becomes an expert on grammar, writing style, the real meaning of words and photography.[15]

This paper wishes to examine the evolution of the annual report over the past four decades and attempt to explain the factors which have been responsible for transforming what was a simple statutory document designed to provide shareholders with basic financial information on the state of the enterprise in which they had invested, into a document which has become the main public relations outlet for companies to a widely varied range of audiences - shareholders, employees, investment analysts, and the general public.

A second matter which the paper is concerned to explore is the possible effects of this transformation in terms of regulatory policy. In this vastly different environment how should legislators approach the regulation of annual reports? If the discursive function of the annual report has been so completely transformed, are current regulatory provisions adequate? Is the current focus of regulation - on what should go into an annual report, rather than its overall discursive purpose and on the 'meanings' which a reader might garner from the document - well placed?

What are the possible effects of the recent importation of trade practices notions into the corporations legislation on liability which might attach to annual reports for their public relations content? Are they inherently misleading and deceptive documents?

Given that annual reports are considered by corporate managements to serve a somewhat different purpose than that envisaged for them by the legislature, this paper is concerned with examining what might be the potential effects of this mismatch. The paper is also more generally concerned with examining the manner in which annual reports are produced and the way in which that process has changed over the past four decades. In pursuing this examination we have attempted to interview as many as possible of those who have been involved in the production process itself. Advertising agencies charged with the production of annual reports,

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screaming that there are no places in tertiary education and these annual reports cost $70.00 a piece.

15 J Connolly, 'Hyperbolic Hitmen' *The Bulletin* (16 April, 1996) 49.

corporations public relations staff, corporate managements and members of the ASC and ASX have been examined to determine their views and attitudes in respect to annual report production and regulation.

Before, however, we report on these interviews we will first examine some of the academic literature on annual reports design which forms the background to this study.

THE ANNUAL REPORT AS AN INFORMATIONAL AND REGULATORY DOCUMENT

It is perhaps facile to suggest that corporate documents required by law are so required in order that key stakeholders in the corporation are provided with essential information on the financial performance and entrepreneurial activities of the enterprise in which they have invested. In the nineteenth and early twentieth century, with the state playing as small a role as possible in regulating corporations, it was generally thought that by mandating that certain information be provided to interested parties self regulation would follow. Those that chose to ignore warning signals in mandatory documents only had themselves to blame if they lost their investment monies. The annual report was, of course, one of the key documents in this self regulatory matrix. One of the goals of the present project is, as discussed above, to determine if the annual report still performs a useful 'regulatory and informational' role in the late twentieth century; if so, what is that role, and in what ways might current provisions relating to annual reports be altered in order to make the document more useful to stakeholders?

Does the annual report still perform an important informational and regulatory role?

The answer to this seemingly simple question is quite complex. It depends on who the report is considered to be providing information to and in what manner it is considered to form part of the overall regulatory framework in which the relevant corporation operates.

In respect to the first issue - the informational importance of the annual report – two recent studies are of some interest. The first examined the manner in which general shareholders - small investors of various levels of sophistication - approached the annual report. Most reported that they found the annual reports they were sent of only limited use in providing them with a general picture of the financial 'health' and future prospects of the company in which they had invested. This, however, did not mean that these shareholders regarded these reports as irrelevant. They simply felt that they did not have the skills to interpret the document properly. Small shareholders reported that their most important source of advice was from their financial advisers and stockbrokers - they sought these professionals out to decode the information they were provided with in the annual reports they were sent. Indeed, the evidence from this study suggested that even though there was considerable reliance on experts to decrypt the information embedded in the annual report, shareholders still read the annual report and made independent assessments of the information contained there. However, most felt that a greater clarity and accessibility in presenting core information could be achieved. The study concluded:

> Among the major concerns that have prompted the calls for increased corporate governance and accountability is the shareholder's need for assurance that corporate management is working exclusively for the interests of shareholders rather than for their own interests. Shareholders have become more self-reliant and want to become more active in corporate governance. They want more disclosure by management, and more verification by outside auditors. If the annual report does not contain the information necessary for decision making, the shareholders plan to hold management, the board of directors, the accountants, and the auditors liable.
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> Management must see the annual report as a vehicle for making credible communications to the corporate shareholder and other external users. They should see it as part of a comprehensive investor relations program that provides them with an opportunity to tell the 'corporate story' including past and current results, and anticipate future events.
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> The annual report must include more forward looking information. The shareholders in our survey have expressed their desire for this information to help them make more informed investment decisions. Management recognizes that the primary information that they use when making investment decisions with the corporations assets is related to projections of future performance. Similarly, the shareholders also need projections of future performance. These are at least as important to investors as the historical information that annual reports provide.[16]

A second recent study of the utility of annual reports examined the perceived infomativeness of reports by another group of 'consumers' - institutional investors. The study began with a number of hypothesis as to the possible usefulness of annual reports. In summary the three core hypotheses of the study were:

> Annual reports are the least useful means of obtaining useful financial data on a corporation.
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> The core statutory content of annual reports - the chairperson's letter, management discussion and analysis[17] and the financial data - do not meet the informational requirements of institutional investors.

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16 R Anderson and M Epstein, 'The Usefulness of Annual Reports' (1995) *Australian Accountant* 28.

17 It should be noted that most Australian corporations, unlike their UK and US counterparts do not include a management discussion and analysis (M D & A) in their annual reports, nor are they currently required to by legislation. This matter is currently under discussion with the Australian Society of Certified Practicing Accountants (ACSPA) having released a discussion paper in 1996 *(Management Discussion and Analysis: An Australian Perspective*) on the question of compulsorily requiring such analyses in annual reports. The ACSPSA President, Professor Scott Henderson, in commenting on the release of the discussion paper stated:

> The annual report is of little or no use to the institutional investor in making an investment decision involving an existing or potential portfolio company.[18]

The study surveyed 300 institutional fund and/or portfolio managers and 300 corporate chief financial officers ('CFOs' - charged with corporate portfolio investment). The response rate was relatively high. The responses to the survey indicated that:

> Despite the fact that almost everything published on the annual report over the past decade has been negative. [This study] found that institutional investor respect for the informational value of the annual is much higher than the 'Rodney Dangerfield' perception held by many communicators. In fact, institutional investors failed to support any of the study's three hypotheses and, together with corporate CFOs, agreed that the annual's information content has, indeed, improved over the past five years.[19]

At the same time as those surveyed agreed that the annual reports are an important informational source, they nevertheless commented adversely on the extravagance of most such reports and the bothersome nature of the extraneous publicity material contained therein. Both institutional investors and CFOs agreed that corporations need to get a better grip on annual report spending. They asserted that corporations' penchant for making annual reports 'pretty' was an irritant to small and large investors alike. Only 15 per cent of institutional investors and 32 per cent of CFOs believed that the amount of time and money spent by corporations on annual reports was appropriate or justifiable.[20]

Another approach to the utility of annual reports has been to assess their 'readability and comprehensibility'. These analyses have generally found that annual reports do not do what is claimed as their virtue by many designers - to make complex

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> A handful of companies in Australia provide M D & A narratives, chiefly subsidiaries of US companies and those listed on overseas exchanges, but there is a long way to go before the practice becomes a standard feature of good corporate governance.

