The purpose of this study is to compare company annual reports in the US and Canada with those of Australia. US and Canadian company reports were previously surveyed and compared by a Canadian consulting firm, Blunn & Co. Inc.

This comparison provides information of value to the international business community. The Australian capital market is relatively small but highly international: one-third of its market capitalisation of $A753 billion in 1997 was owned by foreign investors.

Australia's policy of improving business links with the US and Canada has become increasingly important because of the adverse impact of the Asian crisis on the economy. In maintaining this significant trend it is essential to enhance business confidence and company reports play a vital role in this.

METHODOLOGY
The methodology Blunn & Co. used was adapted in this study. Blunn examined 50 Canadian and 100 US 1997 company reports. The companies were randomly selected from those listed in the Toronto Stock Exchange 300 and the Standard & Poor's 500 respectively.

Among the elements of annual reports compared by Blunn were corporate responsibility, risk and outlook, value creation strategies, the length of the reports, explanation of objectives, financial performance, description of activities, use of graphs, charts and pictures, user-friendliness and employee figures.

The present study extends the comparison by examining the same elements in a random selection of 150 of the top 500 Australian companies' reports in 1997. The companies are drawn from the Australian Stock Exchange (ASX) top 500.

COMPANY REPORTS
Company reports are one of the best methods of presenting the messages that companies want to deliver to the business community. Research has found that two-thirds of portfolio managers and 54% of security analysts consider the company annual report as the most important document a public company can produce (Fulkerson 1996). The important features of company reports are:

• They meet the regulatory requirements imposed by the authorities. The main sources of regulation governing company reporting, accounting policies and financial practices in many countries include government legislation, regulations imposed by stock exchanges and accounting standards.

• They disclose the most important and reliable information. Research indicates that more than 80% of the...
information needed by investors can be found in published form and only a small fraction of the remainder is of critical importance to them (Achard 1996).

• Easy access to information provides key ingredients to develop efficient capital markets.
• When future objectives are published in annual reports they also come with a sense of accountability, the motivation to implement them and pressure to accomplish them.

Although the purpose and the importance of company reports are similar across countries, the different ways in which they are prepared and presented affect their efficiency. Reporting methods vary among countries because of differences in culture, business practices and trade policies.

Many investors scan annual reports quickly. This requires documents which communicate the main points effectively and can be understood by readers with a limited amount of time.

Professional design is increasingly a feature of modern company reports; in many, the mandatory financial statements play only a supporting role (Beattie, Jones and Mellett 1996). Globalisation has also influenced a change from a static, traditional pattern to a highly dynamic and sophisticated one. In the past, multinational companies may have used illustrations such as a world map to depict internationalisation. Now companies have moved further ahead. Some, for instance, use languages other than that of the parent company’s home base to report certain information.

The advantages of this are:
• It tells the business community that the company has expanded beyond its home country.
• It shows that the company has a genuine interest in communicating and providing information to overseas shareholders and employees of offshore subsidiaries. In 1996, the US-based Electronic Data Systems, which employed more than one million people in 42 countries, reported its letter to shareholders in six languages. Canada-based New Bridge Network Corporation has in the past translated the summary of its report into 11 languages.

KEY ISSUES
In creating and increasing investors’ confidence, three key questions must be considered:
• Does the company have a goal?
• Does the company have a plan to achieve it?
• Does the company have resources to implement the plan?

This information must reach the investors in a technically accurate, yet clearly understandable, manner.

COMPARISON
Length of reports
The length of an annual report depends to a large extent on the business of the company. However, reports which are too long can lose the attention of the investor while those that are too short can appear to say little of interest. Canadian companies produce relatively long reports, with an average of 65 pages and some bank reports of up to 100 pages, whereas US reports average 56 pages. Although some Australian bank reports, such as that of St George Bank, are more than 100 pages, the overall sample contained a relatively heavy weight of mineral-based resource companies which produced short reports averaging about 54 pages.

Description of activities
Investors demand accurate information about company activities. Shareholder confidence can be enhanced by descriptions of past performance and future objectives. US reports spend relatively less space describing their activities than Canadian and Australian companies. Blunn found that half of Canadian reports included an outline of corporate activity while only one-third of US reports did so.

This study found that Australian reports placed heavy emphasis on company activities. Often more than 15% of a report was given to explaining company activities. Few Australian companies spent less than four pages (about 7.4% of the average length of the reports) on company activities. This was explained partly by the fact that many leading Canadian and Australian companies are resource-based, while more of the companies in the US sample were household names. The resource-based companies tended to have varying business activities in many different locations, obliging them to provide details of operations.

Company objectives
It is important to explain the company objectives to build shareholder confidence. Information about how the objectives were achieved in the past and how they will be achieved in the future is helpful to shareholders in determining their risk-return tradeoff. Corporate objectives were outlined in a separate section by 20% of Canadian companies, while only 5% of the US companies did so. This study found that of the 150 Australian reports surveyed, almost half described corporate objectives in a separate section.

Corporate responsibility
The responsibilities of companies can be categorised broadly as social, economic and political. The most commonly publicised issues are environmental concerns, community involvement, scholarships and other benefits. Fifty-six per cent of Canadian reports provided a separate section on corporate responsibility while 31% of US reports did so. A survey by Kreuz, Newell and Newell (1966) of environmental disclosures in the annual reports of 645 Forbes companies showed that 73% contained no discussion of environmental issues. A separate study of 150 Australian reports revealed that only 25% mentioned corporate responsibility, mainly focusing on environmental issues, and that was often confined to the chairperson’s report. Deegan and Gordon (1966), in a review of corporate disclosure practices in 1980-91, found...
that environmental disclosure increased significantly over time in Australia and that this was linked to public attitudes to environmental issues.

