THE AUSTRALIAN INSTITUTE OF MANAGEMENT ANNUAL REPORT AWARDS: AN HISTORICAL PERSPECTIVE

Abstract

From 1950 to 1989 the Australian Institute of Management sponsored an Annual Report Award, which was designed to improve the form and presentation of annual reports. The purpose of this paper is to investigate the impact the award scheme had on the design, presentation and content of annual reports prepared by Australian companies.

Key words: Annual Reports; design; presentation; content

Introduction

The corporate annual report has long been established as the major form of communication between a company and its shareholders. Historically, the primary objective of financial reporting was for management to report on their stewardship to owners where stewardship was narrowly interpreted as management and protection of resources that had been provided by the owners. However a study of the annual reports of Australian companies found that they only disclosed what was prescribed by regulatory authorities (Irish, 1948).

After the Second World War, the return to peacetime conditions presented a challenge to companies to be recognised for the important role they played in their country’s prosperity. It was acknowledged that the annual report could be used to promote a company’s activities to a wider audience than shareholders, promote the role of private industry, and foster community support and acceptance.

To be successful in the post-war period, companies would need consumer goodwill, cooperation from employees and sound relations with business suppliers. It was believed this could best be achieved if business were willing to disclose more information in their annual reports. This message was particularly important in a decade where industrial unrest existed and success required the cooperation of employees (Bolton, 1991). Industrialist, John Storey, was one person who recognised the need for business to engage in a public relations exercise with the community and the need for workers and management to recognise their common interests (Lack, 2000). In his Presidential address to the Institute of Management he stated:

“if the public mind is confused by the propaganda of those who want all business to be managed by the Government, if it is influenced by the cry that profits are excessive, that private industry is exploitation of the worker, and that efficiency measures in industry mean sweated labour, that equipment which reduces costs and raises living standards is the source of unemployment, that slowing down of output hurts the boss but not the worker, or that wages
which can be paid have no relationship to production and production costs- it is because we have failed to give the public the facts on which to base an accurate opinion (Storey, 1944).

Storey believed that such disclosure would encourage and unite the efforts of management and workers and this would lead to improved efficiency. Another motivation for additional disclosure was the need for companies to access finance from the Australian public. To gain the support of the investing public, the annual report would play an important role since improved disclosure would encourage and maintain the support of investors in this type of investment. To encourage business to improve their communication with shareholders, two prominent accountants, E. S. Owens and R. K. Yorston, were responsible for the introduction of an annual report awards competition sponsored by the Australian Institute of Management.

Owens explained how the idea for the awards had arisen:

‘for some considerable time prior to the middle of 1948 when the idea finally crystallised, it had occurred to me on many occasions, that the financial statements and accompanying reports of public companies and matters of finance and accountancy generally were to the layman shrouded for want of a better term “black magic”. The suggestion to a layman that he should take more interest in the published accounts of the companies in which he was a shareholder was met with a despairing shrug of the shoulders and a statement to the effect that what chance had he of understanding a balance sheet or accounts, which even though prepared on a basis of reasonable disclosure was far beyond his ability and in any case annual reports were unattractive to him. Such a situation was, I felt, generally recognised at that time but very few companies were progressive enough to do anything about it” (Owens, 1958).

The objective of the award was to improve the standard of financial reporting in Australia by establishing a set of criteria, independent of existing requirements, which would encourage improved style and presentation and disclosure of additional information in annual reports. They believed that companies could disclose, more information than required by law, and that such disclosure should be not only to shareholders, but extended to include employees and the wider community. This would enable companies to make known the important role they played in society, to tell about their achievements and such increased disclosure would enhance public confidence and assist future funding requirements (Yorston and Owens, 1958).

In pursuit of improved disclosure by Australian companies, Owens and Yorston who were both members of the Australian Institute of Management (AIM) convinced the Institute to commence annual report awards in 1950. The AIM had been formed in the early 1940s with the objective of assisting managers to secure their future in an ever-changing business environment (Fogarty, n.d.). The AIM announced that to improve the presentation and content of annual reports, the Institute would make an award for the best annual report published in that year. The object of the award was to encourage better annual reports so as to:

Make known the important place of private enterprise in the community.
Encourage the dissemination to shareholders and others of information about company activities in a form, which those without business training can understand.
Endeavour to establish better employee-employer relations by making known facts about the company and the financial result of its activities, and to endeavour to create employee pride in the company, its products and the services, which it provides (AIM Newsletter 1950).