Potential investors and other interested parties are too often faced with a black hole when it comes to getting a meaningful assessment of a business' performance and prospects whether in the private or the public sector.

In endorsing the report Senator Brian Gibson, Parliamentary Secretary to the Treasurer noted that enhanced directors' reporting provisions were a component of the Second Corporate Simplification Bill and added:

> Adequate disclosure about companies' financial position and business affairs plays a crucial role in ensuring confidence in our corporate system. Without this disclosure our markets will not operate to their maximum efficiency and capital raising will be adversely affected. (Reported in *Butterworths Corporation Law Bulletin*, 13 September 1996, no 17, para 320.)

18 H R Hutchins, 'Annual Reports (… who reads them?)' (1994) 11(9) *Communication World* 19.

19 Ibid.

20 Ibid 20.

information regarding an enterprise easily digestible. For instance, one study, which analysed a number of annual reports of Asian companies using readability indices, found that most reports were effectively unreadable, except perhaps to the trained expert:

> Flesch, Fog and Lix readability formulas were used to measure 32 randomly selected chairman's addresses and footnote passages from the annual reports of some Hong Kong public companies for the years 1986 and 1991.The study found that readability is beyond the fluent comprehension levels of 90 per cent of the adult population, overall readability declined over the five year period, industrial classification has insignificant impact, and neither company size nor profitability are associated with improved readability levels. These Asian findings are consistent with those from similar studies in the USA, UK, Canada and New Zealand.[21]

Whilst, as commented on above, there is as yet no comprehensive study of the manner of consumption of Australian reports, a recent study did examine the readability and usefulness to various 'consumers' of such reports. Anderson and Epstein surveyed 2359 shareholders in large Australian companies as to their attitudes towards their companies' annual reports. This survey discovered that the most read portion of the annual report is the directors' report, followed by the profit and loss statement and the chairman's report . What was noteworthy was that the supposedly most vital component of the annual report, the auditor's report, is the least read and least understood component of the document. The researchers also reported that the financial information is skimmed over by most casual readers (shareholders, creditors, etc.) because of its incomprehensibility. Anderson and Epstein conclude that the 'evidence seems to indicate that the objective of providing in an understandable manner, specified in paragraph 37 of Statement of Accounting Concepts SAC 3, is not being achieved'.[22]

Another approach to annual reports has been to examine the manner in which the statutorily required information fulfils the stated purpose of providing the sort of information required by the vastly diverse audiences to which such reports are now directed. The form and structure of annual reports was the focus of a significant English report into annual reporting undertaken some two decades ago.[23] This report, like the studies above, was largely aimed at determining what were the perceived deficiencies in annual reports and how those deficiencies might be remedied by providing both the 'general' and 'professional' consumers of such documents with useful and comprehensible data. In approaching the question of what might be the appropriate role for an annual report in the vastly different commercial environment prevailing in the late twentieth century this analysis of annual reporting first assembled a list of those having reasonable rights to

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21 J Courtis, 'Readability of Annual Reports: Western versus Asian Evidence' (1995) 8(2) *Accounting, Auditing and Accountability Journal*. See also, for a critique of this study: M J Jones, 'Readability of Annual Reports: Western versus Asian Evidence - A comment to contextualize' (1996) 9(2) *Accounting, Auditing and Accountability Journal***.**

22 Anderson and Epstein, above n 16, 17.

23 *The Corporate Report*, Accounting Standards Steering Committee, London, 1977.

information concerning the reporting entity - that is to say potential ‘user groups’ of the corporate information. Amongst the user groups they identified were equity investors, loan creditors, employees, analyst-advisers and various government bodies. The report then identified the types of information which might be required by these different user groups.[24] The report then concluded that the purpose of annual reporting should be to ‘communicate economic measurements of and information about the resources and performance of the reporting entity, useful to those having reasonable rights to such information’.[25] It was suggested that six new statements relating to aspects of performance should be included in annual reports - these being:

- A Value Added Statement
- An Employment Report
- A Statement of Money Exchanges with Government
- A Statement of Transactions in Foreign Currency
- A Statement of Future Prospects, and:
- A Statement of Corporate Objectives

The report was, however, somewhat coy on matters which have recently animated debate within social accounting, such as auditable disclosures on environmental policies and practices of the reporting entity - suggesting that it would be difficult to achieve objective and verifiable measurement techniques in these areas.

Despite its comprehensive and thoughtful re-evaluation of the purposes and objectives of annual reporting, the 1977 Report has largely fallen on deaf ears. A recent assessment of its impact commented:

> *The Corporate Report* ... represented a paradigm shift at the theory level, but a failure at the practical level. From 1977 onwards the traditional concept of stewardship disclosure solely to shareholders has gradually been replaced by a recognition of wider public accountability towards employees, customers and society as well as shareholders and creditors. The model of user and user needs has become the dominant reporting paradigm. However, little success was achieved at the more practical level. As a result of the hostility of vested interest groups combined with intense debate over the Sandilands Report, little progress was made in achieving wide-spread acceptance for the new additional reporting statements.
>
> In particular, the open-ended discussion of appropriate measurement bases in the *Corporate Report* was overtaken by, at times, frantic attempts to impose a government inspired system of current-cost accounting.

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24 There has however been some subsequent criticism of the range and nature of these user groups identified by the Accounting Standards Steering Committee in the 1977 Report - see *Making Corporate Reports*, Research Committee of the Institute of Chartered Accountants of Scotland, Edinburgh, 1988.

25 *The Corporate Report*, above n 23, 28.

In shor*t, The Corporate Report* had the misfortune to emerge at the wrong time.[26]

Finally it should be noted that criticisms of the current statutory reporting have not solely focused on an inclusive approach to current deficiencies - that is, on what additional information might need to be included in such documents to make them more useful to both 'general' and 'professional' users, such as comprehensible and useable forward forecasts. Critiques of current annual reporting practices have also recently focused on the question of what effects the penumbra of promotional material in such documents might have on the meaning attached by various readers (or 'consumers') to the information they currently do contain. This semiotic approach to annual report 'regulation' has largely been conducted by the loosely allied group of researcher who identify themselves as critical accountants. One such group of researchers have recently examined the 'informational' effects and regulatory implications of the reconstruction of the annual report over the past few decades from a spare informational vehicle to shareholders on financial matters into the current glitzy promotional document, which constitutes most contemporary corporations' approach to their annual reporting obligations:

Evidence of the importance placed on the design of annual reports is the large sums of money spent annually by corporations on reports and the existence of design houses that work exclusively on the medium. As annual reports have been reconstructed by the design industry, so too have the uses and users of annual reports. As Sikes suggests … executives use them as calling cards, salesmen as credentials [and] personnel departments as recruiting tools'… The emergence of the concept report in the 1950s may therefore be placed, and in part understood within the context of the growth of the consumer culture and consumer marketing in the USA. Indeed in the design and advertising literature, annual reports are frequently referred to as marketing tools and as a means of communicating a particular image or message. Bonnell suggests that annual report designers have blurred the distinction between the annual report as provider of financial information and the annual report as 'a carefully manipulated sales pitch'.[27]

ADEQUACY OF CURRENT REGULATORY STRATEGIES

Many commentators have suggested that there needs to be a re-evaluation of regulatory strategy towards annual reports, given the vastly different purpose they now serve and the far greater diversity of audiences which they reach than the circumstances which prevailed when most of the existing statutory provisions relating to them were devised. Much of the discussion in the sections of this paper devoted to critical and social accounting focus on recent empirical studies which suggest many shareholders and other stakeholders feel it is time to re-evaluate the current regulatory approach to annual reporting.