**Financial performance**

Australian annual reports devote relatively more space to financial performance, using an average of 21 pages to satisfy the mandatory requirements. In the Canadian and US reports surveyed, financial performance was included in the management discussion and analysis (MD&A) section, which is mandated by the regulators, but this information occupied less space. Canadian reports on average gave 14 pages to financial performance and US reports an average of 10 pages.

**Graphs and charts**

Annual reports use many tools to facilitate the readers’ understanding. Graphs and charts help in conveying a company’s message clearly and concisely, emphasising key information and enabling comparisons. Wilson and Stanton (1996) argued that traditional corporate annual reports, especially the financial sections, had not proved to be an efficient communication mechanism between companies and unsophisticated readers. Better communication could be achieved by a wider use of graphs, charts, photographs and other illustrations. The Australian survey of 150 reports shows that 103 used graphs and charts, with an average of six graphs per report. Canadian reports contained an average of eight graphs and US reports used an average of four.

**Risk and outlook**

The emphasis placed on risk and outlook varies considerably among companies and countries. Canadian reports tended to discuss risk comprehensively in the MD&A section. Sixty-two per cent of Canadian companies discussed risk in a separate section, compared with 50% of US and 34% of Australian companies.

In many Australian reports the risk issue was not comprehensively dealt with in a separate section although foreign currency transactions were discussed. Fifty-eight per cent of Canadian reports discussed the outlook in a separate section while 38% of US reports and 37.5% of Australian reports covered this in a separate section.

**User friendliness**

Although it is difficult to specify criteria for measuring user-friendliness, the Blunn survey analysed the complexity of information and found that US reports appeared more user-friendly than the Canadian reports. Using the same method, this study found that only 12% of Australian companies provided information in an uncomplicated, user-friendly manner. This result may reflect the fact that the Australian sample included many resource companies which use relatively technical terms.

Australian companies also placed an emphasis on mandatory reporting requirements. Ninety-three per cent of US reports used colour photographs compared with 86% in Canada and 68% in Australia. One-third of the US reports included directors’ photographs, compared with less than a quarter of Canadian reports. This study shows that 63% of Australian reports included photographs of directors. Australian companies were also generous with biographical details; 84% provided biographies of directors while only one-fifth of US and Canadian reports did so.

**Value creation strategies**

Assurances about value creation strategies are an aid to building long-term shareholder confidence. Shareholder value creation strategies were clearly provided by US companies through articles and graphics in their annual reports. Forty-seven per cent of Australian companies discussed their strategies although not usually as a separate section. Often this was briefly canvassed in the chairperson’s report.

**Credits to producers**

US companies were ready to acknowledge those who produced the annual reports. Fifty per cent of US reports gave credit to outsiders for their work and many thanked staff members for their support. One-third of Canadian reports gave credit to their producers. However, only 16% of Australian companies gave credit to the producers of their annual reports; some published only a sentence such as: “This annual report is a tribute to our management and staff.” Although the names of the cover designers andographers were sometimes mentioned, Australian reports rarely gave credit to outsiders for their work on the reports.

**Number of employees**

Employment statistics can convey useful information about the strength and growth of a company. Employee numbers were reported in 83% of the US reports and in 68% of the Canadian reports, but in only 43% of the Australian reports.

**Glossary of terms**

This was a feature in 30% of Canadian company reports and 12% of US reports. The Blunn survey related this to the fact that there was a high proportion of resource firms in the Canadian sample and a need to clarify industry jargon. However, this was not demonstrated in the Australian survey, where even though the sample included a high percentage of resource companies, few provided glossaries. Companies in the high-tech information industry appear more willing to include a glossary.

**CONCLUSION**

By providing easy access to business information, company reports can play a vital role in creating and enhancing shareholder confidence. Many portfolio managers and security analysts consider company reports as the most important sources of information for investment decision-making.

This study compared the company reports in the US, Canada and Australia. A random selection of 150 of Australia’s top 500 companies’ annual reports was examined. The survey considered the length of reports,
description of activities, explanation of objectives, financial performance, graphs and charts, risk and outlook, user-friendliness, value-creation strategies, credits to producers, employee figures and presentation of a glossary.

Australian company reports were found to be relatively short. Compared with US and Canadian reports, Australian reports paid more attention to explaining the companies' objectives, activities and financial performance. Australian reports appeared less user-friendly than US reports and used fewer explanatory graphs and charts than Canadian reports. It appeared that

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Table 3 summarises the results for each of the components.

Again, as was found in Table 2, a large proportion of the fund's total return variation can be explained by the benchmark asset mix. If we focus solely on the active component of the total fund returns, TAA's explanatory power varied considerably with a minimum R squared of 0.30% and a maximum R squared of 74.3% across the 22 funds.

The results indicate that for the period from June 1992 to June 1997, TAA explained on average around 30% of the variation in individual funds, and stock selection explained around 70%. However, unlike stock selection, the contribution to total return from TAA was generally positive.

IMPLICATIONS
What are the implications for trustees? The results indicate that TAA is indeed the icing on the cake. Australian super funds have, on average, achieved an extra layer of returns from TAA and have demonstrated the ability to gain up to an additional 1.12% of return if TAA is included as part of the investment strategy. TAA should be considered an important component of a diversified superannuation fund.

NOTES


2. Data is sourced from InTech Asset Consulting, Mercer Investment Consulting and Super CMS (Rainmaker Aust. Pty Ltd).


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