

How -and why- they make it. “A” reports and others

What Harvard’s professor Michael E. Porter recently said about strategy -and the need for it- may be applied to reporting -and the need for it. Almost word for word -just replace strategy by report. *“Strategy has suffered... [from] the emergence of the notion that in a world of change, you really shouldn’t have a strategy... things were moving so fast, you couldn’t afford to pause. If you had a strategy, it was rigid and inflexible. And it was outdated by the time you produced it... That view has become very well entrenched.”* (Fast Company, March 2001)

Don’t get us wrong, and exaggeratedly self-centered. Strategy is primal... and primary. While reporting -and the annual report in particular- is the last step, the one that tells, shows, checks. Not more, but not less either. Good reports are fed with good information. Best reports feed back management and strategy. They set the pace, inside and outside.

A recent survey showed **60% of institutional investors saying that improved disclosure would boost**

management’s credibility, increase the number of long-term shareholders, and result in higher share prices.

Squared: Reporting is a strategic issue. Stated: It should be part of strategy and strategy should be part of it.

Incidentally (but is this really incidental?), our top 3 reports have in common to look back, talk strategy, check out performance (and give readers, at least partly, measures to do so)... and to dare peering over the year ended.

e.com staff and our rating panel have put a premium on strategically oriented reports. Not a first for us, but even truer this year than in our previous report surveys.

Indisputably, a majority of top 10 reports have a strategic thread. And, good news, this includes the ones from two recently spun-off firms.

One word about the wind of change. Of course we do not deny that a round-the-clock global economy also requires more regular and frequent reporting

systems (see our comments in previous surveys and Report-Makers page in this one). Some -maybe the same as the ones who criticized strategy?- even talk about continuous reporting. Let's wield this fad with caution.

A big blue way to make A+

Besides typifying the strategy-driven report, IBM shows most of the attributes of what good and modern, but also fair and persistent reporting is all about. May we insist on these four virtues altogether, which have led e.com staff and our rating panel to rank "Big Blue" as N°1 report this year. The Armonk giant has not only been good over these last years, but has also continuously improved... and renewed (at least partly) its report(ing).

Side-note: FORD, ALCOA and ELECTROLUX can be placed in the same "continual-renewal" league, as well as, to a lesser extent, KNIGHT RIDDER and SARA LEE, or lower, reports such as COCA-COLA, RLI, H.J. HEINZ, or even TOYOTA. Not many more than those...

IBM's strengths? An original cover, reflecting a personality... and boldly

literary!). And then: a strong -and honest- theme, matter-of-fact (but also long-term) highlights, a substantial and straightforward chairman's statement, a visual route blending creativity and control, more information than in past reports. A balance between innovation and continuity, between facts, figures... and faces -this is also a people-driven report. Charting performance is (much) perfectible, but outshines e.g. the Redmond giant, which has never delivered -or innovated- re. financial reporting. IBM spices it with humor too. Other basics under control: the report is quickly released and easy to obtain. And the corporate web site, though not considered for this paper-based ranking, has been a trendsetter light-years before net-maniacs and big shots started tinkering. Is it to say that we've got a perfect report? No. A number of ingredients are still missing, though. IBM has not (yet) proved as much financially informative as the best Swedes (4 in top 20, but even the lowest ranked deliver) or as creative on financials like some U.S. peers have showed (FORD, ALCOA, KNIGHT RIDDER, SARA LEE, or even

ANHEUSER-BUSCH). Segment reporting, financial history, a much too conventional MD&A are traps not avoided here.

As a rule of thumb, I.C.I.C.

Top 10 players ranking (slightly) lower shouldn't blush. 70% of them deliver more, longer, and often better, on financials than N°1.

What makes a annual report best (A), or at least better than an average (B) or basic (C) one? Based on our analysis grids and comparison tools (which total 20-odd criteria split into three categories) we have summed it up in I.C.I.C.

That is: Inform - Communicate - Integrate - Capitalize.