Initially the award was a competitive one with all companies listed on Australian stock exchanges invited to submit their annual reports for examination. Annual reports were evaluated against a set of criteria guided by award objectives and detailed analysis of entries under three main headings: form of presentation, financial data and general information.

The criteria for which marks were awarded were:
General impression in respect to readability, public relations, clarity of layout and typography.

Notice of meeting clearly shown and logical order of contents.

Highlights page.

Financial statements well classified and clearly presented with adequate notes.

Comparison of data with prior years.

Adequate detail in financial statements, including amount and composition of turnover, depreciation, stock valuation and tax provision.

Source and use of funds statement.

Adequate statistical and other performance data.

Informative directors’ report.

Information about employees.

Appropriate use of graphs and charts

Cost of annual report not apparently excessive.

As indicated the criteria specified were limited to one sentence and did not identify the attributes required to meet the listed criteria. Three award levels were made, the award for the best annual report, while those less able to meet the specified criteria, were awarded either distinction or merit awards.

3. Adjudicator’s views of annual reports

Annual reports were judged by an Adjudicating Panel comprised of a chairman of directors as chairman, the chairman of the Sydney Stock Exchange, a nominee of the Institute of Chartered Accountants, a nominee of the AIM finance panel and nominees from the AIM production, personnel and marketing panels of the AIM who possessed no accountancy training. They took as their guiding principle the three objectives listed earlier and made a detailed analysis of the entries under the following three headings- presentation, financial data and general information. In their report they selected Jantzen (Australia) Limited as winner of the first award and a further twenty other companies were included in the merit list. In the first report the committee stated that it was not influenced by the costliness of printing paper or general layout. Reports should speak for industry in simple terms, with the aid of proper graphs and charts, without large expenditure being incurred. The one-line criteria provided little guidance as to what the adjudicator’s sought, but their written report for each year’s awards gave some indication of how reports were assessed. More instructive is the approach adopted by Jantzen (Australia) Limited, the winner of the inaugural award. While satisfying the requirements of the Companies Act of New South Wales, the company considered that such reporting did not tell the story of their business satisfactorily, nor was it circulated adequately since distribution was confined to shareholders and the press. Their 1950 annual report was addressed to shareholders, employers and business associates, in recognition of a larger readership, and to whom the company considered an obligation of reporting was owed. Additional contents included in the award winning entry were:

A company message on human relationships:
The previous year’s figures for comparison on the explanatory profit and loss statement and explanatory balance sheet;
A statement on the meaning of profits;
A pie chart on division of available income between employees, shareholders, and retained profits;
A chart on employees and their service; and a statement on changes in financial position during the year (Yorston and Owens 1958).

The same weaknesses identified in the first adjudicator’s report were repeated over the next three years. The adjudicators desired that standard practice be to include a pie or bar chart showing sales composition. This will show clearly to the layman the relationship of material, labour, and administration costs, taxes, dividends and reserves and does more to correct the erroneous impression of high dividend and reserve appropriations than any other factor. It would also deter employees and unions from seeking improved employment conditions. Presentation and style were still their concern. They were critical of companies, who did not clearly display their name on the outer cover and did not clearly indicate that it was the company’s annual report. Better size type used could be used, as the small size used did not encourage readership of the annual report. By 1955 most reports were judged to be prepared in an attractive manner, which was necessary to encourage shareholders to read the document. Two years later the adjudicators believed the standard of reporting was the highest since the inception of the award and led to the promotion of better relations between companies, employees and the public. Nevertheless, adjudicator’s were still critical of certain aspects of reporting including the reluctance of companies to disclose turnover, the perfunctory recognition of employee’s contribution and the lack of useful information contained in the director’s report.

While the emphasis of the awards was on presentation, the Panel did however raise concerns about accounting disclosures contained in financial reports. They believed that some companies misclassified long-term assets and liabilities as current assets and liabilities so that they could report an improved working capital and liquidity position.