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26 M Jones, 'Whatever Happened to The Corporate Report?' (1995) 73(7) *Management Accounting* 53.

27 A Preston, C Wright and J Young, 'Imag[in]ing Annual Reports' (1996) 21(1) *Accounting, Organizations and Society* 114.

Despite the apparent groundswell of opinion in favour of reform there is, nevertheless, a considerable division of opinion as to the nature of that reform. On the one side there are those, such as many social accountants, who believe the prescribed content of annual reports should be expanded to include matters such as audited and verifiable data on corporations' environmental and social performance. Others have suggested that to increase the prescribed content of annual reports would not solve any of the existing problems with the current reporting regime. This information would probably be absorbed and utilised by those who currently make use of the financial and other data included in annual reports - financial analysts and institutional investors. Smaller shareholders and other consumers of annual reports would probably not be advantaged by such changes, as they would experience the same problems they currently have in making good use of the financial data within annual reports.

An approach which might overcome the latter problem would be to apply 'fuzzy law' to reporting requirements, just as is the case with prospectuses. A requirement that annual reports contain all relevant information that the 'consumers' of such reports might reasonably require to make an informed judgment as to the performance of the corporation in the previous year would overcome much of the current disquiet in respect to the utility of these reports for the general 'consumer'. A framework within which such a revision of annual reporting might be undertaken was signalled some yeas ago in the English accounting profession's report on corporate reports - *The Corporate Report* - conducted in 1977. The recommendations and general approach of that report will be discussed in more detail below.

CRITICAL ACCOUNTING AND ANNUAL REPORT DESIGN

The question of the possible effectiveness of the annual report as an informational and regulatory vehicle is regarded as too limited in scope by most critical accountants. These theorists are not simply concerned with the manner in which accountancy might serve the interests of investors and other stakeholders, but are rather interested in the broader social implications of the manner to which accounting knowledges are put to use. The annual report, to this group of writers, is interesting not only for the intended and obvious messages which it embodies, but also for the unintended and hidden semiotic messages which it transmits. The annual report as a form of discourse has become a common topic of discussion in the pages of most critical accounting journals in recent years.

As a result, much of the analytical literature on annual report design has come out of the critical accounting movement, not from critical legal studies or sociology. A number of studies of the annual report industry have been conducted by radical accountants over the past decade. These studies have been quite diverse in their focus and have brought to bear various brands of social theory on the question of the role and purpose of the annual report to the corporation. They have similarly been quite varied in the manner in which they have examined the design industry which has spawned the enormous transformation of the annual report as a document over the past few decades. Some have deployed theories of political economy,[28] others neo-Marxism,[29] and feminist theory[30] in their examination of annual reports. More recently a number of writers have utilized discourse theory[31] in examining the role and purpose of the corporate annual report. Some of these studies have asked what it has meant for the 'meaning' or 'discourse' constituted by an annual report to have the mandated statutory information surrounded by a penumbra of public relations 'copy'. As one study has stated:

> It may be argued that corporate communications and advertising involve a 'web of truth, half truth and sexual and social innuendo' (citing Olins, 1978) and since society already accepts that, it should also accept the executive self-advertisement, stemming from the same industry, that has come to be a regular component of the annual reports of quoted companies. We do not propose to enter the contentious field as to the [possible effects of advertising] except to say that the advertising industry...is at least subject to regulation whereas theself advertisement of boards and companies is not; in contrast it derives much of its credibility from the regulatory basis of the audited statements that accompany it, while at times, putting a gloss on the underlying realities they contain.[32]

What is important about such perceptions is the mismatch between the corporate understanding of the role of the annual report and the purported role of this document as provided for in legislative provisions. The mandatory provision of an annual report was originally intended as an informational vehicle for investors and others to determine the financial health or otherwise of the relevant corporation. The provision of audited accounts through the medium of the annual report was intended as a protection to shareholders and creditors, validated by a third party check. Effectively, what we have now, is a management authored 'self written report card'[33] which supersedes in both volume and position, the audited accounts.[34] Annual reports, in one sense, can be seen as having evolved into a medium through which 'many kinds of problems can be resolved, dissolved, dispersed or transformed depending on how the pictures and design are handled'.[35] This 'massaging' of data might vary from putting company employment practices which

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28 See D J Cooper and M J Sherer, 'The Value of Corporate Accounting Reports: Arguments for a Political Economy of Accounting' (1984) 9(3) *Accounting, Organizations and Society* 207-232.

29 See M Neimark, *The Hidden Dimensions of Annual Reports: Sixty Years of Social Conflict at General Motors* 1992, and M Neimark, *The Social Construction of Annual Reports: A Radical Approach to Social Control* (unpublished PhD thesis, New York University, 1983).

30 T Tinker and M Neimark, 'The Role of Annual Reports in Gender and Class Contradictions at General Motors 1917-1976' (1987) 112(1) *Accounting, Organizations and Society* 71-88.

31 Preston *et al,* above n 27, 113-137.

32 S McKinstry, 'Designing the Annual Reports of Burton PLC from 1950 to 1994' (1996) 21(1) *Accounting Organizations and Society* 110.

33 Clagett and Hirasuna, above n 7, 30.

34 McKinstry, above n 32, 110.

35 C Squiers, 'The Corporate Year in Pictures' in R Bolton (ed), *The Context of Meaning* (1989) 207-221, 208.

have come under criticism in a favourable light, to painting a picture of responsible corporate governance when the opposite has perhaps been the case (vide Coles Myer) or painting a rosy picture of the corporation's products when they have come under fire for their quality or the veracity of the claims made by the corporation in respect to them (in this regard see the McDonald's annual report for 1992 when the McSpotlight controversy was at its height in Great Britain). As has been observed by one commentator:

> On the face of it this seems an ill-advised development, if the non-statutory material is capable of overriding in the minds of readers the numerical and other statutory messages now relegated to the rear of annual reports.[36]

One group of critical accountants have claimed that many corporate annual reports deliberately use this mandated document as a mechanism by which to camouflage poor performance and steer the 'consumer' of the document away from circumstances or events which might raise uncomfortable questions about the corporations activities.[37]

The manner in which the overwhelming presence of public relations material in an annual report can be utilised to focus attention away from weak financial performance or other deficiencies in corporate performance has been examined in much of the recent British and American critical accounting literature. For instance, one study examined the Mattell report in 1983 and concluded that it was:

> A magnificent example of using the annual report as a 'positive force' for countering hard times. The collapse of the video game market - in which the company's television video game held the number two position - created financial crisis for the company that resulted in its getting out not only of video games but also publishing, theme parks and hobby products - to raise money. What remains of Mattell is its original toy business. So besides containing the obligatory (and painful) financial history, the 1983 Mattell report features an ebullient, 20 page chart laden overview that both positions Mattell as the world's leading toy maker and shows that they are a wonderful business.[38]

As we will note when discussing the responses of our interviewees, particularly those involved in the design side of annual reports, a core brief in respect to the overall look of those reports is that they either reflect the financial current position of the corporation or attempt to put negative results in a positive light. Whilst in the 1980s the latter approach was that generally adhered to in the more sober environment of the 1990s the former approach appears to be that most often followed.