To some degree all A+ and A reports show those features, with more or less emphasis on one, two, or all. In our annual selection and rating, we aim at ranking reports for some features separately or, ideally, altogether.

a. Information.

The raw material and raison d'être of any annual or periodic report. Some companies have stood for a while in the "info first" league. For better or worse.

Indeed, information is necessary but not sufficient, it's raw and thus can turn heavy, it may be written but is not per se self-explanatory. Cases in point:

SKANDIA (now rewarded for continuing efforts made these last years, despite a certain communication gap),

CHEVRON, VOLVO (stable because of its info-quality persistence), Canadian banks, SAS, BAYER at the top. But also SCA, SKF, VOLKSWAGEN or SOLVAY in top 100 are based on and marked for that. The major complaint against that "info first" practice is that not going for a digest can make it indigestible. And bad

examples are here in plenty, from British, Swiss or German banks to French or Belgian oil and gas or German Konzerne, from FORTIS (insurance) to TSMC (semiconductors) and PIRELLI (what is it now?), etc.

Perhaps because of its genes, GENENTECH keeps it digestible and treats the reader as a smart guy who wants to get a grasp of a complex business.

A report that informs may be good. One that communicates is better. And one that communicates with (much) good information is best. ELECTROLUX,

ALCOA, KNIGHT RIDDER, SARA LEE, DANONE, AHOLD, AEGON, MEDTRONIC or ATLAS COPCO, but also newcomers such as INFINEON, NOVOZYMES or INTERBREW or ACCOR belong to the latter ones, dubbed as infocom reporters, i.e. the well-balanced or integrated ones (see below: Integration).

Logically, because of what is known as the information paradox -the more you have to read and the less time you'll take to read it- we think that a wrapped Form 10-K or 20-F, although often providing more information than a report, can hardly be considered as a communicative "annual report". After all, wasn't the report invented for "translating" those obscure texts and numbers? Consequently, we have eliminated such major companies as AXA, REEBOK or REVLON.

b. Communication.

Great communicators have proved to count among high-ranked reporters for a couple of years: IBM, FORD, ALCOA, KNIGHT RIDDER, SARA LEE, UNITED TECHNOLOGIES, PFIZER, COCA-COLA (all of them American!) keep on standing among them, with ups and downs re. infocom.

Report revamping is sometimes part of that communication process: look and read up ELECTROLUX, SARA LEE, MOLEX, CASCADES, HEWLETT-PACKARD...

Compare the two biggest Dutch financial institutions - which are also top-tier global players. For years ABN AMRO outstripped ING thanks to a financial reporting advantage. ING was catching up e.g. by reporting more substantially on operations than so many numbers-and-notes-only bankers (HSBC, BARCLAYS et al.). Then came 2001. ING has gone for a radical report change: styling, colors, pace (built as a magazine though looking like a report), statements, key figures... By the way, it might also be economical (remember where ING is from?): it's shorter, and not that much illustrated. And it works: it's communicative, effective and breaks

away from those classic financial reports. All in all the quantity and quality of information available from ABN is still above. And upgrading ING (from C+ to B+ in two years) still doesn't put it on the same footing re. financial infocom as some North American big boys, or even as its "neighbor" AEGON. But the feat had to be praised, especially when considering the conservative background of the institution and that bank/insurance risk aversion also shown in reporting.

Same for cars. Why did BMW report overtake DAIMLERCHRYSLER this year? Besser Kommunikation.

Last but not least: communication is not a matter of (company or report) size. In their peer groups AHOLD and TESCO display it better than DELHAIZE; TPG carries it lighter than DEUTSCHE POST or FEDEX; MOLEX chips it sharper than MATSUSHITA; Austrian ERSTE BANK charts it higher than all large German, British or Swiss rivals; and HENKEL cracks it finer than AKZO.

c. Integration.

The whole has to be well balanced. Best reports are substantial and stylish; made of facts and figures and faces; readable

and visible; focused on financials and business; stockholder and stakeholder-aimed.