They were also critical of vague disclosures on stock valuation, claiming that few companies gave meaningful descriptions of value and the true value of stock held could not be easily determined. The Panel was also critical of the failure by companies to disclose the amount of provisions for depreciation, as they believed that if these were not disclosed, it was impossible to judge their adequacy.

By 1958 the Adjudicating Panel considered there had been an improvement in the standard of financial reporting (AIM, 1958). However, serious weaknesses in corporate reporting were still present and the adjudicator’s considered the level of takeover activity in Australia had exposed these during the year. Such activity had raised questions about the level of disclosure and the accuracy of accounting information and forced company managers to provide additional information. For acquiring companies, annual reports did not clearly identify the activities of the takeover candidate and no indication was given of the contribution of various segments of the company to its performance, and consequently the rate of return earned by these segments and its adequacy could not be determined. Yet, by the end of the first decade the Panel considered that improved use of graphs, photographs and colour illustrations had occurred (AIM, 1960). Despite these improvements annual reports were still lacking in disclosure. This view was confirmed by the findings of a study of Australian annual reports, which found that these reports were brief, did not clearly disclose the nature of the company’s activities, omitted to disclose sales, cost of sales and operating costs, and had little value for purposes of financial analysis. (De Maris and Zimmerman, 1960). The authors concluded that it was a precise technical document designed to reach a special limited audience, and supported the view of Irish who observed some years earlier that companies only satisfied compulsory disclosure requirements (Irish, 1948). Yorston and Owens believed fear of criticism was responsible for companies not disclosing more than legally required. (Yorston and Owens, 1958), but fear of competitive disadvantage by increasing disclosure may have been a move significant reason.
The second decade of awards continued to criticise companies for layout, the small typeface used, and lack of pictures and illustrations to make the report more readable and understandable, not displaying the company’s name on the front cover and the failure to make annual reports attractive to all recipients. The influence of the annual reports awards was evidenced by the inclusion in the Ninth schedule, part of the 1961 Companies Act. This schedule incorporated two of the awards requirements, the grouping of assets and liabilities in the balance sheet and the introduction of comparative figures for two years. The reports submitted as entries for the award usually met these requirements but their inclusion in the schedule imposed the requirement on all companies. Despite the new Companies Act, those judging the reports were still concerned with company’s not displaying their name clearly on the front cover and not including a notice of meeting. While the inclusion of a highlights page was almost generally accepted, despite the new Act many companies still continued to not disclose depreciation provisions as clearly as they should and hence it was not possible to ascertain whether provisions were adequate, deficient or excessive (AIM, 1963).

As Australia’s economy weakened, a series of corporate collapses including Reid Murray, Latec Investments and Sydney Guarantee Ltd occurred led to criticisms of financial accounting practice and the misleading nature of financial statements. The complex inter-company relationships that existed within these companies raised concerns about companies accepting money as deposits without a prospectus. Public Borrowings Acts were introduced to require borrowing or guarantor companies to file half yearly accounts. An indication of the influence of the award was the request by A.B.Mellor, Chairman of the Sydney Stock Exchange that the awards criteria include half-yearly reports. Mellor was concerned that there would be non-compliance by companies with meeting the new rules but believed inclusion in the awards criteria would ensure that companies complied with these requirements. From 1965 the awards included interim reports in their criteria for future awards. Despite further corporate failures, the view of the adjudicating Panel was that annual reports had improved, noting:

There has been a marked trend this year towards the type of annual report, which presents the company to the public instead of merely recording statistics. This is something, which the Australian Institute of Management has encouraged since the beginning of the Award and it is rewarding to see so many companies taking this approach (AIM, 1964).

Nevertheless the criticisms made in the earlier years were still identified as weaknesses for the remainder of the decade although by this time adjudicators believed that companies were producing more informative reports (AIM, 1969).