As has been commented by Preston and his co-authors 'the observer' (reader) is the focus of a range of attempts at impression management in which only the

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36 McKinstry, above n 32, 110.

37 Preston *et al*, above n 27, 119.

38 R Lewis, 'Annual Reports of the Future' (1984) *Communication Arts* 24-28, 26.

memorable 'facts' or 'message' the company wishes to portray may be presented and highlighted by visual and textual strategies.[39] They point to the design literature and the manner in which it emphasises the way in which a report is used to convey the 'right message' about the company to the 'consumers' of corporate literature. As we have seen, the 'right message' may be to enhance the story of corporate performance contained in financial statements. Also the 'right message' might be one of austerity in times of downturn. Often a period of poor performance is signalled by the replacement of glossy covers with plain paper covers to the report, the substitution of colour photographs with more sober black and white photography or alternatively the complete absence of images in the annual report. To illustrate this point Preston and his collaborators instance the 1989 Pacific Enterprises annual report (a Californian natural gas supply company) which, before 1991, was replete with glossy colour photograph. However once the company began record losses after 1991 the annual reports were 'more sombre, employing black and white photographs. In 1992, the report contained no pictures and the paper stock changed from glossy paper to a much cheaper paper stock'.[40] The mid-nineties orthodoxy in respect of annual report design was remarked upon in a recent article in *Business Week*:

> Plain, plain, plain. What's striking about the current crop of corporate annual reports isn't so much what's there as what isn't: no flashy images of naked but for a pair of athletic shoes (Reebok International, 1990), sumo wrestlers (PepsiCo, 1990) or leather covers (Wolverine World Wide, maker of Hush Puppies 1993) ... Austerity is hip for a reason: The dominant theme of annual reports for 1994 is 'shareholder value' … Executives who didn't deliver what they promised in 1994 mince no words in vowing to try harder. 'Your company's 1994 results are awful' begins Robert E Denham, Solomon Inc's chief executive in this years report … Lots of companies are betting that a bare-bones design will signal to shareholders that they really plan to hold costs down this year. 'There is an attempt to design reports so that they don't look expensive' says Glenn Hersh, President of H/M/S Inc, a Montclair (NJ) producer of annual reports.[41]

It is, however, not simply the distorting effect of the public relations material which has been of interest to critical accountants. They have also been interested in the 'meaning' of that public relations material itself. What - these analysts are asking - is the message which is being conveyed to the reader by this material? What 'messages' are embodied in the hyperbolic penumbra of annual reports?

Corporate documents also embody a range of views on matters such as race, gender, the environment. The manner in which these views are encoded in annual reports, both in the text and in visual images, has been a matter of great interest to critical accountants. An example of such research is Tinker and Neimark's analysis of General Motors' annual reports for the period 1917-1976. They set out their objectives in the following manner:

39 Preston *et al*, above n 27, 120.
40 Ibid 118.
41 L Bongiorno, 'The Duller The Better' *Business Week* (10 April 1994) 44.

> We show that corporate reports are not passive describers of an 'objective reality' but also play a part in forming the world-view or social ideology that fashion and legitimizes women's place in society, whether at home, at work, or in the marketplace for consumer goods.[42]

More work certainly needs to be done on the manner in which annual reports act as transmitters of cultural values - in what way views on issues such as gender, race, 'development', the environment, class and in what way the 'values' transmitted in these reports reinforce orthodoxies regarding overall social objectives. However, such an analysis is beyond the scope of the present study.

SOCIAL ACCOUNTING AND ANNUAL REPORT DESIGN

Social accounting theory, whilst interested in the effectiveness of annual reporting in providing relevant parties with a comprehensible document, has largely been concerned with the appropriateness of the required material included in such documents to current societal concerns. For instance, the requirements (or lack of) on companies in providing independently audited information (as contrasted with hyperbolic statements) as to their environmental strategies and performance have been a matter of concern for social accountants.

As we have seen above, the 1977 report on annual reporting conducted in England acknowledged the need on the part of corporations to provide further 'social' data in their annual reports, but at the same time suggested caution in prescribing too heavily in this area due to difficulty in establishing standards of objectivity and verifiability. Nevertheless, as one recent reconsideration of the recommendations of *The Corporate Report* has noted, many corporations now include social data despite a lack of prescription in this area. The troubling aspect of this development is that it has resulted in what the Report was trying to avoid - a vast amount of unaudited, unverifiable and dubiously objective information on the 'social' performance of corporations being foisted on the various 'audiences' of annual reports. For instance, most corporations now regard it as almost obligatory to report on their environmental performance. However, this information is not subject to any scrutiny and often involves gross distortions. One recent study commented in the following manner on the 'standard' of environmental information included in the annual reports of Australian companies:

> Within Australia there is a general absence of professional or legislative rules requiring companies to provide information relating to their environmental performance, but only tend to present information which is favourable to their corporate image ... this study found that there was a significant increase in the report of favourable environmental information surrounding environmental prosecution. Further, the amount of positive environmental information significantly outweighed the negative environmental information presented, which was interesting given that it

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42 Tinker and Neimark, above n 30, 72.

> is clear that the firms studied did have bad news to report. The existence of a proven environmental offense was reported by only two of the companies within the sample (which was constituted by 20 Australian companies which had been subject to successful prosecution for an environmental offence in the previous twelve months). This raises issues as to whether information about a proven environmental offence is 'material' to account users and, if so, whether financial statements could be construed as being misleading in the absence of such information.[43]

Another recent study surveyed business leaders to determine attitudes towards more rigorous and verifiable forms of environmental reporting. They noted that one of the reasons they were attempting to determine attitudes was because of the apparent inadequacy of current reporting practices in this area. They were concerned that many existing accounting rules were predisposed to conceal, rather than reveal, useful information on the environmental practices of corporations. They noted that:

> Without the explicit requirement that companies note environmental issues in the financial statements, such information on the environment is lost in the general purpose financial accounts … specific cashflows relating to environmental spending are also generalised, being consolidated with other expenditures. This may mean a number of dependent users are not getting information relevant to their decision making needs on environment issues.[44]

Social accounting is, of course not simply concerned with environmental issues, but with the full range of social disclosures which might be made by way of the annual report. It is interesting to note that even though we have observed earlier that shareholders are partially satisfied with reports in their current format and institutional investors find at least some of the information therein contained to be useful, another study[45] has indicated that shareholders and other consumers of annual reports are dissatisfied with the lack of meaningful social disclosure made in these reports. This survey of corporate shareholders undertaken in 1991 demonstrated that the majority of shareholders felt that current annual reporting was severely deficient in that it provided little information about product safety and quality or about matters such as corporate policies on ethics, employee relations or community involvement. As one would perhaps also expect, these shareholders felt that current corporate reporting was extremely imperfect in respect to environmental matters. Furthermore the majority of corporate shareholders surveyed also expressed the opinion that it was imperative that social disclosures made by corporations should be independently audited, a view which has long been advocated by the social accounting movement.

