

WHAT do they DO? - Issues in reporting

Reporting – A question of balance

Reporting is, more than ever, a delicate balance. Between: current shareholders and potential investors, freedom of speech (not less) and compliance, substance and style, stockholders and stakeholders, content and appeal, thoroughness and brevity, information (overload) and communication (overkill), printed and electronic reporting tools, the talk and the walk.

A number of quotations sum up some of the issues faced by people involved at all levels in the annual reporting preparation, process and use. Additional comments are from the Editor.

Mike Guillaume - Editor-in-Chief

- High-profile report vs. low-key compliance frenzy

“In 1959, IBM hired Paul Rand, a prominent book designer, to create its annual report. As a result, the high-concept annual report was born.” (Addison Annual Report Handbook 2004/2005)

“In 2002, the Sarbanes-Oxley Act, spurred by a new generation of financial excesses, rewrote the rules on financial reporting.” (Addison Annual Report Handbook 2004/2005). “But of the 100 pages of a filing, probably 99 of them are ginned up by the lawyers to cover their butt.” (Charles Hill, Thomson Financial, in August 2002)? As a result...

“Experience with the internal controls provision has been so negative that it threatens to overwhelm the positive corporate reform trends.” (Philip Livingston and Mark Perry, Financial Times, April 29, 2005). Not to mention Andersen, just sacrificed in order to please the guardians of the temple.

“(The new legislation) has been a considerable investment of time, energy and money, taken away from the focus on growing commercially, to satisfy, in a very box-ticking sort of way, a series of processes...” (Todd Stitzer, CEO of Cadbury Schweppes, Financial Times, April 27, 2005).

The impact on the quality and clarity of reporting is now obvious –and for many, negative. Worryingly, one of the effects of the compliance frenzy that has spread

from the U.S. to other parts of the world, is a number of insipid, incomprehensible reports. It even threatens the future of some companies, including good ones. Actually, an analysis based on a growing number of reports would result in a negative investment conclusion.

- Performance: past and future - Consistency and format

“A better understanding of past financial performance is helping companies to set more accurate goals and objectives.” That understanding should be translated into performance reporting...

“And goals and objectives should be featured in all reports a clearer and deeper way. Not only as a plain outlook, but with figures and targets set out for the 1 to 3 coming years.” (an economist). Isn't it strange to read about quarterly guidance and not to learn more in more reports about medium-term strategy?

“Consistency of format enables reports from different businesses to be compared so that the global picture can be easily understood.” Yet...

“The emphasis is on presenting financial information to people in a format that is relevant to their role... not in general formats that they may not understand.”

(All above quoted from “Understanding IFRS”, Financial Times, September 2004).

The challenge -and contradiction- is made tougher by IFRS. How to get to grips with new international accounting standards while simultaneously keeping figures comparable, explaining the impact and the differences, taking into account a more balanced scorecard (increasingly expected from stakeholders), and, last but not least, communicating effectively?

- Governance: the good, the bad, and the ugly

“Corporate governance is not about image, it is above all an open and transparent approach to doing business... An independent director has no conflicts of interest and risks no sanctions for straight talking... Independence is not the application of a quota; it's the way a business deals with its directors.”

(Franck Riboud, CEO of Danone, quoted in Renault Annual Report 2004).

True, but why does it take so long to receive both Renault's (heavy) annuals, and Danone report?

"Our top priority must be health. And shipping in medicines from other nations presents genuine health risks... We believe Americans carry an unfair share of the global cost of biomedical research... The answer is found in giving a helping hand..." (Hank McKinnell, CEO of Pfizer, "An Open Dialogue" in Annual Report 2004). "Whose health?" will probably ask "other nations" stakeholders. Unfair indeed.

"And sadly, the man who had started to turn the company around made a serious error in judgment... we understand the U.S. government's desire to leave no stone unturned in investigating lingering allegations of favoritism... We must also insist on a level competitive playing field in the marketplace. Enough is enough." (Lewis E. Platt, Non-Executive Chairman, Boeing Annual Report 2004). By Boeing "moral" standards, Mr. Gates wouldn't run Microsoft anymore, and turned stones may be found in India. Reading complaints from who once was one of the most admired firms (and rightly so) is shocking. When enough is enough...

- The weight - Full meal or menu?

Q of Wong Yuen Wah, CLP Shareholder: "Your Annual Reports are becoming too long. What are you doing about this?"

A of April Chan, CLP Deputy Company Secretary: "This is a problem. Ten years ago, CLP's Annual Report comprised only 51 pages. We do try to control the volume of information we provide –succinct, relevant and without duplication... More is not always better when it comes to corporate disclosure –quality and the benefits to shareholders of that information are also important considerations... Instead of containing all corporate information, annual reports could become a guide to where this may be found. In other words, a menu rather than a full meal." (CLP Social and Environmental Report 2004)