PROPOSED STANDARDS FOR CORPORATE ANNUAL REPORTS

Dissertation

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By

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CHAPTER I
INTRODUCTION

Large modern corporations are becoming increasingly conscious of their responsibility to report their activities to the persons who have a rightful claim to such information—not only large investors, but stockholders, employees, customers, governmental agencies, and the general public. Corporate management realizes that good public relations is a business asset and that honest reporting makes for better public relations. The public, as such, is now entitled to an amount of information about business that would have seemed fantastic to corporate management 15 years ago.

Since the corporate annual report is the vital communication medium for telling the story of business, several surveys have been made to see if the annual report has been doing its job effectively.¹ Most of these surveys have concluded that the annual report apparently was not doing the job as well as it should.

These surveys have pointed out the small amount of interest of stockholders in corporate financial information. The stockholders would like to know about the earnings of the corporation, and they

¹. See the Controllership Foundation's three studies: "The Public's Acceptance of the Facts and Figures of Business Accounting," in which it was found that almost half of the people of the United States distrust business reporting; (2) "Whose Corporations Are They?" in which it was found that almost a third of the people of the United States believe that a handful of men like the DuPongs, Fords, etc. own most of the corporations in America; (3) "What People Want to Know About Your Company," in which it was found that various groups of people are not satisfied with corporate annual reports. Controllership Foundation, Inc., One East 42nd Street, New York, N. Y., October, 1948.
would like to have someone give them an appraisal of the company's financial strength. But when it comes to reading financial statements and forming his own conclusions about the company, the typical stockholder loses interest and his bearings. He is impressed about the complexity of financial data and he is frightened by the incomprehensibility of the accounting language.¹

Only a small proportion (less than 40%) of the total body of stockholders really study their companies. The rest of them are seeking simple answers; and not getting them, they are in many instances doing without answers at all. If the answers are not forthcoming in the annual report, the stockholder must turn to his financial advisor.²

This lack of knowledge is great enough for management to take notice. Apparently stockholders know whether they are getting some dividend or not, and they have some idea whether or not their stock is on their books at a profit. Some of them also know whether or not there is more than one type of stock issued. But on the company's recent earning record, and whether it has bonded debt or not, there is uncertainty.³

When asked to criticize the annual report, stockholders obliged. Four-fifths of their complaints implied bafflement at the complexities of financial terminology or simple lack of interest in the subjects covered. The reports were "not interesting," "too long," "difficult

¹. See pages 1 and 2 of the study, "What People Want To Know About Your Company," Controllership Foundation, Inc., October, 1948.
². Ibid., p. 3.
³. Ibid., p. 3.
to understand," "too complicated." Only a small minority (5%) wanted more, rather than less, detail.¹

On the other hand, the large investor wants a greater overall volume of detail. He is interested in financial tables. He wants descriptions of who manages the company, reconciliation of the surplus and reserve accounts, income statements going back ten years, appraisal of the competitive situation, quarterly reports, money spent in research, complete exposure of expense items, policies for the future, etc.²

Bankers and financial analysts really are the big consumers of the information contained in annual reports. They want what the large investors want, only more so. No annual report is likely to satisfy their needs of investment counselling, institutional investments, and advice to clients. One big difference between the professional analyst and the investor is that professionals say that they take the financial information at face value. They feel that many annual reports try to paint company progress in the best light possible. For them, the annual report presents a particular point of view of the company's financial operations, which must be checked by reference to other sources of information, like tax returns and SEC reports.³

Three facts stand out about employees' use of annual reports. First, they know little of the financial information about the company for whom they work; second, they usually lack interest in finding out about the finances; third, their main interest is in their job security.

¹. Ibid., p. 9.
². Ibid., p. 16.
³. Ibid., p. 20.
Of course this lack of interest in annual reports may be that employees never see the report. Seventy-one per cent of the factory laborers and 41% of the white collar employees say that the annual report never reaches them. The relatively few who do read and receive them have few criticisms about them except that they are hard to understand in places. This latter criticism crops up also among the group who see the reports but do not read them.¹

Labor union leaders are likely to be suspicious of the motives of those who write annual reports. In spite of the doubts, few labor leaders allege that the annual reports contain willful distortions. The belief is that corporations attempt to conceal certain figures. As one labor official puts it:

When management is making money they are apt to be secretive for fear we will ask for a decent raise for the workers. When I say secretive, I mean that attempts will be made to cover up the earnings of the company, nothing fraudulent, you understand, but they lay down a smoke screen that is rather difficult to pierce.²

Another official says:

Frankly, corporations juggle figures just about any way they want to. They have a number of smart accountants in a corporation, and they can prepare a balance sheet or an operating statement that is, on the surface, a very reliable and apparently a very truthful statement. However, the methods of juggling these statements is something that is commonly known among labor unions.³

These officials are very suspicious of what accountants can do by setting up reserves. Many of them regard the depreciation and contingency reserves as methods of concealing earnings. But more than lack of re-

¹. Ibid., p. 25.
². Ibid., p. 29.
³. Ibid., p. 29.
liability, they would prefer having more information. Their chief criticism is lack of detailed facts to help them in deciding when to ask for pay increases, how much to ask for, and how to support their claims.

Professor Thomas Sanders,¹ Harvard University, made a survey of company managements to determine their problems in regard to the annual report. The results of his survey indicate that the chief problem confronting management people is what and how to present information in an annual report. Excerpts from some of top management comments are as follows:

1. We believe that the principal problem is the preparation of the report in such a way that it can be read and understood by everyone. Unfortunately it is rather difficult to prepare such a report respecting at the same time the feelings of the financial world which is more or less accustomed to the accounting terms and phraseology.

2. Along with many other companies we are giving consideration to what can be done by us in making our reports more informative and of more interest to our stockholders, employees, and to the general public. We realize that our report is not as informative as it might be, but we have reached no conclusions as to how far we should go in the future.

3. You ask whether we regard any particular phase of our Annual Report as a problem. We consider it more of a challenge and an opportunity to address our stockholders and to inform them on certain phases in connection with business, which perhaps have been too often overlooked. We don't think stockholders as a whole have received enough information from business in the past, and we plan to expand the amount and type of information which we furnish the stockholders and the public through our financial statements.

¹. See Sanders, Company Annual Reports, Graduate School of Business Administration, Harvard University, Boston, 1949, p. 100 et sequens.
4. The principal problem in the preparation of the Annual Statement is the selection of material other than the regular financial statements to be used, and the presentation of the material chosen in an interesting manner.

5. The two phases of our Annual Report which worry us are perhaps the same two that worry everyone, namely, what to put in it and what format to use.

6. We feel that the main problem in the report is presenting a brief yet complete picture of the Company and its operations to the stockholder in such form that the stockholder will understand.

7. Our three main problems with our Annual Report are as follows:
   1. To use such simple language that even the least educated of our stockholders can understand the report. This is very difficult and we do not always succeed.
   2. To make the report a medium of advertising of our products as well as a medium of relations with our stockholders and with the public.
   3. To so state the facts that they will not be objectionable to our employees even though they may be attractive to our stockholders. In other words, it is easy in emphasizing certain things to stockholders to hurt employee relations and vice versa. Of course, our main emphasis is on the stockholder because it is a report to stockholders.

The Problem.

With the conflict of interests among the people or publics who use the information in annual reports, it is obvious that the annual report is not measuring up to current standards of presenting accounting and financial information. The reports are not clear; they are not complete; they do not consider the reader; they are not convincing; they lack character; they are not concise. In short they are not performing their communicative function as well as they should.
Purpose of This Dissertation.

Since corporate management has the responsibility to furnish the public with more and better information through the annual report, this study is an effort to propose standards for the presentation of accounting and financial information in corporate annual reports. If such standards are accepted by management, it is believed that the job of reporting can be done well, without waste, and with a minimum of objection from the persons who read corporate annual reports.

This survey, in proposing standards for communication, does not intend to take away the right of management nor to tell management how to present its business story to the readers of annual reports. This is not the function of research. However, it is an attempt to suggest standards for effective communication of its business life. These standards are merely suggestions for the consideration of accountants—public and private—who aid management in the preparation of the annual report. The judgment of management and its inherent right to make decisions is still the prerogative of those who are responsible for the presentation of accounting and financial information in the annual report.

Although the primary purpose of this dissertation is to propose standards of communication of information in annual reports, the secondary purpose of this business research is to attain a better understanding of the problems and practices of business administration with a view towards contributing to their improvement.

Incidentally, if the standards as suggested are accepted, they may be used as a basis for determining the "best" annual reports in
an industry. Such annual report awards are now given to companies whose annual reports are considered the "best" in industry. Such "Oscars" have to be judged. Standards should be used to determine the "best." Perhaps the standards of this dissertation could serve that purpose.

Source Of Information For The Dissertation.

Published corporate annual reports serve as the source of information for this study. The annual reports in the files of the Accounting Department have been made available as the primary source of data in conducting an analysis of their contents and of the methods of presentation.

Other sources of primary data are the persons who make and use the reports. Information has been obtained from them directly by correspondence, questionnaires, and personal interviews. In addition to the annual report, references—books, pamphlets, and magazine articles—serve as secondary sources of information.

Method Of Conducting An Analysis.

Analysis by its very nature is the breaking down of information into its component parts. It is a process of examining critically the nature of something to determine its essential features. By understanding such features, one should be able to reconstruct or synthesize the same information to make a better contribution to the item analyzed. Such is the technique used in analyzing annual reports—breaking down the information with a view towards understanding it better so that better annual reports can be made.
An annual report is a medium of communications. Communications has been defined in layman language as:

Who?
Says What?
By What Medium?
To Whom?
With What Effect?

The scientific study of the process of communication tends to concentrate upon one or another of these questions. Scholars who study the "who," the communicator, look into factors that initiate and guide the act of communication. This subdivision of the field of research is called "control analysis." Specialists who focus upon the "says what" engage in "content analysis." Those who look primarily at the radio, press, film, reports, and other channels of communication are doing "media analysis." When the principal concern is with the persons reached by the media, it is spoken of an "audience analysis." If the question is the impact upon audiences, the problem is "effect analysis."¹

By analyzing the annual report with these thoughts in mind, one should be able to construct standards to which all annual reports should conform. Such is the intent of this survey.

By these various analytical studies of the annual report, i.e., control analysis, content analysis, media analysis, audience analysis, and effect analysis, certain basic fundamentals of presenting information should evolve. These fundamentals, it is believed, should form the basis for standards of presentation. These standards, if followed

in presenting information in annual reports, should then result in more effective reports.

Consequently, annual reports for the past ten years of selected corporations have been analyzed to determine the proposed standards. Since the annual report is empirical evidence it should serve as reliable data to form the standards proposed in this dissertation.

**Limitations.**

The standards proposed in this dissertation are concerned with presentation of information not with collection of information, nor with interpretation of information. Presentation, in the sense intended, is the communication of information in financial statements as well as in the written section of the annual report.

**Impact of the Proposed Standards.**

If the standards proposed in this dissertation were accepted by business leaders and actually put to practice, the impact, it is believed, would be beneficial to the readers of the annual report. If such an organization like the National Association of Manufacturers or the United States Chamber of Commerce or other organizations which influence managerial thinking should endorse these proposed standards, the prestige of the College of Commerce and Administration, Ohio State University, would be enhanced. It would be performing a vital service to business in making their annual reports more effective.

Incidentally, these standards, if accepted, could serve as the basis for various industry annual report awards to be made at the Ac-
Accounting Institute sponsored annually by the Accounting Department of the Ohio State University. Such awards could be made in conjunction with the annual Hall of Fame awards for accountants.
CHAPTER II. SOME BASIC CONCEPTS

A concept is an underlying belief, thinking, or opinion on some subject. Concepts are at the base of one's thinking. In fact any philosophy is based on fundamental concepts. Consequently, it may be well to examine the fundamental concepts upon which this dissertation rests.

Functional Concept Of Accounting.

Accounting is a function which practically every business recognizes. A function is work. This work is used to attain objectives. The objective of accounting is to report information to people for making decisions. Since the corporate annual report may serve as a basis for decision making, it is well to have a concept of what accounting is. In its functional sense accounting is the art and science of collecting, recording, summarizing, reporting, and interpreting financial information of any organization.

Collecting function: The first function of collecting financial information involves a system or procedure so that financial information may be gathered with a minimum of effort and expense to be useful to the persons who make decisions based on factual data. The items collected are the business forms and records used in everyday transactions. Such forms include invoices, sales slips, requisitions, purchase orders, notes, contracts, checks, payroll records, and the multiplicity of other business forms required to effectively manage a business. From all these sources of information, accounting collects the information to perform the next function of recording.
Recording function: Recording financial information is performed in various "books." The use of these "books" involves several steps in recording financial transactions. The primary steps are analyzing transactions, determining what to debit or credit, and posting that information to a journal and later to a ledger. This recording process may be done by hand or by machines. In any case the information is recorded in journals—cash, sales, purchase, or any special journal required by the needs of a business.

Summarizing function: Periodically the information is summarized or added up to determine the results of past transactions. Normally this is done monthly. When such is the case, a posting from the various journals or books is made to a ledger account which is a summary of a certain group of transactions. When all the ledger accounts are added, they may be summarized in a trial balance. Such a trial balance serves as a basis of making financial statements and reports.

Interpreting function: The information in the trial balance and statements needs to be interpreted before it can be used. Such interpretation involves human understanding either by analytic or synthetic processes of logical thinking or by combinations of both. Such interpretation by the human mind is the most difficult function of accounting.

Reporting function: The final function of accounting is the reporting function. Many times the reporting function precedes the interpreting function. In any case the end result of accounting is the reporting of financial information to various people. This information is usually communicated in financial statements and reports which serve as the basis for many decisions of interested groups of people.
Advantages Of Functional Concept.

By analyzing this functional concept, we may distinguish easily between bookkeeping and accounting. Bookkeeping is basically a collection, recording, and summarizing function. Accounting involves the interpretation and reporting function. The intermediate function of summarizing may be a function of either bookkeeping or accounting, depending on the person who performs the function. An expert bookkeeper should be able to handle the summarizing function easily. Thus this functional definition distinguishes clearly the difference between bookkeepers and accountants.

Another advantage of the functional concept is that the reporting function of accounting may be singled out for further improvement. By singling out and analyzing the reporting function, we may take steps to improve this function which is perhaps the most poorly performed function in terms of accounting training. Such is the primary purpose of this dissertation: to establish standards for the reporting or communicating function of accounting so that the reporting function may be improved for the benefit of both the reporter and his audience.

This functional concept of accounting may be shown graphically:

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1. Many articles in accounting journals point out that the basic weakness of accountants as a group is their inability to report or express themselves effectively. Such is the case in accounting reports, one of which is the corporate annual report. See "Current Auditing Problems," by George D. Bailey, in the Journal of Accountancy, April 1950. Also see, "Reports for Management," by K. C. Tiffany, in The Accounting Review, April 1950. Both of these articles point out that accounting training is relatively weak in written communication.
Figure 1. Functional Concept Of Accounting

ACCOUNTING IS THE ART AND SCIENCE OF:

- Collecting
- Recording
- Summarizing
- Interpreting

OF
IN
IN
BY

BBUSINESS DATA
JOURNALS & LEDGERS
TRIAL BALANCE
FINANCIAL STATEMENTS
HUMAN MIND

THE FINANCIAL INFORMATION OF AN ORGANIZATION

FUNCTIONAL CONCEPT OF ACCOUNTING
Social Concept Of Accounting.

Accounting is the language of business. It is the only satisfactory means of expressing economic facts. It provides an effective means for reporting, in terms of dollars and cents, facts about every phase of financial activity. It is the common denominator which can measure the contributions and rewards of management, capital, labor and the general public. The principal means of communicating this financial activity to the various groups in our economy is through accounting reports and financial statements. These statements and reports are used by (1) management, (2) investors, (3) creditors, (4) employees, (5) government, and the (6) general public. All of these groups form a part of society. Thus accounting is a social force. This social aspect of accounting is a basic concept for this dissertation.

Management uses of accounting information: Managers are primarily responsible for the production, distribution, and financing of any business activity. To accomplish these business functions, managers must plan, organize, direct, coordinate, and control. They must rely upon accounting to perform these management functions. In planning, the manager uses accounting information to make budgets of estimated income, expenses, purchases of equipment and material, cash needed to operate the business for maximum profits. He may set up standards to which other people must conform. In organizing, the manager uses accounting data to set up in advance the amount of capital needed for the accomplishment of a plan. In coordinating, he uses accounting reports to let his other members know what is happening in his business. In controlling, he uses accounting data to see if his plans are being carried out.
He uses accounting data to compare actual results with standards or to compare actual results with estimated results and then to take any corrective action if needed.

**Investor's use of accounting information:** The one major source of financial information for investment analysis is the financial statements of a business. These statements are prepared directly from accounting data recorded, summarized, and reported by the business in which an investment is desired. Accounting is valuable to the investor because it provides a basis in determining whether to keep his investment, whether to add to his investment, or whether to dispose of his investment. Frequently, the investor does not analyze the financial statements himself, but relies upon the advice of investment counsellors, who must use the accounting information to give sound advice to prospective and active investors.

**Creditor's uses of accounting information:** One source of funds to finance operations and expansion of a business is from people who are willing to lend money, goods, or services to a business. Many businessmen rely upon bankers to lend them money. They rely upon merchants to sell them merchandise on credit. Naturally a merchant-creditor who lends his goods to a business wants to protect his loan. The banker wants to protect his interest in the business. Consequently the banker and merchant request financial information from the business before a loan is made. These requests frequently take the form of financial statements used by the banker or merchant-creditor to determine a business's ability to repay a loan. Since modern business is so complex and since a risk of loss is so great, credit grantors require financial in-
formation because they cannot rely upon personal knowledge of the finances and managerial ability of a business as they did when business was less complex.

**Governmental uses of accounting information:** All types of governments—local, state, and federal—require accounting information for taxing purposes and regulation purposes. Of common knowledge to everyone are the income taxes. These are determined from accounting information. Other taxes which are dependent on accounting information are property taxes, sales taxes, licenses and franchise taxes. Before any of these taxes are levied, however, some recourse must be made to accounting data which have been recorded and summarized.

Accounting data are also required for regulation purposes by many agencies of the government. Among the more prominent federal and state regulatory bodies which require accounting data are the Securities Exchange Commission to regulate issuance of stocks and bonds, the Interstate Commerce Commission to regulate railroads, Treasury Department to regulate taxes, Department of Commerce to regulate wages and hours, and various state agencies to regulate insurance companies, banks, and corporations.

Governmental economists also use accounting information. These economists are concerned with the affairs of all businesses and of mankind as a whole. However, the information produced by the accounting profession is required by the economists in the course of their studies. Accounting information serves as the bases of statistical studies needed by the economists in showing the effects of factors, forces, and results of business in general.
Employee uses of accounting information: It has been said that employees are not interested in accounting information since their immediate concern is security on the job and their weekly payroll. However, labor unions and the managers of business are now making available the accounting statements and reports to employees. These statements are explained so that the employee realizes his role in the business. Accounting shows what contribution the employee makes to the business and shows him what contribution other people make to the business.

Modern employee-management relations are characterized by keeping the employee informed on financial affairs, production affairs, and selling affairs. He is told by means of annual reports, employee reports, slides, pictures, graphs, and many other media of communication. All of this accounting information is relayed so that better cooperation and teamwork will exist between employees and managers in making the business a success.

General public uses of accounting information: Published accounting reports are available to the general public through various public media—annual reports, newspapers, radio, television, and magazines. The use of accounting information varies. Teachers use it in teaching students about business. Citizens use it to employ better governments. Lawyers use it for judicial proceedings. Consumers use it for social control.

The mysterious consumer body of the "general public" which, in the final analysis, regulates business activity through its purchases of business products and services is served by the information which accounting furnishes. At times, rather indirect, public influence is
shown by the laws and customs of various governments. But its influence can be materially affected by factual information about costs and finances which accounting can supply. Only until recently have people recognized the vital role which accounting furnishes to this "general public."

Despite the use of accounting information by various groups of people, the United States as a nation is ignorant of the fundamental facts which make up our economy. We have an industrial system which outranks any other in the world, and yet there is an economic illiteracy among our people. There is the public failure to recognize one fact: only that which is produced can be divided. It is this economic illiteracy which causes misunderstanding among the people who make up our economy. The failure of free enterprise to sell itself to the people is our greatest weakness. This is where accounting can play its biggest role. Being the only known medium of economic fact, accounting can bring this economic information to the people.¹

Shown graphically, this social concept of accounting may be portrayed thus:

¹ For an excellent discussion of various groups of people who use accounting information, see Intermediate Accounting, by H. C. Miller and J. B. Taylor, published by McGraw-Hill, 1938. On page 5 they state: "The main source of contact which management, owners, creditors, and investors have with accounting is through financial statements."
Figure 2. Social Concept Of Accounting

ACCOUNTING - LANGUAGE OF BUSINESS

SUPPLIES INFORMATION FOR THESE INTERESTED GROUPS

MANAGERS

OWNERS

CREDITORS

EMPLOYEES

GOVERNMENTS

PUBLIC

SOCIAL CONCEPT OF ACCOUNTING
Social Concept of Management.

Another basic concept, upon which the proposed standards rest, is the social concept of management which spells out management's responsibility to the various groups of people who make up our economy. This concept is based primarily on the right of private property in our society.

Right of private property: Organized society in our country, at least, is the ultimate source of all rights. Private business receives its right to conduct business through the right of private property granted by society. Since individuals make up our society, the right of private property is that right of an individual to hold and use property for his personal benefit, with due regard for the public interest.¹

Managerial rights and authority come from those people who turn over their property rights to some person who is responsible to manage a business organization. Consequently, when property of an individual is turned over to an organization, the person who releases the property has a "right" or "interest" in that business in which the manager tries to serve. Usually those people who have turned over their property rights are entitled to information on how that property is being used.

Management obligation to furnish information: The corporate annual report may serve as the medium of giving this information to those people who have a claim on the management for information on how that property is used. Such people are owners, creditors, employees, government, and the general public. All have claims upon management for information in varying degrees on how management has performed its

¹ See R. C. Davis, Fundamentals of Top Management, Harper and Brothers, New York, 1951, Chapter 1, for an excellent discussion of the right of private property in our economy.
stewardship in administering the property of the business. Therefore management should be obligated to give those various groups of people the information they desire. Professor Hoagland realizes this concept when he states:¹

Might it not be well for the ordinary business corporation to include on its board of directors a few members who can consistently represent the points of view of the various 'publics' concerned with its operations? ...the experiment is...worth a trial. Its results might save many headaches for otherwise narrow-minded boards.

Stockholder Claim For Information.

Since the stockholder has an ownership claim on the business, his claim to information is a legal one recognized in most state corporation codes. Even before his right was established legally, Biblical times record the claim upon a manager for information when a certain man called upon his steward, "What is this that I hear of thee? Render an account of thy stewardship."²

The legal right for information is accorded the owner, both by custom and by law. Thus the stockholder is to be kept informed about the progress of the corporation which he helps to finance. For example, the Ohio Corporation Code says:³

At the annual meeting, or at any other meeting at which directors are to be elected, every corporation, except banks, shall lay before the shareholders a statement of profit and loss and a balance sheet containing a summary of the assets and liabilities, a summary of profits earned, dividends paid, and other changes in the surplus account of the company, made up to a date not more than four months before such meeting,

³. General Corporation Act of Ohio, Sec. 8623-8664.
from the date up to which the last preceding statement, account, and balance sheet were made up, and in the case of the first statement and balance sheet, for the incorporation of the company.

However, a wise owner and investor would not base his investment decisions solely on the scanty information, required by law, to be furnished in a report to him. There is a great deal of difference between that information and the minimum standards of information recommended in this dissertation for an annual report.

**Definition of report:** A report is a medium of communication of information to someone else usually to solve a problem. Or to define it in its functional sense, a report is the collection, organization, interpretation, and presentation of information for the purpose of solving a problem.

An **annual report** is a yearly medium of communication to present information of the more important events in the life of a business. Collectively all the annual reports of a business should serve as an historical record of the business. Primarily the report should be directed to the stockholders, but not exclusively. There are other groups of people who have just as good a claim on the business for information as the stockholder.

**Value of the annual report to stockholders:** An annual report serves as a valuable tool for the stockholder-investor. Since there is usually wide diversification of stockholders (at least in the "public" type of corporation), a report is needed to provide them with information.

1. Note the word "legal" is not used. It is believed that a more recognition of a "legal" claim is not broad enough. An "economic" claim might be a better approach, based on the right of private property.
Such information is needed by stockholders as an intelligent basis to determine (1) whether to invest, (2) whether to sell, or (3) whether to hold an investment.

Corporate managements, perhaps, are beginning to realize that investors are in a position to influence the activities of a business by their investment decisions. Investor action, present and future, can be influenced by the information sent to them in annual reports. Thus the annual report plays an important role in obtaining capital from stockholders, selling the company's products to stockholders, and getting an active interest of stockholders in supporting the decisions of management.  

Creditors' Claims For Information.

Creditors do not always have a legal claim on management for information. However if management does not comply with the creditors' wishes in getting information, then the creditor may refuse to extend credit. The right of private property also dictates that a short-term creditor has a claim for information inasmuch as he has property rights in the goods and services which a short-term creditor lends to a business. If management abuses that right, the creditor will not lend. Thus it is to management's interest to relay information to creditors on how the creditor's goods and services are being used.

There is also a property right in assets which long-term creditors

1. See Sanders, Company Annual Reports, p. 5 of the Foreward.
2. See the National Industrial Conference Board Study No. 43, "Stockholder Relations," for the advantages of stockholder relations. These favorable relations can be maintained and initiated by annual reports.
have when they lend money to a business. Sometimes this right is a legal one in that the right may be expressed in a trust indenture between the creditor and business. Many times the business is required to report on its activities to the long-term creditor. Annual reports strengthen this reporting activity. It may serve as the unofficial medium between bondholder and business.

Employees Claim On Information.

The employees of a business have a direct interest in the business. Their interest is probably second only to the stockholders inasmuch as it is through their efforts, combined with capital, that the business creates values for sale. They have a property right in their right to sell their services to the management of the business. Consequently they are entitled—not legally, but morally and economically—to information about the business for which they work. This concept probably would not be recognized by many managements; however such a concept should be recognized for management’s own interests. When an employee has a better appreciation of the problems facing management, then it seems that management should be obligated to report activities of the business to the employees concerned with those activities.

A better annual report, addressed to employees and prepared for employees, as well as the other groups concerned, would strengthen employee morale so that the interests of both employees and management

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1. It is one thing to be forced, legally, into reporting. It is another to report voluntarily. It is my contention that a voluntary recognition of the employees’ claim for information would bring better understanding among labor and management.
can be integrated into the common objective of both groups. Without this morale the manager realizes that his objectives of leading the company to any success are hard to attain. The manager knows that he is required to exercise due regard for stockholders' interests, for customers' interests, and for the general public. He also must exercise due regard to the rights of his employees to retain his leadership of them. He must get information and give information to develop morale in his organization. Without morale, his objectives are realized only through forced labor. Therefore it seems that an enlightened management should make an annual report a tool for management. The report should serve as a medium for giving employees information about the company.

A company which does report to its employees on its financial matters has some advantages:

1. To give employees factual information...straight from the source.
2. To correct misconceptions and misunderstandings.
3. To avoid misconceptions and misunderstandings.
4. To gain employee confidence in the company and in American free enterprise.
5. To show the employee his part in the affairs of the business in relation to stockholders, creditors, and other interested groups.

1. Inevitably both groups have to have their personal objectives subjugated to the organizational objective of creating values for the customer. When one group's objectives override the primary service objective of a business, then the business has a good chance to fail. See R. C. Davis, Fundamentals of Top Management, p. 546. See also Henri Fayol, Industrial and General Administration, p. 23: "In any undertaking, the interest of an employee, or group of employees, must not take precedence of the interest of the concern as a whole." The same principle holds for management.

2. See Modern Corporate Reports, by L. Doris, p. 254. This excellent reference was published by Prentice-Hall, New York, in 1948.
6. To encourage employee recommendations of the goods or services which he helps to make.

7. To build employee morale by showing his contribution to the organization's objectives.

**Government's Claim On Information.**

By what right does the government (local, state, and federal) have a claim upon management for information? Basically their right to such information comes from society. Society is the source of all rights. Individuals turn over their rights to government officials who in turn use these rights to serve the individuals. The government gives a business the right to do business. Thus the government is entitled to information regarding the activities of these business managements, who use the right to do business in either creating, preserving, acquiring, or distributing economic values to the public. Requests for information are common place. Thus the annual report should serve as a desirable medium for transmitting information to governments concerned.

**General Public's Claim On Information.**

By what right does the general public have a claim upon business for information? As was stated, organized society is the source of all rights. Society is the general public which a business should serve. The primary objective of a business organization is supplying economic goods or services for the public.¹ The owners of a business have a

¹. See page 278 of *Scientific Appraisal of Management* by Jackson Martindell: "In its outward aspects, superior management understands what it is the public wants and why and how it wants it. Profit may be the corporate objective, but service is the means through which good management strives to earn it." This book, published by Harper, New York, 1950, gives the details of a managerial audit of a company (similar to an accounting audit) to determine the efficiency of management.
right to profit only to the extent that they have the ability to discharge their responsibility properly.¹

These rights of the general public obligate the owners and management (through delegated rights of owners) to give information to the general public. The annual report is one of the best media by which such information may be communicated. In so doing the annual report may satisfy the various groups of our economy since these groups occupy multiple roles. They may be owners, creditors, employees, consumers—all at the same time. Thus the annual report may satisfy all of their claims for information. This is the basic concept upon which this dissertation stands. As Jackson Martindell states:²

The whole trend of social thought is towards a fuller, and more fully expressed, realization of social responsibility on the part of our economic institutions. Those among them that violate this general social drift cannot expect to endure. Those that recognize it and not only adapt themselves but deliberately increase both the degrees and the extent of their social usefulness may hope to flourish.

And Professor Hoagland substantiates the concept by:³

The older concept of a 'special privilege' in the form of a corporate charter has given way to the current conception of the 'right' of all citizens to access to the advantages of corporation codes. But in payment for this right, its users are expected to render a service that justifies the grant of the charter. Commodore Vanderbilt might not approve the substitution of 'the public be served' for his famous expletive 'the public be damned.' Yet more and more the test of corporate sanctions is bound to become the kind of service that the various segments of the public receive from our business enterprises. Business statesmen recognize this fact and adjust their operations to it. Others must expect to take the consequences for their failure to read and abide by the signs of the times.

¹ See R. C. Davis, Fundamentals of Top Management, p. 92.
² Jackson Martindell, Scientific Appraisal of Management, p. 92.
³ Henry E. Hoagland, Corporation Finance, p. 790.
Every corporation which publishes an annual report should recognize its potential tool to influence the general public, whether the report is so designed or not. The man in the street may never see a copy of the report, but he is influenced by newspapers, magazines, radio, his minister, his friends, and perhaps even so by politicians. All of these channels of communication get their information from annual reports.

The annual report is a public document of perpetual interest to the public since it concerns profits. Once in the hands of stockholders, it will reach other people. Because of the report's public relations features, it becomes an excellent opportunity to relay its information to a much wider audience than stockholders. The people who prepare the annual report should keep this concept in mind.

This social concept of managerial responsibility to report to the various groups who have a claim for information may be portrayed thus:
Figure 3. Social Concept of Management

- Supply Information
- Obligations to Creditors, Owners, General Public, Employees, Governments

Social Concept of Management
Concept Of Annual Report As Medium For Free Enterprise.

One of the greatest problems in our economy is to satisfy the distorted and confused claims of the various groups who make up the economy. The problem is basically one of the various groups understanding the point of view of other groups. The problem is stated that simply.

The greatest weakness in our system is that lack of education about how the free enterprise system works. It is the inability of business to explain itself. The consequent lack of understanding of the various people breeds fear, distrust, antagonism, and even killing. As Maurice Stans points out:

The failure of free enterprise to explain and sell itself therefore is its greatest weakness. In the face of the known dissatisfactions, and the internal and external pressures for change to inferior and unproved substitutes, the continuing inability of free enterprise to communicate its facts to the people may prove to be fatal.... (Italics are mine.)

There is a great "need" but not a "demand" for making people understand business and economics. This public indifference is the limiting factor. It is the problem besetting business. Our free enterprise weaknesses cannot hope to be corrected until the various groups acquire not only intelligence and information but also an active interest in the affairs of a business in which they have an interest.

Accounting, as the language of business, can serve as the means of communicating economic facts. The medium by which accounting and business can tell its story is the annual report. The financial statements, which serve as the basis for the annual report, are the facts

presented. These financial statements are no longer simple measures of accountability of one person to another. They are social documents. If our economic system is justifiable, its justification can best be established through the annual report in developing understanding, significance, and the meaning of these financial statements. Any weakness in methods of financial reporting results not only in a failure of communication but also in a distrust of the whole system. It is only human nature to distrust that which we do not understand.

**Indifference of average person:** There is much indifference and ignorance of the average person to the whole reporting business. Many surveys and studies confirm this. There is perhaps much more ignorance than is suspected, but such ignorance should be a challenge to any reporter who tries to influence a reader. The point being made here is that such indifference and ignorance should not be made an excuse to discontinue good standards of reporting. Such actions are neither constructive nor progressive.

Ignorance is not the whole picture. There are many serious students, investors, creditors, customers, and teachers who make intelligent use of annual reports. Their role in our economy is great. Any effort to discontinue good standards of reporting would be decreasing their influence in spreading the good word of business to the "average person."

Every specialist knows of the indifference of the "average person" to his (specialist's) field. But the progressive specialist is not accepting such indifference without effort; he is continuously trying to educate the "average person." Very few men who are not economic spec-

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1. In a later chapter, results of several surveys will be presented.
ialists know how economic forces work over a period of time. But such a situation is not hopeless; to point out these forces is the problem. Many annual reports show an increasing awareness of the company's part in the economic order.

Consequently company officers and their accountants should go on struggling for a larger share of the general public's attention and they should also keep searching for ways of teaching the general public. Such a job becomes discouraging, but many top managements and many accountants—public and private—accept such responsibility. More should do so.

**Need for reexamination of accounting:** If we recognise the need for dispelling economic illiteracy, something should be done about present accounting reporting methods. Mr. Maurice Stans says:

> Therefore if anything is to be done about the elimination of this economic illiteracy, it must in the first instance be directed toward examining into the efficacy of this means of communication. Corporate financial statements, it seems, are the first place to start....

In view of this lack of communicability and distrust of financial statements, it might be well to ask some soul-searching questions. Mr. Stans asks some of them:

1. What is wrong with accounting as the public sees it?

2. Could it be that...many of the terms of accounting are technical jargon which the layman does not understand?

3. Could it be that there are no fixed standards of minimum disclosure for financial statements?

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4. Could it be that the word, "reserve" has five or six different meanings in accounting...?

5. Could it be that there are more than ten different names for the income statement....?

6. Could it be the use of such absurd inherited primitive terms as "balance sheet," "profit and loss," and "surplus"?

If any of those questions are barriers to public undertaking, then it seems as if they should be removed. The public expects financial statements to mean something. But its impression is that of dealing with a technical jargon. As Stans points out: "This 'technical gibberish' is not necessary when layman language could meet every situation."

**Basic concept:** Since the annual report is the medium of economic facts by which the language of business expresses itself, it is evident that the annual report should have as its greatest objective that of enhancing public understanding of business and free enterprise. In the annual report, this may be accomplished.

**Concept Of Accounting As A Medium Of Communications.**

Another concept of this dissertation is that accounting is primarily a medium of communication. If we were to analyze the communication process, we could break it into five parts: (1) Somebody (2) says something (3) by some medium (4) to someone else (5) with some effect. These five parts are combined to reach an objective.

If we further analyze, we see that with any communication process that there are two persons associated with each other. Two or more

2. *These five parts are basic. Sociologists accept them as standard. See* *Communications of Ideas*, edited by Lyman Bryson, Harper & Brothers, 1948, p. 27.
persons form an organization, \(^1\) formal or informal, that works toward some common objective. An organization is always led by someone toward reaching its objectives. That leader today is called a manager. A manager is an executive leader.\(^2\) He performs the functions of planning, organizing, directing, coordinating, and controlling the activities of people and things in order to reach the organization's objectives. The art and science of management is the application of these functions to the solution of problems which are confronting the organization in reaching its objective. In so doing a manager consistently uses the processes of communication as we have seen. In fact, without communication he could not solve his problems in carrying out his functions of planning, organizing, directing, coordinating, and controlling the activities of others. Therefore it might be well to see how this communications process really works to his advantage.

**Similarity of communications and accounting:** In performing his managerial activities, the manager communicates information and uses information communicated to him. Without it, he would be lost. Information is usually in the form of reports—oral, written, or graphic. A report, as we have analyzed its functions,\(^3\) is the collection, organization, interpretation and presentation of information to reach an objective—usually to solve a problem. Such information is usually quantitative, qualitative, geographical, and chronological information. However, before any information is communicated, the following functions

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1. See R. C. Davis, *Fundamentals of Top Management*, p. 18. "The term 'organization' may refer to any group of individuals that is working toward some common end under leadership."
2. Ibid., p. 43: "Management is the function of executive leadership."
have to be performed: (1) analysis and understanding of the problem, (2) collection of the information, (3) organizing it once collected, (4) interpreting it once organized, (5) and the final function of presenting it to someone.

Now if we were to compare the functions of accounting,^1 to the function of communication, we see immediately how accounting is one of the media of communication.² If we accept this concept, then we can easily see how accounting should follow the principles of communication as we have defined it (as a process and as the functions which make up that process).

Communications as a progenitor of accounting: All of the functions of communications, management, and accounting are facilitative in nature, i. e., they are used to reach an objective—that objective usually being to solve problems. In other words, if we ask the "why" of communications, accounting, and management, then we see how they are related. But let us realize that accounting is basically a communicative process.³ Basic accounting ideas are communication ideas. Many times accountants are apt to forget this concept. Unquestionably, however, accounting has contributed to the communication progress within the following process

1. Collecting, recording, summarizing, interpreting, and reporting financial information of an organization.
2. Other business fields of study are also basically "communications." Such include: statistics, advertising, selling, management, security analysis, transportation, etc.
3. A confirmation of this idea is found in: "Administrative Accounting in the Accounting Curriculum," in the Accounting Review, January, 1953, by G. A. Summerhill. He says: "Of all of the ideas which would describe accounting, it would appear that the idea of communication is one around which may be gathered all of the most important developments over which accounting claims proprietorship."
and functions: ¹

1. Collecting, recording, sorting, and analyzing administrative fact.

2. Organization, interpretation, and presentation of administrative fact.

Essentiality of communications and accounting: Communications and accounting are essential to organized society. They are needed for any activity of any size. They serve as the network or fiber of an organization. More and better communications and accounting training are needed in any business. More and better annual reports, the end products of accounting and communications, are needed to serve those who have an interest in a business organization.

Basic concept: Since accounting is a medium of communication for the presentation of economic facts via the annual report, every effort should be made to improve the reporting functions in accordance with accepted principles of communications.

Concept Of Standards.

As stated previously, the purpose of this dissertation is to propose standards for corporate annual reports. In so doing a concept of standards is needed. A standard is an authoritative model or measure which is established by custom, authority, usage, or general consent. A standard is needed as a pattern for guidance in reaching an objective. It is used as a basis to compare quantity or quality to the means by which an objective is reached. Standards for annual reports are no exception to this concept.

Figure 4. Concept Of Communication Process
Standards are universal within limits: The need for standards is universal in business. They enable business to improve the quantity or quality of its work. Such is true in the work of preparing annual reports. If standards are accepted, they should serve to improve annual reports of all corporate businesses—not just the big companies. There is no reason to exclude the smaller companies which prepare annual reports.

Standards are results of scientific methods: Standards come about through investigation, analysis, and classification. They are set up by either (1) usage, (2) custom, (3) general consent, (4) authority, (5) or by any combination of these.

Standards are measurable: Standards imply a measuring process of some sort. It is the purpose to propose standards, measurable as much as possible, within the limits that annual reports are measurable. This measuring process serves as a basis for determining if objectives are being reached. Both quality and quantity standards are used in this dissertation. Quantity standards are relatively easy to measure. The difficulty comes in measuring quality standards. Refinements may have to be made once the standards are used. This is to be expected.

Tolerance in standards: Standards cannot be rigid. There must be room for differences of opinion especially in qualitative standards, such as are being proposed. However the differences or tolerances should be in degree not in principle. There is, for example, much evidence that company managements in their standards of reporting to the public are influenced by the size and character of their businesses. Company managements feel they owe different degrees of information to their

stockholders and to the public. In small companies the top management probably thinks something like this: "We are a small company. Our stockholders number less than 2000. Fifty-one percent of our stock is held by our managers or by their families. We are not listed on the stock exchange but our stock may be traded over the counter. We have made good profits, paid good dividends, and shall continue to do so. We give our stockholders all the information which we think is necessary for them."

In contrast, the large corporations which serve a public interest have different thinking. Their top management thinking probably goes something like this: "We are one of the largest companies in the area. Our stockholders, employees, and customers run into hundreds of thousands. We are subject to government control; and we accept and recognize our public responsibilities which include full disclosure of the activities of our business. The more our business is known and understood, the greater will be the public confidence in us. Public confidence is essential to our welfare. So we must deserve and obtain it."¹

Naturally the degree of tolerances in standards of reporting allows for these contrasting philosophies. But if annual reports are used certainly they should follow minimum standards of good reporting. Therefore the trend of the times probably will require the smaller company to increase the quality of their standards.

Difficulties with standards: The development and maintenance of

¹ See Sanders, Company Annual Reports, pp. 3-4, for a good discussion of different thinking of top management regarding annual reports.
standards is difficult. Many people prefer to keep on doing the same old things in the same old way. This is usually the path of least resistance; but it is not the path of progress. Some people oppose standards. But standards promote progress; they do not freeze it. Consequently standards should promote progress in annual reporting.

Summary Of Concepts.
The following are the basic concepts for this dissertation:

**Functional concept of accounting:** Accounting is the function of collecting, recording, summarizing, interpreting, and reporting the financial information of an organization. The reporting function is the basis for annual reports.

**Social concept of accounting:** Accounting serves a social need in supplying information for various groups of people—management, investors, creditors, employees, government, and the general public. These groups in our economy depend on accounting, through the annual report of the business, to supply information for various decisions which the groups make.

**Social concept of management:** The right of private property imposes upon the management of a business the obligation of furnishing information to stockholders, employees, creditors, governments, and the general public. All of these groups have claims upon management for information. Management may supply this information through the annual report.

**Concept of annual report as medium for free enterprise:** Since the

1. See Davis, *Fundamentals of Top Management*, p. 25, for an excellent metaphor: "Standards are essentially conservative. They act much as a ratchet wheel that permits forward but prevents backward movement."
annual report is the medium of economic facts by which the language of business expresses itself, the annual report should have as its greatest objective that of enhancing public understanding of business and the free enterprise system.

**Accounting as a medium of communication:** Since accounting is a medium of communication for the presentation of economic facts via the annual report, every effort should be made to improve the reporting function in accordance with accepted principles of communications.

**Concept of standards:** Quantity and quality standards of annual reporting are being proposed in this dissertation. These standards should be universal within limits; should result from scientific methods; should be measurable; and should have allowable tolerances to prevent rigidity.
CHAPTER III. MANAGEMENT THINKING—COMMUNICATOR ANALYSIS

An act of communication may be separated into five analyses:

(1) Who says (2) What in (3) What Channel to (4) Whom with (5) What Effect?

The scientific study of any communication process tends to emphasize one or another of these five analyses. It is the purpose of this chapter to analyze the concepts, philosophy, and thoughts guiding the "who" or communicator of the annual report—top management.

Purpose Of Management Survey.

One of the best ways to become familiar with top management is for top management to express its views. However, these views concerning annual reports are scattered throughout business literature. Top management "thinking" concerning annual reports is widely diversified. Therefore a casual reader would become acquainted with their philosophy through limited channels only.

Consequently, the purpose of the survey in the following pages is to acquaint interested readers with top management "thinking" concerning annual reports of corporations.¹ By so doing a better understanding of management's problems will be developed by those people to whom top managements communicate. Such an understanding should provide more effective communication in annual reports. Better communication by those responsible (controllers, financial vice presidents, and presidents) will help to solve some of the problems confronting our economy by supplying infor-

¹. One of the first attempts to provide interested readers with managerial views of annual reports is in Thomas Sander's book, Company Annual Reports, published by Harvard University in 1949.
mation to stockholders, creditors, employees, governmental agencies, and the general public. These are the people who use the annual report.

Sources Of Information On Management's Opinions.

To obtain top management "thinking" on their annual reports, a questionnaire was designed to be sent to a selected random sample of businesses. These businesses included manufacturers, retailers, wholesalers, service enterprises, and public utilities.

A classification of businesses, developed by Professor Paul L. Noble, Accounting Department, Ohio State University, was used as basis for a selected random sample. Approximately two different businesses under each type of classification were contacted by sending a questionnaire to a mailing list of controllers, treasurers, or financial vice presidents. The classification of types of businesses was as follows:

A. Manufacturing.

1. Apparel:
   a. Suits and coats
   b. Shirts
   c. Fur goods
   d. Hosiery
   e. Miscellaneous

2. Building materials:
   a. Cement
   b. Wallboard, roofing, etc.
   c. Lumber
   d. Heating, plumbing, valves, fittings
   e. Air conditioning
   f. Hardware
   g. Miscellaneous

3. Chemicals:
   a. General chemicals
   b. Plastics
   c. Fertilizers
   d. Industrial gases
   e. Carbon black
A. Manufacturing (cont.)

3. Chemicals: (cont.)
   f. Sulphur
   g. Drugs and medicines
      (1) Ethical drugs
      (2) Proprietary drugs
      (3) Miscellaneous
   h. Soaps
   i. Paint
   j. Vegetable and animal oils
   k. Miscellaneous chemicals

4. Clay and non-metallic mineral products:
   a. Structural clay products
   b. Abrasives
   c. Glass

5. Coal:
   a. Bituminous
   b. Anthracite

6. Containers:
   a. Metal containers
   b. Glass containers

7. Cosmetics and related products:
   a. Cosmetics
   b. Razor blades and razors

8. Electrical equipment:
   a. General electrical equipment
   b. Electrical controls
   c. Household appliances
   d. Radio, televisions, etc.
   e. Electric motors
   f. Miscellaneous

9. Foods:
   a. Baking
      (1) Bread baking
      (2) Specialty baking
   b. Beverages
      (1) Soft drinks
      (2) Breweries
      (3) Distilled beverages
   c. Confectionery
      (1) Gum companies
      (2) Candy
   d. Corn products
   e. Dairy products
   f. Meat packing
A. **Manufacturing** (cont.)

9. **Foods**: (cont.)
   g. **Milling**
      (1) Flour milling
      (2) Breakfast cereals
      (3) Prepared animal feeds
   h. **Packaged foods**
   i. **Preserving and canning**
   j. **Sugar**
   k. **Miscellaneous foods**

10. **Instruments**:
    a. Mechanical measuring instruments
    b. Optical instruments and lenses
    c. Photographic instruments and supplies
    d. Watches and clocks
    e. Regulating instruments
    f. Miscellaneous

11. **Leather and shoes**:
    a. Leather companies
    b. Shoe producers
    c. Producers and distributors

12. **Machinery and machine parts**:
    a. Agricultural machinery
    b. Heavy construction machinery
    c. Heavy mining machinery
    d. Light mining and construction machinery
    e. Machine tools and metal working machinery
    f. Special industry machinery
    g. General industrial machinery
    h. Miscellaneous machine parts

13. **Metals—fabricating companies**:
    a. Wire mills
    b. Brass mills
    c. Silverware

14. **Metals—ferrous**:
    a. Integrated iron and steel companies
    b. Non-integrated iron and steel companies
    c. Iron and iron ore

15. **Metals—non-ferrous**:
    a. General smelting and refining
    b. Gold
    c. Silver; silver-lead
    d. Copper
    e. Zinc
A. **Manufacturing** (cont.)

15. **Metals—non-ferrous:** (cont.)
   f. Lead
   g. Aluminum
   h. Tin
   i. Steel alloy metals

16. **Office equipment:**
   a. Accounting, calculating, typing, and tabulating
   b. Office furniture
   c. Miscellaneous

17. **Oil:**
   a. Crude producers
   b. Integrated companies
   c. Miscellaneous

18. **Paper:**
   a. General paper
   b. Paper containers

19. **Printing and publishing:**
   a. Publishing
      (1) Book publishing
      (2) Newspaper publishing
      (3) Periodical publishing
   b. Printing

20. **Rubber:**

21. **Textiles:**
   a. Yarn and thread
   b. Woolens and worsteds
   c. Cotton and rayon broad woven fabrics
   d. Knitting mills
   e. Carpets and rugs
      (1) Wool carpets and rugs
      (2) Hard surface floor coverings
   f. Bedding and furniture textiles
   g. Miscellaneous textiles

22. **Tobacco:**
   a. Cigarettes
   b. Cigars
   c. Snuff
   d. Miscellaneous

23. **Transportation equipment:**
   a. Motor vehicles
      (1) Passenger cars
      (2) Trucks and commercial vehicles
A. Manufacturing (cont.)

23. Transportation equipment:
   a. Motor vehicles (cont.)
      (3) Parts
   b. Aircraft
      (1) Commercial and military aircraft
      (2) Military
      (3) Personal aircraft
      (4) Engines, parts, etc.
   c. Ships and boats
   d. Trailers
   e. Railroad equipment
      (1) Locomotives
      (2) Railroad cars
      (3) Parts and accessories
   f. Miscellaneous transportation equipment

24. Miscellaneous:

B. Wholesale Trade.

1. Grocery wholesaling:

2. Dry goods wholesaling:

C. Retail Trade Establishments.

1. Department stores:

2. Drug chains:

3. Food retailing:
   a. Retail stores
   b. Auto routes

4. Mail order:

5. Restaurant:

6. Variety:

7. Specialty:
   a. Auto supply
   b. Women's and children's apparel
   c. Furniture
D. Public Utilities.

1. Power utilities:
   a. Electric operating companies
   b. Electric power holding companies
   c. Manufactured and mixed gas
   d. Natural gas

2. Transportation utilities:
   a. Railroads
   b. Railroad car leasing
   c. Railroad terminal operation
   d. Bus utilities
   e. Truck lines
   f. Airlines
   g. Steamship lines
   h. Pipe lines

3. Communication utilities:
   a. Telephone
   b. Telegraph

E. Service Enterprises.

1. Financial services:
   a. Banks
      (1) Commercial banks
      (2) Investment banks
   b. Insurance companies
   c. Investment funds
   d. Small loan companies
   e. Brokerage firms

2. Entertainment:
   a. Motion picture
      (1) Picture companies
      (2) Theatre companies
   b. Radio and television broadcasting

3. Hotels:
Questionnaire Method Of Research.

A questionnaire was designed to make it easy to reply. Although the questionnaire was eight pages long, it was felt that such length would be the most effective way to sound out top management policy makers concerning some controversial and non-controversial topics.