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43 C Deegan and M Rankin, 'An Analysis of Environmental Disclosures by Firms Prosecuted Successfully by the Environmental Protection Agency' (1996) (9(2) *Accounting, Auditing and Accountability Journal.*

44 G Frost and T Wilmhurst, 'Going Green … but not yet' *Australian Accountant* (September 1996) 36-37, 36.

45 M J Epstein and M Freedman, 'Social Disclosure and the Individual Investor' (1995) 7(4) *Accounting, Auditing and Accountability Journal.*

THE INTERVIEWS

The initial focus of our interviews was in determining whether Australian companies have followed the same road in respect of their overseas counterparts in relation to annual report design. We also wished to determine the factors implicated in shifting design criteria and the perceived effects of those changes if they had occurred. Are these changes being led by companies or by design and advertising agencies? What sort of direction are graphic design and advertising agency getting from companies in regard to the preparation of annual reports? What do both companies and design agencies see as the current role of the annual report as being?

In the first instance a number of design and advertising agencies executives with large corporate annual report accounts were examined on these issues. A common set of questions was asked of these executives to determine what these key players regarded as the role of the annual report and the manner in which they perceived changes in approach to the annual report process over the past few decades. Most of our interview subjects asserted that there had been a major transformation in the role of the annual report over the last decade or so. They stated that in the past not much attention had been placed on annual reports other than those questions relating to conformity with legal requirements. A few decades ago most annual reports were very spare documents indeed, which would probably not differ in appearance and content much from the legally required material - the balance sheet and some fairly spare reportage of events in the previous year.

The Perceived Purpose of Annual Reports

Despite the somewhat later development in Australia of a design ethic around the annual report, it is generally true that in the 1970s and the 1980s the annual report became the most important public relations document for most large publicly listed companies. What is also noteworthy is that, even though there is no requirement to produce such a document on the part of private companies, most prosperous Pty Ltd enterprises also produce an annual report for public consumption, upon which they generally lavish quite a deal of money and effort.

One of our interviewees commented on the importance assigned by undertakings to the annual report:

> Consequently the annual report … apart from the legal requirements to issue such a document, is seen (by companies) as their pivotal marketing document. HIH Winterhur's target market are the top 500 companies worldwide. They have a global presence, primarily in Australia … As such they position themselves as a high quality, prestigious type corporation. Consequently they spend a lot of money, in fact most of their marketing money on their annual report ... their 1995 annual report alone is printed normal 4 colour process UV, a special fifth colour, matt and gloss UV varnish, matt laminate, silver foil stamp, line embossing and form cut.
>
> Q. Just about as plush as you can get?

> A. Basically just about every print procedure known to man.
> Q. What would your idea of a large budget be?
> A. They usually spend around $150,000.[46]

The important marketing function of the annual report for a company was reiterated by many of those interviewed. It seems that it is given that the non statutory (marketing) functions of the annual report are at least as important to many in the corporate world as the statutory content. There is a general awareness that the overall impression left by the annual report is a vital aspect of 'imagining' the corporation. Often the annual report is conceived of as an integral component of the overall marketing strategy of an enterprise. The tone and structure of reports will vary from year to year depending on the type of messages which a company is intending to convey. Recent trends have seen a move away from the extravagant documents of the 1980s towards a more restrained and informative document. The major content and design trends in recent years (at least in the USA) have been towards more segmented reporting of various business lines, increased coverage of community service activities, more in depth analysis of regional economies in which the corporation operates, added analysis of off balance sheet exposures and a greater receptivity to environmental issues often alongside a concerned attempt to demonstrate the enterprise's environmental responsibility. In addition the corporate annual report is being seen more and more as a means of communicating with employees and prospective employees. One banking executive has stated in this respect:

> The annual report is a valuable business development and recruitment tool. It has to position not only the company's financials, but its strategic direction and its corporate culture.[47]

Many of our interviews confirmed that a similar attitude is taken amongst executives in Australia - the primary function of an annual report is seen to be as a marketing document to a diverse range of audiences. The manner in which these reports are utilised to shape a corporation's culture is illustrated by the approach to developing such documents by On the Ball Design, a Melbourne based design corporation. Chris Haddon, the managing director of this design company explains:

We have to help them interpret what their image is. We have various ways of doing that. We have a questionnaire which we ask them to fill in about how they see themselves, what their main strengths are, their main weaknesses are.

> Q. Do you find they understand the questions they are being asked.
> A. Yes, yes, the response is great because they find it useful for themselves too. It's been very interesting having several people in the one organization filling out the same information. We ask them questions like: if they were a car, what sort of car

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46 Interview by Michelle Sabto with Paul Eliot, *The Advertising and Media Co (TEAM)* (17 April 1996).

47 J A Russell, 'Banc One Corporation' cited in K K Halliday, 'Annual Reports as Marketing Tools' (1994) 26(8) *Bank Marketing* 24.

> would they see themselves as? And that can be interesting too. Not only does it give us an idea of how they see themselves, and where they would like to position themselves. If more than, say 3 or 4 people within the organization have filled it out and they see themselves as different types of vehicles ... it's something they have got to address so the response has been very good to that. We are taking that a step further. We are in fact putting it up on our web site.[48]

Another of our interviewees, the General Manager of Corporate Affairs for the Fosters Brewing Group, Terry Bowe, commented in the following manner on what he considered to be the principal functions of the annual report:

> Q. In your opinion , what are the main functions served by the annual report?
> A. Well there are the obvious statutory functions. But more than that, the annual report is probably the most important single document that a company produces especially as regards communication with shareholders. … Basically it is for existing shareholders and also for potential shareholders. They are the priorities. There are also other parties to be considered, the wider investment community, the financial media, politicians, customers of the company and suppliers to the company. The annual report must speak to all these parties.[49]

The attention which is lavished on the 'look' of an annual report has also been commented on in a recent article by a prominent financial journalist, Robert Sitch, *in Business Review Weekly*. He delivers a diatribe against the trend towards extravagant public relations in the annual reports of recent times:

> It is annual report season again: that time of the year when posties all through the shareholder belts of our big cities earn their pay delivering the highest quality junk mail available. Downsizing may be sweeping the nation but it has not extended to annual reports … The first few pages contain all the information that mere mortals can understand, after that the pie chart disappear and a qualification as a certified practicing accountant becomes a necessity … after … chapters of pretty pictures and smiling faces the colour of the pages changes. It is as if they know that no one ventures any further and they don't want to waste the good paper.[50]

'Impression management' was a significant role performed by annual reports according to some of the critical accounting literature we examined above. The 'marketing' of an enterprise of course involves putting it in a favourable light. Australian designers and the corporations which they serve have been as enthusiastic as their North American counterparts in using the annual report as a document which presents the right message to the various publics to which it is directed. One of our interviewees commented on the 1995 Coles Myer annual report as an example of classic 'impression management':

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48 Interview by Michelle Sabto with Chris Haddon, Managing Director, On the Ball Design (16 April 1996).