Until this time as Gibson had observed, the most effective work done through the awards was the improved better presentation and style in financial reports (Gibson 1971, p 203). Members of the adjudicating panel believed there was continued improvement in financial reporting and this members led them to believe award entrants benefited from their comments. In their 1972 report they provided information on the items that were components of the main headings: format, text financial statements general statistical data and summary However, the need to improve company accounts was an ever continuing, one and the more influential presence of accountants on the Adjudicating Panel led to increased attention to matters of accounting practice and disclosure. In the same report they believed further disclosures were necessary on matters such as revenue recognition, leasing and investments in associated companies. (AIM, 1972).

In the same report they identified areas of common weakness as:

- Lack of information on activities, including the relative importance of different divisions or subsidiaries, of the company.
- Absence of a clear description of major accounting policies.
- Lack of detail in profit and loss accounts, many of which did not follow the pattern of beginning with a sales figure, then deducting costs, to give trading profit from which deductions, and to which additions were made.
- Inadequate reporting on associate companies.
- Use of “netting” in the source and application of funds.
Little information on employees, particularly staff training and development programmes. Many failed to state wages and salaries paid. Production of unnecessarily lavish reports (AIM, 1973).

Some of these concerns continued to be raised over the next few years. While the awards lacked statutory authority, they were still influential on the disclosure and reporting behaviour of companies. For instance, their continued and repeated concern about the methods used by companies to accounting for investments in associated companies drew attention to this reporting problem and led to the issue of an exposure draft on this topic by the accounting profession.

Equally, their continued advocacy of segmental disclosure was heeded when four large diversified companies voluntarily disclosed this information in 1974. Clearly, these companies believed such disclosure would benefit their image, enhance their award winning capability, and influence other companies to follow their example. Yet, some time elapsed before an accounting standard was issued on this subject, (AARF 1984) as the profession’s attention was focused to how to adjust historical cost accounting for changing price levels. In the early part of the 1970’s oil prices and domestic wage pressure were responsible for a period of high inflation in Australia (Kriesler, 1999). This led the accountancy profession both in Australia and overseas to consider modifications to the historical cost accounting system (AASC, 1976) although in Australia no accounting standard became mandatory.

This deficiency in financial statements was recognised by adjudicators and in their 1976 report it was noted that there was inadequate explanation of the impact of inflation on company’s performance and financial position (AIM, 1976).

As inflation rates declined the problem of accounting for inflation became less important but failure by companies to account for inflation was criticised in adjudicators’ reports until 1985. Despite the failure to resolve how to incorporate inflation accounting into financial reports adjudicators still believed there had been a general improvement in the level of financial reporting (AIM, 1979).

The awards had improved the level of financial reporting in Australia as it led companies to meet the criteria as achievement of any level of award enhanced the standing and prestige of a company and achieve an award which and the prestige gained by a company. Therefore the awards provided an incentive to companies to increase their level of disclosure and improve the communication process with shareholders and other users of the annual report. A clear indication of the awards influence is the increased disclosure by companies of the major highlights of the year as part of the annual report. Adjudicators had listed this as a criteria and the prestige of the awards was responsible for the increased percentage of companies including such a statement in their annual report (Pang, 1982).

In these intervening years adjudicator’s continued to identify new areas of disclosure for companies to include in their annual reports. They believed annual reports should reflect community interest, and disclosure should include current matters of concern such as the environment, employment policies community involvement and how the company was socially responsible (AIM, 1981). They advocated inclusion of a value added statement, which they claimed was effective in reporting and communicating to employees and unskilled investors on how the value created by the company, was distributed (AIM, 1981). Yet their concern with increased disclosure in the profit and loss statement continued. Corporate law requirements were still viewed as been of limited significance and divisional reporting was considered necessary to inform readers of the relative importance of the company’s different areas of activity to its overall performance.

Inclusive in such disclosure would be disclosure on transfer pricing policies and the extent of inter-divisional business (AIM, 1982). Further, information should also be disclosed on acquisition and divestment of subsidiaries, details of share issues as well as a statement of future prospects. While companies may be reluctant to forecast where economic conditions are difficult, some attempt to provide this information was considered warranted by the Panel. the provision of detailed treatment of income and expenses would also inform readers of the major determinants of the company’s results.
As well, more attention to the impact of inflation on company results is still desirable, despite the failure of the accounting profession to mandate a method of accounting. (1983).