Personal cover letter: Along with the questionnaire was a personally typed cover letter acquainting the controller or treasurer with the project. The letter urged him to send a copy of his latest annual report and to fill out the questionnaire. A stamped addressed envelope was enclosed to make it easier to reply.

Number of returns: A grand total of 300 questionnaires and personal cover letters were sent out. Out of this number, 212 were eventually returned making a 71% return. Only one reply could not be used since it was returned unsigned with no way to find out who had filled it out. Out of 212 replies, 205 were used as a basis since 7 were received after the cut-off date.

This high percentage of returns\(^1\) is attributed to five things:

1. an up-to-date mailing list of controllers and treasurers;
2. a list of people who are vitally interested in the problems of annual reports;
3. a personally typed cover letter with a stamped addressed return envelope;
4. a well designed and easy-to-fill-out questionnaire;
5. a follow-up technique for late answers.

---

\(^1\) A "high" percentage depends on the meaning of "high." For example, direct mail specialists consider a 10% return as excellent.
Follow-up technique: A carbon copy of each letter was kept. If, after one month or so, a return was not forthcoming, the carbon copy was sent out with a personal pen-written note reminding the recipient to fill out the questionnaire, another one of which was enclosed. A total of 123 follow-ups were sent out with 43 returns.

Validity of returns: First a sample test mailing of 25 letters was made. Then a 75 test mailing was made. Then an additional 200 mailing was made. The returns from the first 100 were tabulated and compared with the returns of the 200. Both mailings compared favorably with each other. Such a technique of breaking the total return into two parts and comparing results is an acceptable and recommended procedure to determine the validity of a sample.

Limitations of Research.

The data collected do not purport to be a scientific representation of every business. Only large businesses were contacted—those who issue annual reports publicly. However, it is felt that a representative sample of various types of business was obtained.

Some companies issued annual reports which would measure up to some of the proposed standards; some do not. Opinions and facts were collected with no attempt to distinguish between them. Despite these limitations, the purpose of the survey, it is felt, has been accomplished—to survey top management thinking concerning their annual reports.
Analytic of the Communicator—Management.

Traditionally the president relays his message to the readers of the annual report through his "president's letter." This is normally the procedure. But what problems does he have concerning his report? Such a question was asked in the questionnaire to determine if there were any problems.

What problem do you have in preparing your annual report?

<table>
<thead>
<tr>
<th>Problem</th>
<th>Number of those replying*</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Making the information clear and understandable</td>
<td>112</td>
<td>54.6%</td>
</tr>
<tr>
<td>b. What information to include in the annual report</td>
<td>102</td>
<td>49.7</td>
</tr>
<tr>
<td>c. Making the information concise</td>
<td>77</td>
<td>37.5</td>
</tr>
<tr>
<td>d. No problem</td>
<td>54</td>
<td>26.3</td>
</tr>
<tr>
<td>e. Making the information convincing</td>
<td>25</td>
<td>12.2</td>
</tr>
<tr>
<td>f. Determining the report audience</td>
<td>15</td>
<td>7.3</td>
</tr>
</tbody>
</table>

*multiple answers included

It is obvious that problems in annual reporting do exist. The basic problems are twofold—what to include and how to do it. Other problems which were mentioned were:

1. Meeting the printing deadline in too short a time to assemble and interpret the information between audit and report issuance (time factor).
2. Getting clearance of the board of directors after frequent changes (coordination).
4. Design of report to satisfy lay readers and at same time to furnish information to professional analysts (report audiences).
5. Getting approval by various department heads (coordination).
6. Avoiding disclosures of military classified information (contents).
Do you think that the president of your company or the person who writes the annual report should interpret the information in the report for the benefit of the reader?

<table>
<thead>
<tr>
<th>Number replying</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>166</td>
</tr>
<tr>
<td>No</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
</tr>
</tbody>
</table>

Presenting information is not enough. The information has to be interpreted and the logical person to do so is the communicator. Such is the Principle of Interpretation by the Communicator: The more the information is interpreted to the audience by the communicator or person familiar with the information, the more effective will be the communication process. If such a principle is violated, the reader is left on his own to interpret the information with which he is not familiar. Such a situation breeds misinterpretation and resulting lack of knowledge which is not conducive to effective communication.

Do you think that certain information in your annual report might be classified as secret and be helpful to your competition?

<table>
<thead>
<tr>
<th>Number replying</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>182</td>
</tr>
<tr>
<td>Yes</td>
<td>18</td>
</tr>
<tr>
<td>Did not answer</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
</tr>
</tbody>
</table>

Competitors get information, once considered secret, by various means. Since much of the same information is reported to the Securities Exchange Commission, the secret information argument is a threadbare excuse for not reporting full information in the annual report.
Which of the following do you believe should be the objective(s) of your annual report:

<table>
<thead>
<tr>
<th>Objective</th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. To furnish a report of the business activities to stockholders, employees, creditors, government, and general public</td>
<td>154</td>
<td>75.1%</td>
</tr>
<tr>
<td>b. To furnish a report of the business activities to stockholders only</td>
<td>55</td>
<td>26.8%</td>
</tr>
<tr>
<td>c. To enhance public understanding of the economic facts of life</td>
<td>41</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

*multiple answers included*

It is evident that many publicly owned companies realize that a report only to stockholders no longer serves the company's interests. Consequently the objectives have been changed to include other groups who have an interest in the company's financial affairs. Relatively few companies believe that an objective is to enhance public understanding of economics—and yet by what better channel could this be done than by an annual report?

Since so many companies indicate that the annual report should be a narrative of business activities to a varied audience, it is surprising that so few reports are addressed to the varied audiences. However a casual glance at some reports, indicate that more and more of them are addressed to groups other than stockholders. If such be the case, then the annual report is becoming a social document.
Do you think that your annual report should present only information required by the strict letter of the law or do you think that your annual report should present more information than required by the law or by corporation by-laws?

<table>
<thead>
<tr>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present more information than required by law</td>
<td>191</td>
</tr>
<tr>
<td>Present only information required by law</td>
<td>8</td>
</tr>
<tr>
<td>Did not answer</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
</tr>
</tbody>
</table>

Obviously there prevails the point of view of full disclosure of business activities. Completeness in reporting is an accepted fact, and yet compare this philosophy with that prevailing 20 or 30 years ago. Since this new philosophy does prevail, it is evident that more and more information will be reported.

Most state corporation codes require that corporation present "financial statements" to the stockholders. Nothing is mentioned as to what should be included or how much information should be presented. Therefore progressive companies will include more than that "required" either in corporate codes or in corporation by-laws, if the by-laws mention annual reports.
Who is responsible for preparing your annual report?

<table>
<thead>
<tr>
<th>Combination of executives:</th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two executives</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Three executives</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Four executives</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Five executives</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Six executives</td>
<td>11</td>
<td>73.2%</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

Treasurer, alone                 25  12.2
Controller, alone                9   4.4
President, alone                 7   3.4
Public relations, alone          6   2.9
Secretary, alone                 5   2.4
Other                           3   1.5
Total                           205 100.0%

The responsibility for annual reports is a joint top management activity. These men have to coordinate their efforts. However, the varied answers indicate that in practically every instance a treasurer or controller is a member of the group who has the responsibility. Actual preparation of the report may be delegated, but the responsibility is with top management who are reporting to the various groups—stockholders, employees, creditors, and general public.
Audience Of The Annual Report.

One of the concepts for this dissertation is that the audience of the annual report should be wider than just stockholders. It is realized that stockholders are the primary audience, but that the report should be prepared for other interested audiences as well. Therefore the following two questions are an attempt to measure for whom the report should be prepared and for whom it actually is prepared.

Do you think that an annual report should be prepared with the following "audiences" in mind:

<table>
<thead>
<tr>
<th>Audience</th>
<th>No. of replies*</th>
<th>%</th>
<th>No. of replies*</th>
<th>%</th>
<th>No. of replies*</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders</td>
<td>205</td>
<td>100.0%</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Employees</td>
<td>151</td>
<td>73.7%</td>
<td>10</td>
<td>4.8%</td>
<td>15</td>
<td>7.3%</td>
</tr>
<tr>
<td>General Public</td>
<td>139</td>
<td>67.8%</td>
<td>13</td>
<td>6.4%</td>
<td>17</td>
<td>8.3%</td>
</tr>
<tr>
<td>Creditors</td>
<td>115</td>
<td>56.0%</td>
<td>24</td>
<td>11.7%</td>
<td>20</td>
<td>9.7%</td>
</tr>
<tr>
<td>Government</td>
<td>80</td>
<td>39.0%</td>
<td>37</td>
<td>18.0%</td>
<td>17</td>
<td>8.3%</td>
</tr>
<tr>
<td>Other</td>
<td>42</td>
<td>20.5%</td>
<td>9</td>
<td>4.4%</td>
<td>4</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

*Multiple answers included

For what "audience" do you actually prepare your annual report:

<table>
<thead>
<tr>
<th>Audience</th>
<th>No. of replies*</th>
<th>%</th>
<th>No. of replies*</th>
<th>%</th>
<th>No. of replies*</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders</td>
<td>205</td>
<td>100.0%</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Employees</td>
<td>126</td>
<td>61.5%</td>
<td>12</td>
<td>5.8%</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>General Public</td>
<td>120</td>
<td>58.5%</td>
<td>16</td>
<td>7.8%</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>Creditors</td>
<td>87</td>
<td>42.4%</td>
<td>26</td>
<td>12.7%</td>
<td>8</td>
<td>3.9%</td>
</tr>
<tr>
<td>Government</td>
<td>56</td>
<td>27.3%</td>
<td>35</td>
<td>17.0%</td>
<td>4</td>
<td>1.9%</td>
</tr>
<tr>
<td>Other</td>
<td>41</td>
<td>20.0%</td>
<td>9</td>
<td>4.4%</td>
<td>3</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

*Multiple answers included

A comparison of "who should be the audience" with the "actual audience" shows approximately a 10% lag between who the audience should be and for whom the report is actually prepared.
Have you ever made a survey of your stockholders to determine what they would like to have presented and how it should be presented to them in your annual reports?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>171</td>
<td>83.4%</td>
</tr>
<tr>
<td>Yes</td>
<td>25</td>
<td>12.2%</td>
</tr>
<tr>
<td>Thinking about it</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

As much as anything, a reader analysis determines the effect of the annual report. And so few companies have made any attempt to survey the primary audience! Yet many answers indicate that they have reviewed other company surveys.

Do you think that you should prepare two annual reports—one popularized report for the general reader and another statistical and financial report for specialists?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>197</td>
<td>96.1%</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
<td>2.4%</td>
</tr>
<tr>
<td>Did not answer</td>
<td>3</td>
<td>1.5%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Obviously the answer to this question is to include both audiences in the same report. A frequent comment on the questionnaire was that two reports would be costly. Another was that the company preferred to supply such information direct to the specialist upon request.
To whom do you send your annual reports?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders</td>
<td>203</td>
<td>99.0%</td>
</tr>
<tr>
<td>General Public</td>
<td>194</td>
<td>94.6%</td>
</tr>
<tr>
<td>Government</td>
<td>147</td>
<td>71.7%</td>
</tr>
<tr>
<td>Creditors</td>
<td>144</td>
<td>70.2%</td>
</tr>
<tr>
<td>Employees</td>
<td>117</td>
<td>57.0%</td>
</tr>
</tbody>
</table>

*multiple answers

A breakdown of each of these groups is as follows:

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>203</td>
<td>99.0%</td>
</tr>
<tr>
<td>Employees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor unions, local</td>
<td>29</td>
<td>14.1%</td>
</tr>
<tr>
<td>Labor unions, national</td>
<td>17</td>
<td>8.3%</td>
</tr>
<tr>
<td>Creditors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks and bankers</td>
<td>128</td>
<td>62.4%</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>35</td>
<td>17.0%</td>
</tr>
<tr>
<td>Bond holders</td>
<td>35</td>
<td>17.0%</td>
</tr>
<tr>
<td>Government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E.C.</td>
<td>128</td>
<td>62.4%</td>
</tr>
<tr>
<td>Public officials</td>
<td>43</td>
<td>21.0%</td>
</tr>
<tr>
<td>General Public</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brokers</td>
<td>162</td>
<td>79.0%</td>
</tr>
<tr>
<td>Financial publications</td>
<td>162</td>
<td>79.0%</td>
</tr>
<tr>
<td>Investment services</td>
<td>154</td>
<td>75.1%</td>
</tr>
<tr>
<td>Newspapers</td>
<td>149</td>
<td>72.7%</td>
</tr>
<tr>
<td>Investment houses</td>
<td>117</td>
<td>57.0%</td>
</tr>
<tr>
<td>Libraries</td>
<td>100</td>
<td>48.8%</td>
</tr>
<tr>
<td>Educational institutions</td>
<td>98</td>
<td>47.8%</td>
</tr>
<tr>
<td>Competitors</td>
<td>93</td>
<td>45.4%</td>
</tr>
<tr>
<td>Customers</td>
<td>87</td>
<td>42.4%</td>
</tr>
<tr>
<td>Teachers</td>
<td>73</td>
<td>35.6%</td>
</tr>
<tr>
<td>Trade organizations</td>
<td>68</td>
<td>33.1%</td>
</tr>
<tr>
<td>Students</td>
<td>67</td>
<td>32.7%</td>
</tr>
<tr>
<td>Credit organizations</td>
<td>58</td>
<td>28.3%</td>
</tr>
<tr>
<td>Potential stockholders</td>
<td>39</td>
<td>19.0%</td>
</tr>
<tr>
<td>Farm organizations</td>
<td>21</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

The number of replies tabulated are only those which were actually checked. Many replies indicated that any of the groups would be sent
a copy if it were requested. Therefore these percentages are smaller than normal. All of the groups serve as potential persons or groups to whom the annual report is sent.

Since these various groups ask for and are sent copies, it is obvious that they should have an interest in annual reports. A noticeable lack of interest in employees is evident. It seems as if companies could profit by informing their employees of their company activities. Every other group gets more information than the employees who probably do more than any group to produce these activities.

**Do you think that you should prepare a separate annual report for stockholders and a separate annual report of employees, or do you think that single reports should serve both groups?**

<table>
<thead>
<tr>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A single report for both groups</td>
<td>148</td>
</tr>
<tr>
<td>A separate report for each group</td>
<td>49</td>
</tr>
<tr>
<td>Did not answer</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>205</strong></td>
</tr>
</tbody>
</table>

The replies to this argumentative question indicate that one report should serve all groups. Various comments indicated the separate reports for each group would create suspicion. Another common remark was that a separate report has a tendency to "talk down" to employees, who have as much intelligence as stockholders. Arguments, pro and con, are presented in a later chapter.
Do you think that communicating with stockholders gives your company the following:

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholder support of your company?</td>
<td>90.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Better public relations?</td>
<td>86.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Stockholder support of your management?</td>
<td>80.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Stockholder support of your product?</td>
<td>63.4</td>
<td>10.2</td>
</tr>
<tr>
<td>Stockholder support of the free enterprise system?</td>
<td>58.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Stockholder support of the price of your stock?</td>
<td>41.5</td>
<td>12.7</td>
</tr>
</tbody>
</table>

*multiple answers included

The advantages of communicating with stockholders are obvious. But compare them with the next question.

Do you think that communicating with your employees gives your company the following:

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better employee morale?</td>
<td>75.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Employee support of your company?</td>
<td>69.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Avoidance of misconceptions and misunderstanding of the company</td>
<td>64.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Better cooperation among stockholders, management, and employees</td>
<td>58.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Employee support of private enterprise</td>
<td>50.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Employee support of company products</td>
<td>49.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Reputation for giving to employees information which they can get no other way</td>
<td>49.3</td>
<td>8.3</td>
</tr>
</tbody>
</table>

*multiple answers included

Evidently top management does not have the same enthusiasm in communicating with employees as it does in communicating with stockholders. Of course all the objectives are intangible and hard to measure, but they all are worthwhile objectives of communication.
Medium In Annual Reports.

Since the physical report itself serves as the medium, the following questions are concerned with some controversial points of the annual report.

How often do you actually report directly to your stockholders?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly</td>
<td>124</td>
<td>60.5%</td>
</tr>
<tr>
<td>Annually</td>
<td>56</td>
<td>27.3</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>25</td>
<td>12.2</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Many financial specialists would like monthly reports, but top management is not fully convinced.

How often do you think you should report directly to your stockholders?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly</td>
<td>128</td>
<td>62.4%</td>
</tr>
<tr>
<td>Annually</td>
<td>51</td>
<td>24.9</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>26</td>
<td>12.7</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

There is a slight difference between what "should be" and "actual."

However, there is no unanimous opinion on frequency of reporting.
By what media do you communicate with your stockholders?

<table>
<thead>
<tr>
<th>Media</th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual report</td>
<td>203</td>
<td>99.0%</td>
</tr>
<tr>
<td>Annual stockholder meetings</td>
<td>170</td>
<td>83.0</td>
</tr>
<tr>
<td>Replies to stockholder letters</td>
<td>168</td>
<td>82.0</td>
</tr>
<tr>
<td>Dividend enclosures</td>
<td>127</td>
<td>62.0</td>
</tr>
<tr>
<td>Quarterly reports</td>
<td>119</td>
<td>58.0</td>
</tr>
<tr>
<td>Welcome letters to stockholders</td>
<td>102</td>
<td>49.8</td>
</tr>
<tr>
<td>Reports on stockholder meetings</td>
<td>65</td>
<td>31.7</td>
</tr>
<tr>
<td>Contacts by proxies</td>
<td>40</td>
<td>19.5</td>
</tr>
<tr>
<td>Officers' speech reprints</td>
<td>35</td>
<td>17.0</td>
</tr>
<tr>
<td>Stockholders' newsletters</td>
<td>19</td>
<td>9.3</td>
</tr>
<tr>
<td>Regret letters to departing stockholders</td>
<td>19</td>
<td>9.3</td>
</tr>
<tr>
<td>Plant visitations</td>
<td>19</td>
<td>9.3</td>
</tr>
<tr>
<td>Questionnaire to stockholders</td>
<td>12</td>
<td>5.8</td>
</tr>
<tr>
<td>Letters to stockholders who increase their holdings</td>
<td>7</td>
<td>3.4</td>
</tr>
<tr>
<td>Regional meetings</td>
<td>7</td>
<td>3.4</td>
</tr>
<tr>
<td>Films on annual reports</td>
<td>4</td>
<td>1.9</td>
</tr>
</tbody>
</table>

*multiple answers included

Other media not included in the answers are semi-annual and monthly reports. All types of media are used to influence stockholders. However, some media are not used, possibly, to their fullest extent.
How many copies of your latest annual report did you distribute?
The 205 companies distributed approximately 7,906,800 reports in 1952.

How much did it cost you to prepare your latest annual report?
The figures presented below are not reliable. Their lack of reliability is evident for four reasons: (1) not all companies reported any figures; (2) those figures which were reported are probably not accurate, but are estimates; (3) those figures presented are, in most cases, direct costs, i.e., costs of printing, mailing, etc.; few attempts were made to determine indirect costs of salaries of those people preparing the report, overhead costs, etc.; (4) some companies prepare their own reports; some have outside agencies prepare them. However, the figures are presented for information purposes in summary form.

### Annual Report Cost Per Report Printed*

<table>
<thead>
<tr>
<th>Unit costs</th>
<th>No. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 20 cents</td>
<td>3</td>
</tr>
<tr>
<td>21 - 30</td>
<td>19</td>
</tr>
<tr>
<td>31 - 40</td>
<td>31</td>
</tr>
<tr>
<td>41 - 50</td>
<td>20</td>
</tr>
<tr>
<td>51 - 60</td>
<td>10</td>
</tr>
<tr>
<td>61 - 70</td>
<td>8</td>
</tr>
<tr>
<td>71 - 80</td>
<td>6</td>
</tr>
<tr>
<td>81 - 90</td>
<td>4</td>
</tr>
<tr>
<td>91 - 100</td>
<td>5</td>
</tr>
<tr>
<td>101 - 150</td>
<td>11</td>
</tr>
<tr>
<td>151 - 200</td>
<td>5</td>
</tr>
<tr>
<td>201 and up</td>
<td>1</td>
</tr>
<tr>
<td>Total companies reporting required information</td>
<td>123</td>
</tr>
</tbody>
</table>

* Determined by dividing the total cost by number of reports printed.
Annual Report Cost Per Shareholder*

<table>
<thead>
<tr>
<th>Unit costs</th>
<th>No. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 30 cents</td>
<td>5</td>
</tr>
<tr>
<td>31 - 40</td>
<td>8</td>
</tr>
<tr>
<td>41 - 50</td>
<td>7</td>
</tr>
<tr>
<td>51- 60</td>
<td>7</td>
</tr>
<tr>
<td>61 - 70</td>
<td>13</td>
</tr>
<tr>
<td>71 - 80</td>
<td>9</td>
</tr>
<tr>
<td>81 - 90</td>
<td>4</td>
</tr>
<tr>
<td>91 - 100</td>
<td>3</td>
</tr>
<tr>
<td>101 - 150</td>
<td>26</td>
</tr>
<tr>
<td>151 - 200</td>
<td>11</td>
</tr>
<tr>
<td>201 and up</td>
<td>15</td>
</tr>
<tr>
<td>Total companies reporting required information</td>
<td>108</td>
</tr>
</tbody>
</table>

* Determined by dividing total costs by number of shareholders.

Number Of Shareholdings And Outstanding Shares Of Companies Surveyed.

The following information shows the total number of shareholdings and shares of outstanding stock of the companies who cooperated in the survey.

<table>
<thead>
<tr>
<th></th>
<th>Total of Companies Surveyed</th>
<th>Total According to Brookings Institute*</th>
<th>Survey % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shareholdings</td>
<td>5,078,755</td>
<td>25,158,000</td>
<td>20.1%</td>
</tr>
<tr>
<td>Number of shares out-</td>
<td>739,476,895</td>
<td>3,694,581,000</td>
<td>20.01%</td>
</tr>
<tr>
<td>standing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*See page 70 of "Share Ownership in the United States," Brookings Institute, 1952. This information shows that the survey covered 20% of the total of shares outstanding and 20% of the shareholdings in the United States as estimated by the Brookings Institute Survey.
Contents Of Annual Reports.

The following questions are those concerned with the contents of annual reports.

Which of the following topics do you think your annual report should cover?

<table>
<thead>
<tr>
<th>Topic</th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>203</td>
<td>99.0%</td>
</tr>
<tr>
<td>Earnings</td>
<td>197</td>
<td>96.0</td>
</tr>
<tr>
<td>Auditor's report</td>
<td>196</td>
<td>95.6</td>
</tr>
<tr>
<td>Highlights of the year</td>
<td>194</td>
<td>94.6</td>
</tr>
<tr>
<td>Dividends</td>
<td>192</td>
<td>93.7</td>
</tr>
<tr>
<td>Progress made during year</td>
<td>183</td>
<td>89.3</td>
</tr>
<tr>
<td>Directory of officers</td>
<td>180</td>
<td>87.8</td>
</tr>
<tr>
<td>Taxes</td>
<td>160</td>
<td>78.0</td>
</tr>
<tr>
<td>Future plans</td>
<td>159</td>
<td>77.6</td>
</tr>
<tr>
<td>Sales</td>
<td>154</td>
<td>75.1</td>
</tr>
<tr>
<td>Products</td>
<td>148</td>
<td>72.2</td>
</tr>
<tr>
<td>Employee relations</td>
<td>148</td>
<td>72.2</td>
</tr>
<tr>
<td>Research</td>
<td>143</td>
<td>69.8</td>
</tr>
<tr>
<td>Unfavorable news</td>
<td>138</td>
<td>67.3</td>
</tr>
<tr>
<td>Litigation</td>
<td>116</td>
<td>56.6</td>
</tr>
<tr>
<td>Production</td>
<td>116</td>
<td>56.6</td>
</tr>
<tr>
<td>Stockholders</td>
<td>103</td>
<td>50.2</td>
</tr>
<tr>
<td>Company policies and principles</td>
<td>95</td>
<td>46.3</td>
</tr>
<tr>
<td>Union relations</td>
<td>94</td>
<td>45.9</td>
</tr>
<tr>
<td>Consumer relations</td>
<td>80</td>
<td>39.0</td>
</tr>
<tr>
<td>Advertising</td>
<td>77</td>
<td>37.6</td>
</tr>
<tr>
<td>Public relations</td>
<td>77</td>
<td>37.6</td>
</tr>
<tr>
<td>Company's philosophy</td>
<td>72</td>
<td>35.1</td>
</tr>
<tr>
<td>Competition</td>
<td>61</td>
<td>29.8</td>
</tr>
<tr>
<td>Government relations</td>
<td>58</td>
<td>26.3</td>
</tr>
<tr>
<td>Annual report policy</td>
<td>27</td>
<td>13.2</td>
</tr>
</tbody>
</table>

*Includes multiple answers

The typical comment of those responding was that most all of the topics are important.
Do you think that your annual report should contain "a special message" dealing with basic economic problems facing the nation?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>153</td>
<td>74.6%</td>
</tr>
<tr>
<td>Yes</td>
<td>48</td>
<td>23.5</td>
</tr>
<tr>
<td>Did not answer</td>
<td>4</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Many qualified answers indicated that the report might contain a special message concerning those economic problems facing the company or even facing the industry. But the majority felt that the annual report is not the place for discussion of the nation's economic problems.

Do you think that there should be included a statement of your annual report policy in your report?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>167</td>
<td>81.5%</td>
</tr>
<tr>
<td>Yes</td>
<td>14</td>
<td>6.8</td>
</tr>
<tr>
<td>Did not answer</td>
<td>24</td>
<td>11.7</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The biggest comment to this question was that there is no need for such a policy statement. The annual report should speak for itself—the policy is expressed in the way the report is presented.
Do you think that your annual report should devote some space in the text of the report to a discussion of the value of the independent audit to the stockholders?

<table>
<thead>
<tr>
<th>No of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>196</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
</tr>
<tr>
<td>Did not answer</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
</tr>
</tbody>
</table>

The main comment of many respondents for this question was that the audit is an accepted business fact. As such it is not necessary to expand on its value as was suggested by an editorial in the April 1947 issue of the Journal of Accountancy. The Journal suggested that the following passage might be put into the annual report:

Your company has retained certified public accountants to conduct an independent audit of the financial statements which are reproduced in conjunction with this report, together with the auditors' report of their findings.

The auditors do not guarantee the financial statements; they are not insurers. But they are experts who are entirely independent of the management. The purpose of their work is to test the validity of the company's accounting and check the judgment of the management in presenting its financial position and results of operations in accordance with generally accepted accounting principles. Stockholders should read and consider what the auditors say.
Do you think that your annual report should present various ratios for the benefit of readers?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>136</td>
<td>66.3%</td>
</tr>
<tr>
<td>No</td>
<td>58</td>
<td>28.3%</td>
</tr>
<tr>
<td>Did not answer</td>
<td>11</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

One of the best ways to interpret the financial and statistical information is to use ratios. The answers to the question back up this belief. A minority express the belief that ratios serve no useful purpose since readers cannot understand them.

Do you think your annual report should give the annual salaries and bonuses of all the directors and officers?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>193</td>
<td>94.1%</td>
</tr>
<tr>
<td>Yes</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>Did not answer</td>
<td>3</td>
<td>1.5%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Top management is emphatic in its belief not to disclose their salaries in the annual report. Their comments show that they believe that S.E.C. rules requiring salary information on proxy statements are enough to satisfy the stockholders. They believe that disclosing salaries in annual reports would only create problems.
Which of the following changes have you made in your annual report in recent years?

<table>
<thead>
<tr>
<th>Change</th>
<th>No. of replies</th>
<th>% of those replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made more attractive</td>
<td>153</td>
<td>74.6%</td>
</tr>
<tr>
<td>Made more complete</td>
<td>128</td>
<td>62.4%</td>
</tr>
<tr>
<td>Made more clear and understandable</td>
<td>127</td>
<td>62.0%</td>
</tr>
<tr>
<td>Made more interesting</td>
<td>110</td>
<td>53.7%</td>
</tr>
<tr>
<td>Made more considerate of the reader of management</td>
<td>73</td>
<td>35.6%</td>
</tr>
<tr>
<td>Made more to reflect the character</td>
<td>63</td>
<td>30.7%</td>
</tr>
<tr>
<td>Made more concise</td>
<td>55</td>
<td>26.8%</td>
</tr>
<tr>
<td>Made more convincing</td>
<td>41</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

*includes multiple answers

As is evident, the reports have been more effective during recent years. All of these objectives are those which progressive managements strive for as the frequent comments indicated.

Which of the following trends in the future do you think will happen in presenting information in your annual report?

<table>
<thead>
<tr>
<th>Trend</th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend toward a no more elaborate report</td>
<td>98</td>
<td>47.8%</td>
</tr>
<tr>
<td>No indication of trend</td>
<td>70</td>
<td>34.1%</td>
</tr>
<tr>
<td>Trend toward a more elaborate report</td>
<td>28</td>
<td>13.7%</td>
</tr>
<tr>
<td>Did not answer</td>
<td>9</td>
<td>4.4%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Replies indicate that attempts at elaborateness perhaps have reached their peak. However, there is still evidence that many companies will still improve their reports.
Who prescribes the form and arrangement of your financial statements in your annual report?

<table>
<thead>
<tr>
<th></th>
<th>No. of replies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your company</td>
<td>143</td>
<td>69.8%</td>
</tr>
<tr>
<td>Public accountants</td>
<td>22</td>
<td>10.7</td>
</tr>
<tr>
<td>Combination of company and public accountants</td>
<td>40</td>
<td>19.5</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Of the 143 who answered that the company prescribed the form of the statements, the following is a breakdown of those who have this responsibility:

- Controller 39
- Treasurer 28
- Combination of officers 17
- President 9
- Other 12
- Did not say 38
- Total 143

Evidently the public accountant still plays an influential role in prescribing the form and terminology of financial statements. This is so despite the fact that the statements are supposedly those of the company.
Conclusions.

In surveying management "thinking" concerning annual reports, the following conclusions are made, based upon the results of the information.

1. Annual report preparation does present some problems to top management. The basic problems are twofold—what to include and how to present it to varied groups of interested people so as to be understood.

2. The president or person who writes the report should interpret the information in the report for the benefit of the reader.

3. There is little justification for omitting information because of its "secret" nature. Competitors usually find out by one means or another the "secret" information.

4. The objectives of the annual report should be to furnish a report of the business activities to stockholders, employees, creditors, government, and general public.

5. The information presented in the annual report should be more than that required by state corporation laws or by corporate by-laws.

6. The responsibility for annual report publication is a joint top management responsibility. However, the treasurer or controller is nearly always a member of that top management team.

7. The annual report should be directed to a multi-group audience—stockholders, employees, creditors, government, and the general public.

8. Very few companies have made an "audience" survey to determine what the readers would like to have presented and how it should be presented in the annual report.
9. The annual report is sent to practically all groups of people, as such it is a social document.

10. A single report for both stockholders and employees should be prepared. A separate report for each group tends to breed suspicion between them.

11. The annual report should contain statistical information for the specialist, but a separate statistical report for the specialist should not be prepared.

12. Communicating with stockholders gives the company many advantages. Communicating with employees also gives the company many advantages. But top management evidently thinks that communicating with employees via the annual report is not as effective as communicating with stockholders.

13. Top management thinks that reporting once a quarter to stockholders is often enough.

14. Various media are used to communicate with stockholders. The annual report is the chief one. Other media, perhaps, are not used as effectively as they might be used.

15. Of the 205 companies who replied, approximately 8,000,000 annual reports were distributed. If these 205 companies represent 20% of the total shareholdings and shares outstanding, then it is estimated that approximately 40,000,000 annual reports were distributed in 1952.

16. The cost per annual report varies from 25 cents to 2 dollars a copy, depending on many factors.

17. The survey of 205 companies represents approximately 20% of the total of shareholdings and shares outstanding in the United States.
18. The contents of annual reports should be complete with pertinent information. Summarized, these contents are mainly financial, production, distribution, and top management activities.

19. The annual report should not include an economic message of some basic problems facing the nation. But the report might properly include some basic economic problems facing the company and the industry.

20. The annual report speaks for itself. It proclaims the company's annual report policy. Therefore such an annual report policy statement is not necessary to be included in the annual report.

21. Top management does not think it necessary to refer to the value of an independent audit in the annual report. Such audits are accepted as necessary in business life.

22. Various ratios should be presented in the annual report for interpretation of the data to the various readers.

23. Top management does not think that their annual salaries and bonuses should be presented in the annual report.

24. There has been a trend in recent years to improve annual reports. Most top managements have supported this trend. But they are not sure of what the trend will be in the future.

25. The financial statements are the heart of the annual report. The form and arrangement of the financial statements are the responsibility of the company although public accountants play an influential role in advising top management as to form and arrangement.
CHAPTER IV. MASS AUDIENCE ANALYSIS

We have defined an act of communication as "Who says What by What Medium to Whom with Effect." Since the annual report has a mass audience, it might be well to analyze the "to whom" of the annual report to help determine the "effect" of the report.

Audience Is Wider Than Stockholders.

Although the annual report is addressed primarily to stockholders, it is the contention that the actual audience is a much wider one than stockholders. As a social document the annual report serves several audiences—stockholders, employees, creditors, government, and the general public. Each one of these groups has a claim upon management for varied information which the annual report may furnish. However, to be effective and to reach the objectives of the report, the communicator has to analyze his audience to make sure that his message will be communicated effectively to the person he wishes to reach.

Although audience analysis is essential to any success which any medium of communication has, it is surprising that so few companies have analyzed the audience of their annual report. Perhaps one reason for not analyzing the annual report audience is that no definite audience has been established as a target. Writing a message blindly with the hope of reaching the audience has been the approach of most companies. However there have been a few far-seeing companies which realize the

1. See page 16 for this concept.
2. See page 22 for this concept.
influence of their annual report. These companies have conducted stockholder surveys in an effort to understand their audience for the annual report. By understanding its audience, a company has a much better chance of making its report effective to carry a message to its audience.

Why The Surveys?

The surveys presented here have been selected as an aid to understanding the mass audience of the report. The questions have a broad application inasmuch as stockholders of most companies have similar interests. By understanding these interests, a writer has a much better chance to influence his reader.

The surveys' questions are varied; they cover many subjects; they serve to point out many deficiencies in present reporting practices. Selected portions of the surveys have been picked out for presentation since many of the surveys are rather long. However, a variety of surveys are presented for a better understanding of how interested some organizations are in improving annual reporting.

Opinion Research Corporation of 1948.

In November 1948, Opinion Research Corporation published the results of a stockholder interview survey of four 1947 annual reports. Stockholder interviews were made by a name and address follow-up, using randomized stockholder lists for 17 large cities. The tables give question wording used in interviewing. On most questions the averages are for four companies.

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1. The results of these surveys were contributed by Mr. Thomas Benham, Associate Editor, Opinion Research Corporation 44 Nassau Street, Princeton, New Jersey.
DO YOU GIVE CLOSER ATTENTION TO SOME REPORTS THAN TO OTHERS, OR NOT?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-COMPANY AVERAGE</td>
<td>54%</td>
<td>40</td>
<td>6</td>
</tr>
</tbody>
</table>

WHAT WOULD CAUSE YOU TO GIVE CLOSE ATTENTION TO A PARTICULAR REPORT? (Asked only of those who give closer attention to some report than others.)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>167</td>
<td>87</td>
<td>78</td>
<td>97</td>
</tr>
<tr>
<td>Per cent of total</td>
<td>47%</td>
<td>51%</td>
<td>54%</td>
<td>62%</td>
</tr>
</tbody>
</table>

IF I'M MORE INTERESTED IN THAT STOCK: depends on the amount of money involved; depends on size of my interest

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>16%</td>
<td>18%</td>
<td>19%</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

APPEARANCE AND CONTENT OF REPORT: short and easy reading; attractive; if content is interesting

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

WHEN STOCK ISN'T PAYING: to see whether value will go up or down

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

WHEN I WANT TO KNOW HOW A COMPANY IS DOING: actual status of the company; how it's doing

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>10%</td>
<td>5%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

IF I'M INTERESTED IN THEIR PRODUCTS: when I want information about products

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

I LOOK AT THE ONES THAT AFFECT MY BUSINESS: if they're in my line of business; reports of people I do business with

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>

CORPORATION ITSELF: nature of company; if it's good stock

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

OTHER

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>2%</td>
<td>8%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

NOTHING IN PARTICULAR, DON'T KNOW

<table>
<thead>
<tr>
<th></th>
<th>&quot;A&quot;</th>
<th>&quot;B&quot;</th>
<th>&quot;C&quot;</th>
<th>&quot;D&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

Percentages add to more than totals shown because of multiple answers.
DID YOU FIND THE (NAME OF COMPANY) REPORT RATHER INTERESTING, OR WAS IT KIND OF A CHORE TO READ IT?

4-COMPANY AVERAGE

<table>
<thead>
<tr>
<th>Interesting</th>
<th>Chore</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>17</td>
<td>13</td>
</tr>
</tbody>
</table>

WHAT DO YOU REMEMBER THAT YOU GOT OUT OF THE REPORT—WHAT PARTICULAR IDEAS OR IMPRESSIONS ABOUT THE COMPANY DID YOU GET FROM IT?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>207</td>
<td>100</td>
<td>104</td>
<td>106</td>
</tr>
<tr>
<td>FINANCIAL INFORMATION: their earnings and expenses; total assets; profits; costs of production</td>
<td>17%</td>
<td>16%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>GENERALLY FAVORABLE: a good company; has good reputation</td>
<td>14</td>
<td>14</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>CAPABLE AND ALERT MANAGEMENT: company is well managed; good management; progressive</td>
<td>11</td>
<td>7</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>ATTRACTIVE REPORT: a good report; informative; like the pictures; graphs are good</td>
<td>10</td>
<td>9</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>GROWTH OF COMPANY: company is expanding; has new branches; has a new subsidiary</td>
<td>10</td>
<td>8</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>RESEARCH: development of new products; improvement in methods</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>INTERESTED IN STOCKHOLDERS: do all they can for stockholders</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>PRODUCTS: information about products; different products; very good products</td>
<td>21</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>COMPANY HAD DIFFICULT YEAR: inventory problem; costs have gone up; not earning as much</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SALES SETUP: A BIG SALES FORCE: HAS A NEW SALES SETUP</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>COMPANY INCREASED PRODUCTION: higher production than last year</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>SOUND COMPANY: solid, substantial company</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>INCREASE IN BUSINESS: sales increased considerably; more business</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>GOOD LABOR RELATIONS: interested in its people; good to employees works on security for its people</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>OTHER</td>
<td>11</td>
<td>9</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>NOTHING IN PARTICULAR, DON'T KNOW</td>
<td>19</td>
<td>34</td>
<td>39</td>
<td>41</td>
</tr>
</tbody>
</table>

Percentages add to more than 100 because of multiple answers.
WHAT INTERESTING NEWS EVENTS OR COMPANY DEVELOPMENTS CAN YOU RECALL FROM THE REPORT?

Respondents


RESEARCH AND DEVELOPMENT: new methods; new products; a separate division for its new product

Respondents

207 100 104 106

EXPANSION: acquired an overseas subsidiary; tremendous expansion program; growth

FINANCIAL: comparison of earnings on dividends; increase in number of shares; improved financial condition

HOW WELL THE COMPANY IS DOING: the present status; it's progressive and doing well

DIVERSIFICATION: company has a wide variety of products; many plants of different types

PRODUCTS: found out about its products; have a good line; well diversified

DOING LOTS OF ADVERTISING: working hard on advertising campaign

PERSONNEL NEWS: changes in personnel; new people or management

OTHER

NOTHING IN PARTICULAR, DON'T KNOW

Percentages add to more than 100 because of multiple answers.

DO YOU HAPPEN TO REMEMBER HOW MUCH THE EARNINGS FOR SHARE OF COMMON STOCK WERE LAST YEAR—APPROXIMATELY?

Correct Incorrect Don't Know

4-COMPANY AVERAGE

7% 19 74
WELL, DO YOU RECALL HOW MUCH THE DIVIDENDS PER SHARE OF COMMON STOCK WERE?

<table>
<thead>
<tr>
<th>Correct Answer</th>
<th>Incorrect Answer</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33%</td>
<td>17</td>
</tr>
</tbody>
</table>

4-COMPANY AVERAGE

CAN YOU THINK OF THE NAMES OF ANY OF THE EXECUTIVES OF THE COMPANY?

<table>
<thead>
<tr>
<th>Named at Least One Executive</th>
<th>(Named Chairman)</th>
<th>(Named President)</th>
<th>Don't Know Executives' Names</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>(13%)</td>
<td>(21%)</td>
<td>65</td>
</tr>
</tbody>
</table>

4-COMPANY AVERAGE

WOULD YOU SAY YOU GET MOST OF YOUR INFORMATION ABOUT (NAME OF COMPANY) FROM THE COMPANY'S REPORTS, OR FROM OTHER SOURCES?

<table>
<thead>
<tr>
<th>From Company Reports</th>
<th>From Other Sources</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>61%</td>
<td>32</td>
<td>7</td>
</tr>
</tbody>
</table>

4-COMPANY AVERAGE

WOULD YOU SAY (NAME OF COMPANY) PAYS ITS TOP EXECUTIVES TOO MUCH, ABOUT RIGHT, OR TOO LITTLE?

<table>
<thead>
<tr>
<th>Too Much</th>
<th>About Right</th>
<th>Too Little</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>44</td>
<td>1</td>
<td>44</td>
</tr>
</tbody>
</table>

3-COMPANY AVERAGE
DO YOU RECALL WHY THE COMPANY SAID IT WAS FLOWING EARNINGS BACK IN THE BUSINESS?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPANSION: INCREASE BUSINESS; progress more; broadens areas of business</td>
<td>207</td>
<td>100</td>
<td>104</td>
<td>106</td>
</tr>
<tr>
<td>BUILD UP A SURPLUS: against depression; for inventory losses; for renewal of reserve fund; provide against the future; for contingencies</td>
<td>26%</td>
<td>38%</td>
<td>35%</td>
<td>38%</td>
</tr>
<tr>
<td>IMPROVEMENTS: replace equipment; carry out new experiments</td>
<td>19</td>
<td>8</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>GOOD BUSINESS: if a business can't sustain itself; it's not a good business; you have to keep putting back if you take out; you've got to meet competition</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>INCREASED COSTS: because costs are up; it takes more money to buy things</td>
<td>10</td>
<td>4</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>TO GET WORKING CAPITAL: to increase its capital</td>
<td>3</td>
<td>10</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>DEPRECIATION: to take care of depreciation costs</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RESEARCH AND NEW DEVELOPMENTS: funds for developing new products; for research</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>FOR EMPLOYEES: higher wages; increased labor costs</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>EARNINGS PER SHARE: don't want to pay out too much in dividends; shares are increasing in value</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>TAXES: to provide for taxes; because of high taxes</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>OTHER</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>DON'T KNOW</td>
<td>36</td>
<td>40</td>
<td>29</td>
<td>44</td>
</tr>
</tbody>
</table>

Percentages add to more than 100 because of multiple answers.
WHAT DID YOU LOOK FOR FIRST IN THE REPORT?

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Report &quot;A&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>207</td>
</tr>
<tr>
<td>Financial statements</td>
<td>33%</td>
</tr>
<tr>
<td>Various pictures or graphs</td>
<td>14%</td>
</tr>
<tr>
<td>President's letter</td>
<td>8%</td>
</tr>
<tr>
<td>One-page fact summary</td>
<td>5%</td>
</tr>
<tr>
<td>Picture of stockholders' meeting</td>
<td>5%</td>
</tr>
<tr>
<td>Simplified income statement</td>
<td>5%</td>
</tr>
<tr>
<td>List and pictures of officers and directors</td>
<td>4%</td>
</tr>
<tr>
<td>Various text items</td>
<td>9%</td>
</tr>
<tr>
<td>No one thing in particular</td>
<td>10%</td>
</tr>
<tr>
<td>Don't know</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Report &quot;B&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Financial statements (including summary page)</td>
<td>25%</td>
</tr>
<tr>
<td>Various pictures or graphs</td>
<td>18%</td>
</tr>
<tr>
<td>Table of contents</td>
<td>11%</td>
</tr>
<tr>
<td>Simplified income statement (with percentage breakdown)</td>
<td>8%</td>
</tr>
<tr>
<td>President's letter</td>
<td>8%</td>
</tr>
<tr>
<td>Text section giving a financial review</td>
<td>8%</td>
</tr>
<tr>
<td>Text section on administration, personnel and employees</td>
<td>2%</td>
</tr>
<tr>
<td>Two-page feature showing company plants</td>
<td>2%</td>
</tr>
<tr>
<td>Various text items</td>
<td>1%</td>
</tr>
<tr>
<td>No one thing in particular</td>
<td>7%</td>
</tr>
<tr>
<td>Don't know</td>
<td>14%</td>
</tr>
</tbody>
</table>

Percentages add more than 100 because of multiple answers.
DO YOU DEFINITELY REMEMBER LOOKING OVER (THIS PAGE)? (Question was varied to fit subject and report.)

<table>
<thead>
<tr>
<th>Report</th>
<th>Respondents</th>
<th>One-Page Fact Summary</th>
<th>Definitely Looked Over</th>
<th>Simplified Financial Statement</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;A&quot;</td>
<td>207</td>
<td>39%</td>
<td></td>
<td>61%</td>
<td>74%</td>
<td>66%</td>
</tr>
<tr>
<td>&quot;B&quot;</td>
<td>100</td>
<td>67%</td>
<td></td>
<td>56%</td>
<td>69%</td>
<td>69%</td>
</tr>
<tr>
<td>&quot;C&quot;</td>
<td>104</td>
<td>55%</td>
<td></td>
<td>48%</td>
<td>69%</td>
<td>68%</td>
</tr>
<tr>
<td>&quot;D&quot;</td>
<td>106</td>
<td>68%</td>
<td></td>
<td></td>
<td>64%</td>
<td>75%</td>
</tr>
</tbody>
</table>

DO YOU THINK THIS TYPE OF PAGE (ONE-PAGE FACT SUMMARY) IS A GOOD THING TO INCLUDE IN STOCKHOLDER REPORTS, OR NOT?

<table>
<thead>
<tr>
<th>Report</th>
<th>Respondents</th>
<th>Approve</th>
<th>Disapprove</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;A&quot;</td>
<td>207</td>
<td>79%</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>&quot;B&quot;</td>
<td>100</td>
<td>86%</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>&quot;C&quot;</td>
<td>104</td>
<td>80%</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>&quot;D&quot;</td>
<td>106</td>
<td>85%</td>
<td>1</td>
<td>14</td>
</tr>
</tbody>
</table>

DO YOU DEFINITELY REMEMBER READING (THE PRESIDENT'S LETTER)? (Question varied to fit each report.)

<table>
<thead>
<tr>
<th>Report</th>
<th>Respondents</th>
<th>Read All of It</th>
<th>Read at Least Part</th>
<th>Did Not Read</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;A&quot; (15 page letter)</td>
<td>207</td>
<td>9%</td>
<td>70%</td>
<td>30</td>
</tr>
<tr>
<td>&quot;B&quot; (3 page letter)</td>
<td>100</td>
<td>21%</td>
<td>53%</td>
<td>47</td>
</tr>
<tr>
<td>&quot;C&quot; (11 page letter)</td>
<td>104</td>
<td>14%</td>
<td>61%</td>
<td>39</td>
</tr>
<tr>
<td>&quot;D&quot; (12 page letter)</td>
<td>106</td>
<td>19%</td>
<td>54%</td>
<td>46</td>
</tr>
</tbody>
</table>
PICTURES (in various reports)

<table>
<thead>
<tr>
<th>Description</th>
<th>Looked at Picture</th>
<th>Read Caption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover display of company's products</td>
<td>89%</td>
<td>-</td>
</tr>
<tr>
<td>Spread showing drawings of company plants</td>
<td>74%</td>
<td>-</td>
</tr>
<tr>
<td>New type railroad coach showing a new company product</td>
<td>72%</td>
<td>53%</td>
</tr>
<tr>
<td>Two page feature on officers and directors</td>
<td>64%</td>
<td>-</td>
</tr>
<tr>
<td>Newly appointed executives</td>
<td>58%</td>
<td>-</td>
</tr>
<tr>
<td>Enlarged company plant</td>
<td>53%</td>
<td>34%</td>
</tr>
<tr>
<td>Officers viewing production process</td>
<td>42%</td>
<td>30%</td>
</tr>
<tr>
<td>Employee working at bench</td>
<td>35%</td>
<td>27%</td>
</tr>
</tbody>
</table>
# Graphs (in various reports)

<table>
<thead>
<tr>
<th>Graph Type</th>
<th>Looked At</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tabular chart showing key financial facts for five years</td>
<td>67%</td>
</tr>
<tr>
<td>Chart showing distribution of income</td>
<td>61%</td>
</tr>
<tr>
<td>Group of graphs: taxes, assets, dividends</td>
<td>51%</td>
</tr>
<tr>
<td>Number of shareholders</td>
<td>48%</td>
</tr>
<tr>
<td>Use of capital and retained earnings</td>
<td>48%</td>
</tr>
<tr>
<td>Comparison of dividends, wages and cost of living</td>
<td>42%</td>
</tr>
<tr>
<td>Capital expenditures vs. depreciation, etc.</td>
<td>40%</td>
</tr>
<tr>
<td>Gathering of financial facts</td>
<td>39%</td>
</tr>
<tr>
<td>Domestic and foreign demand</td>
<td>36%</td>
</tr>
<tr>
<td>Map showing geographic distribution of stockholders</td>
<td>36%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>31%</td>
</tr>
</tbody>
</table>
NOW, TAKING THE REPORT AS A WHOLE, HOW DO YOU THINK IT COULD BE IMPROVED?