49 Interview by Udesthra Nadoo with Terry Bowe, Fosters Brewing Group Ltd (29 May 1996).

50 R Sitch, *Business Review Weekly* (4 November 1996) 110.

Darren Wooley: See, statutory reporting, board of directors - nice conservative shots, friendly smiling faces. But the front end of it is like a magazine. Look at the store locations, it's really simplified, there's nothing daunting or inhibiting.

Michelle Sabto: Sharon was saying that they incorporated a new feature, corporate governance, which replaced the old traditional line drawing of the tree of the structure of the company. Now it's a kind of chatty look at how it is organized.

D W: Could be *Woman's Weekly*, *Woman's Day*. How do you see this positioning?

M.S: I just thought it was interesting because I could pick it up and not take it seriously, but then they have obviously done their market research.

D W: There you go, there's the report from 95 and there's an ad here for Fosseys which has been reduced to nothing. Katies structurally has been absorbed into another division. World for Kids is haemorrhaging profits like you wouldn't believe and yet you wouldn't get that from reading this. This is a document to say to all those small investors 'we're an open honest accessible, friendly company and we've had some hard times, but we're on our way back'. Can you imagine [trying to project that image] doing the glossy, perfect bound document that's expensive. It's like, you know, we're wasting money on it and it would probably be less accessible.[51]

How has the growth in public relations content in annual reports effected the perceived 'meaning' of the statutory content amongst the various 'consumers' of such Reports?

Those we interviewed, whilst conceding that there had been a complete transformation of annual report design and content over the past few decades, were not generally of the view that the huge importation of public relations information into annual reports had changed the 'meaning' of the statutory component of the document. Some felt that it would be obvious that the two components of an annual report, the statutory and the non-statutory, were separate and distinct. As such it was felt that the importation of non statutory material into annuals over the past few decades presented very few implications for the regulation of such reports:

Q. In your opinion, does the non-statutory material influence the way in which statutory information is read?

A. I don't think there is an obvious connection between the two components. I mean there's a connection in the sense the directors can present their operations for the year's summary - profits, dividends, assets, shareholders funds. All that sort of information obviously relates to the statutory material. But apart from that, a lot of the earlier promotional material is a description of the company; what it has been doing, its particular goals, its targets, its role within the community. There's a lot of public relations material that's not related to the financial results, which is what the statutory material is all about.

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[51] Interview by Michelle Sabto with Darren Wooley, Creative Director, J Walter Thompson (Aust) P/L (19 April 1996).

> There's certainly a role for the lawyer to review segments of the non-statutory information, to see if the financial summary fairly reflects the more detailed information contained in the statutory material. But that decision, at least for the larger corporate, is made by in house accountants. I suspect a number of companies choose to present this information in the best light. They select the information that favours the company, which is only natural. But generally, people are aware that this information can't be misleading, it does need to be accurate.[52]

Nevertheless, a number of those interviewed did express some concern that the infusion of public relations material into the annual report could distort the 'meaning' of that report, at least for the 'general' reader, such as the small shareholder or employee of the enterprise. Terry Bowe, of the Fosters Brewing Group appeared to be more aware than some others interviewed as to the possible distorting effect a large amount of non statutory information might have on the 'meaning' and the manner in which various audiences of the report might thus understand the data in the report:

> Q. Do you think the non statutory information [affects] the way in which the statutory information is read?
>
> A. Well, yes, in the sense that I don't think most people who read the report really know the difference. Most people just tend to pick it up and read it. Of course there are the smarter ones who go to the back and read the financial material as well but the vast majority of our readers just read the first few pages. These people would not realize that the Directors' report is statutory but the statement about businesses that precedes it isn't statutory. People just don't generally draw that distinction. Institutional investors tend to concentrate on the detail of the financial reports.[53]

A number of those we interviewed were at pains to point out that substantial changes have occurred in annual reporting since the 1980s. They felt that it was perhaps the case that whilst in the 1980s annual reports had been overtaken by public relations content, and quite often were potentially misleading documents, that most corporations had 'cleaned up their act' in the 1990s. Those charged with the preparation of annual reports felt that a number of interest groups had placed a lot of pressure on those responsible for the preparation of annual reports to improve the integrity and utility of the content of those reports. One of those interviewed suggested that the Australian Shareholders Association had been a vocal and effective force in improving the standards observed by companies in their reporting during the 1990s. This interviewee stated that such influences had forced preparers of annual reports to step back and assess whether the document was user friendly and that as 'preparers, we have [consequently] become more aware of the need to make information accessible and reader friendly'.[54]

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52 Interview by Udesthra Nadoo with John Webster, Senior Partner, Company Law Group, Arthur Robinson & Hedderwicks (14 June 1996).

53 Interview by Udesthra Nadoo with Terry Bowe, Fosters Brewing Group (29 May 1996).

54 Interview by Udesthra Nadoo with Mary Skarpetis, Manager - External reporting, Coles Myer (15 June 1996).

What implications are there for the regulation of annual reports in the changing form and content of annual reports?

Most of those interviewed considered that the current regulatory provisions applying to annual reporting were either adequate or too stringent. Few, if any, suggested that there was a need for greater regulation. This, however, is perhaps not unsurprising given who we interviewed. Most were directly involved in the design industry, which has a vested interest in maintaining the current status quo. A number were of the view that the current regulatory provisions were inappropriate and that proscription of content simply led to reader-unfriendly documents. It was articulately argued by some that self regulation would produce far more accessible documents and that a range of interest groups, such as the accounting profession, the Institute of Chartered Secretaries and pressure groups such as the Australian Shareholders Association would ensure that high standards of reporting would be adhered to. One articulate advocate of less government regulation in this area was Peter Ashworth, Manager of Financial Communications for Coles Myer:

> *Udesthra Nadoo*: Do you see the regulations governing annual reports as adequate?
>
> *Peter Ashworth*: Well, there are quite a few regulations in place and the trend seems to be towards increasing regulation. The prevailing attitude seems to be 'right, let's regulate it' rather than leave any real self regulation in place. And while this legislation has a rationale behind it, it can make things very legalistic and jargonistic rather than user friendly. The rules can become quite prescriptive and may actually get in the way of conveying information in an accessible format. No, I mean I guess I'm not in favour of more regulation. We already have the accounting standards, the Institute of Company Secretaries, all those bodies and some others. Also the Annual Reporting Awards are a good example of the sort of self regulation that occurs. We won the Gold award for 1994, don't know about 1995 yet. So we have our own ways of making sure we're up with the best practice.[55]

Some we interviewed conceded that perhaps the current regulatory provisions are out of step with the requirement of the various 'audiences' of annual reports for accessibility. These interviewees perceived that the current inclusionary approach to annual reports was the result of a lack of clear guidance from regulators as to what should be excluded from annual reports:

> *Udesthra Nadoo*: In your opinion, are the regulations governing annual reports adequate?
>
> *Rick Thiele*: I don't think there are any really major problems that I can see. I mean the disclosure requirements are fairly clear and meeting them is comparatively simple. But I suppose that it is a sort of problem in the sense that we know what we must include, but knowing where to stop is sometimes the real issue. And there is no

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55 Interview by Udesthra Nadoo with Peter Ashworth, Manager - Financial Communications, Coles Myer Ltd (6 June 1996).

