

Bless the annual report, for we have sinned

Annual reports are essential guidebooks to understanding a company and are as such essential starting points and milestones. Yet, not all annual reports live up to this promise. Ewold de Bruijne, Managing Director of Brightmen and Coolwords, lists seven deadly sins...

The strategic importance of the annual report from a communications point of view is that it enables investors and other stakeholders to understand and evaluate a company. It is with good reason that the annual report as we know it has proven to be such an extremely powerful format. For one, because it is highly regulated publication with regard to its contents (certified by the company's Board Members and an external auditor!). This means that everyone familiar with the concept knows what can be expected from an annual report. More importantly, however, the format dictates the inclusion of very specific information, in an orderly manner.

Information that helps readers to become educated about the identity and character of a business, about the context in which it operates and its direction, and about the management's focus, priorities and personality. In fact, annual reports are intended specifically to enable anyone who is interested in a company (be it from an investment perspective or any other) to put any new or additional information into context.

1. Never be boring

Unfortunately, it does not take enormous effort to list seven deadly sins when it comes to annual reports. One or more of these mistakes, sadly enough, are to be found effortlessly in many of today's specimen. The first one being narratives written in boring, fluffy, all too often self-congratulatory corporate speak. "We are proud to report another year of record results." "Despite the challenging external circumstances that affected our business, the diligent execution of our focused strategy has enabled us to improve our market position and operating efficiency." Sure, the vocabulary we have at our disposal for the discussion of the company's operating performance is limited.

Okay, certain conventions do exist when it comes to style. But still, this is one of the main reasons why comic strips such as Dilbert make many of us laugh in relief. Exaggerating stereotypical behaviour suggests that there may be something absurd about it. Be careful when using financial, legal, or industry jargon. Too much of it can be hazardous to your credibility.

2. Don't repeat yourself, again

Now that we're touching upon the subject of quantity, the obvious second deadly sin is that of needless repetition. Repetition can be used strategically, to put emphasis on certain important information. But when I get a feeling that I have read an annual report four times when I have only gone from cover to cover once, I often fail to restrain myself. Enough, enough! No need to keep rubbing it in. Tell me something I don't know!

3. Answer the real questions

Talking about redundant information... which is – sadly enough – not redundant at all in today's world... LEGAL DISCLAIMERS! This type of information, along with all other obligatory statements – routinely

included in annual reports as part of the greater box-ticking exercise – can, of course, not be qualified as a sin. What is a sin though, is to think that the annual report is finished once all this mandatory legal stuff is included in one stack of paper. From a communications point of view, getting all the technicalities in – and getting them right – can be a challenge. However, the real challenge is producing an annual report that succeeds in getting the key messages across about what the company does, its financial condition, operating performance, and guidance about where it is going. The third deadly sin is therefore: failing to do this.

4. Be realistic

The fourth deadly sin, is directly related to messaging and giving guidance: missing the point, misleading, or burying relevant facts. You know, like the company that publishes an exposé of forty pages about division A, which is the exciting part of the business that keeps the management's adrenaline flowing... while the existence of division B – representing the other fifty percent of revenues and eighty percent of the company's profit – can only be derived

from one of the notes to the accounts. Yes, admitted, there can be perfectly good reasons for providing a greater level of detail with regard to part of the business... but never without stating explicitly and upfront why from the management's perspective this is deemed to be appropriate.

5. Show the merchandise

Sin number five: Over-the-top art work. While using a creative graphic design is a sign of good taste, making the design too extravagant is a huge disqualifier. Annual reports are often regarded by the management as one of their pet projects (nothing wrong with that). And being associated with good taste matters a lot to many corporate executives (a commendable attitude). But a word of caution seems to be appropriate here: Pictures of works of art from the company's own collection, are only very seldom good illustrations of what the company does. These images may be beautiful, but if they are not relevant illustrations that help to further people's understanding of the core concepts of what the business is about, they should go out. Images are messages. If the message is that the Chief Executive likes walking around in a museum, why

would that make him the right person to run the business?

6. Stick (it) together

Related to the art issue, sin number six: packaging the annual report in an ineffective delivery format. There seems to be a growing preference for slicing the annual report up into smaller bits. Some companies present it in the form of two booklets: one with the management report and one with the financial statements and the notes to the accounts etc. Some go even further than that and divide it into three separate volumes, putting a document on top that most resembles a corporate brochure. Apart from the fact that this is a cosmetic exercise (the complete annual report consists of all the volumes in combination), this presents a real danger that all five previously mentioned deadly sins will also be committed.

7. Beat the real competition

To wrap it up, here comes sin number seven: craving a high score on a benchmark which is totally irrelevant to most of your constituents. Annual reports are important stuff. I applaud the fact that most CEOs and CFOs

want to win prestigious awards with their annual reports. Still it puzzles me that local awards, often sponsored by local newspapers and with a reputation that does not go beyond the borders of the company's country of origin, get so much more attention than truly international benchmarks. It puzzles me, because most companies are competing for capital and talking to investors in places far away from the head office. Keeping track of an international peer group makes much more sense. If communication is taken seriously as a relevant factor in competing for capital, one should strive for high scores on truly international rankings.

About the author: Ewold de Bruijne (born 1967 in The Hague, The Netherlands) is a financial communications consultant with more than fifteen years of experience in the trade. He started his career in financial PR with AEGON, one of the world's largest stock-listed independent life insurance companies, in 1991. After having worked as an IR consultant, Financial Communications Officer, and Manager of Corporate Communications, he started his own business – Brightmen and Coolwords – in June 2005. In the course of his life Ewold has worked on more than a dozen annual reports as a copywriter and editor. Under the banner of Brightmen and Coolwords he helped producing the 2005 annual reports for Getronics and Blue Fox Enterprises. More information can be found on:

www.brightmenandcoolwords.com

Ewold has published "Exceptional gains – Strategies for enhancing corporate reputations in times of conflict, controversy and crisis" (more information on www.lulu.com)