Respondents 207

NO IMPROVEMENT NECESSARY: good as it is; good report; can't think of any improvements; none 42%

CONDENSE IT: more concise; shorten it; summarize it; too detailed 17

ECONOMIZE: too much waste of paper; too elaborate; less expensive 10

EASIER TO UNDERSTAND: should be simpler; more understandable; fewer figures; easier to read 6

MORE OR BETTER PICTURES AND COLORS: better use of color; have more pictures; spruce it up; too dry; pictures can be better 3

LARGER PRINT: has too fine type 3

MORE FINANCIAL DETAILS 2

MORE ABOUT FUTURE: tell more about future plans; more on outlook 2

MORE ABOUT PRODUCTS 2

OTHER 4

DON'T KNOW 17

Percentages add to more than 100 because of multiple answers.
WHAT IS YOUR REASONING ON THAT (THE COMPANY PAYS ITS TOP EXECUTIVES ABOUT RIGHT)?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>77</td>
<td>51</td>
<td>48</td>
</tr>
<tr>
<td>Per cent of total</td>
<td>37%</td>
<td>49%</td>
<td>45%</td>
</tr>
</tbody>
</table>

REQUIRE AND DESERVE IT: a good man is worth what he gets; must pay good salary to keep competent men; should be well paid for their responsibility

SAME AS OTHER COMPANIES: are paid current rate for their jobs; comparable basis with other concerns

INCOME TAXES INVOLVED: high pay, but a lot comes out in income taxes; higher salary is taken out by government

THEY HAVE TO PAY WELL TO GET GOOD MEN

BECAUSE IT'S BIG BUSINESS: it's such a big company; running a billion-dollar business; they should be well paid

GENERAL APPROVAL: O. K. or they wouldn't do it; just guess it's about right; salaries are right, all things considered

OTHER

NO OPINION

Percentages add to more than totals shown because of multiple answers.
EXECUTIVE OPINIONS

WHAT WOULD YOU SAY ARE THE MORE IMPORTANT OBJECTIVES OF YOUR STOCKHOLDER RELATIONS WORK FOR THE NEXT TWO YEARS?

<table>
<thead>
<tr>
<th>Company Has Definite Objectives</th>
<th>Company Has No Definite Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total companies</td>
<td>50**</td>
</tr>
<tr>
<td></td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>26</td>
</tr>
</tbody>
</table>

**All figures shown are cases, not percentages.
WHAT WOULD YOU SAY ARE THE MORE IMPORTANT OBJECTIVES OF YOUR STOCKHOLDER RELATIONS WORK FOR THE NEXT TWO YEARS?

Companies that Have

**Definite Objectives:**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>KEEP STOCKHOLDERS FULLY INFORMED: have stockholders get a better understanding of company operations, policies, problems; fully and frankly informed stockholder group</td>
<td>11</td>
</tr>
<tr>
<td>EXPLAIN LOW EARNINGS, DIVIDENDS: tell why company cannot afford larger dividends; defend our earnings; explain our efforts to give stockholders a fair return</td>
<td>5</td>
</tr>
<tr>
<td>EXPLAIN SPECIFIC PROBLEMS (other than earnings or dividends): tell about our foreign operations; explain our labor problems; tell about our share in the defense program</td>
<td>5</td>
</tr>
<tr>
<td>SOLIDIFYING THE STOCKHOLDER GROUP: maintain our present group of shareholders; create a stockholder family; develop stockholders' interest in the company so they will stay with us</td>
<td>5</td>
</tr>
<tr>
<td>ECONOMIC EDUCATION: give them economic education the same as employees and the general public</td>
<td>2</td>
</tr>
<tr>
<td>CONVERT TO EQUITY SECURITIES: get rid of our preferred stock</td>
<td>1</td>
</tr>
<tr>
<td>STABILIZE VALUE OF STOCK: stabilize the value of our stock and get acceptance as a blue-chip</td>
<td>1</td>
</tr>
</tbody>
</table>

**All figures shown are cases, not percentages**

(Cases do not add to total shown because of multiple answers.)
HOW DO YOU FEEL YOUR STOCKHOLDER REPORT CAN BE MADE TO DO A BETTER JOB FOR THE COMPANY (IN REGARD TO STOCKHOLDER RELATIONS)?

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Total companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>GREATER SIMPLIFICATION: make reports more understandable; simple, so the average shareholder can figure it out; get rid of heavy statistics, keep it simple</td>
<td>10</td>
</tr>
<tr>
<td>MORE READABLE: well written; simple language; not too technical</td>
<td>9</td>
</tr>
<tr>
<td>ILLUSTRATIONS: use more and better pictures; charts and graphs</td>
<td>8</td>
</tr>
<tr>
<td>ATTRACTIVE AND INTERESTING: dramatize the story better so stockholders will be interested; make reports more attractive</td>
<td>7</td>
</tr>
<tr>
<td>BRIEF: CONDENSED: keep the report brief; condense them</td>
<td>5</td>
</tr>
<tr>
<td>CONSERVATIVE: not too lavish; well written, but not jazzed up</td>
<td>3</td>
</tr>
<tr>
<td>STOCKHOLDERS DON'T WANT MUCH: it's enough to give earnings and dividends; stockholders just care about dividends; simple</td>
<td>3</td>
</tr>
<tr>
<td>MORE HUMAN INTEREST: MORE about employees and other material with human interest</td>
<td>2</td>
</tr>
<tr>
<td>ECONOMIC EDUCATION: sell the system</td>
<td>2</td>
</tr>
<tr>
<td>OTHER SUGGESTIONS</td>
<td>3</td>
</tr>
<tr>
<td>REPORT IS ALL RIGHT NOW: we won a national award; report is well received as it is; we have a very good report</td>
<td>10</td>
</tr>
<tr>
<td>DON'T KNOW HOW IT CAN BE IMPROVED</td>
<td>12</td>
</tr>
</tbody>
</table>

**All figures shown are cases, not percentages.

(Cases do not add to total shown because of multiple answers.)
COMPANIES USING "FACT SIMPLIFIERS" (Reports for years 1941-1947)

<table>
<thead>
<tr>
<th>Number of Companies</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ONE-PAGE FACT SUMMARY:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total companies</td>
<td>250</td>
<td>11%</td>
<td>12%</td>
<td>15%</td>
<td>22%</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>Index members</td>
<td>57</td>
<td>16%</td>
<td>18%</td>
<td>28%</td>
<td>39%</td>
<td>40%</td>
<td>47%</td>
</tr>
<tr>
<td>Nonmembers</td>
<td>193</td>
<td>10%</td>
<td>11%</td>
<td>11%</td>
<td>17%</td>
<td>21%</td>
<td>25%</td>
</tr>
</tbody>
</table>

| **SIMPLIFIED FINANCIAL STATEMENT:** |
| Total companies     | 250  | 15%  | 17%  | 21%  | 27%  | 29%  | 32%  | 38%  |
| Index members       | 57   | 23%  | 25%  | 28%  | 40%  | 46%  | 47%  | 56%  |
| Nonmembers          | 193  | 13%  | 15%  | 19%  | 23%  | 24%  | 27%  | 32%  |

| **CHARTS OR GRAPHS:** |
| Total companies     | 250  | 27%  | 24%  | 31%  | 38%  | 41%  | 52%  | 58%  |
| Index members       | 57   | 33%  | 33%  | 39%  | 49%  | 53%  | 67%  | 72%  |
| Nonmembers          | 193  | 25%  | 21%  | 28%  | 35%  | 38%  | 48%  | 53%  |

| **PHOTOS OR DRAWINGS:** |
| Total companies     | 250  | 33%  | 34%  | 39%  | 43%  | 53%  | 61%  | 72%  |
| Index members       | 57   | 44%  | 44%  | 49%  | 56%  | 67%  | 68%  | 81%  |
| Nonmembers          | 193  | 30%  | 31%  | 36%  | 39%  | 49%  | 59%  | 69%  |

| **COMPARATIVE FIGURES:** |
| Total companies     | 250  | 64%  | 66%  | 70%  | 74%  | 76%  | 80%  | 85%  |
| Index members       | 57   | 67%  | 70%  | 75%  | 81%  | 89%  | 91%  | 98%  |
| Nonmembers          | 193  | 64%  | 65%  | 69%  | 72%  | 72%  | 77%  | 81%  |
USE OF SUBJECT MATTER IN ANNUAL REPORTS (Reports for years 1941-1947)

<table>
<thead>
<tr>
<th>Number of companies-250</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Expansion plans&quot;</td>
<td>43%</td>
<td>38%</td>
<td>41%</td>
<td>50%</td>
<td>63%</td>
<td>70%</td>
<td>80%</td>
</tr>
<tr>
<td>&quot;Information about employees&quot;</td>
<td>46%</td>
<td>66%</td>
<td>73%</td>
<td>76%</td>
<td>70%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>&quot;Where plants are and what they make&quot;</td>
<td>50%</td>
<td>47%</td>
<td>47%</td>
<td>49%</td>
<td>54%</td>
<td>65%</td>
<td>70%</td>
</tr>
<tr>
<td>&quot;Pricing policy, inflation&quot;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>49%</td>
<td>62%</td>
</tr>
<tr>
<td>&quot;Tax story&quot;</td>
<td>67%</td>
<td>76%</td>
<td>72%</td>
<td>75%</td>
<td>70%</td>
<td>61%</td>
<td>64%</td>
</tr>
<tr>
<td>&quot;The outlook&quot;</td>
<td>27%</td>
<td>27%</td>
<td>30%</td>
<td>37%</td>
<td>48%</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>&quot;Story of production processes&quot;</td>
<td>14%</td>
<td>19%</td>
<td>22%</td>
<td>28%</td>
<td>33%</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>&quot;Number and kind of stockholders&quot;</td>
<td>26%</td>
<td>26%</td>
<td>24%</td>
<td>29%</td>
<td>36%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>&quot;Sketches of executives, directors&quot;</td>
<td>22%</td>
<td>26%</td>
<td>22%</td>
<td>29%</td>
<td>31%</td>
<td>32%</td>
<td>44%</td>
</tr>
<tr>
<td>&quot;Research story&quot;</td>
<td>31%</td>
<td>34%</td>
<td>37%</td>
<td>40%</td>
<td>42%</td>
<td>42%</td>
<td>43%</td>
</tr>
<tr>
<td>&quot;Appeal for use of products&quot;</td>
<td>16%</td>
<td>16%</td>
<td>15%</td>
<td>20%</td>
<td>27%</td>
<td>32%</td>
<td>43%</td>
</tr>
<tr>
<td>&quot;Explanation of inventories&quot;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td>&quot;Foreign business&quot;</td>
<td>20%</td>
<td>19%</td>
<td>19%</td>
<td>20%</td>
<td>21%</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>&quot;Advertising program&quot;</td>
<td>8%</td>
<td>11%</td>
<td>10%</td>
<td>13%</td>
<td>17%</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>&quot;Relations with unions&quot;</td>
<td>20%</td>
<td>13%</td>
<td>20%</td>
<td>17%</td>
<td>32%</td>
<td>42%</td>
<td>21%</td>
</tr>
<tr>
<td>&quot;Litigation&quot;</td>
<td>15%</td>
<td>17%</td>
<td>14%</td>
<td>18%</td>
<td>18%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>&quot;Free enterprise system&quot;</td>
<td>3%</td>
<td>5%</td>
<td>7%</td>
<td>7%</td>
<td>10%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>&quot;Dividend policy&quot;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>&quot;Executive compensation&quot;</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>&quot;History of the company&quot;</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>
MEDIAN NUMBER OF PAGES IN ANNUAL REPORTS (Reports for years 1941-1947)

<table>
<thead>
<tr>
<th></th>
<th>Number of Companies</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL COMPANIES</td>
<td>250</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Index members</td>
<td>57</td>
<td>19</td>
<td>20</td>
<td>22</td>
<td>21</td>
<td>24</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Nonmembers</td>
<td>193</td>
<td>13</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>
The Borden Survey of 1949.

In 1949 the Borden Company, a leading proponent of better annual reports, made a survey of reading preferences of stockholders, employee, and other publics. Many persons cooperated by filling out their preference cards and mailing them back. This report is based upon the total of 2,459 cards received up to May 13, 1949. Of this number, 2,158 were sent in by stockholders. Employees sent in 98 cards, stockholder-employees 52, and others 151.

Questionnaires were contained in annual reports mailed to 52,057 stockholders and thousands of persons in the three other categories.

What were their preferences: The President's Report to Stockholders and Employees received the highest number of "Liked" notings in each of the four categories. A total of 2,078 respondents marked it "Liked" while only eleven indicated "Didn't Interest Me."

The Financial Statements had the second highest number of "liked" notings among the STOCKHOLDERS AND STOCKHOLDER-EMPLOYEES. EMPLOYEES "Liked" the Product Directory, Pictures and About This Report more than the Financial Statements. OTHER "Liked" Pictures and Charts more than the Financial Statements.

Pictures drew the third highest number of "Liked" notings from STOCKHOLDERS, STOCKHOLDER-EMPLOYEES AND EMPLOYEES. OTHERS gave Pictures the second highest number of "Liked" notings.

The Borden Product Directory placed fourth in the "Liked" notings of STOCKHOLDERS. It was second among the EMPLOYEES', fifth in the

---

1. The results were contributed by Mr. Charles Howard, Stockholder Service Bureau, Borden Company, 350 Madison Avenue, New York.
STOCKHOLDER-EMPLOYEE notings, and sixth among the notings of OTHERS.

About This Report, listed as Highlights of the Report on the preference card, had the fifth highest number of preference notings among the STOCKHOLDERS. STOCKHOLDER-EMPLOYEES and EMPLOYEES each rated it fourth, while OTHERS rated it seventh.

Charts ranked sixth in the "Liked" notings of STOCKHOLDERS and STOCKHOLDER-EMPLOYEES. EMPLOYEES rated them ninth, but OTHERS rated them third.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Liked No.</th>
<th>Liked %</th>
<th>No Comment No.</th>
<th>No Comment %</th>
<th>Did Not Interest No.</th>
<th>Did Not Interest %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President's Report</td>
<td>1926</td>
<td>89</td>
<td>195</td>
<td>9</td>
<td>37</td>
<td>2</td>
<td>2158</td>
</tr>
<tr>
<td>Statements</td>
<td>1859</td>
<td>86</td>
<td>253</td>
<td>12</td>
<td>46</td>
<td>2</td>
<td>2158</td>
</tr>
<tr>
<td>Pictures</td>
<td>1711</td>
<td>79</td>
<td>332</td>
<td>16</td>
<td>115</td>
<td>5</td>
<td>2158</td>
</tr>
<tr>
<td>Product Directory</td>
<td>1674</td>
<td>78</td>
<td>411</td>
<td>19</td>
<td>73</td>
<td>3</td>
<td>2158</td>
</tr>
<tr>
<td>About This Report</td>
<td>1670</td>
<td>77</td>
<td>411</td>
<td>19</td>
<td>77</td>
<td>4</td>
<td>2158</td>
</tr>
<tr>
<td>Charts</td>
<td>1669</td>
<td>77</td>
<td>384</td>
<td>18</td>
<td>105</td>
<td>5</td>
<td>2158</td>
</tr>
<tr>
<td>How To Sheet</td>
<td>1525</td>
<td>71</td>
<td>436</td>
<td>20</td>
<td>197</td>
<td>9</td>
<td>2158</td>
</tr>
<tr>
<td>Diversification:Soybeans</td>
<td>1483</td>
<td>69</td>
<td>508</td>
<td>23</td>
<td>167</td>
<td>8</td>
<td>2158</td>
</tr>
<tr>
<td>Main Street</td>
<td>1388</td>
<td>64</td>
<td>516</td>
<td>24</td>
<td>254</td>
<td>12</td>
<td>2158</td>
</tr>
<tr>
<td>Destination: Everywhere</td>
<td>1384</td>
<td>64</td>
<td>578</td>
<td>27</td>
<td>196</td>
<td>9</td>
<td>2158</td>
</tr>
<tr>
<td>Elsie's Letter</td>
<td>1251</td>
<td>58</td>
<td>526</td>
<td>24</td>
<td>381</td>
<td>18</td>
<td>2158</td>
</tr>
</tbody>
</table>

*Rounded out to nearest digit
<table>
<thead>
<tr>
<th>Subject</th>
<th>Liked No.</th>
<th>No Comment No.</th>
<th>Did Not Interest No.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President's Report</td>
<td>50</td>
<td>2</td>
<td>4</td>
<td>52</td>
</tr>
<tr>
<td>Statements</td>
<td>48</td>
<td>4</td>
<td>8</td>
<td>52</td>
</tr>
<tr>
<td>Pictures</td>
<td>47</td>
<td>5</td>
<td>10</td>
<td>52</td>
</tr>
<tr>
<td>About This Report</td>
<td>46</td>
<td>6</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Product Directory</td>
<td>44</td>
<td>7</td>
<td>14</td>
<td>52</td>
</tr>
<tr>
<td>Charts</td>
<td>44</td>
<td>6</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Destination: Everywhere</td>
<td>43</td>
<td>7</td>
<td>14</td>
<td>52</td>
</tr>
<tr>
<td>Main Street</td>
<td>43</td>
<td>5</td>
<td>10</td>
<td>52</td>
</tr>
<tr>
<td>Diversification: Soybeans</td>
<td>41</td>
<td>5</td>
<td>10</td>
<td>52</td>
</tr>
<tr>
<td>Elsie's Letter</td>
<td>36</td>
<td>11</td>
<td>21</td>
<td>52</td>
</tr>
<tr>
<td>How to Shoot</td>
<td>35</td>
<td>11</td>
<td>21</td>
<td>52</td>
</tr>
</tbody>
</table>

*Rounded out to nearest digit*
### EMPLOYEES

<table>
<thead>
<tr>
<th>Subject</th>
<th>Liked No.</th>
<th>%*</th>
<th>No Comment</th>
<th>%*</th>
<th>Did Not Interest</th>
<th>%*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President's Report</td>
<td>88</td>
<td>90</td>
<td>5</td>
<td></td>
<td>5</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>Product Directory</td>
<td>81</td>
<td>83</td>
<td>11</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>98</td>
</tr>
<tr>
<td>Pictures</td>
<td>81</td>
<td>83</td>
<td>8</td>
<td></td>
<td>9</td>
<td>9</td>
<td>98</td>
</tr>
<tr>
<td>About This Report</td>
<td>79</td>
<td>81</td>
<td>12</td>
<td>12</td>
<td>7</td>
<td>7</td>
<td>98</td>
</tr>
<tr>
<td>Statements</td>
<td>79</td>
<td>81</td>
<td>11</td>
<td></td>
<td>8</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>Elsie's Letter</td>
<td>78</td>
<td>80</td>
<td>9</td>
<td></td>
<td>11</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>Main Street</td>
<td>77</td>
<td>79</td>
<td>12</td>
<td></td>
<td>9</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>Destination: Everywhere</td>
<td>77</td>
<td>79</td>
<td>12</td>
<td>12</td>
<td>9</td>
<td>9</td>
<td>98</td>
</tr>
<tr>
<td>Charts</td>
<td>72</td>
<td>74</td>
<td>14</td>
<td>14</td>
<td>12</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>How to Shoot</td>
<td>72</td>
<td>74</td>
<td>12</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>98</td>
</tr>
<tr>
<td>Diversification: Soybeans</td>
<td>68</td>
<td>70</td>
<td>11</td>
<td>11</td>
<td>19</td>
<td>19</td>
<td>98</td>
</tr>
</tbody>
</table>

*Rounded out to nearest digit*
### OTHERS

<table>
<thead>
<tr>
<th>Subject</th>
<th>Liked No.</th>
<th>Liked %*</th>
<th>No Comment No.</th>
<th>No Comment %*</th>
<th>Did Not Interest No.</th>
<th>Did Not Interest %*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President's Report</td>
<td>114</td>
<td>76</td>
<td>30</td>
<td>20</td>
<td>7</td>
<td>4</td>
<td>151</td>
</tr>
<tr>
<td>Pictures</td>
<td>111</td>
<td>74</td>
<td>29</td>
<td>19</td>
<td>11</td>
<td>7</td>
<td>151</td>
</tr>
<tr>
<td>Charts</td>
<td>109</td>
<td>72</td>
<td>30</td>
<td>20</td>
<td>12</td>
<td>8</td>
<td>151</td>
</tr>
<tr>
<td>Statements</td>
<td>107</td>
<td>71</td>
<td>29</td>
<td>19</td>
<td>15</td>
<td>10</td>
<td>151</td>
</tr>
<tr>
<td>How to Shoot</td>
<td>104</td>
<td>69</td>
<td>28</td>
<td>18</td>
<td>19</td>
<td>13</td>
<td>151</td>
</tr>
<tr>
<td>Product Directory</td>
<td>101</td>
<td>67</td>
<td>45</td>
<td>30</td>
<td>5</td>
<td>3</td>
<td>151</td>
</tr>
<tr>
<td>About This Report</td>
<td>98</td>
<td>65</td>
<td>43</td>
<td>28</td>
<td>10</td>
<td>7</td>
<td>151</td>
</tr>
<tr>
<td>Diversification:Soybeans</td>
<td>96</td>
<td>64</td>
<td>42</td>
<td>28</td>
<td>13</td>
<td>8</td>
<td>151</td>
</tr>
<tr>
<td>Main Street</td>
<td>91</td>
<td>60</td>
<td>43</td>
<td>29</td>
<td>17</td>
<td>11</td>
<td>151</td>
</tr>
<tr>
<td>Destination: Everywhere</td>
<td>82</td>
<td>54</td>
<td>54</td>
<td>36</td>
<td>15</td>
<td>10</td>
<td>151</td>
</tr>
<tr>
<td>Elsie's Letter</td>
<td>72</td>
<td>48</td>
<td>42</td>
<td>28</td>
<td>37</td>
<td>24</td>
<td>151</td>
</tr>
</tbody>
</table>

*Rounded out to nearest digit*
What comments did the respondents make: The majority of respondents in the four categories took advantage of the opportunity presented by the preference card to express their views on the report, company policies, products and a number of irrelevant matters.

Because the preference card required no respondent identification and provided no specific space for any, it is felt that the anonymity thus offered helped each respondent to express his opinions more freely. However, the more outspoken respondents, particularly stockholders, did provide their names and addresses and, in some cases, attached to their preference cards letters extending their comments.

Respondents in all categories were more than generous in their acceptance of the report. In classifying the comments it was found that in each group those comments using "superlatives" to praise the annual report were much higher in number than any other type of comment. Such expressions as Excellent, Perfect, Superb, Tops, Couldn't Be Better, Don't See How You Could Improve It, were considered to be "superlative" in the tabulation.

<table>
<thead>
<tr>
<th>No. of Superlatives</th>
<th>Total Group Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholders</td>
<td>430</td>
</tr>
<tr>
<td>Stockholder-Employees</td>
<td>19</td>
</tr>
<tr>
<td>Employees</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>501</td>
</tr>
</tbody>
</table>

Of special interest were the comments of 41 Stockholders and 3 Others who stated that the Borden report was better than any of a specified number of reports they had read this year. Some of these respondents identified themselves as bankers, brokers, security analysts
and trust officers and the numbers of reports mentioned ranged from 15 to 300.

For the most part, these respondents who commented on the report offered suggestions that they felt would improve it. These suggestions included:

- More information and pictures of products
- Maps showing plant locations
- Personal stories, pictures of Officers and Directors
- More details of employee benefit programs
- Better coverage of foreign operations
- Serialization of the Company history
- Give financial details on per share basis
- Give more financial data
- Include more charts
- Use colored photographs
- Shorter President's Report
- More information on future prospects
- Use more picture stories

**Criticism:** Some stockholders thought the annual report should be limited to basic, pertinent facts and that it contained too much advertising and expensive decoration. There were 35 in this group. Three others thought the publication expense should be saved and distributed in the form of dividends.

Strongest stockholder criticism concerned the President's Report—58 thought it was too long, 22 thought there should have been more information on the legal actions mentioned and 17 asked for news of future prospects.

More financial data was requested by 38 stockholders, financial data on per share basis by 32, more charts by 23, and simpler statements by 15.

Insufficient use of pictures of plants and products was mentioned by 28 stockholders, lack of colored illustrations by 17 and 11 complained
of the terra cotta color used throughout the report.

Comments of respondents in other groups are spread too thinly over a wide area to provide any clues to the general thinking. However, some of these comments do echo the opinions of many stockholder respondents.

**Extraneous comments:** Many comments bore no relation to the report or to company policies and they have been eliminated from this study. Typical of these comments were: "Down with Truman!" "Eliminate double taxation!" "My mother was in Gail Borden's Sunday School class." "What do you think of the Palestine situation?"

Included in these extraneous comments were five orders for shotgun pollenation shells, three for Starlac and two for Gerilac.

In the attached summaries of volunteer comments, the opinions expressed by the respondents are grouped according to subject matter. Some respondents commented on several subjects—others upon only one. Each comment was made in the writer's particular style and some liberties had to be taken for the purposes of tabulation. For instance, if a respondent commented, "Maybe the report would have been better if you used more pictures" it was classified as "Use more pictures of plants and products."
SUMMARY OF VOLUNTEER COMMENTS

Stockholders

REPORT IN GENERAL:

1. Too much advertising. Give facts only. Waste of money. Too elaborate. 35
2. Save its cost and add to our dividends. 3
3. No significance in Main Street, U. S. A. 1
4. Print was too fine. 15
5. Very poorly done. 1
6. No union label. 1
7. It was fair. 7
9. Best of all I receive. Best of 15, 20, 28, 30, 45, 50, 126, 300 I receive. 41
10. Superlative reactions: Excellent. Tops. Couldn't be better. Superb job. Perfect. Others should imitate. 430
11. Too dull. 1

PRESIDENT'S REPORT:

1. Superlative reactions: Excellent. Best I've read, etc. 13
2. Found it interesting. Well done. 2
3. It was much too long. Make it short, to the point. 58
4. Reference to legal actions too vague, uninformative. 22
5. Should have given some information on future prospects. 17
6. Was too pessimistic, uninformative. 3
FINANCIAL:

1. All I ever read are my dividend checks.  
2. Make statements simpler. Use simplified balance sheet.  
4. Give financial data on per share basis.  
5. "Past Ten Years" is excellent.  
7. More charts like these.  
8. Give more financial data.  
10. Include Book Values of Stock.  

PRODUCTS:

1. Give more detailed information on types and locations of the Company's plants. Include a map.  
2. Give fuller descriptions and pictures of products.  
3. Send samples to stockholders to help them push products.  
4. Include some recipes to interest the women.  
5. Tell us something about new product research.  
6. Give more information on unfamiliar products, such as you did in "How to Shoot an Apple Blossom."  
7. Urge stockholders to use and promote products.  
8. Less information on minor products.
STOCKHOLDERS:

1. Tell us more about the people who own the Company.  

2. Include personal stories about our Directors and Officers.  

3. Why send an Annual Report to every stockholder every year?  

4. Put some women on the Board of Directors.  

5. Proud to be part of the Borden Company.  

EMPLOYEES:

1. Give more details of employee benefit programs.  

2. Include stories of Borden background and people.  

3. More details of Officers and Directors salaries and fees.  

COMPANY:

1. More about foreign activities.  

2. Serialize the history of the Company.  

3. Can't we reduce inventories?  

4. Can't we hold down the debt?  

ADVERTISING:

1. Devote more space to Elsie and her family.  


3. More information on radio programs.
PICTURES:

1. Use more pictures of plants and products. More pictures stories like "Main Street, U. S. A."   28
2. Use comic illustrations like ATF.  1
3. Too many pictures. Pictures waste space.  3 32

COVER:

1. Cover illustration in very good taste, beautiful, etc.  13
2. Should have told the story of the cover drawing.  4
3. Use color photos on the cover.  1 18

COLOR:

1. The color was very pretty, in good taste, etc.  3
2. The color spoiled it all, hard on the eyes, didn't like it.  11
3. Use colored pictures. Show products in color.  17
4. Eliminate use of color.  3 34

ABOUT THIS REPORT:

1. Clever. Great idea. Like it very much.  8
2. Confusing. Hard to Read. Don't try to be different.  16 24
Some clues offered by the study: While the findings of this study provide no concrete evidence as to the annual report reading preferences of the great majority of STOCKHOLDERS, STOCKHOLDER-EMPLOYEES, EMPLOYEES and OTHER publics, they do indicate that The Borden Company is submitting an annual report that satisfied the requirements of a large segment of its combined audiences.

The Volunteer Comments are particularly helpful in establishing a guide for future annual reports. The preference card contained no questions or other devices that might suggest thoughts to the respondents. The comments were born freely in the minds of the various respondents and the frequency with which a number of specific comments were made leads to the conclusion that future annual reports of the Borden Company should:

1. Contain a shorter, easy-reading message from the President that is highly informative, presents the good and bad sides of the year's activities, answers all questions of importance and makes some helpful comments on future prospects;

2. Present financial information on a per share basis and give all financial data possible within the limits of good business practice;

3. Give more information about products and processes and make a greater effort to familiarize its audiences with Borden labels;

4. Show the scope of the Company's activities in more detail. Present a map of plant locations and photographs of plants of various types;

5. Include more charts to illustrate operating results;

6. Use more photographs;

7. Be more colorful than in the past;

8. Include photographs and biographies of Directors and Officers.

9. Give more details of Employee benefit programs.
10. Contain a tabulated highlights page.

Some additional preference cards have been received since the above tabulations were made, but these are insufficient to necessitate any changes in the findings. At some future date, when it becomes apparent that no more preference cards are to be received, it may prove profitable to amend this study.

Consolidated Edison Survey in 1948.

Consolidated Edison\(^1\) wanted to get information concerning their 124,000 stockholders. They polled 108,000 individual stockholders by using the scientific public opinion survey of a leading survey firm.

For reasons of both speed and economy they decided to use a mail survey, followed up, for checking purposes, by personal calls on a number of those who did not respond. The names were selected by pulling every twelfth name from an alphabetical list of common stockholders.

They trained a group of public contact employees; and after the mail questionnaire had come back, sent them out on a personal canvass of enough of the non-respondents to find out if they were prejudiced.

\(^1\) The results of their survey were contributed by Sherman M. Hall, Consolidated Edison Company, 4 Irving Place, New York. Mr. Hall also sent a photostat copy of a 1944 survey, which appeared in the July 1945 issue of The Analysts Journal. This 1944 survey was sent to members of the New York Society of Security Analysts to determine their attitude toward the annual report. By and large the security analysts approved of the report, but there were suggestions for various improvements such as: furnish generating data, round off dollar figures to the nearest thousand; five to ten year comparison of earnings, increases or decreases be shown by percentages. The editors of the Journal also stated: "It is suggested that other large companies, anxious to improve their annual statements and conform to the best statistical standards might follow suit to send out questionnaires."
in not replying. As it turned out, the results of these interviews followed very closely the pattern of the mail responses.

### I. HOW DID YOU ORIGINALLY ACQUIRE YOUR STOCK?

<table>
<thead>
<tr>
<th>Method</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. By gift</td>
<td>48</td>
<td>2.0</td>
</tr>
<tr>
<td>2. By inheritance</td>
<td>172</td>
<td>7.1</td>
</tr>
<tr>
<td>3. As a distribution from another company</td>
<td>19</td>
<td>0.8</td>
</tr>
<tr>
<td>4. By purchase</td>
<td>2174</td>
<td>90.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2413</td>
<td>100.0</td>
</tr>
</tbody>
</table>

If by purchase, did someone recommend it to you?

<table>
<thead>
<tr>
<th>Yes/No</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Yes</td>
<td>1199</td>
<td>58.5</td>
</tr>
<tr>
<td>2. No</td>
<td>851</td>
<td>41.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2050</td>
<td>100.0</td>
</tr>
</tbody>
</table>

If yes

<table>
<thead>
<tr>
<th>Source</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. By Banker</td>
<td>120</td>
<td>9.8</td>
</tr>
<tr>
<td>2. By Broker</td>
<td>421</td>
<td>34.4</td>
</tr>
<tr>
<td>3. By Lawyer</td>
<td>26</td>
<td>2.1</td>
</tr>
<tr>
<td>4. By Friend</td>
<td>291</td>
<td>23.8</td>
</tr>
<tr>
<td>5. By Relative</td>
<td>265</td>
<td>21.7</td>
</tr>
<tr>
<td>6. By Other Person</td>
<td>56</td>
<td>4.6</td>
</tr>
<tr>
<td>7. Financial Paper or Financial Service</td>
<td>44</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1223</td>
<td>100.0</td>
</tr>
</tbody>
</table>

What is the principal reason you decided to buy this stock?

<table>
<thead>
<tr>
<th>Reason</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pay good dividends</td>
<td>460</td>
<td>21.1</td>
</tr>
<tr>
<td>2. For investment; safest investment</td>
<td>780</td>
<td>35.9</td>
</tr>
<tr>
<td>3. For security; income</td>
<td>356</td>
<td>16.4</td>
</tr>
<tr>
<td>4. Sound company; reliable company; well managed company; good financial condition of company; stable company</td>
<td>311</td>
<td>14.3</td>
</tr>
<tr>
<td>5. Price cheap; a good purchase at the price</td>
<td>46</td>
<td>2.1</td>
</tr>
<tr>
<td>6. Because it is a utility and people cannot do without it</td>
<td>77</td>
<td>3.5</td>
</tr>
<tr>
<td>7. For diversification</td>
<td>24</td>
<td>1.1</td>
</tr>
<tr>
<td>11. Miscellaneous</td>
<td>121</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2175</td>
<td>100.0</td>
</tr>
</tbody>
</table>
II. DID ANY OF THE FOLLOWING INFLUENCE YOU TO BUY THE STOCK?

<table>
<thead>
<tr>
<th>Influence</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Territory served</td>
<td>584</td>
<td>12.0</td>
</tr>
<tr>
<td>Faith in the public utility industry</td>
<td>1332</td>
<td>27.4</td>
</tr>
<tr>
<td>You know people who work for Company</td>
<td>168</td>
<td>3.5</td>
</tr>
<tr>
<td>See properties every day</td>
<td>131</td>
<td>2.7</td>
</tr>
<tr>
<td>Company financial condition</td>
<td>907</td>
<td>18.6</td>
</tr>
<tr>
<td>Dividend record</td>
<td>1603</td>
<td>32.9</td>
</tr>
<tr>
<td>None of these</td>
<td>140</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4865</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

III. ARE YOU HOLDING THE STOCK PRIMARILY

<table>
<thead>
<tr>
<th>Holding Purpose</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>For income</td>
<td>1580</td>
<td>63.8</td>
</tr>
<tr>
<td>For appreciation</td>
<td>19</td>
<td>0.8</td>
</tr>
<tr>
<td>Or for both</td>
<td>876</td>
<td>35.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2475</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

(If other companies' shares owned) Do any of the companies follow practices you would recommend to Consolidated Edison?

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>352</td>
<td>33.3</td>
</tr>
<tr>
<td>No</td>
<td>704</td>
<td>66.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1056</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Describe the practice

1. Extra dividends; establish a good dividend and insist on earning it; steady dividends; bigger dividends; increase dividends; better distribution of profits; etc.  
   19  30.1
2. Stock dividends; 10% stock dividend  
   19  6.3
3. Simple, clear, complete report; pictures in report; quarterly report; fewer notices but more to the point; required information contained in interesting letters  
   68  22.5
4. Make certain products available to stockholders at reduced price  
   6  2.0
5. Greater financial stability  
   4  1.4
6. Greater economy in operation  
   10  3.3
7. Issuance of "Rights" to encourage further purchase of stock; offer bonds at reduced price—later replaceable by stock

   24    7.9

8. Full report of important questions at annual meeting; question and answer period at meetings

   8  2.7

11. Miscellaneous

   72   23.8

   Total 302   100.0

VI. DID YOU RECEIVE A WELCOMING LETTER FROM THE PRESIDENT OF THE COMPANY AT THE TIME YOU FIRST BECAME A STOCKHOLDER?

   1. Yes 1156  50.9
   2. No  474  20.9
   3. Don't remember 639  28.2

   Total 2269 100.0

(If yes) What is your opinion of this letter?

   1. Favorable 856  91.6
   2. Unfavorable 79   8.4

   Total 935 100.0

VII. DO YOU RECEIVE THE FOLDER CALLED NEWS AND VIEWS?

   1. Yes 1602  70.0
   2. No  620  27.1
   3. Don't remember 65   2.9

   Total 2287 100.0

(If yes) Do you read it?

   1. Yes 1384  91.7
   2. No  125   8.3

   Total 1509 100.0
(If read) What do you like about it?

| 1. Informative; provides information about company affairs; interesting; instructive | 378 | 45.0 |
| 2. Tells about company progress; about future plans; new developments | 128 | 15.2 |
| 3. Financial statement | 15 | 1.8 |
| 4. Like method of presentation; compact interesting, timely, frank, simple | 176 | 21.0 |
| 5. Like pictures, graphs | 12 | 1.4 |
| 6. Household hints—recipes | 6 | 0.7 |
| 7. Fact that it is sent | 5 | 0.6 |
| 8. News; current events | 43 | 5.1 |
| 9. Generally good, OK | 36 | 4.3 |
| 11. Miscellaneous | 41 | 4.9 |
| **Total** | **840** | **100.0** |

What do you dislike?

(Since only 71 gave an expression of what they disliked about it, the percentage distributions were not computed)

| 1. Waste of money; prefer to have money spent in other ways; waste of time, newprint | 20 |
| 2. Receive too much printed material from different companies | -- |
| 3. Lacks interest; could have more readable format | 6 |
| 4. Too long | 6 |
| 5. Not long enough | 4 |
| 6. Doesn't acquaint one with company; doesn't explain company policies | 7 |
| 7. Too many figures; I like a condensed version of company's statement | 3 |
| 8. Comments have smacked of political bias | 2 |
| 9. Type is too small | 5 |
| 11. Miscellaneous | 18 |
| **Total** | **71** |
VIII. DID YOU RECEIVE THE COMPANY'S 1946 ANNUAL REPORT LAST MARCH?

1. Yes 2145 92.2
2. No 156 6.7
3. Don't remember 26 1.1
Total 2327 100.0

(If read) What did you like about it?

1. Shows financial condition of company; income statement; inside workings of financial end of the company; shows where income goes 138 19.1
2. Reports of progress of company; prospects for future 87 12.1
3. Good format; well presented; good graphic presentation 81 11.3
4. Clear, concise, understandable, complete, informative 281 39.0
5. Generally good, OK 79 11.0
11. Miscellaneous 54 7.5
Total 720 100.0

What did you dislike?

1. Too technical; should provide simpler explanation; too many figures for average person 28 34.9
2. Report too long; should be briefer 28 13.2
3. An extravaganza; cost of compiling and printing too much 20 9.4
4. Poor earnings; margin between earnings and dividend rate narrower 24 11.3
5. Salaries of executives too high; large pensions 7 3.3
6. Controlled by city government; state government interference 5 2.4
7. Should use: color, pictures, graphs 10 4.7
8. Rising costs; rates should be increased to meet rising costs 9 4.2
9. Lack of forecasting in report 1 0.6
11. Miscellaneous 34 16.0
Total 212 100.0
IX. DO YOU THINK THE COMPANY IS GIVING ITS STOCKHOLDERS ENOUGH INFORMATION ABOUT ITS ACTIVITIES?

1. Yes
2. No
3. Too much

<table>
<thead>
<tr>
<th>Response</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1812</td>
<td>88.1</td>
</tr>
<tr>
<td>No</td>
<td>184</td>
<td>8.9</td>
</tr>
<tr>
<td>Too much</td>
<td>61</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td>2057</td>
<td>100.0</td>
</tr>
</tbody>
</table>

XI. THE FOLLOWING BRIEF ANSWERS ABOUT YOURSELF WILL ALSO HELP US TO KNOW MORE ABOUT OUR STOCKHOLDERS

1. Male
2. Female

<table>
<thead>
<tr>
<th>Gender</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1438</td>
<td>58.7</td>
</tr>
<tr>
<td>Female</td>
<td>1011</td>
<td>41.3</td>
</tr>
<tr>
<td>Total</td>
<td>2449</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1. Married
2. Single
3. Widowed or divorced

<table>
<thead>
<tr>
<th>Status</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>1484</td>
<td>62.8</td>
</tr>
<tr>
<td>Single</td>
<td>471</td>
<td>20.0</td>
</tr>
<tr>
<td>Widowed or divorced</td>
<td>405</td>
<td>17.2</td>
</tr>
<tr>
<td>Total</td>
<td>2360</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Age (Cols. 32-33)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 21</td>
<td>55</td>
<td>2.5</td>
</tr>
<tr>
<td>10-19</td>
<td>4</td>
<td>.2</td>
</tr>
<tr>
<td>20-29</td>
<td>56</td>
<td>2.6</td>
</tr>
<tr>
<td>30-39</td>
<td>197</td>
<td>9.0</td>
</tr>
<tr>
<td>40-49</td>
<td>423</td>
<td>19.3</td>
</tr>
<tr>
<td>50-59</td>
<td>536</td>
<td>24.3</td>
</tr>
<tr>
<td>60-69</td>
<td>500</td>
<td>22.8</td>
</tr>
<tr>
<td>70-79</td>
<td>339</td>
<td>15.4</td>
</tr>
<tr>
<td>80-89</td>
<td>81</td>
<td>3.7</td>
</tr>
<tr>
<td>90-98</td>
<td>5</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>2196</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Occupation (Cols. 34-37)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>U.S.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housewife</td>
<td>512</td>
<td>24.1</td>
</tr>
<tr>
<td>Unemployed</td>
<td>11</td>
<td>.5</td>
</tr>
<tr>
<td>Retired</td>
<td>388</td>
<td>18.2</td>
</tr>
<tr>
<td>Student</td>
<td>12</td>
<td>.6</td>
</tr>
<tr>
<td>Professional and Semiprofessional workers</td>
<td>347</td>
<td>16.3</td>
</tr>
<tr>
<td>Proprietors, Managers, and Officials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Except Farm</td>
<td>403</td>
<td>18.9</td>
</tr>
<tr>
<td>Clerical, Sales and Kindred Workers</td>
<td>281</td>
<td>13.2</td>
</tr>
<tr>
<td>Craftsmen, Foremen, and Kindred Workers</td>
<td>94</td>
<td>4.4</td>
</tr>
<tr>
<td>Operatives and Kindred Workers</td>
<td>40</td>
<td>1.9</td>
</tr>
<tr>
<td>Domestic Service Workers</td>
<td>8</td>
<td>.4</td>
</tr>
<tr>
<td>Protective Service Workers</td>
<td>12</td>
<td>.6</td>
</tr>
<tr>
<td>Service Workers, except Domestic and Protective</td>
<td>15</td>
<td>.7</td>
</tr>
<tr>
<td>Laborers, Except Farm</td>
<td>4</td>
<td>.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2127</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In which of the following brackets did your 1947 income fall?

1. Under $3000                                    | 706  | 31.7|
2. $3000 to $4999                                 | 484  | 21.8|
3. $5000 to $6999                                 | 343  | 15.4|
4. $7000 to $9999                                 | 265  | 11.9|
5. $10,000 to $14,999                            | 163  | 7.3 |
6. $15,000 to $19,999                            | 93   | 4.3 |
7. $20,000 or over                               | 170  | 7.6 |
| **Total**                                       | 2224 | 100.0|
**General Foods Survey.**

General Food's survey was designed to weigh stockholder reaction to the company's 1947 annual report. The one presented below is one of a series. The postal questionnaire of common stockholders was sent in June 1948. This survey supplemented the findings of a much broader and deeper personal interview study made several months earlier.

<table>
<thead>
<tr>
<th>Question</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (a) Did you receive your copy of the current GF Annual Report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>137</td>
<td>95.0</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>1.4</td>
</tr>
<tr>
<td>Don't know</td>
<td>4</td>
<td>2.8</td>
</tr>
<tr>
<td>No answer</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>(b) If yes, have you have a chance to look over the Report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>127</td>
<td>88.2</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>4.9</td>
</tr>
<tr>
<td>No Answer</td>
<td>10</td>
<td>6.9</td>
</tr>
<tr>
<td>2. Did you find our Report rather interesting, or was it something of a chore to read it?</td>
<td>107</td>
<td>74.3</td>
</tr>
<tr>
<td>Interesting</td>
<td>9</td>
<td>6.25</td>
</tr>
<tr>
<td>Chore</td>
<td>9</td>
<td>6.25</td>
</tr>
<tr>
<td>No opinion</td>
<td>18</td>
<td>12.5</td>
</tr>
<tr>
<td>No answer</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>3. (a) Did you look at the product picture on the back cover of the Report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>109</td>
<td>75.7</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>2.1</td>
</tr>
<tr>
<td>Don't remember</td>
<td>14</td>
<td>9.0</td>
</tr>
<tr>
<td>No answer</td>
<td>19</td>
<td>13.2</td>
</tr>
</tbody>
</table>

1. The summary report was obtained from the General Foods Corporation by direct request.
(b) If yes, did you look closely to see what the different products were, or just glance at it?

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Looked closely</td>
<td>80</td>
<td>55.5</td>
</tr>
<tr>
<td>Just glanced</td>
<td>37</td>
<td>25.7</td>
</tr>
<tr>
<td>Don't remember</td>
<td>6</td>
<td>4.2</td>
</tr>
<tr>
<td>No answer</td>
<td>21</td>
<td>14.6</td>
</tr>
</tbody>
</table>

4. (a) Now, taking the Report as a whole, how do you think it could be improved?

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No answer</td>
<td>81</td>
<td>56.25</td>
</tr>
<tr>
<td>Don't know</td>
<td>4</td>
<td>2.8</td>
</tr>
<tr>
<td>Comment (Appendix C)</td>
<td>59</td>
<td>40.9</td>
</tr>
</tbody>
</table>

(Appendix C)

MEN—43, who commented as follows

Varying degrees of compliments to GF from adequate to best ever

Too much detail or too much bulk

Too costly

Not entirely sure about how to improve report

Would like to see growth of company (in terms of total business volume) shown graphically

Takes too much knowledge to understand

Wants more detail on research on new products

Liked part of Report, especially

- Color
- ten-year comparative estimates and graphs

Complaint that wages, costs rising, dividends cut. Corporations go to banks not individual investors for expansion funds
WOMEN—16, who commented as follows

Compliments for GF, ranging from no idea for change to very good as it is 12

Improving from year to year 1

Complaint that all products not available in local market 1

Not brief enough 1

Better display of facts 1

(b) Is there anything you think the report lacks—anything you think could be added to make the Report more interesting to you?

<table>
<thead>
<tr>
<th>Response</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No answer</td>
<td>111</td>
<td>77.1</td>
</tr>
<tr>
<td>Don't know</td>
<td>3</td>
<td>2.1</td>
</tr>
<tr>
<td>Comment (Appendix D)</td>
<td>30</td>
<td>20.7</td>
</tr>
</tbody>
</table>

MEN—26, who commented as follows

**COMPLIMENTS** (total of 7)

- Complete and well-done
- Seemed complete to me
- Ample—more would border on extravagance
- Not for me
- You are doing a big job and doing it well
- Through Report and Stockholder News you keep us well informed
- Very complete
COMPLAINTS AND SUGGESTIONS (total of 6)

- More emphasis on graph showing growth of business
- Financial statement should be simplified
- Net book value per share for common stock for comparative years might be shown
- One sheet for report—concise—memo sheet issued every two months
- Wants list of countries with which General Foods has business relations—as seller, purchaser
- Too detailed

OTHER

- No (explicitly)
- Wants Report before him before criticizing
- Women—4 comments, only one of which was a suggestion, quoted as follows:

"I felt no lack. I would like to know what salary individual officers of the company receive, but it would probably make me angry and anyway would do me no good."
General Motors 1947 Survey.

The purposes of the survey were: (1) to attempt to find out if their reports are read and liked; (2) to obtain more information about their stockholders, and (3) to find out whether any loyalty stockholders might have as owners of the business was reflected in their patronage of G. M. products.

Questionnaires were mailed with the annual report to 39,418 stockholders between March 29 and April 14, 1948.

Of the total questionnaires mailed, 4,530 or 11.5%, were returned as of July 20, 1948. The responses of 4,367 stockholders had been tabulated and provided the basis for this study.

FINDINGS OF THE SURVEY

Was the Report Read?

In answer to the question:

How thoroughly did you read the report?

More than 95% of the respondents said they either glanced through it, read parts of it, or read all or nearly all of it:

- Glanced through it 17.3%
- Read parts of it 34.5%
- Read all or nearly all of it 43.7%
- TOTAL 95.5%

What were the comparative interest and preference for the several chapters of the report?

1. The survey results were contributed by Mr. James Morris, General Motors Corporation, Broadway at 57th Street, New York.
"In line with our long-time policy, the annual report report for 1947 gives you the material facts about General Motors operations. To help us make future reports of greater interest to you and other stockholders, we'd like to get the benefit of your thinking on the following features of the report."

**FEATURES OF THE REPORT**

<table>
<thead>
<tr>
<th>Have you read it?</th>
<th>Yes</th>
<th>No</th>
<th>Ans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of GM</td>
<td>2,674</td>
<td>51.2</td>
<td>223</td>
</tr>
<tr>
<td>Financial Review</td>
<td>2,659</td>
<td>60.9</td>
<td>259</td>
</tr>
<tr>
<td>More &amp; Better Things</td>
<td>2,633</td>
<td>60.3</td>
<td>248</td>
</tr>
<tr>
<td>Operating Review</td>
<td>2,448</td>
<td>56.1</td>
<td>328</td>
</tr>
<tr>
<td>Operating Divisions &amp; Products</td>
<td>2,181</td>
<td>49.9</td>
<td>321</td>
</tr>
<tr>
<td>GM Men &amp; Women</td>
<td>2,060</td>
<td>47.2</td>
<td>394</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Did you like it?</th>
<th>Yes</th>
<th>No</th>
<th>Ans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of GM</td>
<td>2,216</td>
<td>32.9</td>
<td>50</td>
</tr>
<tr>
<td>Financial Review</td>
<td>2,137</td>
<td>80.4</td>
<td>45</td>
</tr>
<tr>
<td>More &amp; Better Things</td>
<td>2,272</td>
<td>86.3</td>
<td>49</td>
</tr>
<tr>
<td>Operating Review</td>
<td>2,146</td>
<td>87.7</td>
<td>34</td>
</tr>
<tr>
<td>Operating Divisions &amp; Products</td>
<td>1,804</td>
<td>82.7</td>
<td>61</td>
</tr>
<tr>
<td>GM Men &amp; Women</td>
<td>1,695</td>
<td>82.3</td>
<td>61</td>
</tr>
</tbody>
</table>

**Did stockholders like the illustrations in the report?**

The following results show that a large majority of the respondents want to see pictures continued in the reports and find the charts helpful.
Do you like the photographs in our report and do you wish to see them continued?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Ans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>3,505</td>
<td>136</td>
<td>726</td>
</tr>
<tr>
<td>%</td>
<td>80.3</td>
<td>3.1</td>
<td>16.6</td>
</tr>
</tbody>
</table>

Do you find charts and diagrams helpful?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Ans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>3,115</td>
<td>231</td>
<td>1,021</td>
</tr>
<tr>
<td>%</td>
<td>71.3</td>
<td>5.3</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Did the report interest men more than it did women?