> one there to tell you what to exclude, how much is enough. Guidelines of this sort might be helpful.
>
> *U N*: You mean an exclusionary dimension?
>
> *R T*: Yeah, I suppose. But it would be very hard to draw a line and define exactly what is unnecessary and extraneous. Actually, I can't really see this happening. Anyway, at the moment the market wants more rather than less.[56]

Many interviewed contrasted the practices of the 1980s with what they regarded as a more measured and responsible approach to reporting during the 1990s. It was asserted that the information contained in annual reports was 'much more factual, not so exaggerated and overblown' whilst much of the information contained in annual reports in the 1980s 'was marginal to say the least. The business environment we are now in [being] far more reality based'.[57] Annual Report Awards, both here and overseas, which are an industry based form of self regulation, are also now much more oriented toward the reader accessibility and informativeness of annuals. For instance, the US based Chief Executive's Annual Report Awards made the following appraisal of the joint winner of their 1995 award, Mosinee Paper Inc's report: '[This company's] annual report, again hits all the hot buttons with a report that is informative, accessible, and visually appealing'.[58]

In response to a question as to the possible liability which the non statutory content of annuals might attract under the misleading and deceptive conduct provisions of the *Trade Practices Act* (TPA) most respondents indicated that they thought this highly unlikely.[59] However some interviewees did indicate that their corporation's current practice was nevertheless to check on questions of compliance in this area:

> *Udesthra Nadoo*: Does the TPA come into consideration in the development of the annual report?
>
> *Mary Skarpetis*: Yes it does to some extent. Not so much as regards the accounting material per se. But certainly with respect to the first book, yes definitely. We quite often refer to the Trade Practices Commission … [60]

Whilst the Trade Practices Commission (now the ACCC) was regarded as a marginal influence on influencing what non statutory content went into annual

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56 Interview by Udesthra Nadoo with Rick Thiele, Corporate Manager - Investor Relations, BHP Co Ltd (30 May 1996).

57 Interview by Udesthra Nadoo with Terry Bowe, Fosters Brewing Group (29 May 1996).

58 S Cato, 'The World's Best and Worst Annual Reports' (1995) 107 *Chief Executive* 32-39, 33.

59 For instance Rick Thiele of BHP simply stated, in response to a question as to the relevance of TPA provisions to annual reporting that whilst he guessed it might be possible that it had some relevance 'the information in an annual report should be accurate whether it is statutory or non statutory in nature'. The TPA shouldn't really come into calculation: interview by Udesthra Nadoo (30 May 1996).

60 Interview by Udesthra Nadoo with Mary Skarpetis, Coles Myer (15 June 1996).

reports it was perceived that other regulatory bodies had ensured a higher standard of reporting in the 1990s than that which prevailed during the 1980s. One of those we interviewed stated that 'the role played by the ASC (now ASIC) and ASX has had an impact on quality of the reports. There has been a marked improvement over the last six years. The surveillance carried out by the ASC, is much better now than it was under NCSC, before the *Corporations Law* of 1991'.[61]

It was also suggested that a greater awareness of Australian corporations as global players had imposed a greater discipline on those corporations' approach to annual reporting. It was stated that innovations in reporting had occurred as a consequence of Australian corporations' perception that they had to keep up with overseas trends in reporting, or alternatively, simply the fact that they had to comply with these overseas provisions as a result of having their shares listed on overseas exchanges and thus subject to the regulatory regimes applying to reporting in those other countries:

> Certainly the quality of reports has improved. Australian corporates have been closely following what has been happening in the US, most of our larger clients have securities listed in the States. So they have to comply with the US reporting obligations by filing an annual statement - which is much more detailed than anything that has been produced in Australia.[62]

This effect of 'globalisation' was almost certainly behind the recent (but ultimately unsuccessful) moves to require Australian corporations to file annual M D & As, referred to earlier. Whilst such documents have not been the norm in Australia they are regarded as a formality in the United States and a number of the European jurisdictions in which large Australian listed companies operate.

It was suggested by some of our interviewees that the reform proposals regarding annual reporting contained in the Second Corporations Simplification Bill, could have had a significant effect on annual reporting in Australia, had they been adopted in their entirety. However the package of reforms proposed in the Bill were emasculated in their passage through Parliament and have ultimately resulted in little real change to existing practices. For instance, some interviewees suggested that one area in which the proposals could have brought about significant change was in respect to giving 'teeth' to the provisions respecting future prospects of the relevant corporation. There had indeed been a vigorous debate, when the Second Simplification Bill was first circulated for discussion, on the question of whether directors should be required to include future forecasting in annual reports (and to be liable for false and misleading future forecasts), in much the same way as they are currently so required to do for prospectuses. This debate, however, was ultimately resolved in favour of those who opposed the introduction of such a requirement. It was felt by Parliament that such a proposal, if adopted, would place

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61 Interview by Udesthra Nadoo with John Webster, Senior Partner - Company Law Group, Arthur Robinson & Hedderwicks (14 June 1996).

62 Ibid.

far too heavy an onus (and potential liability) on directors and be liable to discourage adventurous entrepeneuralism.

However, even if many of the 'abandoned' reforms proposed by the Second Simplification Bill had been adopted, it is doubtful whether they would necessarily have made a significant difference to many users of annual reports. Whether these proposals dealt with some of the more significant problems related to the present annual reporting regime is questionable. Whilst M D & As and the limited form of future forecasts suggested in the Second Simplification Bill would no doubt, if adopted, have aided institutional investors and financial analysts in their assessments of corporate performance, it is somewhat more doubtful whether they would have much assisted the more 'general' untutored audiences of annual reports in making informed judgments as to a corporations' present and future prospects. The possible reforms which might assist these 'consumers' of annual reports are discussed in the conclusions to this paper.

CONCLUSIONS

This paper is part of a broader project the author is conducting on the design, content and regulation of annual reports. A more complete set of recommendations for the regulation of annual reporting in Australia is expected to emerge as the project progresses. Nevertheless in concluding this paper I wish to make a number of observations and provide some provisional pointers towards an the appropriate path for the reform of corporate reporting in this country.

The first observation is simply that annual reports no longer simply perform the basic function which they were originally designed to achieve - providing shareholders of an enterprise with statutorily ordained information regarding the financial performance and stewardship by management of the enterprise in which they have invested. Whilst this original informational purpose is still subsumed within the modern annual report such reports today perform two principal functions. The first of these is to provide information to 'interested parties', which now include not only shareholders, but an array of other parties including creditors, employees and potential investors (this informational content is still prescribed by statute). The second function of an annual report is as a core public relations document for the corporation (the content of this component of an annual report being unregulated by statute).