In 1984, adjudicators considered the standard of reporting had not improved on the previous year. They recommended more reporting on cash flows, debt-equity ratio’s, trend analysis and borrowing arrangements (AIM, 1984).

The changed regulatory environment in 1985 did not alter the view of adjudicators that there was room for improvement in financial reports. In particular they considered improved disclosure was desirable on the effect of foreign currency movements on profits. In late 1983 the Australian government had floated the Australian dollars and its decline in value following this decision and this affected the financial performance of many Australian companies. The adjudicator’s criticisms were that companies did not disclose the accounting policies used, how they treated the financial effects of changes in the Australian dollar in the current year and the anticipated effects for the next year (AIM, 1986). In the same report they identified other areas of accounting and disclosure that needed resolution. These included redeemable preference shares, unrealised gains, lack of accounting policies on revenue and departures from accounting standards.

Other major areas where there was often room for improvement in presentation and details including the following:
- impact of inflation, state of the economy and its effect on the industry and the company,
- dealing with contentious issues in the financial statements, impact of deregulation, marketing / competitive position (AIM, 1986).

In the last two years, adjudicators continued to identify the same weaknesses listed in earlier reports. They expressed concern about the “cavalier” approach to informing shareholders on major items such as debt defasance arrangements, the lack of disclosure and discussion on subsidiaries reporting large profits or losses (AIM 1988). Other concerns included lack of disclosure on research and development, no explanation of major changes in the balance sheet and the company’s competitive position (AIM 1988).

The 1989 report was the last award made by the AIM. There were a number of reasons for the decision to cease its involvement in future awards. Firstly, the instigators of the award Yorston and Owens and business people who actively promoted and supported the awards were no longer alive. The changed regulatory environment also led the AIM’s executive to recognise that their sponsorship of the awards was no longer one of their core activities. Indeed they believed a new sponsor would recognise the objectives of the award and the importance of quality annual reports. Awards are still conducted annually, sponsored by the Australian Business Magazine.

**Evaluation and Conclusion**

The awards were introduced with the objective of seeking to properly explain the role of business in society, and to be prepared in a manner so that shareholders, employees and other readers would be able to understand them. A set of criteria were established which were designed to improve the presentation and style of annual reports. The criteria would enable companies to better tell their story in a way that readers would understand.

In evaluating the success of the awards in achieving their objectives, we need to review the criteria. Throughout the life of the award, the adjudicators claimed that the standard of financial reporting continually improved. This view was based on the number of companies who satisfied the specified criteria. Yet this was only a small proportion of entrants. Given that the number of entrants does not necessarily increase each year, one can argue that the awards have limited success in improving the quality of financial reporting. Many companies are not interested and unlikely, to implement the criteria in their annual reports. Further, as the best report award was shared over the years by a small number of companies. While these statistics may support the earlier point that the awards interested
only a small number of companies, the evidence would suggest otherwise. Companies may still have improved their level of reporting although not gaining award while at the same time companies could be achieving a higher award over time as they improved the level of their reporting.

The judgement of whether or not financial reporting had improved was related to the criteria specified. These criteria were one line items with no detail provided. Their substance was in the subjective assessment of adjudicators and this could only be gleaned from their reports. No indication of how the criteria were developed was provided and whether they had been chosen in relation to the needs of readers. Another weakness was that the importance of each criterion was not known. If all items were treated equally, this ignored their relative importance, and could influence the ranking and awards given to companies.

Where entrants only satisfied some and not all the criteria, the adjudicators would be required to make a judgement. In the early years, the focus of the criteria was on style and presentation. These attributes of annual reporting were seen as contributing to better understanding by readers of annual reports. The regular revision of the criteria also ensured that the criteria reflated the reporting environment at that time. Gibson believed the most effective work done by the awards was to develop better presentation and style, and that the award could claim credit for the improvement in company reporting (Gibson, 1971). However in the subsequent periods, the awards also considered the issues of accounting practice and disclosure and were influential in contributing to an improvement not only to better presentation and style but also to some extent in the disclosure of additional information and improved accounting practice. The AIM only ceased its involvement in the awards when the awards were viewed as no longer a core activity of the Institute and by the increased regulatory environment in Australia, which increased complexity of published annual reports.