A breakdown of the data by sex on comparative interest and preference for the several chapters of the report shows a marked lack of interest on the part of women.

<table>
<thead>
<tr>
<th>FEATURES OF THE REPORT</th>
<th>Have you read it?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of GM</td>
<td>68.5 5.1 26.4 49.9 5.3 48.8</td>
</tr>
<tr>
<td>Financial Review</td>
<td>71.5 5.3 23.2 43.5 7.5 47.0</td>
</tr>
<tr>
<td>More &amp; Better Things</td>
<td>66.8 6.0 27.2 50.3 5.3 44.4</td>
</tr>
<tr>
<td>Operating Review</td>
<td>67.9 6.4 25.7 36.0 9.9 54.1</td>
</tr>
<tr>
<td>Operating Divisions &amp; Products</td>
<td>60.2 7.2 32.6 33.0 8.0 59.0</td>
</tr>
<tr>
<td>GM Men &amp; Women</td>
<td>52.5 9.9 37.6 39.1 7.9 53.0</td>
</tr>
</tbody>
</table>
**FEATURES OF THE REPORT**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of GM</td>
<td>Yes 85.4</td>
<td>Yes 77.0</td>
</tr>
<tr>
<td></td>
<td>No 2.2</td>
<td>No 1.0</td>
</tr>
<tr>
<td>Financial Review</td>
<td>Yes 83.7</td>
<td>Yes 70.7</td>
</tr>
<tr>
<td></td>
<td>No 1.5</td>
<td>No 2.3</td>
</tr>
<tr>
<td>More &amp; Better Things</td>
<td>Yes 75.0</td>
<td>Yes 82.0</td>
</tr>
<tr>
<td></td>
<td>No 2.0</td>
<td>No 1.4</td>
</tr>
<tr>
<td>Operating Review</td>
<td>Yes 88.8</td>
<td>Yes 83.8</td>
</tr>
<tr>
<td></td>
<td>No 1.4</td>
<td>No 1.5</td>
</tr>
<tr>
<td>Operating Divisions &amp; Products</td>
<td>Yes 84.6</td>
<td>Yes 75.2</td>
</tr>
<tr>
<td></td>
<td>No 3.2</td>
<td>No 1.8</td>
</tr>
<tr>
<td>GM Men &amp; Women</td>
<td>Yes 83.6</td>
<td>Yes 79.5</td>
</tr>
<tr>
<td></td>
<td>No 3.8</td>
<td>No 0.9</td>
</tr>
</tbody>
</table>

**Do you like the photographs and want to see them continued?**

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes 86.4</td>
<td>Yes 71.2</td>
</tr>
<tr>
<td></td>
<td>No 3.5</td>
<td>No 2.5</td>
</tr>
<tr>
<td></td>
<td>Ans. 10.1</td>
<td>Ans. 26.3</td>
</tr>
</tbody>
</table>

**Do you find the charts and diagrams helpful?**

<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes 81.1</td>
<td>Yes 55.6</td>
</tr>
<tr>
<td></td>
<td>No 5.2</td>
<td>No 5.6</td>
</tr>
<tr>
<td></td>
<td>Ans. 13.7</td>
<td>Ans. 38.8</td>
</tr>
</tbody>
</table>

**What groups took the most interest in the report?**

On the basis of those who read and liked

**THE FINANCIAL REVIEW**

<table>
<thead>
<tr>
<th>Sex</th>
<th>Read it</th>
<th>Liked it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>71.5%</td>
<td>83.7%</td>
</tr>
<tr>
<td>Women</td>
<td>43.5</td>
<td>70.7</td>
</tr>
</tbody>
</table>

**Age**

<table>
<thead>
<tr>
<th></th>
<th>Read it</th>
<th>Liked it</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 40</td>
<td>66.4</td>
<td>82.3</td>
</tr>
<tr>
<td>40 - 49</td>
<td>62.9</td>
<td>83.9</td>
</tr>
<tr>
<td>50 - 59</td>
<td>64.6</td>
<td>82.7</td>
</tr>
<tr>
<td>over 60</td>
<td>58.5</td>
<td>77.8</td>
</tr>
</tbody>
</table>
Community

<table>
<thead>
<tr>
<th>Community</th>
<th>Read it</th>
<th>Liked it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities over 100,000 or their suburbs</td>
<td>62.6</td>
<td>80.8</td>
</tr>
<tr>
<td>Cities of 10,000 to 100,000 or their suburbs</td>
<td>61.0</td>
<td>81.9</td>
</tr>
<tr>
<td>Farms, villages, and towns under 10,000</td>
<td>60.8</td>
<td>77.9</td>
</tr>
</tbody>
</table>

Kind of work

<table>
<thead>
<tr>
<th>Kind of work</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountants</td>
<td>85.7</td>
<td>85.0</td>
</tr>
<tr>
<td>Engineers</td>
<td>75.6</td>
<td>83.8</td>
</tr>
<tr>
<td>Sales</td>
<td>72.4</td>
<td>77.4</td>
</tr>
<tr>
<td>Owners of business—executive and supervisory</td>
<td>71.1</td>
<td>83.6</td>
</tr>
<tr>
<td>Retired</td>
<td>64.7</td>
<td>81.6</td>
</tr>
<tr>
<td>Clerical</td>
<td>62.7</td>
<td>82.9</td>
</tr>
<tr>
<td>Professional</td>
<td>61.6</td>
<td>78.7</td>
</tr>
<tr>
<td>Housewives and widows</td>
<td>40.6</td>
<td>71.9</td>
</tr>
</tbody>
</table>

What kind of folks make up the GM stockholder family?

Age of Respondents

- 2.7% are in their twenties
- 7.4% are in their thirties
- 17.8% are in their forties
- 28.3% are in their fifties
- 26.6% are in their sixties
- 13.9% are in their seventies
- 3.1% are in their eighties
- 0.2% are in their nineties

Kind of Community in Which Respondents Reside

- 47.2% live in cities of 100,000 or over (or in suburbs of those cities)
- 29.8% live in cities of 10,000 to 100,00 (or in suburbs of those cities)
- 23.0% live on farms or in villages or towns
Vocations of the Respondents

8.5% Owner of business
4.4% Supervisory
10.5% Executive
23.4% Total—Owners, Executives & Supervisors

2.7% Doctor
0.9% Dentist
0.3% Minister
4.0% Teacher
2.5% Lawyer
10.4% Total—Professional

5.3% Sales
4.3% Clerical
3.2% Engineer
2.4% Skilled Trade
1.7% Accountant
1.2% Production
1.0% Government Official
0.8% Student
17.2% Retired
12.5% Housewife
9.9% Widow
6.7% Other
100.0%

Note: 147 respondents or 3.4% indicated that they are employees of the Corporation
Ferro Corporation Survey of 1953.

Ferro Corporation of Cleveland (makers of enamel products) sent 3,600 questionnaires to stockholders, of which 1,375 were returned.

The high percentage return indicated that the findings of the survey were valid. Each completed questionnaire was returned to Case Institute of Technology who tabulated and analyzed the results.¹

1. From what you know, what is your general impression of the company's operations with respect to the following:

<table>
<thead>
<tr>
<th>Operation</th>
<th>Very Efficient %</th>
<th>Moderately Efficient %</th>
<th>Only Fairly Efficient %</th>
<th>Inefficient %</th>
<th>Don't Know %</th>
<th>No Answer %</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
<td>29</td>
<td>22</td>
<td>4</td>
<td>1</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>Engineering, Research and Development</td>
<td>39</td>
<td>17</td>
<td>3</td>
<td>1</td>
<td>28</td>
<td>13</td>
</tr>
<tr>
<td>Public Relations and Information</td>
<td>36</td>
<td>19</td>
<td>4</td>
<td>2</td>
<td>27</td>
<td>12</td>
</tr>
</tbody>
</table>

In answering this group of questions the largest number of shareholders rated the various management elements as being good. However, as might be expected, many Ferro shareholders really do not feel that they are qualified to judge these elements of the company's operations and have either not answered, or have said that they did not know the answer.

2. In general, do you think the company gives shareholders enough information about its affairs?

¹ The results were contributed by Mr. G. E. Weber, Treasurer of Ferro Corporation, 5150 East 56th Street, Cleveland. Mr. R. A. Weaver, Chairman of the Board, comments: "It is my feeling that this study, which was carried out at a nominal cost, has been very much worth doing. It gives us a better picture of our shareholders and what they expect of us. It brings out certain areas when we feel we should do a better job in keeping you informed. It also indicates a degree of shareholders' confidence in our basic policies which is most heartening."
6% I receive too little information  
59% The company keeps me adequately informed  
29% The company keeps me very well informed  
2% The company provides too much information  
4% No answer

Apparently, shareholders are getting the information that they believe they need about the company.

3. How much of the Annual Report booklet do you read?

56% Practically all of it  
25% Most of it  
10% About half of it  
6% Just a glance  
0% Not at all  
3% No answer

This would indicate annual reports from Ferro enjoy extraordinarily good readership.

4. Comparing the Ferro Annual Report with other corporation reports, how would you rate it in terms of completeness and clarity of the information you want, reader interest, etc.?

31% Excellent  
55% Good  
6% Fair  
0% Poor  
8% No answer

The annual reports are considered to be average or above by the great bulk of the shareholders.

5. What is your opinion concerning the information the company now gives shareholders quarterly (the dividend check enclosure or leaflet carrying the chairman's letter and income statement)?

6% Not necessary—could do without  
76% About right—leave it as is  
13% Prefer more information—as would be given in an illustrated newsletter  
5% No answer

The quarterly information appears to be considered "about right" by the greatest number of shareholders.
Allegheny Ludlum Steel Corporation Surveys.

Allegheny Ludlum has made two stockholders surveys—in 1944 and 1950. In 1944 nearly 3300 of the company's 12,000 replied to a questionnaire, indicating that they liked the idea of being consulted about annual reports. Some of the questions are presented below.

1. Please check below the subjects you would like to have discussed in the 1944 annual report of the Allegheny Ludlum Steel Corporation.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2263</td>
<td>Outlook for 1945 for Allegheny Ludlum</td>
</tr>
<tr>
<td>2</td>
<td>1939</td>
<td>Position of Allegheny Ludlum in steel industry</td>
</tr>
<tr>
<td>3</td>
<td>1817</td>
<td>Dividend policy</td>
</tr>
<tr>
<td>4</td>
<td>1633</td>
<td>Earnings</td>
</tr>
<tr>
<td>5</td>
<td>1615</td>
<td>Research and new products</td>
</tr>
<tr>
<td>6</td>
<td>1559</td>
<td>Company products</td>
</tr>
<tr>
<td>7</td>
<td>1369</td>
<td>Outlook for 1945 for business in general</td>
</tr>
<tr>
<td>8</td>
<td>1367</td>
<td>Postwar production plans</td>
</tr>
<tr>
<td>9</td>
<td>1232</td>
<td>Products manufactured</td>
</tr>
<tr>
<td>10</td>
<td>1216</td>
<td>Competition problems</td>
</tr>
<tr>
<td>11</td>
<td>1009</td>
<td>Reconversion problems</td>
</tr>
<tr>
<td>12</td>
<td>885</td>
<td>Taxes</td>
</tr>
<tr>
<td>13</td>
<td>870</td>
<td>Legislation affecting steel industry</td>
</tr>
<tr>
<td>14</td>
<td>837</td>
<td>Allegheny Ludlum war effort</td>
</tr>
<tr>
<td>15</td>
<td>817</td>
<td>Employee relations</td>
</tr>
<tr>
<td>16</td>
<td>809</td>
<td>History of Allegheny Ludlum</td>
</tr>
<tr>
<td>17</td>
<td>741</td>
<td>Salaries and wages</td>
</tr>
<tr>
<td>18</td>
<td>739</td>
<td>Plant modernization program</td>
</tr>
<tr>
<td>19</td>
<td>688</td>
<td>Postwar employment plans</td>
</tr>
<tr>
<td>20</td>
<td>671</td>
<td>Sales</td>
</tr>
<tr>
<td>21</td>
<td>661</td>
<td>Veterans reemployment plans</td>
</tr>
<tr>
<td>22</td>
<td>598</td>
<td>Contract termination</td>
</tr>
<tr>
<td>23</td>
<td>593</td>
<td>Manufacturing processes</td>
</tr>
<tr>
<td>24</td>
<td>588</td>
<td>Officers and directors</td>
</tr>
<tr>
<td>25</td>
<td>549</td>
<td>Depreciation policies</td>
</tr>
<tr>
<td>26</td>
<td>421</td>
<td>Advertising</td>
</tr>
<tr>
<td>27</td>
<td>421</td>
<td>Renegotiation of contracts</td>
</tr>
<tr>
<td>28</td>
<td>420</td>
<td>War production cut-backs</td>
</tr>
<tr>
<td>29</td>
<td>419</td>
<td>Pricing problems in steel</td>
</tr>
<tr>
<td>30</td>
<td>414</td>
<td>Distribution system</td>
</tr>
<tr>
<td>31</td>
<td>396</td>
<td>Inventories and methods of evaluation</td>
</tr>
<tr>
<td>32</td>
<td>284</td>
<td>Safety record</td>
</tr>
<tr>
<td>33</td>
<td>63</td>
<td>Others (please specify)</td>
</tr>
</tbody>
</table>

1. Mr. Lamar Kelly of Allegheny Ludlum Steel contributed the results of the 1950 survey. The 1944 survey results were found in Modern Corporate Reports by Doris, page 215.
A controversial subject, annual reports were the subject of the 1950 survey. The results of this survey are presented in the following press release of Allegheny Ludlum Steel, dated January 18, 1951:

STOCKHOLDERS PREFER PLAIN ANNUAL REPORTS

Stockholders are interested in receiving facts and figures from the companies in which they hold equities and prefer to get them undorned with the fancy and elaborate trimmings which have become a trend in recent years in the publication of company annual reports.

Preliminary figures resulting from a recent survey of stockholders of Allegheny Ludlum Steel Corporation show a two-to-one preference for the plain, factual annual report over the report printed in two or more colors and illustrated with photographs, charts and graphs.

Tucked away on the back inside page of the company's regular quarterly publication mailed to its 13,304 stockholders with their dividend checks on December 21, 1950, was the following item:

"There is a wide difference of opinion among stockholders as to the type of annual report they prefer. Some investors want well-illustrated, colorful reports that are chocked full of photographs, charts and graphs. Others are best satisfied with matter-of-fact reports, and still others indicate that they do not care for annual reports at all.

Allegheny Ludlum in the past has prepared both types of annual reports. For instance, the 1948 report was well illustrated and colorful while the report for 1949 was printed in a single color and contained no illustrations.

This year, officers of the company would like to prepare the type of report a majority of the investors want. For that reason, included herewith is a post card upon which each stockholder is requested to designate his preference. Three choices are given.

1. A colorful, well-illustrated report.
2. A one-color, factual report.
3. Financial statistics and auditors' letter only."

Although the questionnaire reached the stockholders immediately before Christmas, cards have been returned to date by a total of 3,266

1. This was contributed by the Company.
holders, or 24.5\% of all company stockholders. A breakdown of preferences indicated is as follows: preferring the elaborate type of report, 966 or 29.6\% of stockholders answering; preferring the plain, factual report, 1,787 or 54.7\%; interested in financial statistics and auditors' letter only, 436 or 13.3\%; indicating a preference for various combinations of the above three types, 58 or 1.8\%, and indicating no preference, 19 or 0.6\%. A combination of stockholders preferring the plain, factual report and those wanting financial data only total 2,223 or 68\%.

Officials of Allegheny Ludlum decided to buck the trend to the elaborate type of report in 1949 and, accordingly, had the company's annual statement printed in single color and used no illustrations whatsoever. An indication of stockholder reception came from receipt of the greatest number of letters of commendation the company had ever received as the result of distributing its annual report. Results of the stockholder survey to date indicate, in the opinion of company officials, that decision to buck the trend was sound.

It should be noted that while the Allegheny Ludlum report for 1949 was simplified and printed in a single color it did not revert to the format for annual reports of years past when barest possible information was given to stockholders. The 1949 report, 16 pages and cover, contained a "report in brief," including 15 pertinent financial and statistical items; a thorough discussion in lay language of operations, finances, plant improvements, research and development and future possibilities; an earnings statement and a balance sheet for the year along with notes pertaining to those statements and a letter attesting to their accuracy from independent auditors, and finally, financial and other statistical information about the company covering a 10-year period.

In addition to the annual report, stockholders receive a quarterly publication containing a discussion of company operations, finances and progress. The "Quarterly" is a 12-page leaflet designed to fit into the envelope in which the quarterly dividend checks are mailed.

The Balasny Survey.

In 1944, Raymond L. Balasny, President of the Yearbooks Publishing Company, made a questionnaire survey of 2,000 readers of Financial World in all parts of the country. The questions and answers are presented in the following pages:

1. See Modern Corporate Reports by Doris, p. 223.
1. Check the magazine to which you would prefer annual report to correspond for cover size.

<table>
<thead>
<tr>
<th>Magazine</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reader's Digest</td>
<td>22%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time Magazine</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Magazine</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indifferent</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Check the number of pages that you would like the report to contain considering your above designated cover size.

<table>
<thead>
<tr>
<th>Pages</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 12 pages</td>
<td>50%</td>
<td>32%</td>
<td>50%</td>
</tr>
<tr>
<td>12 pages</td>
<td>26%</td>
<td>30%</td>
<td>19%</td>
</tr>
<tr>
<td>24 pages</td>
<td>8%</td>
<td>22%</td>
<td>6%</td>
</tr>
<tr>
<td>32 pages</td>
<td>4%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>48 pages</td>
<td>4%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Over 48 pages</td>
<td>1%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Indifferent</td>
<td>7%</td>
<td>7%</td>
<td>13%</td>
</tr>
</tbody>
</table>

3. Check the kind of cover you would like.

<table>
<thead>
<tr>
<th>Kind</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plain</td>
<td>76%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decorative</td>
<td>21%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indifferent</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Would you like bar and line graphs in your annual report?

<table>
<thead>
<tr>
<th>Choice</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>59%</td>
<td>9%</td>
<td>32%</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indifferent</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Would you like pictorial graphs in your annual report?

<table>
<thead>
<tr>
<th>Choice</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>46</td>
<td></td>
<td>19%</td>
<td>35%</td>
</tr>
<tr>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Would you like to have the text broken by graphs and photographs in the appropriate places?

<table>
<thead>
<tr>
<th>Choice</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td></td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Check the number of ink colors with which you would like your report to be made up.

<table>
<thead>
<tr>
<th>Ink Colors</th>
<th>R. D.</th>
<th>TIME</th>
<th>LIFE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black and 1 color</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black and 2 colors</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black and 3 colors</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black and 4 colors</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black and more than 4 colors</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indifferent</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Check the style in which you would like the text written.

- Non-technical prose: 79%
- Customary legal: 13%
- News flash style: 6%
- Indifferent: 2%

9. Have you been in the habit of saving your annual reports?

- Yes: 58%
- No: 36%
- Indifferent: 6%

10. If the report was attractive and readable would you

- Show it to your business associates: 52%
- Show it to your family?: 44
- Show it to your friends?: 39

Questions on Subject Matter

11. Would you like a summary page of statistics of the past with a comparison with previous years?

- Yes: 92%
- No: 2%
- Indifferent: 6%

12. Would you prefer a detailed balance sheet and profit and loss statement?

- 69
- 12
- 19

13. Would you like the balance sheet to be presented with a year to year comparison?

- Yes: 89
- No: 2
- Indifferent: 9

If so, check (one) the number of years comparison you would like.

- 2 years: 29%
- 3 years: 25
- 5 years: 29
- 10 years: 14
- 25 years: 3

14. Would you like a "Cash Income vs. Cash Outgo" statement?

- Yes: 59%
- No: 13%
- Indifferent: 27%

15. Would you like a percentage analysis of all statistics presented?

- 51
- 18
- 31

16. Do you believe a statement as to dividend policy would make for a better understanding?

- Yes: 94
- No: 2
- Indifferent: 4
17. Check from the following items pertaining to taxes those in which you are interested.

   a. ratio of taxes paid to net profits before taxes 64%
   b. ratio of taxes paid to wages paid 27
   c. ratio of taxes paid to dividends paid 58
   d. annual taxes for the previous ten years and the percent of increase or decrease 47

18. Would you like a gross sales breakdown? Yes 39% No 21% Indifferent 40%

19. Would you like a statistical analysis of employee relations? Yes 45 No 21 Indifferent 34
   If so, please check from the following items pertaining to employees those in which you are interested.

   a. Number 65%
   b. Sex 30
   c. Age 25
   d. Salaries 70
   e. Wages and hours 67
   f. Comparison of the foregoing a through e with the industry averages and also the U. S. all-industry averages 67

20. Check from the following items pertaining to stockholders those in which you are interested.

   a. Yearly trends in the number of stockholders 64%
   b. Sex distribution of stockholders 11
   c. Occupations of stockholders 22
   d. Average shareholdings per stockholder 71
   e. Geographical percentage distribution of stockholders 29

21. Would you like to know the background and affiliations of your officers and directors? Yes 88% No 2% Indifferent 10%

22. Would you like to know the general future plans of the company? Yes 95 No 1 Indifferent 4
23. Would you be interested in the company's advertising program? 
   Yes  62%  No  14%  Indifferent  24%

24. Would you like a descriptive list of products and services? 
   82  5  13

25. Would you like to know the kinds of research conducted by your company? 
   82  4  14

26. Would you like to know the number of employees engaged in research? 
   53  14  33

Questions on Graphs

27. Check from the following items pertaining to graphs those in which you are interested.

   a. Map showing location of company, its plants, its sales agencies, its subsidiaries, and its sphere of influence  64%
   b. Graph showing trend of gross income and net income  62
   c. Graph titled "Where From--Where Go (Cash Income vs. Cash Outgo)"  35
   d. A graph on trend of earnings and dividends  88
   e. Graphs on the subject of taxes paid by the corporation  43
   f. Graphs on employees  15
   g. Map showing the geographical distribution of stockholders  16
   h. Graph on sales trends  49
   i. Organization chart of the company  32

Questions on Photographs

28. Check those of the following of which you would like to see photographs.

   a. Company president
      Informal pose  85%
      Formal portrait  15
   b. Officers and directors  29
   c. Buildings and plant facilities  72
   d. Products  78
   e. Use of products  57
   f. Outstanding company events of the year  31
   g. Users of products  31
   h. Process of manufacturing the products  43
   i. Employees in action  19

One of the earliest surveys was made by Ralph Gates in 1940, the results being presented at the Financial Conference of the American Management Association in January 1941. The report described the results of 1,500 stockholders selected from three companies—General Foods, Bridgeport Brass, and McCall's publishers. The questions were designed to find out what stockholders did with reports; what style of report was acceptable; what subjects were of importance to them; what their ability was to understand charts.

1. When I get an annual report, I...
   46% Read it thoroughly.
   29% Glance through it, and throw it away.
   22% Glance through it, and save it.
   3% Don't give it much attention.

I find most reports I receive...
   44% Difficult to understand.
   44% Interesting and instructive.
   12% Not worth much attention.

Annual reports I like best are...
   30% Financial statement and president's short letter.
   70% Detail story of company progress in addition to financial statements.

2. If a company sent me an annual report that was illustrated with pictures similar to the style of LIFE magazine, I would think the company was...(The stockholder could check more than one if he desired.)

   12% Undignified.
   22% Modern and up-to-date.
   16% Poorly managed.
   63% Making an honest effort to make me understand company progress.
   14% Trying to cover up something by diverting my attention.

---

Subjects on which I would like to receive information in a report are...

- Financial statements: 89%
- Effect of war on business: 62%
- How much taxes paid: 56%
- Research plans and development: 56%
- New investments in manufacturing and selling operations: 54%
- Employee relations (wages, employment changes, etc.): 54%
- Where company sells products or goods: 41%
- Pictures of products: 30%
- Where company buys material: 25%


A survey on the Adequacy of Corporate Reporting was made by M. K. Mellott and Company, public relations firm of Pittsburgh. The purpose was to obtain the attitude of security analysts toward corporate reporting as a basis for developing and improving such reporting. Over 500 members of the New York Society of Security Analysts associated with banks, brokers, financial publishers, investment counselors, investment trusts, and insurance companies were questioned. The following is a summary of 123 responses:

Summary of 123 responses from security analysts, brokers, investment houses, insurance companies, and the like, to a questionnaire on the "Adequacy of Corporate Reporting" by M. K. Mellott and Company, public relations firm of Pittsburgh, Pa., as of November 1, 1945.

---

1. The results of this survey were contributed by Mr. M. K. Mellott, 2125 Koppers Building, Pittsburgh 19, Pa.
1. (a) From what sources do you now obtain corporate information?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>114</td>
<td>99.1</td>
<td>Company reports</td>
</tr>
<tr>
<td>2</td>
<td>110</td>
<td>95.7</td>
<td>Statistical services</td>
</tr>
<tr>
<td>3</td>
<td>104</td>
<td>90.4</td>
<td>Newspaper</td>
</tr>
<tr>
<td>4</td>
<td>95</td>
<td>82.6</td>
<td>Personal contact with company officers</td>
</tr>
<tr>
<td>5</td>
<td>86</td>
<td>74.8</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>6</td>
<td>77</td>
<td>67.0</td>
<td>Magazines</td>
</tr>
<tr>
<td>7</td>
<td>54</td>
<td>47.0</td>
<td>Personal contact with company competitors</td>
</tr>
<tr>
<td>8</td>
<td>40</td>
<td>34.8</td>
<td>Personal contact with company customers</td>
</tr>
<tr>
<td>9</td>
<td>32</td>
<td>27.8</td>
<td>Personal contact with company suppliers</td>
</tr>
<tr>
<td>10</td>
<td>49</td>
<td>42.6</td>
<td>Other sources</td>
</tr>
</tbody>
</table>

Total number reporting—115.

(b) Which sources do you consider best?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>66</td>
<td>64.1</td>
<td>Company reports</td>
</tr>
<tr>
<td>2</td>
<td>60</td>
<td>58.3</td>
<td>Personal contact with company officers</td>
</tr>
<tr>
<td>3</td>
<td>42</td>
<td>40.8</td>
<td>Statistical services</td>
</tr>
<tr>
<td>4</td>
<td>33</td>
<td>32.0</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>5</td>
<td>22</td>
<td>21.4</td>
<td>Personal contact with company competitors</td>
</tr>
<tr>
<td>6</td>
<td>13</td>
<td>12.6</td>
<td>Personal contact with company customers</td>
</tr>
<tr>
<td>7</td>
<td>12</td>
<td>11.7</td>
<td>Newspapers</td>
</tr>
<tr>
<td>8</td>
<td>11</td>
<td>10.7</td>
<td>Personal contact with company suppliers</td>
</tr>
<tr>
<td>9</td>
<td>5</td>
<td>4.9</td>
<td>Magazines</td>
</tr>
<tr>
<td>10</td>
<td>18</td>
<td>17.5</td>
<td>Other sources</td>
</tr>
</tbody>
</table>

Total number reporting—103.

2. Would you say that, in general, corporate reporting being done today meets the needs of the security investor?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>63</td>
<td>56.2</td>
<td>Inadequately</td>
</tr>
<tr>
<td>2</td>
<td>47</td>
<td>42.0</td>
<td>Adequately</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>1.8</td>
<td>Completely</td>
</tr>
</tbody>
</table>

112 100.0
3. Which of the following classes of information is generally inadequately supplied in today's reporting program of corporations to the public?

### Part A—FINANCIAL INFORMATION

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>74</td>
<td>71.8</td>
<td>Costs</td>
</tr>
<tr>
<td>2</td>
<td>61</td>
<td>59.2</td>
<td>Depreciation policy</td>
</tr>
<tr>
<td>3</td>
<td>50</td>
<td>48.5</td>
<td>Reserves</td>
</tr>
<tr>
<td>4</td>
<td>49</td>
<td>47.6</td>
<td>Unfilled orders</td>
</tr>
<tr>
<td>5</td>
<td>47</td>
<td>45.6</td>
<td>Sales</td>
</tr>
<tr>
<td>6</td>
<td>41</td>
<td>39.8</td>
<td>Miscellaneous income</td>
</tr>
<tr>
<td>7</td>
<td>30</td>
<td>29.1</td>
<td>Taxes</td>
</tr>
<tr>
<td>8</td>
<td>23</td>
<td>22.3</td>
<td>Earnings</td>
</tr>
<tr>
<td>9</td>
<td>20</td>
<td>19.4</td>
<td>Assets</td>
</tr>
<tr>
<td>10</td>
<td>9</td>
<td>8.7</td>
<td>Working capital</td>
</tr>
<tr>
<td>11</td>
<td>7</td>
<td>6.8</td>
<td>Capital and surplus</td>
</tr>
<tr>
<td>12</td>
<td>5</td>
<td>4.9</td>
<td>Funded debt</td>
</tr>
<tr>
<td>13</td>
<td>3</td>
<td>2.9</td>
<td>Dividends</td>
</tr>
<tr>
<td>14</td>
<td>21</td>
<td>20.4</td>
<td>Other</td>
</tr>
</tbody>
</table>

Total number reporting—103.

### Part B—OTHER INFORMATION

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>64</td>
<td>66.7</td>
<td>Competition</td>
</tr>
<tr>
<td>2</td>
<td>46</td>
<td>47.9</td>
<td>Management</td>
</tr>
<tr>
<td>3</td>
<td>46</td>
<td>47.9</td>
<td>Merchandising policy</td>
</tr>
<tr>
<td>4</td>
<td>45</td>
<td>46.9</td>
<td>Research</td>
</tr>
<tr>
<td>5</td>
<td>44</td>
<td>45.8</td>
<td>Markets</td>
</tr>
<tr>
<td>6</td>
<td>44</td>
<td>45.8</td>
<td>Prices</td>
</tr>
<tr>
<td>7</td>
<td>40</td>
<td>41.7</td>
<td>Products</td>
</tr>
<tr>
<td>8</td>
<td>38</td>
<td>39.6</td>
<td>Supply sources</td>
</tr>
<tr>
<td>9</td>
<td>37</td>
<td>38.5</td>
<td>Labor relations</td>
</tr>
<tr>
<td>10</td>
<td>36</td>
<td>37.5</td>
<td>Subsidiaries</td>
</tr>
<tr>
<td>11</td>
<td>33</td>
<td>34.4</td>
<td>Plants and equipment</td>
</tr>
<tr>
<td>12</td>
<td>30</td>
<td>31.2</td>
<td>Production</td>
</tr>
<tr>
<td>13</td>
<td>25</td>
<td>26.0</td>
<td>History</td>
</tr>
<tr>
<td>14</td>
<td>24</td>
<td>25.0</td>
<td>Government relations</td>
</tr>
<tr>
<td>15</td>
<td>22</td>
<td>22.9</td>
<td>Customer relations</td>
</tr>
<tr>
<td>16</td>
<td>14</td>
<td>14.6</td>
<td>Stockholders</td>
</tr>
<tr>
<td>17</td>
<td>5</td>
<td>5.2</td>
<td>Other</td>
</tr>
</tbody>
</table>

Total number reporting—96.
4. Can you name any company whose reporting procedure you consider satisfactory?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Number</th>
<th>Per Cent</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>75</td>
<td>88.2</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>11.8</td>
<td>No</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Name it: A few of the most frequently named companies

- General Motors Corporation
- United States Steel Corporation
- Caterpillar Tractor Company
- General Foods Corporation
- Chesapeake & Ohio Railway Company

Controllership Foundation Survey.

It is obvious that most surveys have been of the stockholder type. However, realizing that the audience of the annual report is much broader, the Controllership Foundation\(^1\) queried employees, bankers, union leaders, financial analysts, large investors, and women regarding annual reports. Using depth interviews, Elmo Roper made the survey as a project for the Controllership Foundation. The survey is probably the biggest one made. Some of the results are interesting.

---

**WHAT STOCKHOLDERS SAY THEY WANT TO KNOW**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of respondents</strong></td>
<td></td>
<td>11111</td>
</tr>
<tr>
<td><strong>Total Sample</strong></td>
<td>(100%)</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Condition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General financial condition</td>
<td>56%</td>
<td>6167</td>
</tr>
<tr>
<td>(No further information)</td>
<td>13%</td>
<td>1339</td>
</tr>
<tr>
<td><strong>Income statement items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit and loss (earnings)</td>
<td>25%</td>
<td>2800</td>
</tr>
<tr>
<td>Dividends—amount paid, reasons for not paying</td>
<td>17%</td>
<td>1909</td>
</tr>
<tr>
<td>(more)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume of business (sales)</td>
<td>6%</td>
<td>684</td>
</tr>
<tr>
<td>Cost and expenses</td>
<td>4%</td>
<td>464</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>2%</td>
<td>232</td>
</tr>
<tr>
<td>Other (income statement items)</td>
<td>2%</td>
<td>228</td>
</tr>
<tr>
<td><strong>Balance sheet items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets compared to liabilities</td>
<td>4%</td>
<td>464</td>
</tr>
<tr>
<td>Liabilities</td>
<td>3%</td>
<td>333</td>
</tr>
<tr>
<td>Assets (worth)</td>
<td>2%</td>
<td>222</td>
</tr>
<tr>
<td>Reserve holdings</td>
<td>2%</td>
<td>222</td>
</tr>
<tr>
<td>Other (balance sheet items)</td>
<td>2%</td>
<td>222</td>
</tr>
<tr>
<td><strong>Other (financial condition)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who the Management is and How Well They are</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing the Company</td>
<td>17%</td>
<td>1770</td>
</tr>
<tr>
<td>General Soundness of Company</td>
<td>11%</td>
<td>1222</td>
</tr>
<tr>
<td>Plans for Future Activities</td>
<td>6%</td>
<td>667</td>
</tr>
<tr>
<td><strong>Position of its Products in the Market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Relation to Competition)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial and General Outlook for the Future</td>
<td>6%</td>
<td>667</td>
</tr>
<tr>
<td>Market Position of Stock</td>
<td>5%</td>
<td>556</td>
</tr>
<tr>
<td>Employer-Employee Relations</td>
<td>4%</td>
<td>444</td>
</tr>
<tr>
<td>What their Money is Invested in</td>
<td>3%</td>
<td>333</td>
</tr>
<tr>
<td>Other Information</td>
<td>17%</td>
<td>1811</td>
</tr>
<tr>
<td>No Constructive Answers</td>
<td>22%</td>
<td>2422</td>
</tr>
</tbody>
</table>

**NOTE:** Group totals add to more than 100%, and sub-totals may add to more than group totals because some respondents gave more than one answer.

*"What things do you like to know about the company you own this stock in, in order to keep track of your investment in it? Anything else?"*
WHERE STOCKHOLDERS GET INFORMATION ABOUT THEIR COMPANY *

<table>
<thead>
<tr>
<th>Total stockholder sample sample</th>
<th>1111 (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of respondents</strong></td>
<td>1111</td>
</tr>
<tr>
<td>Percent who mention</td>
<td></td>
</tr>
<tr>
<td><strong>PRINTED SOURCES</strong></td>
<td></td>
</tr>
<tr>
<td>Company Annual Reports</td>
<td>59%</td>
</tr>
<tr>
<td>Newspapers</td>
<td>20%</td>
</tr>
<tr>
<td>Letters from Company</td>
<td>10%</td>
</tr>
<tr>
<td>Financial Magazines</td>
<td>6%</td>
</tr>
<tr>
<td>Investors' Manuals</td>
<td>5%</td>
</tr>
<tr>
<td>Proxy Statements</td>
<td>4%</td>
</tr>
<tr>
<td><strong>PERSONAL SOURCES</strong></td>
<td></td>
</tr>
<tr>
<td>Word of Mouth Information from</td>
<td></td>
</tr>
<tr>
<td>Company Officials</td>
<td>14%</td>
</tr>
<tr>
<td>Husband or Relative</td>
<td>11%</td>
</tr>
<tr>
<td>Investment Counselor or Broker</td>
<td>9%</td>
</tr>
<tr>
<td>Banker</td>
<td>5%</td>
</tr>
<tr>
<td>Lawyer</td>
<td>1%</td>
</tr>
<tr>
<td>First hand knowledge</td>
<td></td>
</tr>
<tr>
<td>(executive of company, etc.)</td>
<td>4%</td>
</tr>
<tr>
<td>Company meetings</td>
<td>1%</td>
</tr>
</tbody>
</table>

**NOTE:** Percentages add to more than 100% because some respondents gave more than one answer.

* "Where do you get most of your information now about this company?"
CRITICISM OF COMPANY REPORTS

by those who either read carefully or glance through for points of interest *

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>808</td>
</tr>
<tr>
<td>Difficult to understand</td>
<td>12%</td>
</tr>
<tr>
<td>Too long or not interesting</td>
<td>6%</td>
</tr>
<tr>
<td>Not detailed enough</td>
<td>5%</td>
</tr>
<tr>
<td>All Other objections</td>
<td>6%</td>
</tr>
<tr>
<td>No criticism</td>
<td>58%</td>
</tr>
<tr>
<td>Have no opinion</td>
<td>14%</td>
</tr>
</tbody>
</table>

NOTE: Percentages add to more than 100% because some respondents gave more than one answer.

* "If you were asked to criticize the company's reports that you see, what would be your main criticism?"
WHAT INFORMATION DO STOCKHOLDERS WANT INCLUDED IN REPORT LETTERS?*

 Asked those who would read letter only, not regular report

Number of respondents 344 (100%)

<table>
<thead>
<tr>
<th>Topic</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strength of Financial Position</td>
<td>49</td>
</tr>
<tr>
<td>Business Prospects</td>
<td>49</td>
</tr>
<tr>
<td>Comparison of Present Dividends with Previous Years</td>
<td>47</td>
</tr>
<tr>
<td>Comparison of Present Profits with Previous Years</td>
<td>43</td>
</tr>
<tr>
<td>New Products or Services</td>
<td>31</td>
</tr>
<tr>
<td>Comparison of Present Net Worth with Previous Years</td>
<td>22</td>
</tr>
<tr>
<td>Comparison of Present Volume of Sales with Previous Years</td>
<td>16</td>
</tr>
<tr>
<td>Relations With Government</td>
<td>11</td>
</tr>
<tr>
<td>Relations with Labor Unions</td>
<td>8</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>7</td>
</tr>
<tr>
<td>Relations with Employees</td>
<td>6</td>
</tr>
<tr>
<td>Top Executive Salaries</td>
<td>6</td>
</tr>
<tr>
<td>Don't Know</td>
<td>2</td>
</tr>
</tbody>
</table>

* "If there were room in the letter to tell you about only three of the things on this list; which three would you most like to have included in the letter?"
SHOULD COMPANIES SPEND MONEY TO ADVERTISE THE BENEFITS OF CAPITALISM? *

Analyzed by respondents whose occupations are:

<table>
<thead>
<tr>
<th>Total national sample</th>
<th>Professional, proprietor, executive</th>
<th>Salaried minor and wages</th>
<th>Housekeeper</th>
<th>Retired unemployed student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>754 (100%)</td>
<td>184 (100%)</td>
<td>257 (100%)</td>
<td>274 (100%)</td>
</tr>
<tr>
<td>Should</td>
<td>46 %</td>
<td>54 %</td>
<td>46 %</td>
<td>40 %</td>
</tr>
<tr>
<td>Should not</td>
<td>22 %</td>
<td>22 %</td>
<td>23 %</td>
<td>22 %</td>
</tr>
<tr>
<td>Have no opinion</td>
<td>32 %</td>
<td>24 %</td>
<td>31 %</td>
<td>38 %</td>
</tr>
</tbody>
</table>

** Percentages based on less than 100 cases are often unreliable.

* "Some people say that it is a good idea for companies to spend some money on advertising that the capitalistic system is good, even if it means less money to distribute now to stockholders. Others say companies should not spend money in this way. What do you think?"
EMPLOYEES' INTEREST IN GETTING MORE INFORMATION
ABOUT THEIR COMPANY *

In percentages of 1074 respondents below executive level

<table>
<thead>
<tr>
<th>INFORMATION ABOUT...</th>
<th>Very Much Interested In More Information</th>
<th>Mildly Interested In More Information</th>
<th>Know Enough Already</th>
<th>Have No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of sales compared to previous years</td>
<td>19%</td>
<td>12%</td>
<td>63%</td>
<td>6%</td>
</tr>
<tr>
<td>Profit compared to previous years</td>
<td>21%</td>
<td>13%</td>
<td>59%</td>
<td>7%</td>
</tr>
<tr>
<td>Prospects for company's business next year</td>
<td>41%</td>
<td>14%</td>
<td>39%</td>
<td>6%</td>
</tr>
<tr>
<td>Plans for expansion</td>
<td>48%</td>
<td>13%</td>
<td>33%</td>
<td>6%</td>
</tr>
<tr>
<td>Principal users of company's products</td>
<td>16%</td>
<td>9%</td>
<td>70%</td>
<td>5%</td>
</tr>
<tr>
<td>New products or services</td>
<td>44%</td>
<td>13%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>28%</td>
<td>4%</td>
<td>66%</td>
<td>2%</td>
</tr>
<tr>
<td>Information about top executives</td>
<td>23%</td>
<td>14%</td>
<td>57%</td>
<td>6%</td>
</tr>
<tr>
<td>Salaries paid top executives</td>
<td>21%</td>
<td>14%</td>
<td>52%</td>
<td>13%</td>
</tr>
<tr>
<td>Information about big stockholders</td>
<td>26%</td>
<td>20%</td>
<td>44%</td>
<td>10%</td>
</tr>
</tbody>
</table>

* "...would you like to have more information about (each item), or do you know all you really want to about this already?"

and

(If "would like more information") "...would you say you were very much interested in having this additional information; or only mildly interested?"
THE INFLUENCE OF STOCKHOLDING
OF EMPLOYEE INTEREST IN:

<table>
<thead>
<tr>
<th></th>
<th>COMPANY'S PROFITS</th>
<th>COMPANY'S FUTURE PLANS*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees who:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do not own stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in the own company</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of respondents</td>
<td>161 (100%)</td>
<td>161 (100%)</td>
</tr>
<tr>
<td></td>
<td>1070 (100%)</td>
<td>1070 (100%)</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Very much interested</td>
<td>6</td>
<td>22</td>
</tr>
<tr>
<td>Mildly Interested</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Know Enough Already</td>
<td>92</td>
<td>71</td>
</tr>
<tr>
<td>Have No Opinion</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

* "...Would you like to have more information than you now have about
(how much profit your company is making compared to previous years;
what plans your company has for expansion), or do you know all you
really want to about this already?"

and

(If "would like more information") "Would you say that you were very
much interested in having this additional information or only mildly
interested?"
DOES UNION MEMBERSHIP
AFFECT INTEREST OF EMPLOYEES
IN GETTING MORE INFORMATION
ABOUT COMPANY PROFITS? *

<table>
<thead>
<tr>
<th>Employees who are:</th>
<th>Union members</th>
<th>Non-union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Want More Information</td>
<td>38</td>
<td>30</td>
</tr>
<tr>
<td>Very Much Interested</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>Mildly Interested</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Know Enough Already</td>
<td>52</td>
<td>65</td>
</tr>
<tr>
<td>Have No Opinion</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

* "...Would you like to have more information than you now have about how much profit your company is making compared to previous years, or do you know all you really want to about this already?"

and

(If "would like more information") "Would you say that you were very much interested in having this additional information or only mildly interested?"
HOW INTERESTED ARE EMPLOYEES IN
HAVING MORE INFORMATION ABOUT PROSPECTS
FOR COMPANY'S BUSINESS NEXT YEAR? *

<table>
<thead>
<tr>
<th></th>
<th>Respondents who are:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>White collar workes</td>
</tr>
<tr>
<td></td>
<td>Factory or other</td>
</tr>
<tr>
<td></td>
<td>Executives</td>
</tr>
<tr>
<td>Number of respondents</td>
<td>168 (100%)</td>
</tr>
<tr>
<td></td>
<td>616 (100%)</td>
</tr>
<tr>
<td>Very much interested</td>
<td>22 %</td>
</tr>
<tr>
<td>Mildly interested</td>
<td>2 %</td>
</tr>
<tr>
<td>Know Enough Already</td>
<td>75 %</td>
</tr>
<tr>
<td>Have No Opinion</td>
<td>1 %</td>
</tr>
<tr>
<td></td>
<td>458 (100%)</td>
</tr>
<tr>
<td></td>
<td>40 %</td>
</tr>
<tr>
<td></td>
<td>13 %</td>
</tr>
<tr>
<td></td>
<td>37 %</td>
</tr>
</tbody>
</table>

* "Different people are interested in knowing different things about the company they work for. For instance, would you like to have more information than you now have about what the prospects are for your company's business next year, or do you know all you really want to about this already?"

and

(If "would like more information") "Would you say that you are very much interested in having this additional information, or only mildly interested?"
INFLUENCE OF EDUCATION ON STOCKHOLDERS' INTEREST
IN NEW PRODUCTS OR SERVICES
OF THEIR COMPANY *

Analyzed by respondents
Whose education ended in:

<table>
<thead>
<tr>
<th>Eighths</th>
<th>High School</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade or less</td>
<td>High school</td>
<td>College</td>
</tr>
<tr>
<td>Number of respondents</td>
<td>203</td>
<td>731</td>
</tr>
<tr>
<td>%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Want More Information

<table>
<thead>
<tr>
<th></th>
<th>Eighths</th>
<th>High School</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Much Interested</td>
<td>46</td>
<td>58</td>
<td>42</td>
</tr>
<tr>
<td>Mildly Interested</td>
<td>37</td>
<td>44</td>
<td>35</td>
</tr>
<tr>
<td>Know Enough Already</td>
<td>9</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Have No Opinion</td>
<td>42</td>
<td>38</td>
<td>56</td>
</tr>
</tbody>
</table>

* "...Would you like to have more information than you now have about what new products or services your company is developing, or do you know all you really want to about this already?"

(If "would like more information") "Would you say you were very much interested in having this additional information, or only mildly interested?"
EFFECTIVENESS OF HOUSE ORGANS IN REDUCING EMPLOYEE IGNORANCE ABOUT COMPANY *

<table>
<thead>
<tr>
<th>Employees below executive level whose companies distribute a newspaper OR magazine</th>
<th>Do not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>782 (100%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percent Who Had No Opinion About Whether</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Company did larger volume in 1947 than in 1946</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>b. Earned more profits</td>
<td>44</td>
<td>38</td>
</tr>
<tr>
<td>c. Paid more dividends</td>
<td>62</td>
<td>61</td>
</tr>
</tbody>
</table>

* "Do you happen to know whether the company you work for did larger volume, earned more profits, paid more dividends..."
### EMPLOYEE OPINIONS ABOUT VERACITY

**INCOMPANY REPORTS** *

by employees who usually read the reports

<table>
<thead>
<tr>
<th>Employees who are:</th>
<th>Executives</th>
<th>White collar workers</th>
<th>Factory or other labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>147 (100%)</td>
<td>246 (100%)</td>
<td>75 (100%)</td>
</tr>
<tr>
<td>They Tell The Truth</td>
<td>96</td>
<td>91</td>
<td>88</td>
</tr>
<tr>
<td>No, They Don't</td>
<td>4</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

Small percentages based on less than 100 cases are often unreliable.

* "On the whole, do you think the reports tell the truth about the company, or not?"
Conclusions.

From these several surveys of various audiences one may draw several conclusions. The following are the broader ones which are drawn from the facts brought out in the surveys.

1. **Stockholders are people:** The stockholder list of most corporations is, in the final analysis, a cross section of the general public. In general the people who are stockholders are older than the average adult, and as expected, they have a higher income. They come from all walks of life; they are investment minded; they are interested in corporate affairs.

2. **Audience is wider than stockholders:** Despite the fact that the annual report is primarily a stockholder medium, the audience is much wider. It is the mass audience of the general public whose tastes have to be satisfied in better annual reporting. This mass audience is divided into two camps—one well informed camp which wants more information; and the other camp which simply wants to know how their investments of time and money are doing.

3. **Trend toward simplification of the annual report:** If we were to look over the reader's shoulder as he reads, we would have to recognize his desire for simpler, clearer, more readable reports. Many companies, aware of this trend, have adopted simplification devices to communicate more effectively. Such devices as one-page summaries, comparative figures, pictures, graphs, simplified financial statements, better type, and layout have been on the upswing to make reports clearer, more emphatic, more easily understood.

4. **Still a long way to go:** Despite progress in annual reports,
stockholders feel that most companies have a long way to go before annual reports are really simplified. Readership tests proved some reports are good, but that many parts of the reports are poorly read. Many reports are too hard to understand, need more emphasis, lack clear writing, are too long, are too boring.

5. **Cold facts are not enough:** An annual report should supply facts, explain them, and interpret them. Cold hard facts do not mean enough to the reader. These facts have to be interpreted for him, or otherwise the message is not communicated effectively. Stockholder interest in annual reports cannot be assumed. Consequently his interest must be aroused.

6. **Two schools of thought regarding stockholder relations:** Company managements divide into two schools regarding objectives of stockholder relations. The one school believes in no definite objectives for stockholders. They believe that good relations stem from good operating performance, good earnings, good dividends, and that no other effort is needed. The other school believes in definite objectives for stockholder relations. They believe stockholders should be cultivated; that they should be informed intelligently of the company's activities; that they should participate in company affairs where possible so that shareholder good will and understanding be cultivated.