The second observation is related to the first. This is that the intended audience of annual reports has expanded enormously since the precursor of the current regulatory provisions was first introduced. A 1977 report by the English Accounting Standards Board on annual reporting tried to systematically classify these intended audiences. User groups were defined as those with reasonable rights to information regarding the reporting entity. These included:

- Equity investor groups who required the information to assist them in reaching share-trading decisions
- The loan creditor group wanting information for trading decisions and for assessing the economic stability, vulnerability and liquidity of the borrower
- The employee group requiring information for assessing the security and prospects of employment for collective bargaining
- The analyst adviser group needing information to interpret information for investors
- The government requiring information about position, performance and prospects so that they might engage in economic planning
- The general public who might have a legitimate interest in profitability and efficiency, donations to political parties, directors' remuneration, and so forth.

Given that annual reports now serve such a variety of interests the manner in which they are presented and the accessibility of the information they contain becomes crucial.

A third observation is that at least some of the user groups of annual reports desire more than the financial data and stewardship declarations (namely, Directors Reports, M D & As if adopted and so forth). These user groups may also require data on the 'social' performance of the corporation, such as its environmental policies and practices, its performance in the area of employee relations, its health and safety practices, its commitment to the community in which it is based and so on. Interest in these matters on the part of user groups is not necessarily altruistic, but may also relate to the economic performance of the enterprise.

One of the hidden dimensions of almost any balance sheet is contingent liabilities which have not been accounted for. A corporation with a poor environmental record will almost certainly find itself at the end of costly litigation at some stage, a matter of interest and concern to almost all user groups of annual reports. Similarly a company with poor health and safety practices may find itself paying huge amounts in compensation claims down the track, a matter which would adversely effect its profitability and future prospects.

In addition to these very sound financial reasons for user groups wanting to know more than the basic financial information currently required by law there may be quite admirable other reasons for wishing to have access to such information. Small investors may for instance only wish to invest in enterprises which are ethically sound or which have a good environmental record.

The final observation to be ventured is that prescriptive regulation may not be able to satisfy the complex array of interests with a stake in the content and form of the annual report. The inclusion of certain additional data might satisfy one user group such as the institutional investor only at the expense of making the document more complex and difficult to read for the non-expert shareholder. Also, inclusion of information by itself is not necessarily a guarantee as to its integrity. This is why social accountants have argued vigorously not only for the inclusion of data on matters such as environmental performance, but have also insisted that such data would need to be independently audited as to its veracity. Finally, the inclusion of further prescribed content into annual reports would not solve one of the most difficult of existing problems - the possible effect of the non-statutory material in the annual report on the meaning of the statutory content. In this, 'meaning' is referring to the manner in which the overall report is 'read' by the various user groups. For the inexpert reader the 'report' is largely the narrative section - evidence suggests that most shareholders never get much beyond the narrative sections of the annual report, and even if they do they will read the financial accounts in the light of the information they have been provided in those narrative sections of the report. As there is no auditing of the claims made in the non statutory sections of the report with the statutory data, this can at times lead to oddly unbalanced document - with claims as to environmental performance in the first part being confounded by it being clear to one who reads the footnote to the financial statements that the corporation has considerable liabilities for environmental breaches.

One conclusion to be drawn from the above is that a single all embracing provision or set of provisions relating to annual reporting may not be suitable in the context of a document intended to be 'consumed' by such a diverse array of user groups. What might be necessary information for one group may be a superfluity for another group. The level of detail required by the most 'professional' of the user groups may only lead to confusion and incomprehensibility on the part of user groups without specific forms of expertise. The survey data currently available tends to suggest that the greater detail included in the annual reports of the 1990s has not necessarily made these documents reader friendly. Whilst institutional investors report that they find annual reports extremely useful sources of data, general readers of the same reports indicated befuddlement and incomprehension. As one of our interviewees remarked:

> I don't think there has been a shift away from statutory information [in annual reports]. Statutory information has always been there. But it is possible to say there has been a shift insofar as public relations material has become more sophisticated. And of course this sort of information is easier to read and understand. The general public can't read financial reports and wouldn't know if there was compliance or not. There is a heavy reliance on the non-statutory material to work out how the company is going. While the balance is still there, I suspect the public relies - as they always have - on the public relations material.[63]

One approach which has been suggested to overcome the regulatory problem presented by the different readerships of annual reports has been to produce both 'short' and 'long' reports. The former would be a summary of the longer report and be sufficient in scope (at least in theory) to allow 'general' readers of corporate information to make an informed judgment as to the 'health' of the enterprise. The

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63 Ibid.

longer report would, in contrast, include all the detail which is demanded by 'expert' readers such as institutional investors. This model for reporting has found favour in Australia. It was first recommended by one of the Special Taskforces advising the Joint Parliamentary Committee on the Second Corporate Simplification Bill reforms. It has recently been legislated for with the passage of the *Company Law Review Act 1998*. Except for some cost saving, most pundits believe this reform will not make for an enormous change in practice. Overseas experience would indicate that most shareholders believe they need the full report, but wish that it were more accessible as a document. Consequently most opt to continue being sent a full annual report rather than receiving the concise version.

Another recently proposed reform relating to annual reports, which has had a somewhat less successful passage into legislation, is that relating to the introduction of a greater degree of narrative reporting in annuals, in the form of a management discussion and analysis. The idea behind this proposed reform was to make the 'meaning' of the financial data on the current and future prospects of the corporation more accessible to 'general' readers of annual reports. Whilst a proposal to this effect was contained in the Second Simplification Bill, it was removed by the time the Company Law Review Bill came before parliament.

It is open to speculation whether the proposal to introduce management discussion and analysis into annual reports could perhaps have been a means by which the public relations material in those reports could have been made subject to some form of statutory regulation. It is certainly possible to imply from the proposals in the Second Simplification Bill that statutory regulation of the annual report was being expanded to embrace at least some parts of what is generally regarded as the PR pages of annual reports.

However, even the apparently 'radical' reforms proposed by the Simplification Taskforce to annual reporting were, it is suggested, far too timid and disjointed to have resulted in any real change, even if implemented *in toto*. The reformist approach they offered to the multiplicity of problems pertaining to the current annual reporting regime was ultimately not compelling. It lacked any theoretical rigour or cohesiveness towards annual reporting. The needs of some user groups would have been accommodated, whilst others would have simply been ignored. A complex array of groups claiming an interest in annual reports was clumsily reduced to two groups - the 'expert' and the 'non-expert'. Providing different forms of the report to expert and non expert 'readers' of annual reports was never likely to solve any of the problems which currently apply to annual reporting. Again, a requirement that there be a more regulated narrative component of annual reports (M D & As) has certainly not stemmed the inclusion of public relations hyperbole from annual reports in those countries which already require M D & As. This is not really a slow drift towards the regulation of the currently non-statutory material in annual reports, but rather another prescriptive inclusion in an already over-bloated document, which would no doubt have added to its incomprehensibility, rather than improved its reader friendliness, despite all the good intentions of reformers.

Another approach to addressing the needs of the many user groups of annual reports beckons. This is to take a 'fuzzy law' approach to annual reporting, following the model which has been adopted for prospectuses. The general provision would be to the effect that the corporation would need to provide the member of the relevant user group with what information he/she needs to make an informed judgement as to the financial performance and stewardship of the corporation by management over the past year. If one wished the reasonable reporting requirement could be broadened to embrace social reporting and/or reporting on future prospects. It is the intention of the author to elaborate further on such a proposal in later papers stemming from the current project.