

The annual report: a reputation management vehicle

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Individuals often turn to annual reports as a first port of call when familiarising themselves with an organisation. Stakeholders use them to help inform their opinions which ultimately influences their decision making processes. Along with company brochures and websites, the annual report is a key corporate communications tool. It has evolved from a financial information conveyor to a reputation management device. The annual report has the power to influence the way companies are perceived by those that matter to them.

The communication of operational and financial information is becoming increasingly standardised through market requirements and regulation.. The backlash of recent corporate scandals has resulted in many codes, reviews, regulations and guidelines leaving mainly the front

sections of annual reports and design aspects for companies to stand out. Those that effectively combine form with function and target a broad audience with their reports can succeed in unleashing their power as reputation enhancing tools.

In essence, reputations are built from stakeholders' perceptions about an organisation. Research has shown that corporate reputations exist along a certain set of dimensions such as financial performance, quality of products and services, leadership qualities, corporate responsibility, quality of employees and management and general emotional appeal. The importance or relative weight of each of the dimensions for the company's overall reputation and performance depends greatly on the company, its business, operations, sector or model. Furthermore

stakeholders focus on different priorities in assessing a company. Investors, for example, may focus on financial performance, and consumers on product and service quality. Both reputation dimensions affect each stakeholder group's behaviour towards the company, which results in either improvement or impairment of investment and purchasing intention.

Corporate reputations exist both as intangible assets within businesses, and as ideas or beliefs in the minds of the individuals interacting with these businesses. Any individual interacting with an organisation will hold an impression of that interaction for a period of time in his / her mind. Such impressions do impact behaviour. The better the impression, the more favourable the behaviour. Product buying behaviour can be impacted greatly by new information related to corporate misdemeanours and can even result in boycotts. In these cases consumer behaviour is influenced by emotive aspects of reputation. Trust relationships are severed and the

consumer withdraws support and even actively protests against the organisation.

Other types of relationships are of a more functional nature. Investors and other financial audiences rely on the accuracy of financial information in an annual report to make informed decisions. These decisions are unlikely to be greatly swayed by style and design of a report when they are based on purely factual information. However, the better an analyst or individual investor perceives a company the greater the likelihood of increased positive supportive behaviour, before the analyst even opens the annual report. These perceptions are further influenced in part by a host of factors in annual reporting which can broadly be categorised as follows

- Content
- Design and Form
- Service and delivery

Content factors include those used in the rating of reports for the Annual Report on Annual Reports. Financial performance is a core driver of a

firm's reputation amongst many of its stakeholders, the way in which this information is communicated has a significant effect on perceptions. Even at times of lower than expected performance, firms can maintain support when they transparently and honestly communicate the real reasons behind lacking performance and explain steps underway to remedy the situation.

A recent Deloitte study has shown that currently more than 55% of the annual report consists of narrative content. Other studies show that there is some divergence between narrative sections and the accounting data – raising questions about the necessity to regulate this discourse. Some researchers have noted that companies expecting both good and bad earnings surprises will exhibit much clearer, more truthful, sincere and legitimate communications in their reports than the composite average firm would. Whatever previous and expected performance looks like, it makes solid business sense to adhere to

accurate and correct communications.

Many content factors must be taken into account when drawing together a report and companies are advised to combine corporate communications and marketing specialists with the financial experts of the reporting equation to get the most out of this exercise. An important step in the process must be to consider the desired attitudes and behaviours of their target audiences. Content can then be drawn up that portrays the facts accurately and brings across the required message whilst being effective in strengthening and modifying stakeholder perceptions.

Design factors include the look and feel and especially the degree to which the company's own corporate brand is conveyed through the report. The most admired companies are able to stamp their own identity throughout the report on par with all other communications output, whilst not allowing form to overtake function. Only through consistency

and authenticity can the annual report work in tandem with all other corporate communications to manage the firm's reputation collectively.

Service and delivery factors are to do with the timely delivery of the reports, online access to supporting information and general follow-up. Customer care of the report's readers is essential in maintaining favourable reputation.

All of these factors mean that corporate reporting is more than a

financial communications or investor relations exercise – it has taken place firmly as a key tool in stakeholder engagement and an essential part of corporate reputation management. Reports should be the first link for stakeholders by providing more than a financial picture – giving clear insight into the companies values, strategy, vision, internal structures and operational aspects. Annual reports thus become an essential tool in reputation management allowing companies to enhance the way all its readers perceive them on all fronts.

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Joining ReputationInc from abroad in May 2004, Dennis is active in developing new products and offering strategic counsel to clients mainly on research based reputation management projects. With a degree in economics from the Erasmus University, Dennis has been involved in research on corporate reputations and financial communications, leading to numerous publications and conference presentations.

Dennis spent two years with the Reputation Institute as a consultant and product developer (specifically reputation measurement, media analysis and internal communications).

In this period he obtained a second degree in Corporate Communications (MCC) with honours from the Rotterdam School of Management.

An avid traveller, he has two nationalities, speaks six languages and has lived in four continents.

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