7. **Well informed ownership is essential to the company's objectives:** The company that informs its owners will be in a much better position to refinance projects, to refund debts, to obtain bank loans, to negotiate mergers, or to get stockholder approval of many projects. If
the 1929-32 era is to be avoided, there had better be created a well-informed owner. If stockholders have felt that they have been misled or deceived with half truths, they will be susceptible to any other substitute for our present system if a price crash occurs.
CHAPTER VI. ANALYSIS OF INDIVIDUAL READER

When a communicator writes an annual report to tell a history of business events, he is writing to a mass audience. This mass audience, however, is composed of individual readers who are separated by time and distance from the communicator. The individual reader is the person whom the writer is trying to influence so that the writer may reach his objective. If the reader is a personal acquaintance, the chances are that the writer does not need high standards of communication because the reader will tell the writer if he does not understand him. The writer never is in doubt about the effectiveness of his communication because if his writing is not effective, he has to repeat to the reader until the reader does understand.

Limitation of Written Communication.

But when the writer does not see his audience, he cannot tell whether they understand or not. He writes for his readers who cannot talk back immediately. Thus he is never sure whether his subject is being grasped. However there is nothing more important to a communicator than that his audience (composed of individual readers) understand him. And on this point the writer can never be sure. He is forever guessing. Such is a basic limitation of written communication.¹ This Principle of the Limitation of Written Communication may be stated thus:

¹ Lyman Bryson says the same: "Every communication is different for every receiver even in the same neighborly context. No one can estimate the variations of understanding that there may be among receivers of the same message conveyed in the same vehicle when the receivers are separated in either space or time." See Communication of Ideas, page 5.
Whenever the communicatee is beyond immediate personal contact with the communicator, the communicator is limited in making sure that his message is being understood.

Standards Of Communications.

Such a limitation is unfortunate. As long as the writer guesses that his message is being put across, he has no way of telling whether he is reaching his objective of communicating with his audience. What he needs are standards on his performance of communicating. Without these standards, he never can tell whether his message is effective. Without a standard, he cannot learn anything.\(^1\) Such is the Principle of Standards of Communications. Stated simply, it reads: Without standards of communication, a communicator can never tell whether or not his message is effective to the communicatee.

Least Effort Of The Communicatee.

Another basic principle regarding the individual reader is known as the Principle of Least Effort of the Communicatee. Stated simply it reads: In general, in communication the individual tends to use the least effort to get the message. Such a principle, if understood by the communicator, plays a big role in making a message understandable. The differences in understanding between the persons communicating and

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1. See Rudolph Flesch's, The Art of Plain Talk, page 2: "This is an important psychological principle; it was proved a few years ago in an interesting experiment by Professor E. L. Thorndike. What he did was this: he took a student and told him to draw, blindfold, lines exactly four inches long. For days and days, the student tried; but there was no sign of progress. The length of his lines remained a matter of pure chance. The reason was, of course, that Professor Thorndike never told him how long his lines were. He had no yardstick; therefore he could not learn."
those receiving are many times attributable to the unwillingness of individuals to try to understand. Individuals avoid the reading of something which frustrates them or makes them feel stupid or ignorant. They will not look up words, consider an analogy or a metaphor, or take time to reason out the content of the message. They take the easiest way out by not reading. Consequently the communicator must consider this principle when writing for an individual reader.

Consideration of the Reader.

Several standards of communications have to do with consideration of the reader. For without considering his reader, a writer cannot make his massage effective. By consideration of the reader, we mean that the background of the reader must be considered to get the message across to the reader. By adapting his message to the reader's background, the communicator makes his task of communicating much easier. The reason is that the reader is primarily interested in himself. When a message is focused toward these ego interests, its chances of being accepted are much greater.¹ Thus we may state the Principle of Consideration of the Reader: The more the interests and background of

¹ See Irving Lorge's discussion, "The Psychologists Contribution to the Communication of Ideas," in the Communication of Ideas, on page 84: "Of course, part of the differences in communicability are attributable to the writer or speaker. He, too, goes by the law of least effort. In general his error is the greater for he fails to consider the audience— their knowledge of the subject matter, their skill in getting the material through the medium, their knowledge of the vocabulary of the field, their attitudes and prejudices about the material and so on. Since understanding both spoken and written texts is a matter of experience, of habits, of purposes of the understander, the expresser must, for maximum interaction, plan his text in those terms."
the communicatee are considered and appealed to, the more effective will be the communicator's message.

**Commonality of Interests.**

Closely allied with the principle of consideration of the reader is another basic communication principle known as the Principle of Commonality of Interests. It may be stated thus: The greater the commonality of interests between communicator and communicatee, the greater will be the basis for effective communication. Application of this principle is found at the beginnings of reports when the writer tries to establish a contact with the reader.

Other applications of this principle of commonality of interests are through some company attempts to get better acquainted with their stockholders, employees, and general public through newsletters, open houses, letters, and other personal contacts. Such focal points serve as the common interests.\(^1\)

Once the writer has found some point of common interest, he is in a much more favorable position to influence and to communicate with his reader.\(^2\) Of course, if the writer does not know of the reader's interests

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1. Henry S. Dennison has noted this principle: "For the attitude of friendliness is as tonic and releasing as that of dislike is restrictive. Part of the economic values of company athletics, club facilities, and social activities lies here. To offer a wide variety of contact points is to increase the chances that friendly contacts will develop." *Organization Engineering*, p. 89.

2. Compare with R. C. Davis' Principle of Focal Points: "The experience of cooperating in any activity that involves a minimum of conflicting interests makes it easier to cooperate subsequently in a situation that may require substantial subordination of personal interests for the accomplishment of the organization's service objectives. Focal points for common interests may act, therefore, as catalytic agents." *Fundamentals of Top Management*, p. 618.
he has to guess. Guessing does not assure that his objectives will be reached. Therefore the intelligent communicator makes every attempt to find out about his reader's interests. He does so by scientific techniques as displayed by the progressively-minded companies who have surveyed the various audiences of their annual reports.

Analysis Of The Stockholder.

Since the annual report is primarily a stockholder communication, there is naturally some concern about who the stockholders are. Such concern is merely acknowledgement of the fact that consideration of the reader is of prime importance in any communication process. Just who and what kind of people stockholders are is a question raised by progressive companies. They want to find out more about stockholders in order to talk to them more intelligently about company matters.¹ Such consideration of the reader pays off in making communications more effective. The company seeks information as to whether the stockholder is a he or she, his age, how big a town he lives in, his profession, on what basis he is paid, whether he owns his home, something about his stockholdings, including his ideas in acquiring and holding them. Knowledge of the reader's interests helps to give a better perspective on the type of information and how it should be conveyed to the reader. And since stockholders have long been neglected, more consideration of them is being given by making them subjects of surveys and studies. One of the largest of these surveys of stockholders is the Brookings

¹. See Chapters IV and V for company efforts to learn of their stockholders.
Institution Survey of Share Ownership in the United States, made at the request of the New York Stock Exchange in 1952.  

Conclusions of the Brookings Institution Survey.

Some of the conclusions derived from this study are:

1. Approximately 1 out of every 16 adult persons in the United States owns shares in publicly owned stocks.

2. There are one or more share owners in 1 out of 10 families.

3. Owners of publicly owned stocks are older than the average person. Owners from age 40 to 60 and over account for 73% of all stockholders as contrasted with 35% of the total population which is 40 years or older.

4. Approximately 70% of the stockholders have had four years of high school education contrasted with 41% of the total population which have completed high school.

5. Approximately 68% of the stockholders have an income of more than $5,000 a year contrasted with 24% of the total population which has a $5,000 or more annual income.

6. Approximately 25% of the stockholders are administrative and professional people. Approximately 33% of the stockholders are housewives.

7. Approximately 50% of the families of stockholders have 2 or less members in the family as contrasted to 42% of the total U. S. families having 2 or less members.

8. Approximately 70% of the stockholder families own their own homes as contrasted to 55% of the total U. S. families owning their homes.

9. Approximately 55% of stockholder families live in cities of 25,000 or more population as contrasted to 50% of the total U. S. families living in cities of 25,000 or more.

10. Approximately 62% of all stockholders own two issues of stock or less. About 28% of stockholders own four issues or more.

11. Approximately 66% of all stockholders have owned one or more stocks continuously since 1944.

1. Published by the Brookings Institution, Washington, D. C., price $1.50.
12. Approximately 28% acquire stocks for appreciation in value. About 22% acquire it for the dividend yield. About 20% acquired stock as a gift or from inheritance.

Many of the individual company surveys tend to substantiate these findings. Naturally there are deviations in various companies from the total, but the only way to find these deviations is by individual company stockholder analysis.

To whom Is The Report Addressed?

It is assumed that the annual report is addressed directly to stockholders. However there is evidence that more and more reports are also being addressed to employees and customers. Such broadening of the "to whom" part of the communication definition would have an important role to play in the "with what effect" part of the definition. Broadening the group of people to whom the report is addressed would bring about efforts to make the language simpler. This is because the more people for whom you write, the more simple your language has to be. Such is the basic reason for avoiding technical language when writing for laymen.

Although progressive managements realize that annual reports serve various classes of people—investors, creditors, employees, government, customers, and the general public—it has not been the practice to address the report to these classes. However there is some breaking away from this tradition of considering the annual report exclusively a stockholders' report. In a survey conducted in 1946 of 75 annual reports, 5 were addressed specifically to other than stockholders.¹ An-

¹. See page 18 of Sanders, Company Annual Reports.
other survey showed that 26 out of 525 reports were specifically addressed to other than stockholders. Letters from company managements indicate that such a practice is likely to be a growing practice. Many companies make it a practice to distribute a copy of their annual report to employees. One company which placed a notice in the employees' pay envelope received an 80% response asking for the report. It seems as if a widespread communication experimentation is going on with annual reports to determine its ability to convey financial information to employees. Such experimentation is encouraging because it may eliminate the widespread illiteracy of economic facts among employees, and through them, the general public.

It's reasonable to believe that a more effective communication of financial information could be done by presenting such information in special reports to each special group. Such is a practicable application of the standard of consideration of the reader. However there is nothing to prevent consideration of several groups in the same report. The usual dangers of specialization arise when a report is addressed to just one group. Distrust arises among the various groups when they know that each group is given different information. Such distrust causes more conflict among the groups.

One of the essential tasks of an annual report is to break down these group antagonisms and to establish a community of interest among them. If special reports would cause this distrust, then they would fail in establishing this community of interest. Of course, one solu-

1. See the Accounting Survey of 525 Corporate Reports, AIA, 1948, p. 1.
2. Sanders, op. cit., p. 18.
3. Ibid., p. 20.
tion to the problem would be to use both the general purpose and special purpose report, which many companies are doing. On the other hand, if the special purpose report can build up the community of interest by appealing to the special group interest, then the special purpose report will prevail. However every such special report must make its special readers understand the problems of the other groups. Such would be difficult to perform since man's basic interest is in himself.

In the end, the annual report should be a report addressed to the public since most corporations serve the public. Such a report should justify the various groups which have a claim on the corporation for information—investors, creditors, employees, government, and the consumer or general public. By so doing the report will justify the equitable distribution of income. This philosophy explains the reasoning why many companies entrust their annual report to public relations men. Therefore one of the standards proposed in this dissertation is that the report should be addressed to other groups in addition to stockholders.

**Proposed standard:** Is the annual report specifically addressed to—

<table>
<thead>
<tr>
<th>Group</th>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Stockholders</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>b. Employees</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>c. Creditors</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>d. Government</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>e. Customers</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>f. Public</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
</tbody>
</table>

For every "yes," group, add 5 points. Total points __________________________

(Maximum 25)
Tell The Reader What He Wants To Know.

Since most presidents realize that they are talking to a reader, normally the stockholder, they (the presidents) start their president's report with something in which the stockholder is interested—net income. Probably the most common form of opening is: "Our sales for the year amounted to $xxx, and resulted in a net profit of $xxx." This statement is commended as telling the reader what he wants to know. This procedure or technique is a common application of the principle of commonality of interest. But yet some annual reports analysts decry this type of statement as being not the best. Their arguments run like this: How far does such a statement meet the psychological processes of various kinds of readers? How well does it do when the report is addressed: "To Stockholders, Employees, and the Public"? Does it not tend to support the notion that "our main purpose is being in business is to make a profit," an expression now regarded by many as an inadequate business philosophy for these times? Should not the objective of a business organization be that of creating economic values that will satisfy public needs and desires? The profit objective should be subordinated to the public interest, composed of human values. Consequently many annual reports handle the profit motive and the human motive together. Something other than profits are put in the opening sentence. The "profits as they affect human beings" idea is being used. This is the idea to be preached until people do believe it. For instance the 1946 annual report of the General Foods starts:

1. See R. C. Davis, Fundamentals of Top Management, p. 94.
By its nature and tradition, the vocabulary of annual reporting is dominated by "dollars and cents." These dollars and cents are important as they affect the lives of our fellow men.

The operations, activities, and progress of an organization...are understood only when the aims of its people are known.... We believe in basic human values, and we are endeavoring to demonstrate these beliefs by the manner in which we administer the affairs of this company.... The goals are jobs, freedom, and the greater dignity of the individual.

Therefore another proposed standard is to begin the annual report message by writing something of interest to all the readers. This can be done by showing how profits affect all the readers—not just the selfish motive of profits for profit's sake. Stated negatively, the standard is not to write the opening paragraph on how much profits were made.

Proposed standard: Does the beginning paragraph of the report tell the sales or profits (losses)?

Yes ( ) No ( )

If "no," add 5 points.

Points___________

Law Of Egocentrism.

Another basic principle in communications is the Law of Egocentrism. It is the center and core of the first law of human nature—to be thought of as a person around whom the world turns. Stated simply this law reads: Each person is and thinks he is the center of his own world of experience and action. It is also known as the Principle of Self Interest.

The law needs no proof in that everyone is interested primarily in himself. This is so and must necessarily be so or there would be no life, no struggle for existence.
However for statistical proof the following evidence is offered:

Every fifth word spoken by a human being is I or one of its derivations: me, my, mine, we, ours, us. Dr. Ernest Horn of the University of Iowa made a survey of writing of every kind. He counted 5,136,816 words; the word I or one of its variations occurred 1,239,338 times; the word you occurred 520,652 times (once in 10 words). ¹ To show the frequency of the words I and you, the following is a list of the words most frequently used:²

<table>
<thead>
<tr>
<th>Word and Variations</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>I, and its variations</td>
<td>1,239,338</td>
</tr>
<tr>
<td>you, and its variations</td>
<td>520,652</td>
</tr>
<tr>
<td>and</td>
<td>519,583</td>
</tr>
<tr>
<td>a</td>
<td>359,119</td>
</tr>
<tr>
<td>of</td>
<td>332,710</td>
</tr>
<tr>
<td>it</td>
<td>203,289</td>
</tr>
<tr>
<td>is</td>
<td>185,785</td>
</tr>
<tr>
<td>have</td>
<td>179,625</td>
</tr>
<tr>
<td>will</td>
<td>154,838</td>
</tr>
<tr>
<td>he</td>
<td>147,612</td>
</tr>
</tbody>
</table>

A cursory look at the list shows that any person is primarily interested in himself. His name is a most important word; his photograph is a most interesting one; his name in a newspaper is most noticeable. Or putting it in the reader's point of view, your name is important; your picture is important; your job is important; your security is important; your interests are all important. The universal self-interest principle is the motivating force of all human action. Thus we often hear of the "you" point of view when writing—that is, writing for the reader. This technique is clearly an offshoot of the principle of con-

2. Ibid.
sideration of the reader and the principle of self-interest.

Writing The Report For The Reader—"You" Point Of View.

Many annual reports are written for an individual reader. This is shown by the "you" point of view which many reports have. Such phrases as "your company," "your management," and "your interests" are evidence of this technique of writing for the reader. Such a "you" point of view is to be commended because it shows that the report is being written for an individual. Therefore another proposed standard is this "you" point of view, instead of writing in an impersonal tone. A direct tone to the reader is more effective.

Proposed standard: Does the report reflect a "you" point of view in its text? Yes ( ) No ( )

Points

Showing The Reader Respect As A Person.

Another technique, an offspring of the principle of egocentrism, is to show the reader respect as an individual person. It is a common truth that people like to be singled out from the crowd. They like to be treated as an individual, not as just one of the mass, nor as a mere statistic. Treating a person with the respect of an individual is the foundation of getting on common ground with each other. It is just as potent in the oral word as the written word.

Use of a person's name: One of the best ways to make a person feel that he is the center of the world is to mention his name in a publica-

You
to the chagrin of employees). But there is no logical reason why employee's names also should not be used. Many pictures of employees are made, but no employee's name is used; but in the same report, officers and directors are singled out for praise. Such is not consistent practice. Therefore another proposed standard is to use names of management, employees, creditors, and stockholders whenever it is appropriate to do so.

Proposed standard: Does the report use names of employees, creditors, stockholders, and management* in its text or beneath pictures in the text.

Yes (  ) No (  )

*This management group does not include managerial names on the directors and officers' page, but does apply anywhere else in the report.

Points____________________

For every name used, add one point. (Maximum points: 20)

Personalizing the message—name appeal: Many annual reports do not mention the name of the union in which employees are organized. Omission of the name has been remarked upon by labor unions. Therefore it would be a good idea to mention the union name especially to remove any ideas that the union is being ignored. A more favorable effect would be to mention the union when labor relations are fair instead of referring to them when relations are strained. The example of Staley Manufacturing Companies may be cited. After describing the arrangements for handling men returned from military service, the President added, "Credit is due the United Automobile Workers of America (AFL) for originating the plan and aiding in its application." This recognition has been favorably commented on. Thus another proposed standard

2. See Sanders, Company Annual Reports, p. 39.
is to mention the name of the union, if there is one.

**Proposed standard:** If the company negotiates with a union, is the union name mentioned in the annual report?  
Yes ( )  No ( )

If "no," subtract 3 points.
If "yes," add nothing.  
Points

**Avoidance Of The "Blanket Tone" In Reports.**

To influence the individual reader of the annual report, the writer should realize the principle of self-interest and apply this principle to his writing. Specifically applied, this means writing for an individual reader instead of writing for several people. Even though the report is addressed to several groups, the tone of the report should be written as though the writer were addressing an individual across the table from him. In such a way the writer will avoid the "blanket tone" in writing. The "blanket tone" means that the report is written for everyone—for no one in particular. By avoiding the "blanket tone" the writer personalizes his message; he avoids writing to no one in particular; he makes his report human and friendly; he avoids the public announcement type of writing which appeals to no one; in short, he directs his report to an individual because he realizes that the most effective way to influence his reader is through a personal appeal to the individual...an application of this principle of egocentrism.

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1. Thomas Sanders, *Company Annual Reports*, recognizes this application when he says: "The writers of the narrative portion of annual reports should make up their minds to whom they are actually addressing themselves, and talk to them as directly and as frankly as if they were face to face." See page 16 of his book.
The application is not always followed in annual reports because of the fear of not being objective. It is the contention that the writer may be objective and still be human at the same time. Objectivity does not mean losing personal appeal. Consequently one of the standards proposed is this avoidance of the "blanket tone" in annual reports.

Proposed standard: Is the tone and content of the report written to an individual instead of being addressed to no one in particular?

Yes ( )  No ( )

If "no," subtract 5 points.
If "yes," add 5 points.  Points

Finding Out The Special Interests Of The Various Readers.

To use the law of self-interest in dealing with any communication, the basic techniques include:

1. Causing the reader to feel that he is the center of his world.
2. Showing him courtesy.
3. Showing a genuine interest and understanding of the reader.
4. Finding out what his personal interests are.

In view of the multiple audiences of the annual report, it might be well to analyze the special interests of stockholders, employees and creditors.

Stockholder interests: It is generally recognized that stockholder interests\(^1\) are threefold: (1) return on investment—including appreciation in value and income from investment, (2) safety of investment,

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\(^1\) See Jacob Kamm's book, *The Economics of Investment*, published by the American Book Company. In addition to his book, the various stockholder surveys mentioned in the previous chapters bear out stockholder's primary interests.
and (3) marketability of investment. Practically every stockholder
buys stock for one or a combination of these reasons. ¹

**Employee interests:** Just as stockholders want to know about se­
curity of their investments, employees want to know about their future
job security. They are not too much concerned about financial condition ²
(although they should realize that their job security depends on the
company's financial condition). It is fairly clear that they are inter­
ested in (1) job security, (2) job opportunity, and (3) recognition.
The Thompson Products Inc. bases its employee program on these three
interests. A poll of employees in its Cleveland plant has borne out
this belief. ³

**Creditor interests:** Logically, the creditor seeks security on
the assets which he lends to the company. To do so he is primarily
interested in the four C's of credit, commonly associated with credit
granting. ⁴ These include (1) character of the management of the com­
pany, (2) capacity of the company to earn money to pay its debts,

1. See page 161, which shows the reason which the Brookings Institute
gives for stockholder purchase of stock.
2. The Controller of Armstrong Cork Company, Keith Powlison, says that
only one kind of news in the employees magazine ranks lower in read­
ership than the annual and semi-annual financial reports of the com­
pany. See "Explaining the Facts to Employees," in the Harvard
3. See page 256 of Doris' book, Modern Corporate Reports: "To quote
from its booklet, We Led With Our Chin, a report on a survey of
employee opinion, "The Thompson workman places greatest emphasis
on security—on a feeling of reasonable certainty about the per­
manence of his present job. Secondly he wants opportunity—a chance
to move along and to better his lot in life. In addition to these,
he wants recognition—a feeling that what he is doing is important,
that it is appreciated by the other fellow, and that he has earned
the right to be treated with dignity and respect."
4. See Credits and Collections, by Beckman and Bartels, published by
(3) capital to meet its obligations and to earn a profit, (4) conditions of business favorable to produce enough earnings to pay its debts. If the annual report is well prepared, it should satisfy those creditor interests.

**General public interests:** The general public's interest in the annual report is twofold: It includes an interest in getting facts on how the company is doing to serve the public with values that are needed. Another main interest is just how well the company is doing in our free enterprise system. Both of these interests are at the heart of the public relations aspect of the annual report. In fact one of the basic concepts of this dissertation is that the objective of the annual report is to explain business facts to enhance public understanding of the free enterprise system.¹

**Appreciation Of The Various Readers—One Report Or Several.**

It is realized that an annual report presents information to various groups of people. Stockholders, creditors, employees, and customers all have claims on management for information. The big question—appreciation of the various audiences—is whether one report can satisfy all these various groups.

There is a tendency for some companies to prepare separate reports for each group. However, it should be realized that one report should not draw sharp lines between groups. So doing only intensifies the conflict going on between the groups for the economic benefits which the company performs. The point to be remembered, though, is that one

¹. See page 32.
Whether or not the stockholder's report is also addressed to customers and employees, all groups of people will read it for what they can get out of it. If the writer will remember that all groups read the report, he will consider the readers and write a report so that everyone may understand.

When annual reports were first started, they were addressed to stockholders. Then progressive managements realized that employees play as big a role in the business as stockholders. They wrote a stockholder report but addressed it also to employees and other interested groups. But the report was written for stockholder interests. On the other side, some companies prepared separate reports for employees. These reports were criticized at "kindergarten stuff" tending to underestimate employee intelligence. Realizing both sides are right, some companies write one report to serve all groups—stockholders, employees, creditors, and general public.

**Arguments for a single report:** The following arguments are for a single report:

1. All groups have an interest in the company; one report should serve all.
2. A single report combines a community of interest between all groups, tending to destroy group conflicts.
3. A single report addressed to all groups will stress the desirability of owning shares in the company, thus broadening the base of ownership.
4. All groups have equal ability to read and understand annual reports. Stockholders are people just like the other groups.
5. A single report prevents any suspicion among groups that information has been withheld from any group.
6. A single report saves time and is less costly than separate reports.
Arguments for separate reports: These are arguments in favor of separate reports:

1. Each group has different interests; therefore different reports should be prepared to satisfy those interests.

2. The separate reports may be offered to other groups to offset any suspicion.

3. Management may have different objectives in reporting to each group.

4. Explanation of various items is much more easily done in separate reports where group interests are not conflicting.

Regardless of a single or separate report, the annual report should serve as a history of events to all interested groups on how their time, effort, and money are aiding the business and the economy.

People's Interest In Human Beings.

Since the audience of the annual report is made up of individual readers, it might be well to see what one factor influences any group of people. Scientific tests have shown that people are interested in reading about people more than anything else. Thus we may state another principle called, for our sake, the Principle of People's Interest in Human Beings. Stated briefly it reads: Human interest in other people makes for effective communication because people prefer to read about people. The reason for this principle is obvious: Man knows nothing so well as other men, having been associated with each other all their lives. Thus the human touch is essential in any communication process. Without it, it is more difficult to be understood.

A natural reaction of some report writers is this: "How can we

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write about human interest in an annual report? The subject matter of cold, hard facts prevents the use of human interest." However a closer look will show that this is not a valid argument. Human interest can be woven in any report by the use of human interest words—words about people, the use of personal references. Instead of writing in an impersonal style, the alternative is to write so that people are doing the action. Thus a proposed standard in writing the report is to use personal references, an application of the principle of people's interest in human beings.

Proposed standard: How many personal references* per 100 words are there in the narrative portion of the annual report?

*Personal references include the following:

1. Names of people (whole name is one reference).
2. All personal pronouns (except those referring to things).
3. Words that deal with human beings (such as man, woman, child, folks, people, friend, etc.).

After the count, apply the following table for points:

<table>
<thead>
<tr>
<th>Personal references per 100 words</th>
<th>Add these points</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 or more</td>
<td>40</td>
</tr>
<tr>
<td>3 to 4</td>
<td>30</td>
</tr>
<tr>
<td>2 to 3</td>
<td>20</td>
</tr>
<tr>
<td>1 to 2</td>
<td>10</td>
</tr>
<tr>
<td>0 to 1</td>
<td>0</td>
</tr>
</tbody>
</table>

Points

Potential Audience Of The Annual Report.

Readability experts1 have defined methods for measuring the read-

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1. Such experts include Irving Lorge and Edward Thorndike of Columbia, Edgar Dale and Jean Chall of Ohio State, Rudolph Flesch, and Robert Gunning of Columbus, Ohio.
pribleness of writing. Using scientific techniques, they determine potential audience and the readability of writing in relation to the potential audience. The audience is defined by the education achieved by members of the audience. By applying language techniques to various audiences, they have developed standards for writing which have international application, i.e., these standards are applicable to several languages because the fundamentals of language and the psychology of human beings are the same in any country. Therefore the task would be to set up the potential audience of annual reports, based on survey of annual report reader education and intelligence. Once the audience is set, standards may be set to reach that audience.

Rudolph Flesch sets the following potential audience:

<table>
<thead>
<tr>
<th>School grades completed</th>
<th>Percent of U. S. Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th grade</td>
<td>90 %</td>
</tr>
<tr>
<td>5th grade</td>
<td>86 %</td>
</tr>
<tr>
<td>6th grade</td>
<td>80 %</td>
</tr>
<tr>
<td>7th or 8th grade</td>
<td>75 %</td>
</tr>
<tr>
<td>Some high school</td>
<td>40 %</td>
</tr>
<tr>
<td>High school or some</td>
<td></td>
</tr>
<tr>
<td>college</td>
<td>24 %</td>
</tr>
<tr>
<td>College</td>
<td>4 1/2 %</td>
</tr>
</tbody>
</table>

1. The basic techniques goes something like this: Something is written for children in seventh grade. This "something" has to be understood by seventh graders. Psychologists figure that sentence length, number of words, suffixes and affixes, personal references, etc. have a thing to do with understandability of the reading material. Therefore they take certain reading material with so many personal references and let the seventh graders read it. Then the students are asked questions to test whether they understood the material. The procedure is tested with all types of reading material and with types of readers of various education. The result is that if you write for seventh graders, your sentence should have so many personal references, so many words in a sentence, etc. to be understood.

2. See The Art of Plain Talk, page 205.
Now, it seems as if the potential audience of annual reports would have a higher education level than the general public. This is borne out by the Brookings Institute Survey:¹

INDIVIDUAL SHARE OWNERS OF PUBLICLY OWNED STOCKS DISTRIBUTED BY EDUCATIONAL LEVEL

<table>
<thead>
<tr>
<th>Last year of school completed</th>
<th>Total Adult Population</th>
<th>Individual Share Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per Cent</td>
<td>Number</td>
</tr>
<tr>
<td>8th grade or less</td>
<td>39.6</td>
<td>39,300,00</td>
</tr>
<tr>
<td>1 to 3 yrs. high school</td>
<td>19.6</td>
<td>19,440,00</td>
</tr>
<tr>
<td>1 to 3 yrs. college</td>
<td>23.9</td>
<td>23,790,00</td>
</tr>
<tr>
<td>4 or more yrs. college</td>
<td>8.9</td>
<td>8,820,00</td>
</tr>
<tr>
<td>Current students</td>
<td>7.3</td>
<td>7,210,00</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>99,280,00</td>
</tr>
</tbody>
</table>

Rudolph Flesch's 40% of U. S. adults who have some high school compares favorably with the 40% of the Brookings Survey total adult population who have completed high school. However the striking fact is that approximately 70% of the shareowners have completed high school as compared to 40% of the total U. S. adult population who have completed high school. Therefore it seems obvious that the potential audience of shareholders for annual reports should be those who have completed high school. This, then, is the standard for the audience of annual reports...aiming at the high school graduate. Instead of writing for the eighth grader as proposed by Flesch, the standard is the high school graduate, whose educational level serves the vast audience of those people who should read annual reports.

THE AUDIENCE OF THE ANNUAL REPORT HAS A HIGH SCHOOL EDUCATION

70% OF SHAREOWNER POPULATION HAS COMPLETED HIGH SCHOOL

VERSUS

41% OF TOTAL U.S. ADULT POPULATION WHO HAVE HIGH SCHOOL EDUCATION

TOTAL SHAREOWNER POPULATION * 6,350,000

TOTAL U.S. ADULT POPULATION * 99,250,000


Figure 5. Education Of The Shareowner Audience
Conclusions—Proposed Standards.

To summarize, the following are standards proposed for effective annual reporting:

1. Is the annual report specifically addressed to—
   a. Stockholders
   b. Employees
   c. Creditors
   d. Governments
   e. Customers
   f. Public

   For every "yes," add 5 points. Points______
   (Maximum 25)

2. Does the beginning paragraph of the annual report tell the sales or profits (losses)?

   Yes ( ) No ( )

   If "no," add 5 points. Points____________

3. Does the report reflect a "you" point of view in its text?*

   Yes ( ) No ( )

   If "yes," add 10 points.

   *measured by such phrases as "your company," "your management," "your interests," etc.

   Points__________

4. Does the report use names of employees, creditors, stockholders, and management* in its text or beneath pictures in the text?

   Yes ( ) No ( )

   For every name used, add one point. Points__________
   (Maximum 20)

   *does not include managerial names on the directors and officers' page, but does include their names anywhere else in the report's text.
5. If the company negotiates with a union*, is the union name mentioned in the annual report?  
   Yes ( )  No ( )  
   If "no," subtract 3 points.  
   If "yes," add nothing.  
   Points________________

*If no union, this standard does not apply.

6. Is the tone and content of the report written to an individual instead of being written to no one in particular?  
   Yes ( )  No ( )  
   If "no," subtract 5 points.  
   If "yes," add 5 points.  
   Points________________

7. How many personal references* per 100 words are there in the narrative portion of the annual report?  
   *personal references include:  
   1. Names of people (whole name is one reference).  
   2. All personal pronouns, (except those referring to things). Examples: I, me, my, he, him, his, she, her, they, them, their, you, your, we, us, our, etc.  
   3. Words that deal with human beings (such as man, woman, child, folks, people, friend, etc.).  
   After the count, apply the following standard:

<table>
<thead>
<tr>
<th>Personal references per 100 words</th>
<th>Add these points</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 or more</td>
<td>40</td>
</tr>
<tr>
<td>3 to 4</td>
<td>30</td>
</tr>
<tr>
<td>2 to 3</td>
<td>20</td>
</tr>
<tr>
<td>1 to 2</td>
<td>10</td>
</tr>
<tr>
<td>0 to 1</td>
<td>0</td>
</tr>
</tbody>
</table>

   Points________________

The points after the standard are weighted according to their importance in making the annual report an effective means of communications. They are weighted according to comparative judgment of one standard to another.
CHAPTER VII. ANALYSIS OF CONTENTS—INCOME STATEMENT

Any act of communication may be broken into five basic parts: (1) communicator analysis, (2) contents analysis, (3) medium analysis, (4) audience analysis, (5) effect analysis. We have discussed the communicator and the audience analysis. In this chapter and two succeeding ones, the contents are analyzed to determine their effect. In so doing varied content standards are proposed for the annual report. These standards are a necessity for effective reporting to the several audiences of the report. Certain minimum standards of contents, above and beyond those required by law, should satisfy the readers of the report and should discharge the obligations of management to report on their activities.

The contents of the report are an important factor in determining the effect on the reader. Certainly the contents are what interested readers are looking for. But those contents are not effective unless presented so that a reader can understand them. But before any understanding takes place, "something" must be communicated. The standards proposed are the "something" which the report should contain for the audience—stockholders, creditors, employees, governmental agencies, and general public.

Standard Of Completeness In Reporting.

One of the necessary standards of reporting accounting and financial information is the completeness of information which may bear on the financial position and operating results of the company. In accounting circles this standard of completeness is known as "The Rule
of Full Disclosure." The role of the accountant in presenting complete information in any report is very influential. As a matter of actual practice a very high percentage of the accounting and financial information which are published in annual reports is drafted by the accountant.\(^1\) Completeness of information is of importance to him and to the company which publishes the report.

**Full Disclosure.**

Whether accounting and financial information is complete or not is left largely to the judgment of the accountant and of the company publishing the annual report. Certainly the omission of complete information or the failure to describe fully any material item within the area of financial reports is a violation of the standard of completeness in reporting. The omission of any significant data which might influence the judgment of the reader certainly is not living up to the full disclosure which is required in financial reporting.

Various accounting organizations have tried to set up standards of full disclosure and completeness of information. The Securities and Exchange Commission, perhaps, has done more than any other group in requiring specific disclosure requirements. In addition, accountants have through necessity followed a body of uncodified regulations concerning full disclosure and completeness in reporting. However they have not set up one group of official standards to follow. These uncodified standards of disclosure are scattered throughout accounting rules and regulations. Nevertheless the standards of completeness in

---

1. See page 57 which shows who is responsible for the preparation of the annual report.
reporting accounting and financial information should be basic in preparing annual reports.

**Complete Information Only If Item Is Material.**

Completeness does not mean reporting in minute detail. A reporting of immaterial items may do more harm than good. It may confuse the reader with the result that he does not know what is significant. Only those items which are material should be reported. What constitutes materiality is a matter of judgement which any reporter has to make. If there is any doubt in the reporter's mind as to whether or not to include some item, he should report the item to be on the safe side. It is much better to have more than enough information than not enough. A reader may cast aside the information which he does not need. He may have to wade through some of the information to get what he wants but, he at least has the information at his finger tips. He does not have to search for it to any great degree.

**How Much Is "Complete" Information.**

A reporter's problem would be greatly simplified if he could assume that all the readers of his reports were competent analysts of the information which he is reporting. Unfortunately this is not the case and many readers are either uninformed or careless—so much so that much of the information is of no value to them. Likewise, reports which are prepared for the use of a specific person or group of persons are often given to other persons to read and to interpret. Consequently the reporter should not assume that his report will see limited use. Once the report is prepared he may never know all the persons who read
it. Thus, it is important that each report be complete in itself giving to any reader as much information as possible and giving the information in such a way that the reader will not misinterpret the information.

**Complete Information Eliminates Misinterpretation.**

Frequently the information in a report must be considered in relation to other significant information in order to arrive at informed judgements regarding the financial affairs of a business. Misinterpretation or misleading inferences can be the result of a lack of complete information. Obviously then it is to the reporter's advantage and to the reader's advantage to include all essential information. If the information is in a report and if the reader makes an attempt to find it, he cannot blame the reporter for any poor judgement in using the information. Any misinterpretation, if the material is complete, must rest squarely upon the reader's shoulders. Since reporting is a two way flow of information the reporter should supply the necessary information to make sure that the reader's interpretation will be substantially right. Of course the reporter cannot guarantee correct interpretation by the reader but he should realize that complete information in the report tends to eliminate any reader's misinterpretation.

**Effects Of Standard Of Completeness.**

There is no need to revolutionize corporate accounting by making accountants adhere to proposed standards of completeness in reporting. But there is room for great improvement in the presentation of complete information in annual reports. The objective of these standards
should be to satisfy the reader's need for information rather than to satisfy the accountant's sense of form and respect for tradition to regular accounting practices.

Completeness of information has its greatest usefulness and effect in the cases of companies that want to follow principles outside of generally accepted accounting principles. It is generally agreed that any departure of these principles should be completely disclosed. But a fact less generally recognized is that such departure may be presented in a more desirable way by a complete disclosure of the way the situation is handled, be it right or wrong according to present practices. By so doing the reporter may draw attention to unusual treatments which later may be dealt with and new practices worked out.

**Basic Standards Of Completeness In Reporting.**

To satisfy this general standard of completeness, it is necessary to set specific standards which should be accepted by reporters of accounting and financial information. It is believed that the two following specific standards should be followed in reporting.

**Use of comparative financial statements:** The practice of using comparative financial statements brings out more clearly the trends of

---

1. Compare this idea with the following statement which appears in an annual report: "It is understood that this report and the financial statements herein are presented for the purpose of giving general information to the stockholders." Indeed, more people than stockholders should be interested in the information. A potential employee should be interested in the information; actual employees should be interested; a creditor who sells to the company should be interested; a money lender should be interested; a competitor should be interested; government officials should be interested; and even the general public should be interested.
*Source: 1953 AIA *Accounting Trends and Techniques*, p. 33.
the business. Although these trends are shown, it is still the reader's task to analyze them, unless, of course, the reporter does it for him. But the use of comparative statements shows up one of the basic limitations of accounting—that statements for a series of accounting periods are more significant than those for a single accounting period. The reader is shown that statements for one year are but one picture of what is essentially a continuous picture of the history of the business.¹

Professor Hoagland² has remarked, "It is one thing to look at a business with a microscope; but you learn much more about a business by looking at it through a telescope." Comparative financial statements are one means of getting a telescopic view and an overall approach. It is encouraging to see that the use of comparative statements in annual reports is definitely on the increase. There is definitely a trend in this direction³. Therefore the following standard is proposed.

**Proposed standard:** Does the report contain comparative financial statements or financial statistics by years?  
Yes ( )  No ( )

If "yes," apply the following scale:

<table>
<thead>
<tr>
<th>The report contains comparative statements or statistics</th>
<th>Points*</th>
</tr>
</thead>
<tbody>
<tr>
<td>for two years only</td>
<td>4</td>
</tr>
</tbody>
</table>

---

¹ See accounting Research Bulletin No. 6 of April, 1940, published by the American Institute of Accountants.
² This is a remark made frequently in Professor Hoagland's classroom.
³ See Accounting Trends and Techniques in Published Annual Reports, 1953, published by AIA, p. 33:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All statements comparative</td>
<td>320</td>
<td>297</td>
<td>270</td>
<td>271</td>
<td>221</td>
<td>187</td>
<td>154</td>
</tr>
<tr>
<td>Some statements comparative</td>
<td>92</td>
<td>100</td>
<td>100</td>
<td>96</td>
<td>92</td>
<td>99</td>
<td>91</td>
</tr>
<tr>
<td>No statements comparative</td>
<td>188</td>
<td>203</td>
<td>230</td>
<td>257</td>
<td>287</td>
<td>314</td>
<td>355</td>
</tr>
</tbody>
</table>

| Total                        | 600  | 600  | 600  | 600  | 600  | 600  | 600  |
The report contains comparative statements or statistics

<table>
<thead>
<tr>
<th>Years</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>three years</td>
<td>6</td>
</tr>
<tr>
<td>four years</td>
<td>8</td>
</tr>
<tr>
<td>five years</td>
<td>10</td>
</tr>
<tr>
<td>six years</td>
<td>12</td>
</tr>
<tr>
<td>seven years</td>
<td>14</td>
</tr>
<tr>
<td>eight years</td>
<td>16</td>
</tr>
<tr>
<td>nine years</td>
<td>18</td>
</tr>
<tr>
<td>ten years</td>
<td>20</td>
</tr>
<tr>
<td>fifteen years</td>
<td>30</td>
</tr>
</tbody>
</table>

* 2 points for the number of years.

Total Points__________________
(Maximum 30)

Use of more financial statements: Besides the traditional balance sheet and profit and loss statement, another standard of completeness should be to use other types of financial statements. The use of a source and disposition of funds statement should be encouraged. The use of schedules to show in detail plant and equipment, inventories, investments, long term debt, and capital should be encouraged. Statements of domestic and foreign subsidiaries and even parent company statements should be included where necessary. Supplemental schedules of retirement plan contributions should be made. There is no reason to exclude such vital material to the reader of the annual report. Therefore another proposed standard is to include more financial statements.

Proposed standard: Does the report contain additional financial statements? Yes ( ) No ( )

If "yes," apply the following scale:

The report contains: Points

Source and disposition of working capital (called by other names:...
The report contains:

<table>
<thead>
<tr>
<th>Points</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Application of funds, working capital statement, etc.</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedules of plant and equipment</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedule of inventories</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedule of investments</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedule of long term debt</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedule of subsidiaries</td>
</tr>
<tr>
<td>4</td>
<td>Detailed schedule of retirement fund</td>
</tr>
<tr>
<td>4 each</td>
<td>Other detailed schedules (use judgment for their importance)</td>
</tr>
</tbody>
</table>

Total Points (Maximum 40)

**Minimum Standards For The Income Statement.**

Although an annual report may be used for public relations purposes, its main aim is to present financial information about the progress and condition of the company. It does this by presenting accounting information in the three traditional financial statements—income statement, analysis of surplus, and balance sheet. Of the three, it is believed that the income or earnings statement is most important. This reason is obvious: no company can live long without earnings or net income.

The seeming trend of relegating the balance sheet to secondary importance is offset by accountants and financial executives trying to make it understood. However, much of their effort is spent in improving the form and content of the traditional profit and loss statement so that it may also be understood by users of financial data. Therefore "content" standards are being tried to improve the income statement.
Revenue Or Sources Of Income.

Some companies still do not list their sales volume or their revenue from services performed. For example, of the corporations in the American Institute of Accountants annual survey the following are the statistics:

<table>
<thead>
<tr>
<th>Year</th>
<th>Stating sales or revenue</th>
<th>Not stating sales or revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952*</td>
<td>560</td>
<td>2</td>
</tr>
<tr>
<td>1951*</td>
<td>554</td>
<td>2</td>
</tr>
<tr>
<td>1950</td>
<td>482</td>
<td>46</td>
</tr>
<tr>
<td>1949</td>
<td>474</td>
<td>47</td>
</tr>
<tr>
<td>1948</td>
<td>471</td>
<td>47</td>
</tr>
<tr>
<td>1947</td>
<td>472</td>
<td>46</td>
</tr>
</tbody>
</table>

* based on 600 companies

Such failure to report on volume of revenue is not conducive to good annual reporting. Minimum standards of full disclosure should insist on presenting volume of revenue or sales. If it cannot be disclosed, an explanation should be given.

Along with the main sources of income should also be presented other sources of income. In other words, all sources of income should be presented. This is necessary so that the reader will not be confused by seeing "other income" as a separate figure stuck in between other items.

Another standard for reporting the sales or revenue is to have a breakdown of the revenue. This breakdown should be reported in a separate schedule, footnote, or in some narrative portion of the report. Such breakdowns may include analysis of sales or revenue by territories,

1. AIA's 1950 and 1953 Accounting Trends and Techniques, p. 96 and 171 respectively.
by customer, by products, or services, or any logical basis for breaking down sales volume. Such analysis is helpful for security analysts and for the reader to see what factors effect sales volume.

Proposed standard: Is the volume of sales or revenue presented in the income statement?  

Yes ( )  No ( )

If "yes," add 3 points.  
If "no," subtract 3 points.  
Points___________

If "other income" included as a part of the total revenue or sales?  

Yes ( )  No ( )

If "yes," add 3 points.  
Points___________

Is the revenue or sales broken down into any of the following?

Sales or revenue by territories  
Yes ( )  No ( )
Sales or revenue by customer  
Yes ( )  No ( )
Sales or revenue by product  
Yes ( )  No ( )
Sales or revenue by any logical basis  
Yes ( )  No ( )

If "yes", to any part, add 2 points for each "yes."  
Points___________  
(Maximum 10)

Revenue Or Sales Adjustments.

Some companies report on sales adjustments such as sales, allowances, sales returns, and sales discounts. The form of such reporting, endorsed by the American Institute of Accountants, is to deduct the items of "outward freight, allowances and returns" from the revenue or sales. The SEC position is to include "gross sales, less discounts, returns, and allowances." Most companies do neither, but use captions as "net sales," or "sales," or "products and services sold." Such a procedure represents a true picture of sales volume. Therefore a net

1. See Annual Reports to Stockholders, by McLaren, p. 16.
revenue or sales figure is adequate reporting. However, this discussion is not intended to discourage showing sales adjustments.

Disposition Of The Revenue Or Income.

Having shown the sources of its revenue or income, the company's next step is to show income disposition, or where it went. First item should be the material cost of the goods or services sold. Thus figure should be of particular interest to trade creditors who supply the raw materials, goods, and services either to be resold or to be made into other goods or services sold.

This cost of materials and service figure should be shown as a separate item in the income statement. Many companies show the computation of this figure, including beginning and ending inventories, in a separate schedule or footnote. Such a practice is recommended, but not a necessity, inasmuch as the average reader does not understand the basic ingredients in computing the figure.

Proposed standard: Does the income statement include an item signifying the "cost of materials or services." Yes ( ) No ( )

If "yes," add 5 points.
If "no," is there a good reason?
If a good reason, add 5 points. Points_________

Is this "cost of materials or services," set forth in detail (including beginning and ending inventories) in some other part of the report?

Yes ( ) No ( )

If "yes," add 5 points. Points_________

---

1. The SEC requires this information. However little support is found for including beginning and ending inventories in financial statements. See McLaren, Annual Reports To Stockholders, p. 170.
Employment Costs.

Since accounting serves employees with information, the income statement should show employee costs as a separate item. This is recommended to show employees their contribution to the business and to show how much of the revenue goes for various employment costs.

There is a definite trend in showing employment costs. This is borne out by the AIA study:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>299</td>
</tr>
<tr>
<td>1951</td>
<td>295</td>
</tr>
<tr>
<td>1950</td>
<td>219</td>
</tr>
<tr>
<td>1949</td>
<td>218</td>
</tr>
<tr>
<td>1948</td>
<td>223</td>
</tr>
<tr>
<td>1947</td>
<td>205</td>
</tr>
<tr>
<td>1946</td>
<td>134</td>
</tr>
<tr>
<td>1945</td>
<td>205</td>
</tr>
<tr>
<td>1944</td>
<td>134</td>
</tr>
<tr>
<td>1943</td>
<td>301</td>
</tr>
<tr>
<td>1942</td>
<td>305</td>
</tr>
<tr>
<td>1941</td>
<td>306</td>
</tr>
<tr>
<td>1940</td>
<td>307</td>
</tr>
<tr>
<td>1939</td>
<td>302</td>
</tr>
<tr>
<td>1938</td>
<td>320</td>
</tr>
<tr>
<td>1937</td>
<td>391</td>
</tr>
</tbody>
</table>

An excellent illustration of reporting costs is Armco Steel Corporation's 1950 report:

ARMCO STEEL CORPORATION

Costs and Expenses
Employment costs
Wages and salaries            $110,134,923
Social Security taxes         1,991,745
Pensions and group insurance  7,629,556
Total                          $119,756,224

1. 1950 and 1953 Accounting Trends and Techniques, page 106 and 180 respectively.
P. R. Mallory also reports in its 1950 annual report:

Employees' wages, salaries and benefits amounted to a grand total of $16,061,775, broken down as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries</td>
<td>$13,328,020</td>
</tr>
<tr>
<td>Profit Sharing</td>
<td>1,615,721</td>
</tr>
<tr>
<td>Vacations</td>
<td>315,038</td>
</tr>
<tr>
<td>Holidays</td>
<td>198,092</td>
</tr>
<tr>
<td>Social Security</td>
<td>244,777</td>
</tr>
<tr>
<td>Retirement Fund</td>
<td>209,697</td>
</tr>
<tr>
<td>Group and Compensation Insurance</td>
<td>150,430</td>
</tr>
</tbody>
</table>

Proposed standard: Does the income statement show as a separate item an amount for employment costs (example: wages, social security taxes, pensions, etc.)?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points__________

Depreciation.

Since the depreciation expense is an important item in the income statement, it should be reported as a separate figure. And since the depreciation figure is an estimate, it can easily be used to manipulate the net income or net profit. Therefore full disclosure demands that methods of computing the depreciation be shown to avoid any distrust on the part of the reader as to how the depreciation is computed.

Inasmuch as the depreciation estimate used to be a highly confidential figure, it is amazing to see how widely such information is being divulged. However, some resistance on complete reporting still prevails. For example, the AIA has reported: ¹

¹ See the AIA 1953 Accounting Trends and Techniques, p. 183.
DEPRECIATION—ANNUAL CHARGE

Income Statement Presentation:
Listed among other costs with single total amount for—

<table>
<thead>
<tr>
<th></th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>199</td>
<td>222</td>
<td>257</td>
<td>256</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>117</td>
<td>95</td>
<td>68</td>
<td>64</td>
</tr>
<tr>
<td>Depreciation, amortization, and depletion</td>
<td>28</td>
<td>25</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Depreciation and depletion</td>
<td>27</td>
<td>28</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Depreciation and unrelated costs</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Segregated within income statement in note or schedule</td>
<td>13</td>
<td>11</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Presented at foot of income statement in note or schedule</td>
<td>104</td>
<td>106</td>
<td>110</td>
<td>115</td>
</tr>
</tbody>
</table>

Set Forth Elsewhere in Report:
In notes to financial statements | 74 | 72 | 61 | 54 |
In letter to stockholders | 9 | 9 | 13 | 10 |

Number of Companies Referring to Annual depreciation charge
Accumulated depreciation but not referring to annual depreciation charge | 574 | 571 | 568 | 559 |

<table>
<thead>
<tr>
<th></th>
<th>26</th>
<th>29</th>
<th>32</th>
<th>41</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

As further proof that the depreciation charge is subject to difference in computation, there are several ways by which it can be computed. Various methods and ways of reporting are used.