The 2001 sample includes IBM, FORD, ELECTROLUX or ALCOA. But check other good integrators. German INFINEON who makes all elements work together and achieves in its first year better than its "parent" SIEMENS ever did, but also ranks one seat higher than another famous spin-off (LUCENT in 1997). The U.S. regional insurer RLI whose nice visual-textual and facts-figures matches have resulted in an A- (from B+). Swedish ERICSSON who has completely shaken up and reorganized its report and improved both on information and visuals.

Canadian paper producer CASCADES for which the theme doesn't fizzle out into pulp, like in so many cases.

With noteworthy exceptions (e.g. NOVOZYMES, CASCADES, AES, TELEWEST...), integration is nevertheless often the major weak point of reports ranking below N°50.

d. Capitalization.

Consider rivals GENERAL ELECTRIC and UNITED TECHNOLOGIES. The latter has valued the report as a key

corporate vehicle and seems to capitalize on it as much as it can. While Jack Welch's conglomerate, though not bad on some points, totally underplays (this is less true about the well-built web site) and doesn't seem to regard the report as an instrument. Hence the lower rating for GE and its ranking decrease over the years. Let's be blunt; GE's report shows some complacency. Some companies clearly capitalize on their report (and besides, reporting practice) and still regard it a key vehicle towards shareholders, investors, and a number of audiences. This can undoubtedly be said about top 30 reports and a significant number of lower ranked ones.

However, even among very blue chips, some have underplayed it recently or for years. By design, neglect, or clumsiness. Case-book: LUCENT, SPRINT, AIG, DAIMLERCHRYSLER, SIEMENS, COMPAQ, DU PONT, MICROSOFT, BARCLAYS, HONDA...

One Schweppes in a C-Class

Although the overall quality of reports has improved these last five years everything's not perfect in the annual

reporting world -and believe us, the situation is even worse as regards online reporting.

For each rocking report we've got more than a reeling one. Many more. 50 percent of reports received don't deserve a higher rating than B-. And aren't 20% of reports ranked C-rated. Is there a crisis looming in corporate and financial reporting? Considering some attitudes and practices, the question might be asked. Let's... not answer and just go for a quick Q/A (well, A/Q in this case!).

A: *"The AGM in 2000 was attended by 442 registered shareholders, or their proxies or Corporate representatives, representing 0.08% of the issued share capital."* (CADBURY SCHWEPPE report, p 61).

Q: Aren't the 99.92% left (?) supposed to keep being posted with a good and fair report?

A: *"More than 13,000 shareholders attended the DaimlerChrysler Annual Meeting in 2000, to keep fully informed on their company activities."*

(DAIMLERCHRYSLER report, p 17)

Q: Why then weren't they served with... better filled -or "fuller"- reports?

Showing care for producing a good drink (Schweppes, launched decades ago) and for Wagen design (C-Class, restyled months ago) is what customers expect from CADBURY SCHWEPPE (N° 105, down 19 ranks) and DAIMLERCHRYSLER (N° 86, down 16 ranks).

Reporting with the same care is what current shareholders, potential investors and analysts rightly expect from those mighty giants.

In both cases -large attendance or a supposed extensive use of mail (note: getting hold of UK reports outside UK is not as easy as it was. Is the City

shrinking?)- why then have their reports at best leveled off (e.g. on segmentation, financial reviews, outlook, risk analysis...) and at worst decreased (e.g. on M&A performance assessment, visuals, statements, clarity...)? If none of them is up to their drink or car, would it be surprising to see investors trying, say, an Evian (DANONE: N°15) in a Jag (FORD: N°2)?

Markets will ask. Reporters should answer.

Comments to the global top 200 report ranking published in the "Annual Report on Annual Reports 2001"(September 2001). All rights reserved. Copying for other than personal or internal company use is prohibited. Quoting is authorized with appropriate reference.