**Straight-line method:** Bristol Myer\(^1\) reports as follows:

Fixed assets are generally valued at cost, the exception being in the case of certain subsidiary companies whose assets were adjusted to appraised values at less than cost at the time of acquisition. All current additions are stated at cost. Depreciation was computed on the straight-line method.

**Composite rates:** Wheeling Steel\(^2\) reports on the use of a composite rate:

---

1. See annual report of 1950.
2. See annual report of 1950.
Provision for depreciation of depreciable steel plant assets is computed at an annual composite rate which, it is estimated, will provide amounts equal to the book values of the properties, less their estimated salvage value, when dismantled or retired from service in the normal course of business. The composite rate is also intended to provide for normal obsolescence of the depreciable steel plant assets as a group. Provisions for depreciation of certain minor properties, such as a fabricating plant, railroad bridge, automobiles and trucks, marine equipment, etc., are computed at annual rates separately determined therefor on the basis stated above.

Sliding scale: Universal Cyclops\(^1\) reports:

Depreciation on regular buildings, machinery, and equipment is provided by (1) computing an amount at fixed rates on the straight-line basis (as used for income tax purposes) plus (2) 5% per annum of gross additions to these properties in the year of installation and in the year following, and (3) increasing or decreasing the sum of the amounts determined under (1) and (2) according to a sliding scale which provides for a maximum increase or decrease of 50%. The sliding scale is based upon the rate of plant activity measured by comparing current year's sales with a ten-year moving average of dollar sales volume.

Production rates: Endicott Johnson\(^2\) discloses:

The Corporation follows a policy of depreciating factory machinery and equipment in relation to production. An annual production of 80% of capacity has been established as normal. The policy provides that 25% of normal depreciation is taken regardless of production; the remaining 75% is adjusted in direct relation to production, with no adjustments for less than 10% variation from normal. During the year a reduction in depreciation charges of $100,612 was made under this policy.

Accelerated rates: Accelerated depreciation expense is sometimes taken above and beyond the normal life of the asset. Such is not acceptable accounting; but it is being reported to comply with full disclosure. For example, Timken Roller Bearing in its 1950 report discloses:

1. See annual report of 1950.
2. See annual report of 1950.
Provisions for depreciation of plant and equipment included above amount to $3,713,030, including accelerated depreciation (not recognized for federal income tax purposes) in the amount of $1,669,402 on additions since January 1, 1948.

Accelerated depreciation on emergency facilities used in the interests of national defense is also being reported. Such is described in the president's letter or in a footnote to financial statements. This disclosure is recommended.

Proposed standard: Is there a separate depreciation* charge in the income statement? Yes ( ) No ( )
If "yes," add 5 points. Points

*may be combined with depletion, amortization, or write offs.

Does the report describe the system of computing the annual depreciation charge? Yes ( ) No ( )
If "yes," add 5 points. Points

Taxes.

Since accounting serves governmental interests, the income statement should report on the taxes paid to various governmental bodies. Of especial interest to interested readers is the matter of income taxes. The way in which income taxes are accounted for and reported in the income statement appears to have given little consideration to the average stockholder. Very few reports treat taxes in the same way with the result the trained readers and even accountants have difficulty in analyzing income taxes. The probable reason for the varied treatment of the income tax is the AIA's Committee on Accounting Procedure 1944 Research Bulletin which states, "the amount of income taxes to be allocated to the income statement should be the amount that would have
been payable if the transactions in question had not occurred."¹ This concept makes the income taxes actually paid different from the amount shown in the income statement. Certainly the stockholder is left in a troublesome spot trying to compare income statements of one company against another company using a different technique.

The question naturally arises as to whether to account for income taxes as an actual record of what happened or whether to account for taxes on transactions which had not occurred. The SEC² has gone on record that the income statement should show clearly and correctly only actual occurrences. Therefore the income tax expense should be the real tax payable under present tax laws. It is not the accountant's task to eliminate the effect of transactions which actually occurred. The relationship between the government and the taxpayer corporation is lost sight of by covering the actual taxes paid. Every reader is entitled to know the real tax burden. The tax costs are just as important in influencing readers as the employment costs.

Among the items reported as taxes include normal income tax, excess profits tax, state and local taxes, etc. To show the effect of such taxes on the revenue, it is recommended that a detailed breakdown of different taxes be reported in the narrative portion of the report, a footnote, or some other manner.

Proposed standard: Does the income statement show the amount of taxes? Yes ( ) No ( )

If "yes," add 5 points. Points_________

Is there in the report a detailed schedule of taxes paid?

Yes ( ) No ( )

If "yes," add 5 points.

Points________________

Interest On Indebtedness.

The creditors of the corporation are particularly interested in the interest expense incurred by the corporation. Therefore the amount of interest, if any, should be shown separately on the income statement to satisfy the creditors claims for information regarding their respective services to the corporation. This interest expense item is also of importance to security analysts who use it to determine the main interest coverage (fixed charge coverage) and thus to determine the value of creditor claims (usually bonds). Consequently, the interest expense should be reported.

Proposed standard: If the company has any bonds or notes payable, does the income statement show any interest expense*?

Yes ( ) No ( )

*Some corporations may not have any bonds or notes. However if they do, there should be some interest expense.

If "no," subtract 5 points.
If "yes," add nothing.

Points________________

Net Income Or Profit.

After the expenses and costs have been deducted from the revenue, the resulting figure should be the "net income" or "net profit." Usually the figure "net income before taxes" is presented, from this figure is deducted the income taxes; the resulting figure should be "net income."
A question which continually plagues accountants in presenting the net income is what to do with non-recurring costs, expenses or additions...commonly called extraordinary items. The American Institute of Accountants in various research bulletins has recommended that whenever extraordinary additions or deductions are to be reported, they may be shown in either the income statement or the retained income statement (analysis of earned surplus). It is permissible to use either. However, in our opinion, when these extraordinary items are reported in the income statement, care should be taken that the figure of "net income" be clearly and emphatically designated so as not to be confused with any other figure near the bottom of the income statement. The net income figure should be reported so that the reader sees it with no strings attached to its label. Even if a combined income statement and earned surplus statement be used to show the disposition of the net income, the net income figure should be clearly reported.

**Proposed standard:** Is the "net income" or "net profit" figure clearly labeled near the bottom of the income statement?

Yes ( ) No ( )

If "yes," add 10 points. Points_________

**Dividends.**

Dividends, both on common and preferred stock, are of interest to the stockholders. Therefore the amount of dividends, if any, should be clearly stated either in the income statement or in the combination in-
come statement and retained earnings statement. It is believed that the practice of deducting the dividends from the net income after taxes is effective. This procedure shows what money the corporation paid to the owners of the business for the capital invested by them. By deducting it from the net income in the income statement, the dividends are not buried in the surplus statement which most readers do not bother to look at. Since the dividends are a "cost" of using the stockholder capital, it seems logical to show what part of the revenue went to stockholders.

**Proposed standard:** Assuming that there is a combined income and retained earnings statement, if the corporation paid any dividends, is the amount shown near the bottom of the income statement?

Yes ( ) No ( )

If "yes," add 5 points.

Points_________

**Retained Income (Earnings).**

The final item of the combined income and retained income statement is the amount of income (earnings or profit) left over after all "costs" have been incurred. This amount of income is retained in the business for various uses—expansion, building up working capital, paying off debts, etc. Such a figure should be fully reported to dispel the notion that it is something left over and that it is not needed in the business. Therefore it should be carefully labeled to show that it is to be used by the company.

**Proposed standard:** Is the amount of retained income (retained earnings or profit, earned surplus) shown at the bottom of the combined income and retained earnings statement?

Yes ( ) No ( )

If "yes," add 5 points.

Points_________
Minimum Standards for Retained Income Statement.

Many companies do not follow the practice of combining the income statement with their retained income. Such companies do not follow the "clean surplus" theory of accounting. It is beyond the scope of this study to analyze the "clean surplus" theory, but it is the thought that those firms which do not advocate this theory are not following minimum standards of clear and complete disclosure of the happenings of the business. Such information disclosed in an analysis of surplus (retained income statement) is buried and hidden from the ordinary reader of financial statements who usually will look at the income statement but then become confused with an analysis of surplus. Be that as it may, many companies still use a conventional analysis of surplus. If so, minimum standards of content should prevail.

Proposed standard: If the company has a separate analysis of surplus (retained income statement), does it show the following:

a. Balance at the beginning of the period Yes ( ), No ( )
b. Net income or loss for the period Yes ( ), No ( )
c. Dividends paid (if they were paid)* Yes ( ), No ( )
d. Any appropriations (if any)* Yes ( ), No ( )
e. Ending balance Yes ( ), No ( )

If "yes," add 2 points for each "yes." Points __________

*If there were no dividends or appropriations, consider the answer "yes."
Conclusions—Proposed Standards.

The following proposed standards are based on this chapter:

1. Does the report contain comparative financial statements or financial statistics by years?  
   Yes ( )  No ( )

   If "yes," apply the following scale:

   The report contains comparative statements or statistics

   Points*

   for two years only  4
   for three years only  6
   for four years only  8
   for five years only 10
   for six years only 12
   for seven years only 14
   for eight years only 16
   for nine years only 18
   for ten years only 20
   for fifteen years only 30

   * 2 points for the number of years.  

   Total points

   (Maximum 30)

2. Does the report contain additional financial statements other than the three basic ones?  
   Yes ( )  No ( )

   If "yes," apply the following scale:

   The report contains:

   Points

   Source and disposition of working capital (called by other names: application of funds, working capital statement, etc.) 20

   Detailed schedules of plant and equipment 4

   Detailed schedule of inventories 4

   Detailed schedule of investments 4

   Detailed schedule of long term debt 4
The report contains:

**Detailed schedule of subsidiaries**  4

**Detailed schedule of retirement fund**  4

**Other detailed schedules (use judgment for their importance)**  4 each

Total points__________
(Maximum 40)

3. a. Is the volume (in dollars) of sales or revenue presented in the income statement?
   
   If "yes," add 3 points.
   If "no," subtract 3 points.
   Points__________

b. Is "other income" included as a part of the total revenue or sales?
   
   If "yes," add 3 points.
   Points__________

c. Is the revenue or sales (in dollars) broken down into any of the following in some other part of the report?
   
   Sales or revenue by territories  Yes ( )  No ( )
   Sales or revenue by customer  Yes ( )  No ( )
   Sales or revenue by product  Yes ( )  No ( )
   Sales or revenue by any logical basis  Yes ( )  No ( )

   If "yes," to any part, add 2 points for each "yes."
   Points__________
   (Maximum 10)

4. a. Does the income statement include an item signifying the "cost of materials or services."
   
   If "yes," add 5 points.
   If "no," is there a good reason?
   If a good reason, add 5 points.
b. Is this "cost of materials or services," set forth in
detail (including beginning and ending inventories) in
some other part of the report?
Yes ( )  No ( )
If "yes," add 5 points.
Points

5. Does the income statement show as a separate item an amount
for employment costs (example: wages, social security taxes,
pensions, etc.)?
Yes ( )  No ( )
If "yes," add 5 points.
Points

6. a. Is there a separate depreciation* charge in the income
statement?
Yes ( )  No ( )
If "yes," add 5 points.
Points

*may be combined with depletion, amortization, or write
offs.

b. Does the report describe the system of computing the
annual depreciation charge?
Yes ( )  No ( )
If "yes," add 5 points.
Points

7. a. Does the income statement show the amount of taxes?
Yes ( )  No ( )
If "yes," add 5 points.
Points

b. Is there in the report a detailed schedule of taxes paid?
Yes ( )  No ( )
If "yes," add 5 points.
Points
8. If the company has any bonds or notes payable, does the income statement show any interest expense?*?

<table>
<thead>
<tr>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
</table>

If "no," subtract 5 points.
If "yes," add nothing.

Points____________________

*Some corporations may not have any bonds or notes. However if they do, there should be some interest expense.

9. Is the "net income" or "net profit" figure clearly labeled near the bottom of the income statement?

<table>
<thead>
<tr>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
</table>

If "yes," add 10 points.

Points____________________

10.a. Assuming that there is a combined income and retained earnings statement, if the corporation paid any dividends, is the amount shown near the bottom of the income statement?

<table>
<thead>
<tr>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
</table>

If "yes," add 5 points.

Points____________________

b. Is the amount of retained income (retained earnings or profit, earned surplus) shown at the bottom of the combined income and retained earnings statement?

<table>
<thead>
<tr>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
</table>

If "yes," add 5 points.

Points____________________

11. If the company has a separate analysis of surplus (retained income statement), does it show the following:

<table>
<thead>
<tr>
<th>a. Balance at the beginning of the period.</th>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Net income or loss for the period.</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>c. Dividends paid (if they were paid)*</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>d. Any appropriations (if any)*</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
<tr>
<td>e. Ending balance</td>
<td>Yes ( )</td>
<td>No ( )</td>
</tr>
</tbody>
</table>

If "yes," add 2 points for each "yes." Points____________________

*If there were no dividends or appropriations, consider the answer "yes."
CHAPTER VIII. CONTENTS ANALYSIS—FINANCIAL POSITION

The readers of corporate annual reports are entitled to know of the corporate financial position. The traditional report to show this position is the balance sheet. It is the statement which shows, as of a specific moment, the financial position of the company. It is the statement, traditionally the most important, which shows the effect of past operations on the financial position. It is the statement which shows the assets of a business enterprise and the source of those assets—one source being the creditors; the other, the owners. It is and has been the financial statement upon which many business decisions are made by those people inside and outside the management of the company.¹

Special Purpose Versus All Purpose Balance Sheet.

A question often arises as to whether to use in a report a balance sheet for a specific purpose or for a general purpose. A specific purpose balance sheet is prepared for a specific reader for a specific purpose, e.g., to a banker who is deciding whether to lend money for a short term. Such a balance sheet would tend to emphasize certain aspects such as current assets and current liabilities to the exclusion of other items. Such limited use would not serve the varied readers of the annual report who have varied interests. Therefore the general

¹ See H. C. Miller and J. B. Taylor’s book, Intermediate Accounting, for a discussion of the value of the balance sheet: "In the balance sheet, one may find evidence of the financial strength or weakness of the organization, the possibility of meeting maturing obligations, the safety of the bondholders' investment, the security of the owners' investment, and even the quality of management." Page 6.
or all purpose balance sheet is recommended for annual report presenta-
tion.

The big advantage of the general balance sheet is that it serves all audiences of the annual report. If a special purpose statement fell into the hands of general readers, it would likely be misinter-
preted by the general reader. Such misinterpretation would result from the special emphasis of a special statement. A general purpose statement, on the other hand, would not be so much misinterpreted since it should be prepared with a general audience in mind.¹

Valuation Principles Are Needed.

The corporate balance sheet should be accurate and complete; but it should also disclose the methods of valuation used in reporting the figures. The facts and opinions in the balance sheet are subject to interpretation. This interpretation depends on sound bases of valuation which become the grounds for various decisions by the readers of the statement. As Hoagland has stated:²

Figures do not lie, but liars figure. With the best of intentions, every statistical and accounting entry represents the opinion of someone, more or less qualified to render it. These opinions are reflected in valuations which become the bases for decisions. Methods of valuation become exceedingly important to those who make the decisions.

¹. See Taylor and Miller: "A balance sheet which may be issued to all users for all purposes is the answer to the many objections which may be brought against special balance sheets for special purposes. However, it places on the accountant the heavy burden of so present-
ing the facts that every demand which may be made upon the state-
ment will be met; that all possible information which may be re-
quired by the users of the statement will be anticipated." Page 9. ². Corporation Finance, p. 770.
Therefore a general standard for balance sheet figures is to report the basis of valuation when there is a possibility of two or more valuations in the figures presented.

**Principles Of Consolidation Policy.**

Many corporate balance sheets are consolidated balance sheets of the parent company and its subsidiaries. When these are combined, certain assumptions are made which affect the statement. Therefore, the report should state such information as the determination of which subsidiaries are included in consolidation and which are not included. Such information may be in a simple statement as: "The consolidated financial statements include all subsidiary companies," or a statement of the Standard Oil Company states that "the accounts of all wholly owned subsidiaries are included in the consolidated financial statements." Or partial ownership may be shown as "and all domestic subsidiaries 90% or more of whose voting capital stock is owned by the parent company."

In addition, intercompany profits policy should be stated. A statement such as follows may serve as an example: "Inter-company sales and unrealized profit arising from transactions among the company and its subsidiaries consolidated have been eliminated."

In case of subsidiaries which are not wholly owned, the interest of the minority stockholders should be shown. Normally this is shown in the capital stock section or immediately above it. Example:

1. 1950 annual report of Burlington Mills.
2. 1950 annual report.
3. 1950 annual report of National Cylinder Gas.
4. 1950 annual report of Remington Rand.
5. 1950 annual report of Standard Oil Company (Indiana).
STOCKHOLDERS' OWNERSHIP:
Minority stockholders of subsidiaries...$38,879,103
Standard Oil Company (Indiana) stockholders—
  Capital stock—15,284,772 shares
  issued—
    Par value at $25 per share........$382,119,309
    Capital in excess of par value... 114,035,423
Earnings retained and invested in the business...669,562,973
Book value—Total................$1,165,717,705
  Per share...................$76.27

In addition there should be disclosed the percentage of ownership of unconsolidated subsidiaries. Example:

NASH-KELVINATOR CORPORATION
and Subsidiaries
Consolidated Balance Sheet:
INVESTMENTS IN CAPITAL STOCKS OF SUBSID-
IARIES (Note A):
Domestic subsidiaries—at cost:
  Refrigeration Discount Corporation (100% owned).................$7,000,000
  Ranco Incorporated (61.69% owned).................. 281,806
Foreign subsidiaries—at cost:
  Kelvinator Limited, England (100% owned).... 1,281,556
  Kelvinator of Canada Limited (75.81% owned)...... 65,943
  Nash Motors of Canada Limited (100% owned)............ 1,846,796
  $10,476,101

Note A: (Shown below "Stockholders' Investment")
The Corporation's share of undistributed earnings of unconsolidated subsidiaries from date of acquisition amounts to $5,551,096 for domestic subsidiaries and to $2,823,599 for foreign subsidiaries.

Therefore, these policies of consolidation should be reported.

1. 1950 annual report of Nash Kelvinator, p. 20.
Proposed standard: If the company has a consolidated balance sheet, does it report the following:

Which subsidiaries are included  
Policy on intercompany profits  
Percentage of ownership of subsidiaries

Yes ( )  No ( )  
Yes ( )  No ( )  
Yes ( )  No ( )

If "no," subtract 2 points for every "no."  
If "yes," add nothing.

Basis Of Valuation Of Marketable Securities.

The method of carrying investments makes a distinct difference in the valuation of marketable securities. They should be carried at "cost" with market value shown parenthetically. For example:

United States Government obligations, at cost (market $997,530)...

Proposed standard: If the company has marketable securities, does it report the following:

Cost of securities  
Market value of securities

Yes ( )  No ( )  
Yes ( )  No ( )

If "no," subtract 2 points for every "no."  
If "yes," add nothing.

Method Of Carrying Investments In Subsidiaries Not Consolidated.

Whether an investment in a subsidiary is carried at "cost" or by the "equity" or "actual value" method, such method should be shown. The difference between the two is usually substantial. Therefore full disclosure should be shown either in footnotes or in parentheses following the investment. For example, the Pullman Incorporated in its

2. 1950 annual report of Pullman Company, p. 11.
balance sheet, showed the investment in its Canadian subsidiary at cost, and in a footnote furnished the following supplementary information:

The net assets of the Canadian subsidiary at December 31, 1950, were $383,081, as compared with the carrying value of the investment of $2,500....

Proposed standard: If the company has investments in subsidiaries, which are not consolidated, does it report the following:

Cost of investment in subsidiary Yes ( ) No ( )
If "no," subtract 2 points.
If "yes," add nothing. Points__________

Basis Of Valuation Of Inventories.

Inventories should be stated at "cost." If the market value is shown, it should be shown parenthetically. Regardless, either method should be clearly and fully stated.

Proposed standard: If the company has inventories, does it report the following:

Cost of each inventory Yes ( ) No ( )
(The lower of cost or market is not acceptable as "cost.")
If "no," subtract 2 points.
If "yes," add nothing. Points__________

Basis Of Inventory Cost Determination Methods.

Since the method of costing inventories (fifo, lifo, average,—whichever is used) makes a difference in determining profit, the methods used should be fully disclosed. For example:1

1. 1950 annual report of Slaw-Knox Company, p. 16.
BLA,"-KNOX COMPANY

Supplementary Financial Information: Inventories are valued at the lower of cost or market prices for each commodity, product or contract. Cost represents average costs, first-in, first-out costs, and latest standard costs as computed under the costs systems in use, depending on the particular class of inventories. Market prices for raw materials and supplies are replacement prices, and market prices for work in process and finished products and selling prices less estimated expenses of delivery.

Inventories do not include interdivision or intercompany profit.

Sales and related cost of products and services sold are recorded on the basis of completed units of contracts.

In addition to the cost determination method of inventories, any change in cost determination should be fully disclosed with its effect on income. Obviously switching from one system to another will change the income figure. The Caterpillar Tractor Company report shows this:

These changes [switching from fifo to lifo] increase the profit previously reported for 1947 by $3,519,148; increase the profit previously reported for 1948 by $3,677,432; and decrease the profit previously reported for 1949 by $886,610.

The Century Electric Company report shows:

Had the inventories for the year ended December 31, 1950, been determined on the basis of the method used in the Company's report for 1949, net income for 1950 would have amounted to $1,122,282 instead of $1,019,372 as shown by the statement of operations and accumulated earnings used in the business.

Proposed standard: If the company has inventories, does it report the cost determination methods (lifo, fifo, average, standard, etc.) for each inventory? Yes ( ) No ( )

If "no," subtract 2 points for each "no." If "yes," add nothing. Points ______________

1. 1950 annual report, p. 16.
2. 1950 annual report.
If the company has changed inventory methods during the accounting year, does the report show the effect of the change upon the net income?  
Yes ( )  No ( )

If "no," subtract 5 points.
If "yes," add nothing.

Points __________

Basis Of Valuation Of Property.

Fixed assets should be carried at "cost" which should be clearly and fully stated. Example:

Land, building, machinery and equipment, at cost, less allowance for depreciation of $112,830,910 at December 31, 1947...$141,231,128.

An interesting situation arises when property has been fully depreciated, and yet the property is still useful. The following is complete reporting of such a situation:

RADIO-KEITH-ORPHEUM CORPORATION

Note E: In prior years, it has been the practice of a producing subsidiary to apply the accumulated reserves for depreciation to the appropriate asset accounts in respect of fully depreciated studio buildings and equipment. Since such facilities are still in use and have productive value, it was deemed appropriate to reinstate assets having a book value of $3,835,863.66 as of December 31, 1950. Such reinstatement has had no effect upon the net value at which these assets are stated in the accompanying consolidated balance sheet inasmuch as both the asset and the reserve accounts have been increased by the same amount.

Another situation requiring complete reporting of fixed assets which have a different basis other than cost is shown:

STANDARD OIL COMPANY OF CALIFORNIA

Note 4: Properties, Plant and Equipment

Properties, plant and equipment are carried at values approved by the Directors at organization in 1926, plus subsequent additions at cost (less reserves).

In addition to reporting the valuation of fixed assets, the report should also state the amount of depreciation which has been recorded since the acquisition of the fixed assets. Such a figure shows the reader how much more depreciation the fixed asset has in the future plus what depreciation has already taken place.

**Proposed standard:** If the company has fixed assets, does it report the "cost" of those assets?  
Yes ( )  No ( )

If "no," subtract 5 points.  
If "yes," add nothing.  
Points__________

If the company has fixed assets, does it deduct the estimated depreciation from those fixed assets?  
Yes ( )  No ( )

If "no," subtract 3 points.  
If "yes," add nothing.  
Points__________

**Long Term Leases.**

Information regarding long term leases should be disclosed.1 Specific information should include amounts of annual rentals, periods for which payable, and any principal details of leasing agreements.

**Example:**  

DISTRICT THEATRES CORPORATION  
Balance Sheet:  
**Long-Term Lease Commitments (Note G)...**

Note G: The minimum annual rentals upon real property leased for terms expiring after December 30, 1950, aggregate $157,230.00 as follows:

<table>
<thead>
<tr>
<th>Years of Expiration</th>
<th>Number of Leases</th>
<th>Minimum Annual Rentals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-1953</td>
<td>2</td>
<td>$10,800.00</td>
</tr>
<tr>
<td>1954-1956</td>
<td>6</td>
<td>41,660.00</td>
</tr>
<tr>
<td>1958-1959</td>
<td>7</td>
<td>32,820.00</td>
</tr>
<tr>
<td>1963-1965</td>
<td>6</td>
<td>71,950.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>$157,230.00</strong></td>
</tr>
</tbody>
</table>

2. 1950 annual report, District Theatres Corporation.
One of the lease agreements provides for additional rental based on a percentage of receipts.

Another example of complete reporting follows:¹

NATIONAL BISCUIT COMPANY
To Our Stockholders and Employers: ...It has never been our policy to own distributing branch properties. They are usually leased from local individuals. In recent years the difficulty of procuring buildings of a suitable type has caused us in a few instances to build what we needed and then enter into a sale and lease-back arrangement with an insurance company.

Proposed standard: If the company has long-term lease agreements, does it report the following:

- Amounts of annual rentals
- Periods for which payable
- Principal details of agreements

If "no," subtract 2 points.
If "yes," add nothing.

Points

Basis Of Revaluing Intangible Assets.

In those cases where the carrying value of intangible assets is changed substantially, full disclosure should be made. This may be done in a footnote or in the body of the report. For example, the American Tobacco Company in writing down its goodwill, brands, trade marks, and patents made a complete reporting:²

Consolidated Balance Sheet:
Brands, trade-marks, patents, goodwill, etc. ............... $1

Consolidated Statements of Income and Earned Surplus:
Deduct: Write-off of brands, trade-marks, patents, goodwill, etc. ............... $54,099,430

To our Stockholders: In June 1950 the Board of Directors, in accordance with what has come to be regarded as modern accounting practice, authorized the reduction to $1 of the item brands, trade-marks, patents, goodwill, etc., which had been carried in the Company's Balance Sheet since 1913 at $54,099,431. The amount of the write-down has been charged against

1. 1950 annual report, National Biscuit Company.
Earned Surplus. In the opinion of the Board, the actual value of the brands and other intangibles is far greater than the figure at which this item had been carried.

Following the full disclosure rule, intangible assets should be carried at a value which should be shown in the report. Normally this value is nominal, cost, or market. Either of the three should be clearly stated.

Proposed standard: If the company has intangible assets, does it report the valuation of these assets (cost, market, estimated, nominal, etc.)? Yes ( ), No ( ).

If "no," subtract 5 points.
If "yes," add nothing. Points ____________

Changes In Methods Of Determining Income For Defense Contracts.

Any company which feels the effects of renegotiation or redetermination of defense contracts should make known such information. Any changes in accounting which affects income should be completely reported. For example, the Consolidated Vultee Aircraft Corporation made a complete reporting in the following:

CONSOLIDATED VULTEE AIRCRAFT CORPORATION
Balance Sheet:
Current Assets:
...Unreimbursed expenditures
and fees under United States
Government cost-plus-fixed-
fee contracts (Note 1) .......... $25,128,398
Inventories (at lower of average
cost or estimated realizable
value):
   Finished Goods ................. $ 1,174,830
   Work in process ............... 11,352,424
   Materials, parts and supplies.. 3,498,317
$16,025,621

1. 1950 annual report, p. 11.
Statement of Income:

Net Sales (Includes reimbursable expenditures and fees under cost-plus-fixed-fee contracts)
Notes 1 and 5 ............... $255,860,703

Note 1: The Company obtained permission from the Commissioner of Internal Revenue to change its method of accounting for cost-plus-fixed-fee Government contracts effective as of the beginning of the fiscal year 1950. Under this approved method, which is used by most of the aircraft industry, sales under this type of contract and profit or loss thereon are recorded as expenditures are made and work is performed, whereas under the Company's previous method such costs and fees, although billed to the Government currently, were not taken into the income account until the time of delivery of the finished products.

The effect of this change on the income account with respect to cost-plus-fixed-fee contracts for the fiscal year 1950 was as follows:

<table>
<thead>
<tr>
<th>Representing work on products undelivered at beginning of year</th>
<th>Increase in Net Sales</th>
<th>Increase in Costs and Expenses</th>
<th>Increase in Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70,560,809</td>
<td>$68,307,229</td>
<td>$2,253,580</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representing net increasing during year in work on products undelivered</th>
<th>67,811,984</th>
<th>64,532,040</th>
<th>3,279,944</th>
</tr>
</thead>
<tbody>
<tr>
<td>$138,372,793</td>
<td>$132,938,269</td>
<td>$5,533,524</td>
<td></td>
</tr>
</tbody>
</table>

If the above described change in accounting method had been accomplished in a prior year, the net income for the fiscal year 1950 would have been shown as $7,988,064 instead of $10,241,644.

Proposed standard: If the company has changed methods of determining net income under defense contracts, and therefore affected the valuation of balance sheet items, does it report the effect of such changes?

Yes ( ) No ( )

If "no," subtract 3 points.
If "yes," add nothing.

Points________________
Long Term Debt.

Full disclosure should be made of long term debt. Items such as interest rates, due dates, and other descriptive information should be included. Excellent reporting of long term liabilities follows:

THE CHAMPION PAPER AND FIBRE COMPANY
Consolidated Balance Sheet:
Current Liabilities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term funded debt—Current portion</td>
<td>$550,000</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$12,684,314</td>
</tr>
<tr>
<td>Long-Term Funded Debt (Note 4) (less current</td>
<td></td>
</tr>
<tr>
<td>portion shown above)</td>
<td></td>
</tr>
<tr>
<td>3% debentures</td>
<td>$11,350,000</td>
</tr>
<tr>
<td>34% sinking Fund debentures</td>
<td>3,680,000</td>
</tr>
<tr>
<td>Total long-term funded debt.</td>
<td>$15,030,000</td>
</tr>
</tbody>
</table>

Note 4: The 3% debentures are redeemable $550,000 annually with final maturity July 15, 1965. The 34% sinking fund debentures are redeemable beginning January 15, 1954 in annual amounts of not less than $335,000 or more than $670,000. The Company borrowed $5,000,000 on April 3, 1951 on long term notes payable under a loan agreement dated March 30, 1951. The notes are payable in installments as follows: $800,000 on March 31, 1954 and $700,000 semi-annually thereafter to and including March 31, 1957.

Proposed standard: If the company has long term liabilities, does it report the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Yes ( ) No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td></td>
</tr>
<tr>
<td>Due dates</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td></td>
</tr>
</tbody>
</table>

If "no," subtract 2 points.
If "yes," add nothing.

Points________________

Changes In Reserves.

Any big change in any reserves should be completely reported since these changes normally affect surplus, out of which dividends are paid. A good example of complete reporting is shown by the Rexall Drug: ¹

To the Stockholders: In accordance with accounting principles now generally accepted, we have transferred the reserves for contingencies, amounting to $741,000 directly to the accounts for stockholders' equity—$100,000 to paid-in capital and $641,000 to earnings retained and used in the business. This transfer did not affect our reported net profit for the year but it does increase stockholders' equity by $741,000.

Another example of good reporting occurs in the Food Machinery and Chemical Corporation annual report: ²

Earned Surplus Appropriated as a Reserve for Contingencies. No charges have been made during the current year to our Reserve for Contingencies, which amounts to $3,353,186. However, at the request of the Securities and Exchange Commission, we have this year, for the first time, reflected it in the Net Worth Section of our Balance Sheet as 'Appropriated Surplus.'

This reserve has been accumulated from earnings in past years as a protection to our stockholders against inventory losses, obsolescence of leased machinery, and other unforeseen contingencies.

Another example of good reporting follows: ³

To the Stockholders: During the fiscal years 1946 to 1949 inclusive, a total amount of $500,000 was set up from earnings and added to the Reserve for Contingencies, with the understanding that this sum was earmarked for support of the retirement plan. The amount of $500,000 has now been transferred from the Reserve for Contingencies and set up and identified as Reserve for Retirement Payments.

Property reserves for increased cost of plant replacement offer much argument as to their origin. However, if such reserves are

¹. 1950 annual report, p. 2.
². 1950 annual report.
changed substantially, a complete reporting should be given.

The President of International Paper Company discussed the 1950 transfer to earned surplus of an amount of $6,000,000 appropriated in 1948 for "replacement of capital assets at current costs" in his letter "To Our Stockholders" as quoted below:¹

The $6,000,000 Reserve for Replacement of Capital Assets at Current Costs appropriated out of net profit in 1948 was created in expectation that it could be applied to reduce the book values of high-cost replacements. As it has since been made clear that such application would not be in accord with general accounting practice, this reserve was cancelled in 1950 and the $6,000,000 transferred to Earned Surplus.

Another example (of opposite view) shows completeness of reporting:²

As has been emphasized in previous annual reports and as further stated on Page Three of this report, management does not consider all of this income as 'real' income. Consequently a reserve of $3,666,134, in addition to normal depreciation, was appropriated to provide for replacement at current prices of obsolete and worn-out facilities. Therefore, 'real' net income was $38,262,615 and not $41,928,749, which the company was required to report. It is imperative that present accounting practices and Federal tax laws be revised so that depreciation on replacement cost can be allowed as a deductible item of cost by the Bureau of Internal Revenue, instead of the present inadequate allowance of depreciation of original cost.

Proposed standard: If the company has made any significant changes in its "reserves," does it report reasons for such changes?

Yes ( )  No ( )

If "no," subtract 5 points.
If "yes," add nothing.

Points__________

Capital Stock Information.

Complete reporting of the capital stock section should be made. In-

1. 1950 annual report.
2. 1950 annual report of Pittsburgh Plate Glass Co., p. 5.
formation should show: the classes of stock; number of shares authorized and issued; par, stated, or no par value; capital contributed in excess of par; and any other pertinent information describing the owners' equity in the company.

It is not the purpose of this discussion to state propriety of surplus, but it is believed that one surplus figure should be presented along with the capital stock outstanding. The two—combined—capital stock and surplus—should form the owner's equity. Of course the word "surplus" should be replaced by "earnings retained in the business."

Champion Paper and Fibre Company's 1950 annual report would meet these standards:

<table>
<thead>
<tr>
<th>Stockholders' Investment:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assigned to stated value of capital stocks:</td>
</tr>
<tr>
<td>Preferred stock, $4.50 Cumulative—authorized and outstanding, 100,000 shares without par value—stated value $100 a share (Note 6)</td>
</tr>
<tr>
<td>Common stock—authorized, 1,512,000 shares without par value; outstanding, 1,102,000 shares—stated value</td>
</tr>
<tr>
<td>Capital contributed for common shares in excess of stated value (Note 7)</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Earnings retained in the business (excluding amounts transferred to common capital stock, 1951—$30,463,750; 1950—$5,440,000)</td>
</tr>
<tr>
<td>Total stockholders' investment</td>
</tr>
</tbody>
</table>

Note 6: The articles of incorporation authorize 150,000 shares of cumulative preferred stock without par value and authorize the Board of Directors to issue such shares in series. The initial series authorized by the Board of Directors was for 100,000 shares and was designated as $4.50 Cumulative Preferred Stock. The remaining 50,000 shares have not been authorized or designated by the Board of Directors.

Note 7: Capital contributed for common capital shares in excess of stated value, $163,821, was appropriated during the fiscal year 1951 and was included in the increase of $25,188,571 in the capital assigned to stated value of common capital stock.

Any restriction on the capital stock should be disclosed. For example, the existence of stock option or stock purchase plans should be reported. Of course after the stock is issued, there is no need to show further restrictions. Example:

Note 6: At November 30, 1950 there were outstanding options on 352,242 shares of Common Stock at prices varying between $5.75 per share and $8.42 per share and expiring at varying dates from November 30, 1951 to April 26, 1955. In addition 37,834 shares of Common Stock were reserved for options which may thereafter be granted by the Board of Directors. Options on 3,633 shares were exercised during the 1950 fiscal year. No options were exercised during the 1949 fiscal year.

Proposed standard: Does the report show the following stockholder equity information:

Classes of capital stock
Number of shares authorized
Number of shares issued
Par (if any)
Stated value (if any)

If "no," subtract 2 points.
If "yes," add nothing.

Points

Does the report show the following:

Capital Contributed in Excess of Par (if any)
Earnings Retained in the Business (Retained Income)
Total Capital Stock and Earnings Retained

If "no," subtract 2 points.
If "yes," add nothing.

Points

**Contingent Liabilities.**

Complete reporting of all significant contingent liabilities should be made. Since these do not normally appear in financial statements themselves, they are usually shown in footnote form, which are a part of the financial statements. Information concerning lawsuits, guarantees, purchase commitments, commercial paper, taxes and renegotiation should be fully disclosed.

Lawsuits pending should be completely reported. International Harvester's 1950 annual report shows:

**INTERNATIONAL HARVESTER COMPANY**

*Note 6: Contingencies:*

Litigation: On September 9, 1948, the United States Government filed suit against International Harvester Company charging that the company is interfering with competition by selling its goods to dealers on condition that they sell only Harvester products. In this suit the Government seeks an injunction to restrain the Company from continuing the alleged practice. It is not believed that the charge will be sustained by the facts to be developed at the trial. Similar suits were filed by the Government against two other companies in the farm equipment industry.

At this time there are no other legal proceedings affecting the Company other than the ordinary routine litigation incident to the type of business conducted by it.

Guarantees, including subsidiary indebtedness, should be completely reported. R. H. Macy and Co., Inc. reported:

*Note 8: Contingent liability—the Corporation has guaranteed Macy's Bank against decline in prices of securities held by the bank.*

Purchase commitments should be reported. An example:

*Note E: Contingent Liabilities:*

(1) As at December 31, 1950, the company outstanding

---

1. 1949 annual report, p. 20.
purchase commitments aggregating approximately $129,000.00 for property, plant and equipment.

Contingent liabilities for notes receivable should be disclosed fully even to the extent of subsidiaries' contingent liabilities.

Example:¹

Trade notes receivable (not current) (Note A) $696,705

Note A:
At October 31, 1950, the Corporation and its subsidiaries were contingently liable to the extent of $909,611 for trade notes receivable discounted. This amount includes $627,217 representing notes receivable from one party which mature beginning January 1, 1951. Trade notes receivable (not current) includes $209,072 representing notes receivable of the same series from such party which were past due at December 9, 1950.

A subsidiary has agreed to purchase from banks, under certain conditions, a note payable of another company amounting to $300,000.

any contingent liability of taxes on income or additional tax assessments should be disclosed. Example:²

Balance Sheet:
Current Liabilities:
Reserve for Federal Taxes on Income (Note 4) $6,585,935

Note 4: Federal income tax returns for the years 1944 through 1949 are currently under examination by the Bureau of Internal Revenue. The Bureau is contending for capitalization, and disallowance as deductions for tax purposes, of certain expenditures, principally items which the Company had classified as maintenance and repairs. Changes in taxable income for these years and additional taxes resulting from final settlement of these claims are not yet determinable and have therefore not been reflected in the financial statements. It is considered unlikely that the additional provisions for Federal taxes will be material in amount.

¹. 1950 annual report of Dresser Industries.
². 1950 annual report of Bigelow Sanford Carpet Company.
Proposed standard: If the company has any contingent liabilities, does it report them (lawsuits, guaranties, purchase commitments, commercial paper, taxes, renegotiation, etc.)? Yes ( ) No ( )

If "yes," add 2 points for each one. Points________

Completeness Is Essential.

The adoption of minimum standards of complete information in financial reporting is important if reports are to be made to tell the truth. Full disclosure is essential; but half truths are still possible through extreme condensation and failure to disclose significant changes. Readability should be accompanied by completeness of reporting if the possibilities of misleading inferences are to be avoided.

The standards proposed in this chapter are an attempt to correct certain abuses of concealment. They do not cover all items in the balance sheet since most items are completely reported. However, the standards proposed are those which, it is believed, would improve financial reporting.

Such standards should be followed by corporate management. But it is their prerogative to report complete information. As Hoagland has said: 1 "The right of stockholders, bondholders, and creditors to accurate and complete information should be recognized. Steps should be taken to make such information available.... Accountants stand ready to supply the need. The decisions for a change in policy rests with corporate managers."

Conclusions—Proposed Standards.

The proposals for minimum standards of completeness in reporting items in the balance sheet are as follows:

1. If the company has a consolidated balance sheet, does it report the following:
   - Which subsidiaries are included Yes ( )  No ( )
   - Policy on intercompany profits Yes ( )  No ( )
   - Percentage of ownership of subsidiaries Yes ( )  No ( )

If "no," subtract 2 points for every "no."
If "yes," add nothing. Points

2. If the company has marketable securities, does it report the following:
   - Cost of securities Yes ( )  No ( )
   - Market value of securities Yes ( )  No ( )

If "no," subtract 2 points for every "no."
If "yes," add nothing. Points

3. If the company has investments in subsidiaries, which are not consolidated, does it report the following:
   - Cost of investment in subsidiary Yes ( )  No ( )

If "no," subtract 2 points.
If "yes," add nothing. Points

4. If the company has inventories, does it report the following:
   - Cost of each inventory Yes ( )  No ( )
     (The lower of cost or market is not acceptable as "cost.")

If "no," subtract 2 points for each "no."
If "yes," add nothing. Points

5. a. If the company has inventories, does it report the cost determination methods (lifo, fifo, average, standard, etc.) of each inventory?
   Yes ( )  No ( )

If "no," subtract 2 points for each "no."
If "yes," add nothing. Points
b. If the company has changed inventory methods during the accounting year, does the report show the effect of the change upon the net income?

Yes ( ) No ( )
If "no," subtract 5 points.
If "yes," add nothing.

Points

6. a. If the company has fixed assets (property, plant, and equipment), does it report the "cost" of those assets?

Yes ( ) No ( )
If "no," subtract 5 points.
If "yes," add nothing.

Points

b. If the company has fixed assets, does it deduct the estimated depreciation* from those fixed assets?

Yes ( ) No ( )
If "no," subtract 3 points.
If "yes," add nothing.

Points

*may include depletion

7. If the company has long term lease (rental) agreements, does it report the following:

Amounts of annual rentals  Yes ( ) No ( )
Periods for which payable  Yes ( ) No ( )
Principal details of agreements  Yes ( ) No ( )

If "no," subtract 2 points for each "no."
If "yes," add nothing.

Points

8. If the company has intangible assets (patents, goodwill, franchises, trademarks, etc.), does it report the valuation of these assets (cost, market, estimated, nominal, etc.)?

Yes ( ) No ( )
If "no," subtract 5 points.
If "yes," add nothing.

Points
9. If the company has changed methods of determining net income under defense contracts, and therefore affected the valuation of balance sheet items, does it report the effect of such changes?  

Yes ( )  No ( )

If "no," subtract 3 points.  
If "yes," add nothing.  
Points ______________

10. If the company has long term liabilities, does it report the following:

<table>
<thead>
<tr>
<th>Interest rates</th>
<th>Yes ( )  No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due dates</td>
<td>Yes ( )  No ( )</td>
</tr>
<tr>
<td>Description</td>
<td>Yes ( )  No ( )</td>
</tr>
</tbody>
</table>

If "no," subtract 2 points for each "no."  
If "yes," add nothing.  
Points ______________

11. If the company has made any significant changes in its "reserves," does it report reasons for such changes anywhere in the report?  

Yes ( )  No ( )

If "no," subtract 5 points.  
If "yes," add nothing.  
Points ______________

12. Does the report show the following stockholder equity information:

| Classes of capital stock | Yes ( )  No ( ) |
| Number of shares authorized | Yes ( )  No ( ) |
| Number of shares issued | Yes ( )  No ( ) |
| Far (if any) | Yes ( )  No ( ) |
| Stated value (if any) | Yes ( )  No ( ) |

If "no," subtract 2 points for each "no."  
If "yes," add nothing.  
Points ______________

13. Does the report show the following captions:

Capital Contributed in Excess of Far (if any) or Capital Surplus (if any) Yes ( )  No ( )
Earnings Retained in the Business (Retained Income or Earned Surplus) Yes ( )  No ( )
Total Capital Stock and Earnings Retained (Total Stockholders' Equity) Yes ( )  No ( )

If "no," subtract 2 points for each "no."  
If "yes," add nothing.  
Points ______________
14. If the company has any contingent liabilities*, does it report them (lawsuits, guaranties, purchase commitments, commercial paper, taxes, renegotiation, etc.)?  

Yes ( )  No ( )

If "yes," add 2 points for each one.  Points______________  
(Maximum: 12)

*usually reported in footnotes to statements.
CHAPTER IX. CONTENTS ANALYSIS—INTERESTED GROUPS

One of the basic concepts upon which this chapter rests is that which states that stockholders, creditors, employees and the general public have a claim upon management for information on how the business is doing.¹ The financial statements give the financial information to some extent. Despite the fact that these statements serve all interested groups, interpretation of these statements is necessary to give the interested parties a more clear picture of the story of the business.² This interpretation is necessary because accounting data depends upon both opinions and facts. Both need interpretation so that the non-trained specialist may understand. One of the most effective ways to interpret these accounting data is by the use of ratios and supplementary information.³

Use of Ratios As Supplementary Information For Proper Interpretation.

Ratios are aids to business judgment. They are not substitutes for it. However they are needed to make intelligent decisions, but do have limitations as to their use. The big limitations are that they depend on amounts which may not be wholly comparable, e.g., cost figures may be compared to selling price figures. Another limitation is that one ratio by itself does not mean too much. The ratio needs comparison to the same ratio over a number of years. Thus it serves as a

¹. See page 22.
². See page 54.
³. See Bedford's article: "Using Supplementary Data To Interpret Reported Income," in the October 1953 issue of the Accounting Review.
good indicator of trends. Another limitation to the ratio is that it needs comparison to the same ratio in different businesses within the same industry. Comparison of one company to another is faulty if the businesses are not alike. Despite these limitations, they do serve as indicators of trends and of comparison of one business to another business. They also point out weaknesses within a business and within an industry. Therefore their use is recommended in annual reports.

Minimum Standards For Ratios And Supplementary Information For Stockholders

It is recommended that companies compute their ratios for their various industries. Each industry has its peculiarities but there should be minimum ratios and supplemental information for any industry. These are of particular interest to stockholders and security analysts who advise potential and present stockholders whether to buy, sell, or hold. Among the common ratios of interest are the earnings per share of common stock, dividends per share, and book value per share. Also of concern to stockholders is the ratio of net income to stockholders' equity and the net income as a percentage of revenue (sales).

**Proposed standard:** Does the report show the following:

<table>
<thead>
<tr>
<th></th>
<th>Yes ( )</th>
<th>No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share of common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends per share of stock (all kinds)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book value per share of common</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of net income to stockholder's equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of net income to revenue (sales)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If "yes," add 3 points for each "yes." Points________________

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1. See Graham and Dodd's *Security Analysis* for excellent discussion of the various ratios needed for intelligent decisions. This text was recently revised and should be invaluable service to investors who are interested in intelligent investing. The book is the third edition published by McGraw-Hill in 1951.
Shares Of Stock.

Of course supplemental information is needed such as the number of shares of stock (all kinds) and the number of stockholders classified as to sex, age, occupation, geographical distribution, and number of shares held. This information is needed to show the distribution of ownership of the publicly held corporations. Such widespread ownership should help to refute claims that only a few people own America's industries.

Proposed standard: Does the report show the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of stockholders classified as to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of shares held</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographical distribution</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If "yes," add 2 points for each "yes." Points

Dividend Policy.

One particularly important area for investors is the company's reporting of its dividend policies. The main purpose of such a policy is to declare how much percentage of earnings the company traditionally has paid in dividends and intends to pay. If dividend policies are discussed, the investor and stockholder should be satisfied since this is a subject which is in demand among investment analysts.

Examination of several annual reports will show that some companies are meeting this standard of reporting. The 1946 report of the Pittsburgh Plate Glass Company, under the heading, "Dividend Policy," shows that over a ten-year period 71% of the earnings had been paid out in
dividends, and the remaining 29% had been kept in the business.\(^1\)

Graham and Dodd also recommend that the dividend policy be reported for intelligent analysis of securities.\(^2\)

**Proposed standard**: Does the report specifically explain the dividend policy of the company?  
Yes ( )  No ( )  
If "yes," add 10 points.

**Points____________**

**Quantity Of Products Or Services Sold.**

Another item of interest not only to stockholders but also to other interested readers is the number of products sold. The number of units or services sold (especially in a manufacturing industry) gives a rough approximation of the volume of sales, in which the stockholder is vitally interested. Thus units sold and dollar volume (net sales) is needed to properly interpret the financial information.

**Proposed standard**: Does the report show the number(s) of units or services sold?  
Yes ( )  No ( )  
If "yes," add 5 points.

**Points____________**

**Notice Of Annual Meeting.**

Another item of interest to stockholders is the notice of the annual meeting of stockholders. Such a notice in the annual report does not mean that a regular notice should not be sent as required in by-laws or statutes. But the supplemental notice again reminds the normally passive stockholder that a meeting is being held for him to express his opinion or votes. Such a practice is heartily recommended.

For example such a notice reads:

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The annual meeting of the stockholders will be held on Monday, May 5, 19xx. A formal notice of this meeting, together with proxy and proxy statement, will be mailed to each common stockholder on or about April 10, 19xx, at which time proxies will be solicited by the management.

Proposed standard: Does the report show the date of the annual meeting of stockholders? Yes (  ) No (  )
If "yes," add 3 points. Points__________

Minimum Supplementary Ratios For Creditors.

A creditor's main financial interest in a company has been the company's current ability to repay the debts owed to creditors. The traditional approach to determine this ability to repay debts has been by the use of various financial ratios. Normally these ratios were balance sheet ratios; however there is a growing tendency to use the income statement to determine some of the ratios. Certainly there are a number of different approaches but there are certain minimum ratios which practically all creditors are interested in. These minimum ratios should be reported. If they are adopted as minimum standards, certainly the report will be of value to creditors.

Current Ratio.

The current asset ratio or net working capital ratio is one of the first. Supposedly it measures the company's ability to repay current liabilities if the company were forced to do so at the date of the report. Therefore the ratio of current assets to current liabilities is recommended.

Proposed standard: Does the report show the ratio (current ratio) of current assets to current liabilities? Yes (  ) No (  )
If "yes," add 3 points. Points__________
Acid Test Ratio.

Another significant ratio in determining the current financial position of the company is a comparison of cash, receivables, and marketable securities (if any) with current liabilities. Sometimes known as the "acid test" or "quick ratio," this ratio takes out the inventory in determining the company's ability to repay current debts. Its use is recommended as a minimum standard of reporting.

Proposed standard: Does the report show the ratio (acid test ratio) of cash, receivables and marketable securities (if any) to the current liabilities? Yes ( ) No ( )

If "yes," add 3 points. Points__________

Ratio Of Liabilities To Stockholder's Equity.

Still another ratio used by creditors is the comparison of total liabilities to the total stockholders' equity. It is primarily a liquidation approach rather than a going concern approach, but it does determine credit standing. As Hoagland states:¹ "Creditors are inclined to agree with the slogan of the Rothschilds which reads, 'Do not trust a man who owns too much.' For business enterprises that have outstanding long-term debts, the ratio of total liabilities to tangible net worth becomes significant." Therefore its use is recommended in annual reports.

Proposed standard: Does the report show the ratio of total liabilities to total stockholders' equity? Yes ( ) No ( )

If "yes," add 3 points. Points__________

¹ Corporation Finance, p. 484.
Ratio Of Revenue To Receivables.

Since creditors are normally paid in cash, they are interested in seeing if receivables are being converted into cash fast enough to pay creditors. This relationship can be determined by making a ratio of the revenue (sales) of the company to the amount of receivables. This resulting relationship can then be divided into the number of days in a year to determine the days which the receivables are outstanding. Such information becomes useful to creditors. Its use is recommended in annual reports.

Proposed standard: Does the report show the ratio of revenues to receivables or the average days outstanding of receivables?

Yes ( ) No ( )

If "yes," add 3 points. Points__________

These four ratios are minimum standards for annual reports for creditor usage. Many others may be developed, but these should be clearly reported in every annual report.

Minimum Information For Employees.

Employees are interested in their job security. Therefore the annual report should serve as a medium of information to tell employees of future plans which will affect their job security. Consequently, a portion of the report should deal with future plans for the company. Unfortunately, these plans are not displayed in several reports. The result is a lack of knowledge. Such lack of knowledge breeds distrust and fear of the future. Stockholders, creditors, and employees alike are left in the dark as to the future for the company and the industry. Since the management is in intimate contact with the company, the top
executive should have an idea of any plans. These plans should be re­ported to allay fears and distrust and to give the audience an idea of what to expect.

**Proposed standard:** Does the report make any definite attempt to tell of future plans or of the future outlook?  
Yes ( )  No ( )

If "yes," add 5 points.  
Points

**Number Of Employees.**

One indication of a growing or declining business is the number of employees. By comparing the number of employees for a period of years, a reader may gauge the company's growth characteristics. Therefore, the number of employees should be reported.

**Proposed standard:** Does the report show and compare the number of employees with preceding years?  
Yes ( )  No ( )

If "yes," add 2 points.  
Points

**Assets Per Employee.**

Many times employees do not consider the amount of capital needed to help produce jobs for employees. They forget that such capital in the form of assets is contributed by stockholders, creditors, and customers. To show employees how much capital is needed for the business, the assets per employee should be shown. This figure shows a significant relationship, which many employees do not think of. Such reporting will tend to show the employee that the capital providers are vital to the company. Such understanding is necessary to provide mutual confidence between employees and capital providers.
Proposed standard: Does the report show the assets per employee? Yes ( ) No ( )

If "yes," add 2 points.

Revenue and Costs Per Employee:

Besides the assets per employees, revenue and costs per employee are necessary to point out what revenue per employee is produced and what it costs per employee to produce the revenue. Such information, pointed directly to employees, shows their participation in making and distributing the goods or services of the company. This procedure points out to the employee the value of revenue to the company. It also shows him what it costs to produce that revenue. If this concept could be brought to a reader's attention, it would provide a better understanding that "the customer is boss" in any business. Such a concept would help dispel group conflicts as to who should be the guiding light in the business...that all groups should cooperate to serve the customers or general public who, in reality, control the destiny of any business.

Proposed standard: Does the report show revenue per employee and costs per employee? Yes ( ) No ( )

If "yes," add 5 points for each.

Points___________
(Maximum 10)

Business Affiliations Of Directors.

One of the sore points of labor unions and employees is the distrust of interlocking directorates and their consequent abuses. The fact that there is a lack of information regarding the affiliations of
the directors only emphasizes the distrust. When a director does hold two or three directorates, he automatically creates suspicion when the employee finds out this information from his union or other employees. In other words, the director does not report this information openly. Such lack of reporting regarding each director's business affiliations breeds distrust. Thus the annual report should show each director's business affiliations, if he has any.

**Proposed standard:** Does the report show the outside business affiliations of each member of the board of directors?  

Yes ( )  No ( )

If "yes," add 5 points.

Points_________

Salaries Of Directors and Officers.

Another sore point with employees is the lack of information concerning officers' and directors' salaries. If an employee has to find out this information through his union or via the grapevine, naturally he feels disconcerted. Such information is available to the SEC. Therefore the same information should be reported in the annual report. Naturally there will be objection to this standard as an invasion of personal privacy. But if the truth be known, instead of being withheld, many problems may be solved. When facts are published, correct decisions and discussions are possible.

Another possible objection is that raised ten or fifteen years ago about "how far should we go in reporting information." In the case of salaries, how far should we go toward reporting salaries? Should each individual's salary be reported? Obviously, no. But a breakdown by amounts and by number and types of people should satisfy the union's
thirst for payroll information. Such information would also give the general public a general idea of the payroll scale for the company.

**Proposed standard:** Does the report show the salaries of directors and officers? Yes ( ) No ( )

If "yes," add 5 points.

Points___________

Does the report show a breakdown of payroll costs by type of person? by number of persons? Yes ( ) No ( )

If "yes," add 5 points for each "yes,"

Points___________ (Maximum 10)

**Pension Information.**

Pension costs and pension plans play an important role in many companies' employee costs. Since they affect the lives of the employees and since they also affect the financial condition of the company, it is obvious that certain standards should be set for the reporting of contents of pension plans.

**Proposed standard:** If the company has a pension plan, are the following data reported on?

a. Basic type of plan (trusteed, insurance, etc.) Yes ( ) No ( )

b. Description of groups of employees covered. Yes ( ) No ( )

c. Contributory or non-contributory. Yes ( ) No ( )

d. Retirement age. Yes ( ) No ( )

e. Computation of pension to be paid. Yes ( ) No ( )

f. Whether the plan is funded or whether "pay as you go." Yes ( ) No ( )

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1. See Controller's Institute Survey, *What People Want To Know About Your Company*, page 30: "In preparing their bargaining case, another report item the labor leaders stress is the payroll breakdown. They would like to be able to separate from the total wage bill the executives, the supervisors, and the employees not eligible for union membership."
The proposed standards for additional information for employees are recognition of the fact that employees are interested members of the audience of the annual report. The Controllers Institute study bears this out:

**EMPLOYEES INTEREST IN GETTING MORE INFORMATION ABOUT THEIR COMPANY**

In percentages of 1074 respondents below executive level

<table>
<thead>
<tr>
<th>INFORMATION ABOUT...</th>
<th>Very Much or Mildly Interested In More Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plans for expansion</td>
<td>61%</td>
</tr>
<tr>
<td>New products or services</td>
<td>57</td>
</tr>
<tr>
<td>Prospects for company's business next year</td>
<td>55</td>
</tr>
<tr>
<td>Information about top executives</td>
<td>37</td>
</tr>
<tr>
<td>Salaries paid top executives</td>
<td>35</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>32</td>
</tr>
<tr>
<td>Volume of sales compared to previous years</td>
<td>31</td>
</tr>
</tbody>
</table>

**Minimum Standards Of Information For General Public.**

The annual report is a social document. As such it is read by the general public. Therefore general minimum standards should be provided for their readership. Their various interests spread over many topics, including future plans, research programs, advertising programs, taxes paid, product information, directory information, company background, governmental relations, and general policy information.

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1. What People Want To Know About Your Company, p. 42.
Such a wide variety of topics indicates that merely a report of financial position is not enough. The general readers want to know the various causes of the financial position.

Future Plans.

A reporting of the past performance of the business activities is a guide to possible future activities. But since the general management is much more acquainted with possible future plans, the general reader relies on top management's interpretation of past performance with regard to the future. Therefore the annual report should have an indication of the future of the business, even if the future plans are hedged with all sorts of qualifications. Top management's predictions are better than none at all.

Proposed standard: Does the annual report give any indication of future plans or of the future of the business? Yes ( ) No ( )

If "yes," add 5 points. Points

Research Programs.

One indication of progressive companies is their research programs. The significance of research is its ability to produce new knowledge that will help the general public reach a higher standard of living. Even top management should regard research as essential to progress. Therefore any research activities should be reported.

Proposed standard: Does the report indicate any research activities? Yes ( ) No ( )

If "yes," add 5 points. Points

1. Jackson Martindell, Scientific Appraisal of Management, Chapter IV, regards a company's research program as a standard to judge management's excellence.
Advertising Or Publicity Programs.

The general public is influenced by publicity or advertising which the company initiates. Many times the advertising is the only contact between company and potential customer. Therefore, the potential or actual customer (general public) likes to know of the advertising program—how much is spent on advertising, what media is used, etc. Therefore the annual report should indicate the publicity program.

Proposed standard: Does the annual report indicate any activities of the publicity or advertising program? Yes ( ) No ( )

If "yes," add 5 points.

Taxes Paid.

Practically every reader of an annual report pays taxes. His contributions to government along with corporate taxes are the main sources of government revenue. But many times the reader does not realize the large amount of taxes paid by a corporation. These taxes take a huge bite out of corporate revenue. In fact, without these, the individual tax payer would bear a much heavier tax burden. To show the reader the amount of taxes paid and their effect on the business activities, the annual report should show this information.

Proposed standard: Does the report show the amount of taxes paid? Yes ( ) No ( )

If "yes," add 5 points.

Product Information.

It seems incredible, but many annual reports do not tell what the company offers in the way of goods or services. Such information can
easily be included in a section describing the company's products. However, such a section can easily be overdone making the report essentially an advertising medium for the company's products. But still, the basic standard should apply: Does the report tell what the company's products or services are? Every annual report should answer this question.

Proposed standard: Does the report indicate what goods or services are sold? Yes ( ) No ( )

If "yes," add 10 points. Points__________

Company Directory Information.

Strangely enough, many annual reports do not include the address of the company. Any general reader who tries to communicate with the company is dismayed by this lack of information. Even in some cases, he cannot find out any information about the management. No wonder some companies never receive letters from stockholders! Therefore certain minimum standards are proposed for a directory of company information.

Proposed standard: Does the report show the following:

Specific address of general office Yes ( ) No ( )
Names of directors Yes ( ) No ( )
Names of officers Yes ( ) No ( )
Name and address of auditors Yes ( ) No ( )
Name and address of transfer agent and registrar Yes ( ) No ( )

If "no," subtract 5 points for each "no." Points__________
If applicable,* does the report show the following:

Locations of sales offices  Yes ( )  No ( )
Locations of factories or plants  Yes ( )  No ( )
Locations of subsidiary companies  Yes ( )  No ( )

*If applicable to the company, the answer should be "yes." If the answer is "no," subtract 2 points for each "no." If not applicable, do not consider.

Points__________

Company Background.

An intelligent reader should have an interest in the company. This interest may be provided by a history of the company's background. Such a background gives the reader a better understanding of the problems involved in the company, the industry, and the general economy. Such reader understanding is necessary to foster the private enterprise system. Therefore, if the reports does an effective job, it should include information about the company.

Proposed standard: Does the report show the following:

Highlights of the history of the company.  Yes ( )  No ( )
Organization chart of the company.  Yes ( )  No ( )
Highlights of the history of the industry.  Yes ( )  No ( )

If "yes," add 5 points for each "yes."  Points__________

Company Policies.

Written statements of business policy help to create in the eyes of the reader a better understanding of management's thinking. Therefore these statements of policy should be an integral part of the report. These policies are the principles and the actions involved in carrying on the business. From these policies, the company's objectives may be stated. Once these are understood, a broader knowledge of busi-
ness, industry, and the economy will be in order. Thus we shall realize the broad objective of annual report: that the ultimate objective of annual reporting is to create a better understanding of our economy and how it works.\footnote{See page 32 for this concept.} Once this is understood, many of our national and world problems can be better solved.

Proposed standard: Does the report in one place\footnote{It is realized that such policies may be reported throughout the report. But it is believed that the inclusion of these policies in one compact position will be much more effective. However, this standard is not proposed to discourage reporting of the policies throughout the report.} state the company's basic policies, principles, and objectives?

Yes ( )  No ( )

If "yes," add 25 points.

Points

Governmental Relations With The Company.

All companies are affected indirectly by governmental attitudes towards taxes, labor, management, interstate commerce, legislation, etc. Not all companies are directly affected by specific governmental policies. But when they are, such information should be reported to the readers who are in a position to influence the officials of government. Such events as court cases, specific legislation, lawsuits, etc., should be reported. Since governmental units have an interest in the company, space should be reserved for the company management to comment on relations with governmental agencies. Therefore, it seems obvious that the annual report should include a section for this discussion.
Proposed standard: Does the report indicate the company's relation with various governmental agencies?

Yes ( ) No ( )
If "yes," add 10 points.

Points________

Conclusions—Proposed Standards.

Based upon the information presented in this chapter, the following standards are proposed:

1. Does the report show the following:

Earnings per share of common stock.
Yes ( ) No ( )
Dividends per share of stock (all kinds)
Yes ( ) No ( )
Book value per share of common
Yes ( ) No ( )
Ratio of net income to stockholder's equity
Yes ( ) No ( )
Ratio of net income to revenue (sales)
Yes ( ) No ( )
If "yes," add 3 points for each "yes."

Points________

2. Does the report show the following:

Number of shareholders
Yes ( ) No ( )
Number of stockholders classified as to:
No. of shares held
Yes ( ) No ( )
Sex
Yes ( ) No ( )
Age
Yes ( ) No ( )
Occupation
Yes ( ) No ( )
Geographical distribution
Yes ( ) No ( )
If "yes," add 2 points for each "yes."

Points________

3. Does the report specifically explain the dividend policy of the company?

Yes ( ) No ( )
If "yes," add 10 points.

Points________

4. Does the report show the number(s) of units or services sold?

Yes ( ) No ( )
If "yes," add 5 points.

Points________
5. Does the report show the date of the annual meeting of stockholders?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

6. Does the report show the ratio (current ratio) of current assets to current liabilities?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

7. Does the report show the ratio (acid test ratio) of cash, receivables and marketable securities (if any) to the current liabilities?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

8. Does the report show the ratio of total liabilities to total stockholders' equity?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

9. Does the report show the ratio of revenues to receivables or the average days outstanding of receivables?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

10. Does the report make any definite attempt to tell of future plans or of the future outlook?

Yes ( )  No ( )

If "yes," add 5 points.

Points___________

11. Does the report show and compare the number of employees with preceding years?

Yes ( )  No ( )

If "yes," add 2 points.

Points___________
12. Does the report show the assets per employee?  
   Yes ( ) No ( )  
   If "yes," add 2 points.  
   Points

13. Does the report show revenue per employee and costs per employee?  
   Yes ( ) No ( )  
   If "yes," add 5 points for each.  
   Points
   (Maximum 10)

14. Does the report show the outside business affiliations of each member of the board of directors?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points

15. a. Does the report show the salaries of directors and officers?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points

   b. Does the report show a breakdown of payroll costs by type of person? by number of persons?  
   Yes ( ) No ( )  
   If "yes," add 5 points for each "yes." Points

16. If the company has a pension plan, are the following data reported on?  
   a. Basic type of plan (trusteed, insurance, etc.)  
      Yes ( ) No ( )  
   b. Description of groups of employees covered.  
      Yes ( ) No ( )  
   c. Contributory or non-contributory.  
      Yes ( ) No ( )  
   d. Retirement age.  
      Yes ( ) No ( )  
   e. Computation of pension to be paid.  
      Yes ( ) No ( )  
   f. Whether the plan is funded or whether "pay as you go."  
      Yes ( ) No ( )  
   g. Annual cost.  
      Yes ( ) No ( )

   If "no," subtract 1 point for every "no."  
   If "yes," add nothing.  
   Points
17. Does the annual report give any indication of future plans or of the future of the business?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points___________

18. Does the report indicate any research activities?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points___________

19. Does the annual report indicate any activities of the publicity or advertising program?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points___________

20. Does the report show the amount of taxes paid?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points___________

21. Does the report indicate what good or services are sold?  
Yes ( ) No ( )  
If "yes," add 10 points.  
Points___________

22. a. Does the report show the following:  
Specific address of general office  
Yes ( ) No ( )  
Names of directors  
Yes ( ) No ( )  
Names of officers  
Yes ( ) No ( )  
Name and address of auditors  
Yes ( ) No ( )  
Name and address of transfer agent and registrar  
Yes ( ) No ( )  
If "no," subtract 5 points for each "no."  
Points___________
b. If applicable,* does the report show the following:

| Location of sales offices | Yes ( ) | No ( ) |
| Location of factories or plants | Yes ( ) | No ( ) |
| Location of subsidiary companies | Yes ( ) | No ( ) |

*If applicable to the company, the answer should be "yes." If the answer is "no," subtract 2 points for each "no." If not applicable, do not consider.

Points________________

23. Does the report show the following:

| Highlights of the history of the company. | Yes ( ) | No ( ) |
| Organization chart of the company. | Yes ( ) | No ( ) |
| Highlights of the history of the industry. | Yes ( ) | No ( ) |

If "yes," add 5 points for each "yes."

Points________________

24. Does the report in one place* state the company's basic policies, principles, and objectives?

Yes ( ) No ( )

If "yes," add 25 points.

Points________________

*It is realized that such policies may be reported throughout the report. But it is believed that the inclusion of these policies in one compact position will be much more effective. However, this standard is not proposed to discourage reporting of the policies throughout the report. If they are not in one place, but throughout the report, add 10 points.

25. Does the report indicate the company's relation with various governmental agencies?

Yes ( ) No ( )

If "yes," add 10 points.

Points________________
CHAPTER X. ANALYSIS OF THE MEDIUM—PHYSICAL PRESENTATION

The "medium" of the communication process is the means of transferring information. In reporting to stockholders, the medium is the physical annual report itself—the paper-bound copy presenting facts, opinions, and general information concerning the company's activities for at least one year.

Principle Of Initial Impression.

The importance of physical presentation on the "effect" of communication is obvious. In general the medium can influence the audience; and through the audience, it creates an effect—either positive, neutral, or negative. Of course, the objective is to create a positive impression. Therefore attempts are made by progressive companies to "dress up" their annual reports to create that favorable impression. In so doing these companies are applying one of the basic principles of communication, which may be called the Principle of the Initial Impression: A person is generally impressed, favorably or unfavorably, by the initial physical characteristics of information presented to the person. This principle applies in written, graphic, and oral communications.

Applications of this principle are common in annual reports. Various techniques are used: color, graphs, pictures, different type sizes, drawings, photographs. In fact all the techniques of physical presentation are brought into play in preparing the annual report for the various audiences it serves. Since public relations and advertising personnel are concerned with physical presentation, naturally they are
consulted in the preparation of the report. Their presence in the report presentation is final recognition by many corporate managements that the initial physical impression plays a great role in influencing the reader.

Advantages Of Attractive Physical Presentation.

Again, it is obvious that an attractive report has certain advantages. If not, many companies would not adopt the techniques to improve their reports. Among the advantages of attractive presentation are the following:

1. Makes the report more readable by all concerned—the stockholders, creditors, employees, and the general public.

2. Influences and win friends for the corporation.

3. Produces a conviction device to create confidence among the readers.

4. Marks the company management as progressive.

5. Adds prestige to the company as a whole.

6. Creates interest among readers in selling its product, financing its operations, producing the product, and selling the readers on the benefits of free enterprise.

Repetitive Physical Presentation Of Information.

Another corollary principle of physical presentation is observed by many companies. It may be called the Principle of Repetitive Physical Presentation of Information: Generally a person is further impressed, favorably or unfavorably, by the repetitive physical characteristics of information presented to the person. If the standards of presentation are high initially, and if the standards of presentation are continually kept high, then the person who is impressed init-
ially is continually impressed by the physical appearance of the in-
formation. Any lowering of the standards is noticed immediately. Thus
many companies, once they switch to an attractive report, continually
keep up their standards of physical presentation.

**Minimum Standards For Effective Medium.**

An analysis of the various audience surveys in Chapters IV and V
indicates decided preferences concerning the physical presentation of
the annual report. These preferences concern the size, color, number
of pages, type size, charts and graphs, photographs, etc. Therefore,
it seems logical to base minimum standards on the preferences of the
readers. Not that reader preference is the only basis for acceptable
standards, but the reader helps to decide the "effect" of the report.
To allow reader preferences to set standards is following the old
maxim, "Give the customer what he wants." In this case, the standards
are based on "giving the reader what he wants."

**Size Of Report.**

The Balaany Survey\(^1\) indicates that the *Time Magazine* size of page
is most desirable. This page measures 8 1/2 x 11 inches. Therefore
any page measuring 8 1/2 x 11 or 7 3/4 x 10 3/4 or 8 x 10 1/2 inches
would measure up to reader preference. The advantages of these sizes
are apparent: (1) they are convenient for filing; (2) they are suitable
for double columns of type; and (3) they are suitable for charts and
photographs.

**Proposed standard:** Does the size of the page of the report measure

\(^1\) See page 131.
up to any of the following?  
Yes ( ) No ( )

8 1/2 x 11 inches  
8 x 10 1/2  
7 3/4 x 10 3/4

If "yes," add 10 points.  
Points___________

Number Of Pages.

The Opinion Research Corporation\(^1\) survey indicates that a 20-page report is the median number of pages in 250 selected annual reports. In view of the minimum content standards as proposed it seems as if 20 to 36 pages would suffice to tell the story of the company. The number of pages in the report should be in multiples of four (16, 20, 24, 38, etc.) to keep printing and cutting costs down. Excessive length should be avoided. Excessive brevity would not permit the use of content standards. Therefore the following standard is proposed.

Proposed standard: Does the annual report (including cover) have a minimum of 20 pages?  
Yes ( ) No ( )

If "yes," add 10 points.  
Points___________

Since the preceding standard required at least 20 pages, it is obvious that an index should be used for the convenience of the reader. The eternal question of how many pages are needed before an index is used is still a matter of judgment. Arbitrarily, the standard proposed here makes an index required if 8 pages or more are in the report.

Proposed standard: If the report has more than 8 pages, does it have an index?  
Yes ( ) No ( )

If "yes," add 5 points.  
Points___________

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\(^1\) See page 77.
Naturally, the pages should be numbered for easy references. Therefore another proposed standard is to have pages numbered if there are more than 8 pages.

Proposed standard: If the report has more than 8 pages, are the pages numbered? Yes ( ) No ( )
If "yes," add 3 points. Points __________

Use Of Color.
Perhaps one of the greatest improvements in annual reporting is the use of color. There is little question as to its value. Psychologists recognize its value and advantages. Basically, color has three advantages: (1) it aids in comparison; (2) it attracts attention; (3) it emphasizes various information. Of course its chief disadvantages are the high cost of printing and the excessive use of too many colors. Some readers complain that too many colors make the report gaudy—like a catalogue or advertising piece.

The big question which arises, assuming that color is effective, is how many colors to use. The Balasny Survey\(^1\) indicates that black ink and 2 colors would be acceptable to most readers. Of course, the use of black and one color with various tints of the two colors may be used. Such a combination gives the effect of three or more colors. However, three colors (tints not included) would be most acceptable.

\(^1\) See page 131.
Proposed standard: How many basic colors* does the report use?

a. Black alone 5 points
b. Black and one ink color 10 points
c. Black and two ink colors 15 points
d. Black and three ink colors 10 points
e. Black and four ink colors 5 points

*Colors do not include tints.

Apply one standard only to determine points. Points

Use Of Type.

Another decision as to physical presentation of the report is the size of type to be used. Normally this is the job of the printer, but the decision is with the report writer. However, scientific facts show that 12-point type is easier to read than 10-point type. Type smaller than 10 point causes eyestrain.

Proposed standard: What size type does the report use in the main portions of the text? Apply the following scale:

12 point type 20 points
10-11 point type 10 points
8-9 point type 5 points

Points

The following is a sample of type sizes:

This is 14 point type.
This is 14 point type.
This is 14 point type.
This is 12 point type.

This is 10 point type.
This is 10 point type.
This is 10 point type.
This is 10 point type.

This is 8 point type.
This is 8 point type.
This is 8 point type.
This is 8 Point Type
This is 6 Point Type
This is 6 Point Type

1. See Doris, Modern Corporate Reports, p. 195.
Use Of Captions Or Headings.

One mark of a well-organized report and an easy-to-read report is the use of captions or headings. These headings should be larger than the regular type and should stand out to show the reader what subject is being discussed. Normally three orders or sizes of captions should be sufficient. Such captions are necessary to guide the reader through a maze of facts and information. In fact, if read by themselves they serve as a rough outline of the report; they also serve as the heading for the table of contents.

Proposed standard: Does the report make use of at least two different sizes of captions or heading, both larger than the regular size type?  

Yes ( ) No ( )

If "yes," add 5 points.  

Points

Use Of Effective Cover.

Since the cover page covers the inside copy, it should be of heavier paper stock than that used in the body of the report. A heavier cover gives the report strength and protects the body of the report itself from dirt, dust, age, etc. In addition, the cover should contain cer-

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1. See the Proceedings of the Second Ohio State University Conference on Communication Research and Training in Business and Industry, edited by F. H. Knowler, April 24, 1953, in the article, "The Psychology of Industrial Publication," by John H. Wells, President, John H. Wells and Associates, Chicago, on page 29: "The selection of type style and sizes of heads and subheads merit exacting consideration...researchers tell us that readers can comfortable accommodate only five display words at a time. It has also been established that caps and lower case are much easier reading than a head set in all caps.... It is my opinion that script type faces are one of the most dangerous to use for the untrained, and yet many editors use script with reckless abandon."
tain information: the title, the name of the company, fiscal year of
the report, and type of business, indicated by photos, drawings, trade-
marks, etc.

Proposed standard: Does the cover page meet the following standards?

a. Heavier weight paper than inside. Yes ( ) No ( )
b. Title of report. Yes ( ) No ( )
c. Name of company. Yes ( ) No ( )
d. Fiscal year covered. Yes ( ) No ( )
e. Type of business. Yes ( ) No ( )

Add 2 points for each "yes." Points __________

Graphic Presentation Of Information.

Pictures were a means of communication long before man could speak intelligibly; and communications is an influencing process.
Consequently one of the most effective means of communicating informa-
tion and influencing the reader is through graphs, charts, and pictures.
In fact, information influences people in direct proportion to the ease
with which the information is communicated. Pictorial communication
is one of the easiest and fastest ways to influence. Therefore its use
is recommended in any reporting process, especially where the idea or
information is difficult and technical.

There are two good reasons why information in annual reports should
be presented pictorially. First, it is more readily understood if it
can be communicated to the reader's mind. Practically every person has
in his mind an interpretation of an idea. That idea can be communicated
so that others can understand if it is presented pictorially. Thus a
picture of Uncle Sam represents the government. A picture of the burly
man in overalls represents the employee. A man sitting behind a desk
represents management. A picture creates an emotional reaction which
A second reason for presenting information pictorially is to increase its recall or memory value. Charts, graphs, and pictures are remembered and so are the ideas and information which they represent. Thus a visual or graphic illustration is an emphasis device. It is a well known fact that when people both see pictures and the written word at the same time, they are more likely to retain the idea or information presented. It is very difficult to get across the message by the written word alone. Thus many annual reports make use of graphic means to present their messages.

Use of Charts And Graphs.

About three out of four readers approve of graphs and charts in an annual report. Practically every survey indicates that readers prefer them. The reason is obvious: graphs and charts command attention and thus insure better readability. If they are used to emphasize certain data, then they serve their purpose. However, if a chart becomes too complicated, readers will not grasp nor struggle with it to try to understand. Consequently the best charts are those which are simple, which make one main idea stand out, and which use explanatory titles.

Proposed standard: Does the report include charts, graphs, and maps to supplement the information in the text?  
Yes ( ) No ( )

For every chart, graph, or map add 5 points.

Points (Maximum 50)
Do not count a chart, graph, or map with the following characteristics:

1. Not clear.
2. Too complicated.
3. Not legible.
4. Figures too small.
5. Incomplete labeling.
6. Any other unfavorable characteristic.

Use Of Pictures And Drawings.

Readership research in most of the surveys indicate that pictures and drawings do affect readers favorably, if the pictures are not too lavish. However, photographs should tie in with the text. Thus a picture and the text reinforce each other. Captions should be included with each picture to explain it. Photos of people are most interesting to readers, along with familiar scenes. Machinery and equipment get low readership. Thus pictures and drawings are practical applications of graphic communications in annual reports.

Proposed standard: Does the annual report include photos, pictures, or drawings to supplement the information in the text?

Yes ( ) No ( )

For every photo, picture, or drawing, add 2 points.

Points (Maximum 30)

Do not count pictures or photos which have no caption.
Conclusions—Proposed Standards.

The following standards are proposed, based on readership preference for certain graphic presentation standards for the "medium" of the annual report.

1. Does the size of the page of the report measure up to any of the following?

   Yes ( )  No ( )
   8 1/2 x 11 inches
   8 x 10 1/2
   7 3/4 x 10 3/4

   If "yes," add 10 points.

2. Does the annual report (including cover) have a minimum of 20 pages?

   Yes ( )  No ( )

   If "yes," add 10 points.

3. If the report has more than 8 pages, does it have an index?

   Yes ( )  No ( )

   If "yes," add 5 points.

4. If the report has more than 8 pages, are the pages numbered?

   Yes ( )  No ( )

   If "yes," add 3 points.

5. How many basic colors* does the report use?

   a. Black alone. 5 points
   b. Black and one ink color. 10 points
   c. Black and two ink colors 15 points
   d. Black and three ink colors. 10 points
   e. Black and four ink colors 5 points

   Apply one standard only to determine points. Points___________

*Colors do not include tints.
6. What size type does the report use in the main portions of the text? Apply the following scale:

- 12 point type  20 points
- 10-11 point type  10 points
- 8-9 point type  5 points

*Apply to smallest type in text.

Points

7. Does the report make use of at least two different sizes of captions or headings, both larger than the regular size type?

Yes ( )  No ( )

If "yes," add 5 points.

Points

8. Does the cover page meet the following standards?

- b. Title of report.
- c. Name of company.
- d. Fiscal year covered.
- e. Type of business.

Add 2 points for each "yes."

Points

9. Does the report include charts, graphs, and maps to supplement the information in the text?

Yes ( )  No ( )

For every chart, graph, or map add 5 points.

Points

(Maximum 50)

Do not count a chart, graph, or map with the following characteristics:

1. Not clear.
2. Too complicated.
3. Not legible.
4. Figures too small.
5. Incomplete labeling.
6. Any other unfavorable characteristic.
10. Does the annual report include photos, pictures, or drawings to supplement the information in the text?

Yes ( ) No ( )

For every photo, picture, or drawing, add 2 points. Points___________
(Maximum 30)

Do not count pictures or photos which have no caption.
CHAPTER XI. EFFECT ANALYSIS—CLEARNESS IN REPORTS

Clearness in reporting is based upon some fundamental principles which apply in any situation, real or assumed. One of these principles which apply in any effective communication process is known as the Principle of Equivalence: Things equal to the same things are equal to each other. This principle holds also for communication of ideas: Words representing the same experiences are approximately equal to each other.

Principle Of Familiarity.

No reader of annual reports can understand the words representing an experience he has never had. Therefore a writer to write clearly, has to write in terms of experiences which his readers have already had.

Any writing has to communicate experiences. And new experiences, new ideas, new concepts, have to be built by making them equal to familiar experiences. Such is the Principle of Familiarity: Experiences have to be reduced to their most familiar terms in order to be clear and understandable to the reader. If the writer does not communicate familiar experiences to the reader, the experience is difficult to understand with resulting lack of clarity. Lack of clarity destroys the effect of any communication process.

Therefore the way to make one's experiences clear to a particular audience is to think clearly before the terms of his experience are expressed in writing. But unless these terms are communicated in the familiar language of the reader, they will not be clear.
Simple Words Are Best.

To communicate in familiar words, it is obvious that the communicator will tend to use simple, easily understood words. These easy words are the familiar words. They are the ones which are familiar and common to all Americans. Thus simple words are the best words to communicate thoughts, ideas, facts, and information, especially to a mass audience of varied intelligences. But words which are useful in professional or scientific communication are not clear to the reader who is not familiar with their specialized meaning. Thus the words of the accounting profession and highly specialized fields of law and engineering are not clear to the mass audience.

Elimination Of Technical Terminology In Financial Statements.

Of primary import to making an annual report clear is the elimination of words unfamiliar to the reader. These words are the technical words of the accountant and financial specialists. Since the financial statements form the central theme of the report, it should be imperative that they contain words which are clear and familiar to the general reader. However the general reader of such statements should not be confronted with major differences in terminology. But a change in words is in order so that financial statements may be understood. This is evident because financial statements have not been too successful in being understood.

Some companies are experimenting with new terms, and it is hoped that other companies will do so with a view toward developing an understanding of the financial statements. If companies will realize that it is their obligation to get the message across to the people rather
than having the people come to them, then efforts in clarity of communication will be effected. But the initial responsibility is with top management and the accounting profession to show the American people the value of the corporate system through clear financial statements.

As an early Accounting Research Bulletin stated:

The test of the corporate system and the special phase of it represented by corporate accounting ultimately lies in the results which are produced. These results must be judged from the standpoint of society as a whole—not from that of any one group of interested parties.

If the results are to be judged, there must be a clear understanding between the results and those judging the results. And one way which this understanding may come about is through clearer terminology in financial statements—a more clear description in terms of reader experience.

"Balance Sheet" Title.

One of the first confusing terms a reader is confronted with is "Balance Sheet." Such a title tells the reader little, with the result he is left on his own to determine what importance the statement has. He sees that the two sides balance but he does not see the equation: Assets = Liabilities plus Stockholders Equity. He sees that assets equal liabilities. If the liabilities equals assets, he ponders on how the company continues in business. He further sees an exactness of the totals which has an air of trickiness about the statement.

A more descriptive term might be used to show exactly what the balance sheet is—a statement of "financial position." A similar title, "financial condition," implies a state of being which is not so; but it
is a clearer title than "balance sheet," which to many readers implies a balancing of something or other.

The Tabulation of the AIA 1953 *Trends and Techniques in Corporate Reports* of 600 corporations shows that many companies use "balance sheet"; but its use is declining with a definite trend toward "financial position."

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<thead>
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</thead>
<tbody>
<tr>
<td>Terminology Used</td>
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<tr>
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<td>480</td>
<td>482</td>
<td>492</td>
<td>510</td>
<td>528</td>
<td>550</td>
<td>577</td>
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<td>75</td>
<td>67</td>
<td>53</td>
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<td>6</td>
</tr>
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<td>Assets and Liabilities</td>
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<td>4</td>
<td>5</td>
<td>4</td>
<td>3</td>
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</tr>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Statement of ownership</td>
<td>1/600</td>
<td>1/600</td>
<td>1/600</td>
<td>1/600</td>
<td>1/600</td>
<td>1/600</td>
<td>0</td>
</tr>
</tbody>
</table>

Therefore a title other than balance sheet is recommended for clarity. However if "balance sheet" is used, efforts should be made to explain what it is.

1. See page 17.
<table>
<thead>
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</thead>
<tbody>
<tr>
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<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
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<td>550</td>
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<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

*Source: 1953 AIA Trends and Techniques in Corporate Annual Reports*
Proposed standard: Is the title of the traditional "balance sheet" any of the following:

- Financial Position
- Financial Condition
- Assets, Liabilities, and Stockholders' Equity

If "yes," to any one, add 3 points. Points________

If the term "balance sheet" is used in the title, is there an explanation of what "balance sheet" means? If "yes," add 3 points. Points________

Term for "Reserve For Bad Debts."

In the Accounting Terminology Bulletin No. 1, Review and Resume of the American Institute of Accountants, there is stated:

The committee in 1948 recommended that in accounting practice the use of the term reserve be limited...to indicate that an undivided portion of the assets is being held or retained for general or specific purposes, and that the use of the term in the income statement or to describe in the balance sheet deductions from assets or provisions for particular liabilities should be avoided. There appears to be increasing recognition of the soundness of this recommendation.

To quote further concerning a reserve for bad debts, the AIA states:

...a so-called reserve for bad debts or for depreciation does not in itself involve a retention or holding of assets, identified or otherwise, for any purpose. Its function is rather a part of a process of measurement, to indicate a diminution or decrease in an asset due to a specified cause. Nor is the suggested substitution of the term provision acceptable as an improvement, because any provision must of necessity and in the final analysis be made by the allocation or segregation of assets. The term less reserve in this area has been increasingly replaced by terms which indicate the measurement process, such as less estimated losses in collection....
There is increasing evidence that "reserve for bad debts" is being replaced. The following table shows this:

<table>
<thead>
<tr>
<th>Uncollectible Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Descriptive Term</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Reserve—alone</td>
</tr>
<tr>
<td>Reserve, etc.</td>
</tr>
<tr>
<td>Allowance, etc.</td>
</tr>
<tr>
<td>Allowance—alone</td>
</tr>
<tr>
<td>Provision, etc.</td>
</tr>
<tr>
<td>Estimated, etc.</td>
</tr>
<tr>
<td>Deduction, etc.</td>
</tr>
<tr>
<td>Various other terms</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No &quot;uncollectible accounts&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

---

*1952

<table>
<thead>
<tr>
<th>Descriptive Term:</th>
<th>Reserve</th>
<th>Allowance</th>
<th>Provision</th>
<th>Estimated</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Used with</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doubtful</td>
<td>76</td>
<td>135</td>
<td>18</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Losses</td>
<td>6</td>
<td>36</td>
<td>17</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Uncollectible</td>
<td></td>
<td>4</td>
<td>1</td>
<td>13</td>
<td>—</td>
</tr>
<tr>
<td>Bad debts</td>
<td>5</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Various other phrases</td>
<td>2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Used alone</td>
<td>125</td>
<td>21</td>
<td>—</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>214</td>
<td>202</td>
<td>39</td>
<td>37</td>
<td>8</td>
</tr>
</tbody>
</table>

**Proposed standard:** If there is a "reserve for bad debts," is it described in one of the following ways:

"Allowance for..."
"Estimate of..."

If "yes," add no points. If "no," subtract 3 points.

Yes ( ) No ( ) Points
(Maximum deduction: 3)

---

1. See page 20 of the 1953 AIA Survey.
Figure 8. Upward Trend In Term Other Than "Reserve"
Term For "Reserve For Depreciation."

The same avoidance of the term "reserve" is applied to deprecation. The following table shows the decline of the "reserve for depreciation" in favor of some other word:

Accumulated Depreciation

<table>
<thead>
<tr>
<th>Descriptive Term</th>
<th>1952*</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve, etc.</td>
<td>200</td>
<td>216</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve—alone</td>
<td>11</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated, etc.</td>
<td>134</td>
<td>120</td>
<td>99</td>
<td>68</td>
<td>40</td>
</tr>
<tr>
<td>Allowance, etc.</td>
<td>125</td>
<td>120</td>
<td>105</td>
<td>92</td>
<td>73</td>
</tr>
<tr>
<td>Depreciation, etc.</td>
<td>38</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation—alone</td>
<td>47</td>
<td>46</td>
<td>82</td>
<td>72</td>
<td>60</td>
</tr>
<tr>
<td>Provision, etc.</td>
<td>20</td>
<td>20</td>
<td>17</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Estimated, etc.</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued, etc.</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Various other terms</td>
<td>16</td>
<td>16</td>
<td>14</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

*1952 Term Used With:

<table>
<thead>
<tr>
<th>Description</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>None Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>113</td>
<td>65</td>
<td>61</td>
<td>11</td>
<td>1</td>
<td>2</td>
<td>--</td>
<td>113</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>54</td>
<td>48</td>
<td>51</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Depreciation, amortization, and depletion</td>
<td>10</td>
<td>11</td>
<td>9</td>
<td>1</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>11</td>
</tr>
<tr>
<td>Depreciation, amortization, and obsolescence</td>
<td>4</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Depreciation and depletion</td>
<td>12</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>3</td>
</tr>
<tr>
<td>Depreciation, depletion, and obsolescence</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Depreciation and obsolescence</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Various other phrases</td>
<td>--</td>
<td>2</td>
<td>1</td>
<td>--</td>
<td>1</td>
<td>15</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Reserve used alone</td>
<td>11</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>211</td>
<td>134</td>
<td>125</td>
<td>20</td>
<td>5</td>
<td>4</td>
<td>16</td>
<td>85</td>
</tr>
</tbody>
</table>

1. See page 22 of the 1953 AIA Survey.
Figure 9. Terminology for "Reserve For Depreciation."

Terminology for "Reserve for Depreciation"

<table>
<thead>
<tr>
<th>Term</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Other than 'reserve'&quot;</td>
<td>201</td>
<td>269</td>
<td>323</td>
<td>367</td>
<td>389</td>
</tr>
<tr>
<td>Total</td>
<td>399</td>
<td>331</td>
<td>277</td>
<td>233</td>
<td>211</td>
</tr>
</tbody>
</table>

No. of companies:

*Source: 1953 AIA Trends and Techniques in Corporate Reports*
Proposed standard: If there is a "reserve for depreciation," is it described in one of the following ways:

"Accumulated..." Yes ( ) No ( )
"Allowance for..." Yes ( ) No ( )
"Estimate(d)..." Yes ( ) No ( )

If "yes," to any one, add 3 points. Points________________

For any use of the term reserve* in any of the financial statements, subtract 1 point for each "reserve."

Points________________
(Maximum deduction: 10)

*This applies to any asset, liability, or owner's equity "reserve."

Term For "Fixed Assets."

The term "fixed assets" implies a meaning that is not so. "Fixed" implies unchanging, permanent in nature. Such a meaning is not typical of plant and equipment which are normally called "fixed assets." Their main characteristic is a long life. They do change from time to time. Thus a more descriptive term should be used such as "Plant and Equipment," or perhaps "Long Life Assets."

Proposed standard: Are the "fixed assets" described by any of the following terms?

"Plant and Equipment"
"Long Life Assets"

If "yes," add 3 points. Points________________

Term For "Deferred Charges."

The term "deferred charges," is practically meaningless to a reader (even some accountants). Therefore efforts should be made to
avoid it; or if it is not avoided, efforts should be made to explain what it is—amounts paid in advance for future operations.

**Proposed standard:** If there are "deferred charges" in the balance sheet, are any of the following descriptions used in their place or used to describe "deferred charges":

"Costs allocable to future..."
"Costs applicable to future..."
"Charge applicable to future..."
"Amounts paid in advance..."

Yes ( ) No ( )

If "yes," add no points; if "no," subtract 3 points.

**Term For "Accrued."**

Since the term "accrual" or "accrued" means an enforceable right, it is obvious that it might be used to describe liabilities or assets. It is one of those terms which are unfamiliar to a reader. Therefore if it is used, it should also be with another adjective describing whether the accrual is a receivable or payable. Perhaps it might even be wiser to eliminate the term "accrued" altogether. Since this is a prerogative of the company, consideration might be given to its elimination. In any event, if "accrued" is used, it should describe a receivable or payable.

**Proposed standard:** If the term "accrued" is used to describe an asset or liability, is either "payable" or "receivable" used with "Accrued"?

Yes ( ) No ( )

If "no," subtract 1 point for each time it is so used.
Term For "Fixed Liabilities."

Like "fixed assets" the term "fixed liabilities" implies an unchanging nature. The more accurate description is that of a "long term" liabilities since the liabilities referred to are usually bonds or notes which mature one or more years after the balance sheet date.

**Proposed standard:** If the company has any "fixed liabilities," does it describe them as "long term" liabilities?

Yes ( )  No ( )

If "yes," add nothing; if "no," subtract 3.

Points

---

Term For "Net Worth."

Inasmuch as the term "net worth" implies what something (the stockholders' equity) is worth, the use of net worth in a balance sheet is a misnomer. The stockholders' equity may be worth more or worth less than what has been described as "net worth." Thus the term has been gradually replaced by such terms as the following:

- Stockholders' equity
- Stockholders' investment
- Stockholders' ownership
- Stockholders' interest
- Stockholders' capital

The term "capital" is sometimes used to represent the stockholders' equity. Such a term is also a misnomer since "capital" or assets may also be obtained from creditors. Therefore its use is not recommended.

**Proposed standard:** Is the term for the stockholders' equity section of the balance sheet any of the following?
Term For "Capital Surplus."

The term "surplus" in any sense implies that there is more of something than needed. It is unfortunate such a word started in accounting, but its use is being discouraged by the American Institute of Accountants.

Accounting Terminology Bulletin Number 1 states that:

The use of the term surplus (whether standing alone or in such combination or capital surplus, paid in surplus, earned surplus, appraisal surplus, etc.) be discontinued.

The following table shows a remarkable trend in the elimination of the "capital surplus" in the balance sheet:

<table>
<thead>
<tr>
<th>Capital Surplus Caption</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Including term surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Capital surplus&quot;</td>
<td>215</td>
<td>221</td>
<td>226</td>
<td>232</td>
<td>256</td>
<td>271</td>
</tr>
<tr>
<td>&quot;Paid in surplus&quot;</td>
<td>56</td>
<td>60</td>
<td>64</td>
<td>67</td>
<td>83</td>
<td>85</td>
</tr>
<tr>
<td>&quot;Surplus&quot;</td>
<td>15</td>
<td>19</td>
<td>16</td>
<td>17</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>&quot;Capital surplus—paid in&quot;</td>
<td>11</td>
<td>13</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>297</td>
<td>313</td>
<td>315</td>
<td>325</td>
<td>371</td>
<td>389</td>
</tr>
<tr>
<td>Excluding term surplus:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not presenting account</td>
<td>152</td>
<td>134</td>
<td>131</td>
<td>120</td>
<td>78</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Percentage of Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retaining term surplus</td>
<td>66%</td>
<td>70%</td>
<td>71%</td>
<td>73%</td>
<td>83%</td>
<td>87%</td>
</tr>
<tr>
<td>Replacing term surplus</td>
<td>34%</td>
<td>30%</td>
<td>29%</td>
<td>27%</td>
<td>17%</td>
<td>13%</td>
</tr>
</tbody>
</table>

1. See page 27 of the 1953 AIA Survey.
Percentage of companies *

<table>
<thead>
<tr>
<th>Year</th>
<th>Using &quot;capital surplus&quot;</th>
<th>Replacing &quot;capital surplus&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>1948</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>1949</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>1950</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>1951</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>1952</td>
<td>66%</td>
<td>34%</td>
</tr>
</tbody>
</table>

*Source: 1953 AIA Trends and Techniques in Corporate Annual Reports
In addition to discouraging the use of the word "surplus," the Accounting Terminology Bulletin Number 1 states that:

In seeking terms more nearly connotative of the ideas sought to be expressed, consideration should be given primarily to the sources from which the proprietary capital was derived.

The following table shows the various sources of capital surplus:

Source of Capital Surplus

<table>
<thead>
<tr>
<th>Source Set Forth In Caption</th>
<th>1952</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess over par value of capital stock</td>
<td>71</td>
<td>66</td>
</tr>
<tr>
<td>Excess over stated value of capital stock</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Premium on sale of capital stock</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Retirement or conversion of capital stock</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Revaluation of capital stock</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Retirement or sale of treasury stock</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Subsidiary acquisition, consolidation, or merger</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Earnings capitalized or segregated</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Initial, donated or contributed capital</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Revaluation of capital assets</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Various other stated sources</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>134</td>
</tr>
</tbody>
</table>

Number of Companies

| Setting forth source of capital surplus                         | 123  | 118  |
| Not setting forth source of capital surplus                     | 326  | 329  |
| Not referring to capital surplus                                | 151  | 153  |
| Total                                                           | 600  | 600  |

Proposed standard: If the financial statements display any "capital surplus," does it show its source? Yes ( ) No ( )

If "yes," add nothing; if "no," subtract 3 points.

Points_________________

If the financial statements display any use of the word "surplus," subtract 1 point for each time it is used.

Points_________________

1. See page 27 of the 1953 AIA Survey.
Term For "Earned Surplus."

The Accounting Terminology Bulletin Number 1 further states that:

The term earned surplus be replaced by terms which will indicate source, such as retained income, retained earnings, accumulated earnings, or earnings retained for use in the business.

The following table indicates a steady decrease in the use of the words "earned surplus."¹

<table>
<thead>
<tr>
<th>Terms Replacing &quot;Earned Surplus&quot;</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Surplus Replaced:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With &quot;source&quot; words--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>250</td>
<td>218</td>
<td>203</td>
<td>153</td>
<td>71</td>
<td>36</td>
</tr>
<tr>
<td>Income</td>
<td>39</td>
<td>42</td>
<td>35</td>
<td>33</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>Profit</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>298</td>
<td>268</td>
<td>246</td>
<td>194</td>
<td>103</td>
<td>62</td>
</tr>
<tr>
<td>Combined with &quot;status&quot; words--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained</td>
<td>204</td>
<td>177</td>
<td>153</td>
<td>116</td>
<td>63</td>
<td>36</td>
</tr>
<tr>
<td>Accumulated</td>
<td>35</td>
<td>37</td>
<td>36</td>
<td>30</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Reinvested</td>
<td>28</td>
<td>23</td>
<td>22</td>
<td>22</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Employed</td>
<td>16</td>
<td>16</td>
<td>18</td>
<td>14</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Invested</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>7</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Used</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Undivided</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Undistributed</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>298</td>
<td>268</td>
<td>246</td>
<td>194</td>
<td>103</td>
<td>62</td>
</tr>
<tr>
<td>Earned Surplus Retained:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As &quot;earned surplus,&quot; &quot;surplus,&quot; or &quot;deficit&quot;</td>
<td>302</td>
<td>332</td>
<td>354</td>
<td>406</td>
<td>497</td>
<td>538</td>
</tr>
<tr>
<td>Number of Companies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replacing &quot;earned surplus&quot;</td>
<td>298</td>
<td>268</td>
<td>246</td>
<td>194</td>
<td>103</td>
<td>62</td>
</tr>
<tr>
<td>Retaining &quot;earned surplus&quot;</td>
<td>302</td>
<td>332</td>
<td>354</td>
<td>406</td>
<td>497</td>
<td>538</td>
</tr>
<tr>
<td>Percentage of Companies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replacing &quot;earned surplus&quot;</td>
<td>50%</td>
<td>45%</td>
<td>41%</td>
<td>32%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Retaining &quot;earned surplus&quot;</td>
<td>50%</td>
<td>55%</td>
<td>59%</td>
<td>66%</td>
<td>83%</td>
<td>90%</td>
</tr>
</tbody>
</table>

¹. See page 28 of the 1953 AIA Survey.
Figure 11.
Trend toward Replacing Term "Earned Surplus"

Terminology:
Replacing "earned surplus"
Retaining "earned surplus"

<table>
<thead>
<tr>
<th>Year</th>
<th>1947</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacing &quot;earned surplus&quot;</td>
<td>62</td>
<td>103</td>
<td>194</td>
<td>246</td>
<td>268</td>
<td>298</td>
</tr>
<tr>
<td>Retaining &quot;earned surplus&quot;</td>
<td>538</td>
<td>497</td>
<td>406</td>
<td>254</td>
<td>332</td>
<td>302</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

*Source: 1953 AIA Trends and Techniques in Corporate Annual Reports*
Proposed standard: If the company displays any "earned surplus,"
is it called by any of the following:

Retained Income
Retained Earnings
Retained Profit

or is it

Combined with (earnings, income, or profit):

Retained
Accumulated
Reinvested
Invested
Employed
Used

or is

"Surplus" combined with an explanation with:

Retained Income
Retained Earnings
Retained Profits

If "yes," add 3 points. Points

Term For "Statement Of Earned Surplus."

Some companies still use a separate "Statement of Earned Surplus" instead of a combination income and surplus statement. Since "surplus" is a banned term, it is obvious that the title of such a statement should use terminology other than "surplus." Or if a stockholders' equity statement is prepared (and there seems to be a trend in this direction) the "surplus" section should use different terminology.

Proposed standard: If the company presents a statement of "earned surplus," does the title use any of the following for "surplus":

Retained Earnings
Retained Income
Retained Profits

or combinations of words used with these terms

If "yes," add 3 points. Points
Use Of Term "Value."

The values referred to in a balance sheet are of many types. To a general reader "value" implies what something is worth. Such a meaning is not what a balance sheet purports. In fact, the existence of many types of value—market, book, cost, etc.—means that the word "value" should have a descriptive modifier. Thus the reader is put on guard that his concept of "value" is modified when he sees "book value" or "market value" or "replacement value."

Proposed standard: Every time the word "value" is used, is it properly modified by a descriptive word? Yes ( ) No ( )

For every "value" that is not properly explained or modified by an adjective, subtract 1 point. Points

Elimination Of Meaningless Terms In "Profit And Loss" Statement.

There are a number of confusing things about a profit and loss statement which a reader does not understand. He cannot understand how a business has profits and losses at the same time. He is confused by the numerous subdivisions of the statement. These subdivisions of expenses give the impression that there is a priority that certain expenses have on the revenues. He is confused by the various "profits." He is confused by the various items tacked on to the bottom of the statement.

Some of these confusing items are the results of poor terminology. For example, "profit and loss" statement is not clear. Other clearer titles are being used as shown by the following table:

---
1. See page 13 of the 1953 AIA Survey.
## Income Statement Title

### Terminology Used

<table>
<thead>
<tr>
<th></th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>334</td>
<td>326</td>
<td>330</td>
<td>322</td>
<td>329</td>
<td>319</td>
</tr>
<tr>
<td>Earnings</td>
<td>115</td>
<td>106</td>
<td>89</td>
<td>71</td>
<td>47</td>
<td>31</td>
</tr>
<tr>
<td>Profit and loss</td>
<td>99</td>
<td>112</td>
<td>128</td>
<td>156</td>
<td>172</td>
<td>208</td>
</tr>
<tr>
<td>Operations</td>
<td>34</td>
<td>34</td>
<td>34</td>
<td>28</td>
<td>28</td>
<td>20</td>
</tr>
<tr>
<td>Income and expense</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>11</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Income and profit and loss</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Income, costs</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Profits and income</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Profit or loss</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>No income statement</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

### Proposed standard: Is the conventional "profit and loss" statement title replaced by any of the following:

- Income
- Earnings
- Operations
- Income and Expense

If "yes," add 3 points. Points

### Elimination Of "Profits."

Searching for the profit figure, a reader might find many types of profits:

- gross profit on sales
- net profit on sales
- net profit on operations
- net profit on operations and other income
- net profit on sale of fixed assets
- net profit before taxes
- net profit

Naturally he would be confused! Perhaps the term "profit" should be omitted; or perhaps only one or possibly two "profit" figures should be presented. In any event, only one "net profit" should be used in the statement.
Proposed standard: For every "profit" except the "net profit" in the earnings statement, subtract 2 points.

Points

Term For "Depreciation."

A large audience does not usually grasp the accountant's meaning of "depreciation." Most readers regard it as a decline in value; the accountant regards it as an allocation of costs over the life of an asset. The reader is further confused when he sees "depreciation" in the earnings statement and also "reserve for depreciation" in the financial position statement. Therefore efforts should be made to explain depreciation or to eliminate it and substitute the "wearing out, or exhaustion" idea of depreciation.

Proposed standard: If the word "depreciation" is used in the earnings statement, is it explained; or if it is not used, is there substituted for it the idea of "wearing out or exhaustion?"

If "yes," add 3 points. Points

Application Of The Familiarity Principle To The Narrative Section.

So far efforts have been made to apply the principle of familiarity to financial statements. But the narrative portion of the annual report also should be subject to the same principle. (The narrative portion includes the president's letter, footnotes, captions under pictures, and any other narrative part of the report, which uses words to communicate ideas to the reader.)

Educators and psychologists have made lists of words most familiar to the general reader. These lists have been developed by counting
the words occurring most frequently in printed material, i.e., novels, essays, textbooks, monographs, pamphlets, magazines, and business and social letters. But word counts in and of themselves are not an absolute test of familiarity. More information is needed about semantics—the meaning of words. For example, some scientists think that only 800 familiar words are needed to communicate ideas since 800 words occur most frequently. However, these facts are not so simple. Of these 800 words there are approximately 12,000 to 18,000 different meanings. Some words have from 1 to 94 different ones. To each reader, a word may have a different meaning.

Familiar Words.

Despite the large number of words in the English language, there are certain words which are more familiar and meaningful than others. Attempts have been made to determine the most familiar ones. Thorndike and Lorge, at Columbia University, through their semantic word count have pointed out words most commonly used.

Edgar Dale and Jean Chall, at Ohio State University, have made another approach to checking familiar words. They asked fourth-graders to check words with which they understood the meanings. Then they (Chall and Dale) made up a list of 3,000 words familiar to 80% of fourth graders.

1. Perhaps the most famous list is Thorndike and Lorge's, The Teacher's Word Book of 30,000 Words. This list is based on the tabulation of the frequency of words in 25,000,000 running words of text. In this count are listed the 30,000 words most frequently found.


3. Webster's Unabridged Dictionary lists 500,000 entries. And this list is constantly growing: In 1864 Webster's had 14,000 words; in 1890, 175,000; in 1909, 400,000. A standard abridged college dictionary (like the American College Dictionary) has approximately 135,000 entries.
This list, then, should be familiar to all adults. Consequently a writer should be able to discuss nearly any subject within the range of these 3,000 words. But such strictness is not necessary. According to the Dale-Chall method, 1 out of 5 words outside the 3,000 words, will still be easy reading providing sentence length is short (under 20 words). However, to test writing according to their standards the original list of 3,000 words had to be used.

Rudolph Flesch applied suffixes and prefixes as a measurement of word difficulty. Since so few people knew what suffixes and prefixes were, he changed his method to count all the syllables in a word. However, counting syllables is a tedious task. Besides, syllable-counting does not get at the difficulty—long words of several syllables.

Robert Gunning, of Columbus, using previous knowledge of Lorge, Thorndike, Flesch, Dale, and Chall provided a new measurement. He found that words of three or more syllables are the difficult ones and the less familiar ones. He based his approach on this reasoning: word length is closely allied to familiarity and abstraction. Among Thorndike's most frequent 1,000 words, 36 are of two or more syllables. In Dale's list of 3,000 most familiar words, only 1 word out of 25 is of more than three syllables. On the other hand, among words beyond the 20,000 most used, 2 out of 3 words are of three syllables or more. Thus the most familiar words are those of two syllables or less.

By scientific testing Gunning found that the number of hard words (three syllables or more) per 100 words played an important role in determining readability and clarity in expression. Thus hard-word count can be used to measure the readability of writing to a potential
audience level of readers. Since the audience level of annual report
is determined to be that of the twelfth grade, a standard of hard words
can be proposed.

Proposed standard: Count the number of three—or-more-syllabled
words per 100 words of text. Apply the following scale:

<table>
<thead>
<tr>
<th>No. of hard words per 100</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 to 9</td>
<td>40</td>
</tr>
<tr>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>13 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

Do not count: (1) capitalized words (unless beginning sentences);
(2) combinations of short easy words, e.g., book-keeper, etc;
(3) verb forms made 3 syllables by adding -ed, or -es, e.g.,
accounted.

Conclusions—Proposed Standards.

Based upon the discussion in this chapter, the following proposed
standards are made:

1. a. Is the title of the traditional "balance sheet" any of
the following:

   Financial Position       Yes ( ) No ( )
   Financial Condition      Yes ( ) No ( )
   Assets, Liabilities, and Stockholders' Equity Yes ( ) No ( )

   If "yes" to any one, add 3 pointw. Points__________

b. If the term "balance sheet" is used in the title, is there
an explanation of what "balance sheet" means?

   Yes ( ) No ( )

   If "yes," add 3 points. Points__________
2. If there is a "reserve for bad debts," is it described in one of the following ways:

"Allowance for..."
"Estimate of..."

Yes ( )  No ( )

If "yes," add no points. If "no," subtract 3 points.

Points__________
(Maximum deduction: 3)

3. a. If there is a "reserve for depreciation," is it described in one of the following ways:

"Accumulated..."
"Allowance for..."
"Estimate(d)

Yes ( )  No ( )

If "yes" to any one, add 3 points. Points__________

b. For any use of the term "reserve*" in any of the financial statements, subtract 1 point for each "reserve."

Points__________
(Maximum deduction: 10)

*This applies to any asset, liability, or owner's equity "reserve."

4. Are the "fixed assets" described by any of the following terms?

"Property, Plant, and Equipment"
"Plant and Equipment"
"Long Life Assets"

Yes ( )  No ( )

If "yes," add 3 points. Points__________
5. If there are "deferred charges" in the balance sheet, are any of the following descriptions used in their place or used to describe "deferred charges":

"Costs allocable to future..."
"Costs applicable to future..."
"Charge applicable to future..."
"Amounts paid in advance..."  
Yes ( )  No ( )
If "yes," add no points; if "no," subtract 3 points. (Maximum deduction: 3)

6. If the term "accrued" is used to describe an asset or liability, is either "payable" or "receivable" used with "accrued"?
Yes ( )  No ( )
If "no," subtract 1 point for each time it is so used.

7. If the company has any "fixed liabilities," does it describe them as "long term" liabilities?
Yes ( )  No ( )
If "yes," add nothing; if "no," subtract 3 points.

8. Is the term for the stockholders' equity section of the balance sheet any of the following?

Stockholders' (or shareholders') equity
Stockholders' (or shareholders') investment
Stockholders' (or shareholders') ownership
Stockholders' (or shareholders') interest
Stockholders' (or shareholders') capital

If "yes," add 3 points. (Maximum: 3)

9. a. If the financial statements display any "capital surplus," does it show its source?
Yes ( )  No ( )
If "yes," add nothing; if "no," subtract 3 points.
b. If the financial statements display any use of the word "surplus," subtract 1 point for each time it is used.

Points___________

10. If the company displays any "earned surplus," is it called by any of the following:

   Retained Income
   Retained Earnings
   Retained Profit

or is it

Combined with (earnings, income, or profit):

   Retained
   Accumulated
   Reinvested
   Invested
   Employed
   Used

or is

"Surplus" combined with an explanation with:

   Retained Income
   Retained Earnings
   Retained Profits

If "yes," add 3 points.

Points___________

11. If the company presents a statement of "earned surplus," does the title use any of the following for "surplus":

   Retained Earnings
   Retained Income or combinations of words
   Retained Profits used with these terms

If "yes," add 3 points.

Points___________

12. Everytime the word "value" is used, is it properly modified by a descriptive word?

   Yes ( ) No ( )

For every "value" that is not properly explained or modified by an adjective, subtract 1 point.

Points___________
13. Is the conventional "profit and loss" statement title replaced by any of the following:

   Income
   Earnings
   Operations
   Income and Expense

   If "yes," add 3 points. Points______________

14. For every "profit" or "income" except the "net profit" or "net income" in the earnings statement, subtract 2 points. Points______________

15. If the word "depreciation" is used in the earnings statement, is it explained; or if it is not used, is there substituted for it the idea of "wearing out or exhaustion"?

   If "yes," add 3 points. Points______________

16. Count the number of three-or-more-syllabled words per 100 words of text. Apply the following scale:

   No. of hard words per 100 Points
   4 to 9 40
   10 30
   11 25
   12 20
   13 or more 10

   Points______________

Do not count: (1) capitalized words (unless beginning sentences); (2) combinations of short easy words, e.g., book-keeper, etc.; (3) verb forms made 3 syllables by adding -ed, or -es, e.g., accounted.
CHAPTER XII. EFFECT ANALYSIS—CLEARNESS IN REPORTS

Business communication specialists believe and practice in the axiom that the human mind can best deal with one main idea at a time. This is the principle of unity in communication. But they have also told us that the human mind can best understand ideas by arranging these ideas in some logical order. This arrangement of ideas is called coherence.

Concept Of Coherence In Communication.

Coherence is the concept of arrangement of words into sentences...sentences into paragraphs...paragraphs into reports in such a way that the ideas, opinions, and facts are presented in a logical and orderly fashion to be understood clearly. Coherence in itself means "to hang together," or "to stick together." Consequently it is the psychological concept which prescribes arrangements of information so that the information may stick together in such a way to be clearly understood. This concept is particularly important in financial statement presentation where the individual items are arranged in some particular order to give significance to the statements.

Possible Arrangements Of Information.

In general, there are four main arrangements that may be used to arrange information so that a person may understand. These four are: (1) logical arrangement, (2) psychological arrangement, (3) chronological arrangement, and (4) combinations of the logical and psychological.

Logical arrangement: Logical arrangement is the result of logical
thinking. It is the process of starting with small particulars and ending up with a general conclusion. It is a process of taking familiar facts and building to these familiar facts until a logical conclusion is reached. It is derived from inductive reasoning—thinking from particular ideas to general ideas.

Logical arrangement of ideas is a slow process to a reader. He has to digest one idea before he can digest another idea. One thought depends upon another. This arrangement, therefore, can be used effectively to lead a reader slowly but surely through a maze of detail. The logical arrangement may be used to explain a very difficult subject—the explanation of financial transactions, for example.

**Psychological arrangement:** In direct contrast to the logical arrangement is the psychological arrangement. This is the process of putting the conclusion first and then explaining how this conclusion was arrived at. This process is derived from deductive reasoning when a general idea is stated and then particulars are used to explain that idea. It is a popular arrangement with readers. It gives a very fast resume, at one glance, of what the subject matter is. If the reader is interested in that subject, he is thus able to read on. The psychological arrangement has the advantage, therefore, of securing attention from the very beginning—the one-page summary at the beginning of the annual report, for example.

**Chronological arrangement:** Chronological arrangement is the order of events as they occurred. It is a narrative process, in which the reader is informed of facts as they have taken place. The chronological arrangement is used particularly in informational-type reports.
To the reader, it is a slow process, again, of grasping ideas. He has to wait for the event to happen and be reported before he can understand what has happened—the section on the history of the business, for example.

**Combinations of logical and psychological:** As may be expected, combinations may be used to advantage. In such a combination, the process of arrangement would be as follows: A general topic is stated; this topic is discussed in detail; and then a summary follows the detailed discussion. This combination is, perhaps, the best arrangement to follow. It is fast, easy to understand at a glance, and has repetitive value which makes for retention in the reader's mind.

**Application Of Coherence In Annual Reports—One Page Summary.**

One of the first applications of coherence in communication is that of the one-page fact summary which some annual reports make use of. However, it should be used in every report to give the casual reader a quick glance of the company's activities for the latest year. Thus the psychological arrangement is used.

**Proposed standard:** Does the annual report have a one-page fact summary at the beginning of the report? Yes ( ) No ( )

If "yes," add 8 points. Points________

**Arrangement Of Financial Statements.**

Since the financial statements are complex, the logical approach should be used. This means that the "earnings statement" should be presented first because it is the basis of the "financial position" which follows. The "financial position" or balance sheet is the end
result of past transactions. Therefore it should be presented last because of its complexity and because of its relative importance to the earnings statement.

Following the "earnings statement," or combined with it, should be the "retained earnings statement." Then should be presented the "financial position." Thus the logical order of arrangement will lead the reader through the easiest to the most difficult financial statement, i.e., from the earnings to retained earnings to the financial position. In addition, many accountants now consider the "earnings" statement as most important. Therefore it should come first.

Proposed standard: Is the order of arrangement of the three financial statements as follows:

First presented—earnings statement
Second presented—retained earnings statement
Third presented—financial position

Yes ( ) No ( )

If "yes," add 5 points. Points ____________

Arrangements Of Balance Sheet.

The typical arrangements of information in a balance sheet are four: (1) horizontal account form, (2) vertical account report form, (3) report form, and (4) modified report form.

In the horizontal account form, assets are arranged on the left side, the liabilities and stockholders' equity on the right side. In the vertical account report form, the total of the assets are arranged at the top; the total of the liabilities and the stockholders' equity are below the assets. In the report form, the liabilities are subtracted
from the assets to equal the stockholders' equity. In the modified report form, the current liabilities are subtracted from current assets to equal net working capital; to the net working capital is added other assets less other liabilities to equal the stockholders' equity. This modified report form has become increasingly popular as shown by the following table:

1. See page 19 of the 1953 AIA Survey.

### Balance Sheet Form

<table>
<thead>
<tr>
<th>Form of Statement</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
<th>1947</th>
<th>1946</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets equal liabilities plus stockholders' equity</td>
<td>514</td>
<td>517</td>
<td>524</td>
<td>536</td>
<td>544</td>
<td>557</td>
<td>582</td>
</tr>
<tr>
<td>Assets equal liabilities plus stockholders' equity with property account presented first</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Assets less liabilities equal stockholders' equity</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Current assets less current liabilities, plus other assets less other liabilities, less long-term indebtedness equal stockholders' equity</td>
<td>46</td>
<td>42</td>
<td>31</td>
<td>28</td>
<td>22</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Current assets less current liabilities, plus other assets less other liabilities equal long-term indebtedness plus stockholders' equity</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Current assets less current liabilities, plus other assets less other liabilities equal stockholders' equity</td>
<td>26</td>
<td>29</td>
<td>34</td>
<td>25</td>
<td>22</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>Stockholders' equity equals current assets less current liabilities, plus other assets less other liabilities</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

Despite the arrangement of items in the financial position (balance
sheet, the general reader does not understand the basic equation behind the balance sheet. He does not see that the sources of the assets are necessary. These explanations may be done by presenting the equation for the reader, by presenting a simplified balance sheet, or by explaining the information in the balance sheet. Such are necessary for clarity.

**Proposed standard:** Is the formal balance sheet supplemented by any of the following:

- Presentation of the basic accounting equation
- Presentation of a simplified balance sheet
- Explanation of the items in the balance sheet

For each "yes," add 10 points.

**Arrangement of "Surplus Reserves" In Balance Sheet.**

If the account form of balance sheet is used, there may be certain "surplus reserves" or appropriations of retained earnings shown in the statement. Such "reserves" are many times presented between the liabilities and the stockholders' equity. Thus the reader gets the idea that such "reserves" are liabilities, which is not true. The American Accounting Association and the American Institute of Accountants recognize no such "reserves" and therefore recommend that such appropriations of retained earnings be shown as part of the stockholders' equity. Such is the standard proposal.

**Proposed standard:** Are there any "reserves" shown on the balance sheet between the liabilities and the stockholders' equity?

Yes ( )  No ( )

If "yes," subtract 8 points.
Arrangement Of Income Statement.

Each particular group of persons interested in accounting data have a special interest in the way in which the information is presented in the income statement. The same data may be arranged in many forms to satisfy the interested groups—management, creditors, employees, economists, etc. The big question, therefore, is to select an arrangement which will satisfy all the interested groups.

Income statement for management: Management would like to have information for planning and control of activities. Therefore they have a special interest in sources of revenue and costs of obtaining that revenue. Consequently they need a detailed breakdown of revenue by customer, territory, salesmen, etc. They also are interested in variable and fixed costs. Therefore an income statement arrangement frequently used is as follows:

Sales $1,000,000
Variable production costs $500,000
Fixed production costs 100,000
Total production costs 600,000
Gross margin 400,000
Variable selling expenses 200,000
Fixed administrative expenses 100,000
Total 300,000
Net income 100,000

Or the same information may be arranged in any of the following: departmental arrangement, functional arrangement, unit cost arrangement, break-even point arrangement, etc. In any event, the accountant furnishes management with information, the arrangement of which would be difficult for the average reader to understand.

Income statement for creditors: In 1917 the Federal Reserve Board made an attempt to set a standard income statement for credit purposes.
Since it was set up in a rather complicated arrangement, it is no small wonder that a general reader could not understand all the "profits," the double lines, the numerous deductions, the different types of income, etc.

Federal Reserve Board
1917 Form For Profit and Loss Account
Comparative Statement of Profit and Loss for Three Years

<table>
<thead>
<tr>
<th></th>
<th>Year Ending</th>
<th>19-</th>
<th>19-</th>
<th>19-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Less outward freight, allowances, and returns</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Inventory beginning of year</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Purchases, net</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Less inventory end of year</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Selling expenses (itemized to correspond with ledger accounts kept)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total selling expense</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>General expenses (itemized to correspond with ledger accounts kept)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total general expense</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Administrative expenses (itemized to correspond with ledger accounts kept)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total administrative expense</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Net profit on sales</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Other income:</td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Income from investments</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Interest on notes receivable, etc.</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gross income</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Deductions from income:</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Interest on bonded debt</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Interest on notes payable</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total deductions</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Net income—profit and loss</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Add special credits to profit and loss</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Deduct special charges to profit and loss</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Profit and loss for period</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Surplus beginning of period</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Surplus ending of period</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
The 1917 statement was remedied by a minor revision in 1929. This 1929 statement added a separate classification for taxes and a specific provision for additions or subtractions to surplus at the beginning of the period of "items in the surplus account attributable to prior periods."

Federal Reserve Board
1929 Form For Profit-And-Loss Statement

<table>
<thead>
<tr>
<th>Gross sales</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: outward freight, allowances and returns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory beginning of year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases, net (or cost of goods produced)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: inventory end of year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling expenses (itemized to correspond with ledger accounts kept)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total selling expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General expenses (itemized to correspond with ledger accounts kept)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total general expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses (itemized to correspond with ledger accounts kept)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total administrative expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit on sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on notes receivable, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductions from income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on bonded debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on notes payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes, depreciation, etc. (separately shown)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total deductions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add: special credits to profit and loss (separately shown)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deduct: special charges to profit and loss (separately shown)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit and loss for period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus beginning of period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add or deduct items in the surplus account attributable to prior periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned surplus at end of period</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In 1936 the income statement was condensed to a more concise form. It omitted the "cost of good sold" breakdown, condensed the operating expenses, eliminated the analysis of surplus. Even the SEC in 1940 adopted the same form of statement. But it was still a creditor statement!

AMERICAN INSTITUTE OF ACCOUNTANTS
1936 Form of Profit and Loss Statement

Gross sales ........................................ $  
Less outward freight, allowances and returns ..
Net sales ........................................ $  
Cost of sales ...................................... 
Gross profit on sales ............................
Selling, general and administrative expenses ..
Net profit before other income and charges.
Other income:
Income from investments ........................
Interest on notes receivable, etc. ............
Other non-operating or extraordinary income (separately shown) ......................
Other charges:
Interest on funded debt (and amortization of bond discount) ...........................
Interest on notes payable ........................
Other non-operating or extraordinary charges (separately shown) ........................
Provision for income taxes ........................
Total deductions ...................................
Net profit (loss) for period carried to surplus.

Note: It is desirable to indicate the amount of provision for depreciation, depletion, etc., for the period.

Income statement for employees: An income statement designed for employees has been proposed by the American Economic Foundation. In fact, according to the Foundation many companies have used it in their employee publications and in their annual reports. The statement has

two captions: (1) what the company received; and (2) what the company spent. The form is unusual in that it includes profits as a cost of using the tools furnished by the stockholders. Profits are a cost of doing business. The arrangement is as follows:

A SUMMARY OF THE YEAR

<table>
<thead>
<tr>
<th>We received from our customers</th>
<th>Total</th>
<th>Per Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100%</td>
<td>$62,430,507</td>
</tr>
</tbody>
</table>

In buying our products, our customers paid the following costs:

| Cost of Goods and Services Bought From Others | 52% | 32,463,864 | 5,275 |
| Cost of Tools Wearing Out (Depreciation, Obsolescence) | 2% | 1,248,610 | 203 |
| Cost of Payments Ordered by Government (Taxes) | 3% | 1,872,915 | 304 |
| Cost of Human Energy (Payroll, Pensions, Benefits) | 38% | 23,723,593 | 3,854 |
| Cost of Using the Tools (Profit) | 5% | 3,121,525 | 507 |
| Total Expended | 100% | $62,330,507 | $10,143 |
| Tools in Use by Workers | | $49,240,000 | $8,000 |

The advantages of this arrangement are as follows:

1. It explains the function of profits. Profits are a cost of doing business—a cost which the customer has to pay.

2. It emphasizes the functional simplicity of all business. The same costs exist for every business.

3. It emphasizes fundamental economic truths. These facts are: (1) the customer is boss; (2) the customer pays all corporate costs
including income taxes; (3) dividends are paid because the money provided for tools is productive; (4) it explodes the size-of-profits myth. Only one profit figure is presented and that is a cost; (5) the layman can understand it; (6) it has been tested for employee understanding.

The form and arrangement has been criticized by the following:

1. It is too condensed. (But each item is explained by a separate schedule.)

2. It is incorrect to include profits as a cost of doing business.

3. "Cost of tools wearing out" and "cost of using tools" gives the impression that tools are paid for twice.

4. It fails to show the amount of profits needed to be reinvested in the business.

Its arrangement, it must be admitted, makes for clarity of expression. The arguments against the statement are fairly weak. The big drawback to its use is the novelty of the statement and the apparent lack of management changing from the American Institute of Accountant's 1936 statement. Conservatism needs to be broken down before the arrangement of the income statement is changed.

**Income statement for the general reader:** Perhaps the simplified income statement that practically every reader can understand is the single step statement. It has three basic captions: (1) what the company received; (2) what the company spent; and (3) what the company earned.
## Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Dividends income from investments</td>
<td>$100,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>$50,000</td>
</tr>
<tr>
<td>Gain on sale of fixed assets</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>$1,200,000</td>
</tr>
</tbody>
</table>

## Costs and Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of materials and services</td>
<td>$200,000</td>
</tr>
<tr>
<td>Salaries and wages to employees</td>
<td>$400,000</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>$50,000</td>
</tr>
<tr>
<td>Taxes, other than income</td>
<td>$50,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$80,000</td>
</tr>
<tr>
<td>Loss on sale of investments</td>
<td>$20,000</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$250,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,050,000</td>
</tr>
</tbody>
</table>

**Net Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

This three-caption form has found acceptance for many logical reasons:

1. It eliminates the many "profits" since it contains only one "profit" or "net income."

2. It helps to eliminate the idea that there is a ranking of costs or priority of expenses.

3. It educates the reader to the idea that all costs must be recovered before any profit is earned.

4. It may contain any classification of revenues and expenses, which may be rearranged by any special groups into any form they desire.

5. Each figure may be supplemented by separate schedules of revenues or expenses.

6. It is easily understood by the general reader.
The general acceptance of the single step arrangement is shown by the following table:

<table>
<thead>
<tr>
<th>Form of Statement</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
<th>1949</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple-step form</td>
<td>354</td>
<td>361</td>
<td>362</td>
<td>384</td>
<td>411</td>
<td>430</td>
</tr>
<tr>
<td>Single-step form</td>
<td>115</td>
<td>114</td>
<td>134</td>
<td>119</td>
<td>108</td>
<td>92</td>
</tr>
<tr>
<td>Modified single-step form with a separate last section presenting tax items</td>
<td>91</td>
<td>89</td>
<td>63</td>
<td>60</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Modified single-step form with a separate last section presenting tax and non-tax items</td>
<td>30</td>
<td>24</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Modified single-step form with a separate last section presenting non-tax items</td>
<td>8</td>
<td>10</td>
<td>18</td>
<td>18</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>No income statement presented</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

**Proposed standards:** Determine the income statement arrangement.

- If single step, add 25 points.
- If modified single step, add 20 points.
- If multiple step, add 10 points.

Points ____________

Is the formal income statement supplemented by a simplified income statement either in written or graphic form?

- Yes ( )
- No ( )

If "yes," add 10 points.

Points ____________

**Cross Referencing of Statements.**

The concept of coherence involves two ideas: (1) arranging information, and (2) making the information stick together. This last idea involves a process of tying in previous information to the whole.

1. See page 16 of the 1953 AIA Survey.
Figure 12.
Trend toward Single Step Income Statement

<table>
<thead>
<tr>
<th>Year</th>
<th>Single-step Form</th>
<th>Multiple-step Form</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>155</td>
<td>430</td>
<td>595</td>
</tr>
<tr>
<td>1948</td>
<td>184</td>
<td>595</td>
<td>599</td>
</tr>
<tr>
<td>1949</td>
<td>212</td>
<td>596</td>
<td>598</td>
</tr>
<tr>
<td>1950</td>
<td>233</td>
<td>597</td>
<td>598</td>
</tr>
<tr>
<td>1951</td>
<td>237</td>
<td>598</td>
<td>598</td>
</tr>
<tr>
<td>1952</td>
<td>244</td>
<td>598</td>
<td>598</td>
</tr>
</tbody>
</table>

No income statement presented
Total
- 1947: 5
- 1948: 5
- 1949: 4
- 1950: 3
- 1951: 2
- 1952: 2

*Source: 1953 AIA Trends and Techniques in Corporate Annual Reports
Tieing all the financial statements together is done by the use of cross referencing. So that the reader will not get the idea that each financial statement is separate and apart from the others, a consistent plan of cross referencing the financial statements should be used.

Cross referencing the statements is an aid to clarity. It may be done by labeling the main statements, including schedules, footnotes, etc. Then whenever a summary figure on the income statement, retained income statement, or financial position statement is used, (its source being derived from another statement or schedule), the description of the summary figure should be cross referenced with the other schedule or statement. And on the other statement there should also be a reference to where the information is being used. Such a procedure is vital to a clear understanding of how the net income is a part of the retained income which, in turn, is a part of the stockholders' equity.

Proposed standard: In the financial statements is the net income figure cross referenced with the retained income (surplus) which, in turn is cross referenced with the stockholders' equity?

Yes ( ) No ( )
Points ______________

Conclusions—Proposed Standards.

Based upon the preceding information in this chapter, the following standards are proposed:

1. Does the annual report have a one-page fact summary at the beginning of the report?

Yes ( ) No ( )

If "yes," add 8 points.
Points ______________
2. Is the order of arrangement of the three financial statements as follows?

   First presented—earnings statement (profit, income)
   Second presented—retained earnings statement (surplus)
   Third presented—financial position (balance sheet)

   Yes ( ) No ( )

   If "yes," add 5 points.

3. Is the formal balance sheet supplemented by any of the following:

   Presentation of the basic accounting equation
   Presentation of a simplified balance sheet
   Explanation of the items in the balance

   For each "yes," add 10 points.

4. Are there any "reserves" shown on the balance sheet between the liabilities and the stockholders' equity?

   Yes ( ) No ( )

   If "yes," subtract 8 points.

5. a. Determine the income statement arrangement.

   If single step, add 25 points.
   If modified single step, add 20 points.
   If multiple step, add 10 points.

   Points

5. b. Is the formal income statement supplemented by a simplified income statement either in written or graphic form?

   Yes ( ) No ( )

   If "yes," add 10 points.
6. In the financial statements in the net income figure cross referenced with the retained income (surplus) which, in turn is cross referenced with the stockholders' equity?

Yes ( )  No ( )

If "yes," add 5 points.

Points___________
CHAPTER XIII. EFFECT ANALYSIS—CONCI SENESS IN REPORTING

Communication specialists have given us the concept of unity which is the basis for conciseness in reporting. They have told us that the human mind can best deal with one main idea at a time. This basic axiom has been proved by scientific testing especially in written communication.

Principle Of Unity In Achieving Conciseness.

Unity, then, is a psychological concept which says that a sentence, a paragraph, or a report should deal with one main idea or thought. By following this concept, a reporter will achieve conciseness in his reporting. The sentence, paragraph, and report, may include minor thoughts, it is true, but these minor thoughts should be related to the main one. By using what psychologists have told us, we are thus able to apply one of the basic principles in communication. That principle is called the Principle of Unity: Since the human mind can best deal with one basic idea at a time, conciseness and clearness in communicating is achieved by limiting sentences, paragraphs, and reports to one main idea. The “effect” of such a principle is to make for conciseness, and thus clarity.

Lack Of Conciseness In Reports.

As basic as the principle of unity is, many reports and reporters do not observe this principle of “oneness.” Two, three, or sometimes four main ideas are found in a single sentence or paragraph, with the result that conciseness is not achieved. These are violations of the principle of unity. More than one thought competes with itself, with
the result that neither thought receives the attention that it deserves. The effect of such violations is that the reader's attention is thus diverted from the main idea. He doesn't know what the report is trying to get across to him.

Planning And Conciseness.

Sentence and paragraphs which violate unity are caused by not planning what the report is trying to communicate. Thus improper planning, one of the basic sins of any management, causes a loss in communication power. The lack of a well-organized plan or outline brings about a wordy, loose, rambling set of thoughts with no definite objective. On the other hand, a good plan helps the report to convey the main idea; and after the idea is stressed, the report may pass on to the next part of the outline or plan. Sound planning before communicating, therefore, will help to achieve conciseness in reporting. Without a plan there can be no purpose to communicating. With no purpose, the report will not be concise.

Completeness In Sentences.

In making thoughts, facts, and ideas come to life, words have to be used. But words by themselves will not make a complete thought. Consequently, words are grouped into a sentence to express a single complete idea. Each sentence should express a unified idea. That means that the sentence should be complete.

1. Compare with the basic management Principle of the Objective: Before starting any activity, a clear complete statement should be made of the objectives in view. L. Urwick, The Elements of Administration, page 34, says that every plan first "is based on a clearly defined objective."
To be complete, a sentence needs a subject and a verb, either expressed or implied. If these are not present, the writer is forcing his reader to supply a subject or a verb. And who knows, his reader may supply the wrong one! Consequently telegraphic sentences omitting an expressed or implied subject or verb should be avoided. Omissions cause incomplete sentences which are subject to misinterpretation by the reader.

Proposed standard: Does each sentence in the report have a subject and verb, either expressed or implied? Yes ( ) No ( )

If "no," subtract 5 points for each incomplete sentence.

Points____________

Conciseness In Sentences.

One of the most unpleasant tasks confronting a reader is to read an annual report with long sentences. In fact one reason for not reading is that a reader's mind is not equipped to follow the complicated ideas which a long sentence invariably contains. Shorter sentences are much easier to understand. This again has been proved by scientific testing.¹ This is an application of the principle of unity: that a human mind can best deal with one main idea at a time.

If shorter sentences are easier to understand, does this mean that all sentences should be short? Not necessarily. It does mean that the average sentence in any communication should be short. Variety in sentence length is essential—long sentences, middle size sentences, and short sentences. But scientists have proved that average sentence length should be short to be understood.

¹. Among the leaders in this testing process are Rudolph Flesch, Robert Gunning, Edgar Dale, Irving Longe, and others.
Average sentence length standards: These scientists have told us that average Americans read with ease when a certain standard is reached. These standards can be used to reach different audiences, depending on the audience level of education. Consequently a set of standards regarding average sentence length has been developed. The more concise a sentence, the more easily understood.

These standards have been developed by using the McCall-Craggs Standard Test Lessons in Reading. These tests have been given to millions of students, who are asked to read a passage then answer questions on the passage. Of course the test passages command the student's full attention. When a student answers nine out of ten questions, this passage is labeled according to the grade in school in which the student is enrolled. The averages of these tests are as follows:

<table>
<thead>
<tr>
<th>School Grade</th>
<th>Average Sentence Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>6</td>
<td>14</td>
</tr>
</tbody>
</table>

Rudolph Flesch explains his standards regarding average sentence length:

<table>
<thead>
<tr>
<th>School Grades</th>
<th>Number of Words in a Sentence</th>
<th>Type of Reading</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th grade</td>
<td>8</td>
<td>Very easy</td>
</tr>
<tr>
<td>5th grade</td>
<td>11</td>
<td>Easy</td>
</tr>
<tr>
<td>6th grade</td>
<td>14</td>
<td>Fairly easy</td>
</tr>
<tr>
<td>7th or 8th grade</td>
<td>17</td>
<td>Standard</td>
</tr>
<tr>
<td>Some high school</td>
<td>21</td>
<td>Fairly difficult</td>
</tr>
<tr>
<td>High school or some</td>
<td></td>
<td></td>
</tr>
<tr>
<td>college</td>
<td>25</td>
<td>Difficult</td>
</tr>
<tr>
<td>College</td>
<td>29 or more</td>
<td>Very difficult</td>
</tr>
</tbody>
</table>

2. On page 205 of The Art of Plain Talk.
Since the main readers of corporate annual reports have, on the average, completed high school,¹ the standards proposed in this dissertation are for those people.

**Proposed standard:** Compute the average sentence length* of the annual report; then apply the following table:

*number of words divided by number of sentences.

<table>
<thead>
<tr>
<th>Average Number of Words in a Sentence</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 14</td>
<td>40</td>
</tr>
<tr>
<td>15 - 16</td>
<td>40</td>
</tr>
<tr>
<td>16 - 18</td>
<td>50</td>
</tr>
<tr>
<td>19 - 20</td>
<td>50</td>
</tr>
<tr>
<td>21 - 25</td>
<td>30</td>
</tr>
<tr>
<td>26 - 29</td>
<td>20</td>
</tr>
<tr>
<td>29 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

Points ___________________________

**Conciseness In Paragraphs.**

Another standard of communication which rests upon the principle of unity is the standard of conciseness in paragraphs. As each sentence should contain one main idea, similarly each paragraph should contain one main idea. By following this standard, a reporter limits his paragraph topic and thus achieves conciseness in paragraphs. He presents to the reader a small dose of information to be absorbed rather than a large dose. He follows this basic psychological principle that the human mind can best deal with one main idea at a time. In so doing, he is conforming to high standards of communication—the conciseness standards that bring about a favorable "effect" on the reader.

**Achieving conciseness in paragraphs:** The three most common techniques in developing conciseness in paragraphs, are (1) the use of out-

¹ See page 176.
lines, (2) the use of topic sentences, and (3) the use of paragraph captions. All of them boil down to proper planning of what is to be reported. By properly planning the communicator limits his paragraph discussion to one main idea and thus achieves conciseness.

**Paragraph length:** Various authorities have measured paragraph length and its effect on the reader. John M. Clapp suggests a paragraph length of 75 to 150 words for non-technical writing. Since the annual report should meet this standard, the following proposal is made.

**Proposed standard:** Compute the average paragraph length* in number of words. Apply the following table:

<table>
<thead>
<tr>
<th>Average Paragraph Length</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 - 75 words</td>
<td>25</td>
</tr>
<tr>
<td>76 - 100</td>
<td>20</td>
</tr>
<tr>
<td>101 - 125</td>
<td>15</td>
</tr>
<tr>
<td>126 - 150</td>
<td>10</td>
</tr>
<tr>
<td>151 and over</td>
<td>5</td>
</tr>
</tbody>
</table>

*number of words divided by number of paragraphs

**Conciseness and Clarity.**

Clarity in communication should not be sacrificed at the expense of conciseness. As vital as conciseness is, it should not be used to exclude minor information which is needed to emphasize the major idea in a paragraph. In fact, the minor ideas serve to drive home the main point of the paragraph. Thus there is a constant judgment process in determining between conciseness and clarity.

As a general rule of thumb it is better to have more information than a lack of information in a paragraph. But if the minor information

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gets out of hand, perhaps two short paragraphs would be more effective. The use of white space around short paragraphs emphasizes the short paragraphs. But one of the major problems confronting the communicator is the continual problem of deciding whether to sacrifice clarity for conciseness. It is not an easy problem to solve.

Elimination Of Cents In Financial Statements.

Another application of the principle of unity is the elimination of cents in financial statements. The reader can best deal with dollar figures instead of dollars and cents which confuse him. Thus the human mind can best deal with one idea at a time—dollars only instead of both dollars and cents.

Many of the items in the financial statements are the results of judgments of accountants. These judgments are expressed in dollars and cents. But the accounting for cents implies an accuracy that is not justified in many instances. Therefore there has been a marked trend to eliminate the cents in statements. The following table shows this trend:

1. See page 35 of the 1953 AIA Survey.
**Cents Omitted or Presented**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cents Omitted—All Statements Comparative</td>
<td>281</td>
<td>249</td>
<td>219</td>
<td>192</td>
<td>169</td>
<td>137</td>
<td>105</td>
</tr>
<tr>
<td>Cents Omitted—Some Statements Comparative</td>
<td>72</td>
<td>78</td>
<td>76</td>
<td>64</td>
<td>57</td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td>Cents Omitted—No Statements Comparative</td>
<td>113</td>
<td>114</td>
<td>110</td>
<td>104</td>
<td>102</td>
<td>101</td>
<td>102</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>446</strong></td>
<td><strong>441</strong></td>
<td><strong>405</strong></td>
<td><strong>360</strong></td>
<td><strong>328</strong></td>
<td><strong>291</strong></td>
<td><strong>255</strong></td>
</tr>
<tr>
<td>Cents Presented—All Statements Comparative</td>
<td>39</td>
<td>43</td>
<td>51</td>
<td>55</td>
<td>52</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>Cents Presented—Some Statements Comparative</td>
<td>20</td>
<td>22</td>
<td>24</td>
<td>32</td>
<td>35</td>
<td>46</td>
<td>43</td>
</tr>
<tr>
<td>Cents Presented—No Statements Comparative</td>
<td>75</td>
<td>89</td>
<td>120</td>
<td>153</td>
<td>185</td>
<td>213</td>
<td>253</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134</strong></td>
<td><strong>159</strong></td>
<td><strong>195</strong></td>
<td><strong>240</strong></td>
<td><strong>272</strong></td>
<td><strong>309</strong></td>
<td><strong>345</strong></td>
</tr>
<tr>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
<td><strong>600</strong></td>
</tr>
</tbody>
</table>

**Proposed standard:** Are the cents omitted in the financial statements?  
Yes ( ) No ( )  
If "yes," add 5 points.  
Points___________

**Conclusions—Proposed Standards.**

Based upon the preceding principles and information in this chapter, the following standards of conciseness in reporting are proposed:

1. Does each sentence in the report have a subject and verb, either expressed or implied?  
   Yes ( ) No ( )  
   If "no," subtract 5 points for each incomplete sentence.  
   Points___________
2. Compute the average sentence length* of the annual report: then apply the following table:

*number of words divided by number of sentences

<table>
<thead>
<tr>
<th>Average Number of Words</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 14</td>
<td>40</td>
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<td>15 - 16</td>
<td>40</td>
</tr>
<tr>
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<tr>
<td>19 - 20</td>
<td>50</td>
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<td>21 - 25</td>
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<td>26 - 29</td>
<td>20</td>
</tr>
<tr>
<td>29 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

3. Compute the average paragraph length* in number of words. Apply the following table:

*number of words divided by number of paragraphs

<table>
<thead>
<tr>
<th>Average Paragraph Length</th>
<th>Points</th>
</tr>
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<td>101 - 125</td>
<td>15</td>
</tr>
<tr>
<td>125 - 150</td>
<td>10</td>
</tr>
<tr>
<td>151 and over</td>
<td>5</td>
</tr>
</tbody>
</table>

4. Are the cents omitted in the financial statements?

   Yes ( )  No ( )

   If "yes," add 5 points.

   Points___________
Conviction in reporting is that quality which makes the reader believe in what is being reported. It is the intangible quality which is essential to any "effect" which the report may have. If the "effect" is to be favorable, then conviction is absolutely necessary before any belief takes place. Thus is stated the Principle of Conviction in Communication: For any communication to be effective, it has to be believed. Conviction in reporting supplies this belief.

Value Of Conviction.

Conviction is needed in annual reports to meet one of the objectives of reporting—to cultivate and maintain confidence of the company's stockholders, employees, creditors, and general public in the corporation and management. This confidence, which conviction builds, is the basis for many decisions which these interested groups make. It welds together the various readers of annual reports for the good of the corporation. If this confidence is communicated to the readers, the corporation has an intangible asset which it can rely upon in times of adversity or attack by outside interests. A solid group of supporters may be built around which the corporation may turn for additional capital, additional credit, additional productivity, and additional support of its products and services. Any any top management realizes that this confidence is necessary for survival. Consequently the progressive managements strive to attain conviction in their reports and contacts with interested groups.
Lack Of Conviction.

Only in recent years after various surveys have been made of public opinion does American management realize it has not been successful in selling itself. Public opinion polls and employee surveys indicate that the public's distorted view of company profits, for example, creates such impressions as:

1. **Labor-management conflict**: "The company makes a big profit. Why can't they divide it better?"

2. **Distrust of management**: "They're interested in money—not people."

3. **Decreases in productivity**: "Why work so hard? The company gets all the money."

4. **Increased taxes**: "Let the corporation pay higher taxes. They make the money."

5. **Wage demands**: "Why not? The company can afford it."

Such lack of conviction still seems to exist. The American consumer has a high standard of living—the direct outgrowth of industrial growth. And yet the American is likely not to believe the companies which turn out his increased standard of living. Such a view is also expressed by Louis Guenther who aptly states it:

"The American makes, they [the public] like; the American maker, they are inclined to suspect."

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1. See the various polls and surveys in Chapters IV and V. See also the *Journal of Accountancy* editorial in the June 1947 issue.

Necessity For Telling The Truth.

Truth is at the heart of conviction. Without it there can be no conviction. If the truth is known and acted on wisely, many economic problems may be solved. But problems may not be solved if it is withheld or colored. This sounds simple and it is. But basically it reflects the Principle of Truth in Communication: For any communication to be convincing, it should be based upon truth. Thus one of the basic elements in attaining conviction in reports is telling the truth.

Facts Are Truths.

Telling the truth in annual reports is necessary. And the truths are the facts upon which the report is built. A fact has been defined as a truth. But a more practical definition of a fact is that it is a verifiable event or happening. Thus the annual report should be a factual document of the events of a business.

But the annual report presents more than facts. It presents information. This information may include both facts and opinions. Opinions are thoughts or beliefs which may or may not be verifiable. And as long as a human being reports on anything, he is bound to include opinions and facts. Consequently the president in his letter tries to be factual, but as the same time he may insert some beliefs or thoughts of his own. This should not be discouraged although an honest attempt should be made to separate fact and opinion.

Facts are the evidence of past performance, but they cannot be the whole basis of foreseeing the future. Untested opinions or beliefs, which later may turn out to be facts, are also essential to the future of the company. And the annual report should serve as a basis for future
action. Therefore opinions of the management as well as facts are also essential to good reporting.

**Proposed standards:** Is the annual report basically a factual document?

Yes ( ) No ( )

Points _____________

If "yes," add 5 points.

Does the annual report also include some opinions of the management?

Yes ( ) No ( )

Points _____________

If "yes," add 3 points.

**Honesty In Reporting Builds Conviction.**

Honesty in reporting the facts is essential to conviction. This means that both pleasant and unpleasant facts should be reported. If only the pleasant facts are reported, the intelligent reader senses that only the "good side" of the corporation is being presented. He senses that the annual report serves only as an advertising medium in that it presents a "rosy picture" of the management. To counteract this "rosy side," honesty in reporting demands that unpleasant information also be presented. Thus the reader knows that not everything is going along with customary smoothness; problems and difficulties are present which is normally the case in any business.

**Proposed standard:** Does the report present any unpleasant facts, problems, or difficulties?

Yes ( ) No ( )

If "yes," add 5 points.

**Reliability Of Information Builds Conviction.**

Reliable information, both facts and opinions, is the result of
accuracy of data. This accuracy of data builds conviction. But accuracy means that the company records are assumed to be correct. This basic assumption is necessary in any communicating process. However, history tells us that such an assumption has not always been true. Deliberate falsifying of company records has been an actuality. Consequently safeguards have been imposed such as the annual audit by public accountants and registration with the Securities Exchange Commission. These safeguards help to obtain correctness.

Reliability of information in the financial statements of the annual report has come a long way from 1900. The basic reason is the annual audit performed by public accountants. The accounting profession, with its high standards, has made reliable financial statements an accepted business fact.

The value of the audit is well established in annual reports. In fact, the economic value of public accounting is based on its ability to report reliable information. Public accounting is basically a profession which adds conviction or confidence to financial information. Therefore the auditors' report or certificate is a device which adds conviction to the annual report.

Proposed standard: Does the annual report contain an accountant's or auditor's report (certificate or opinion)? Yes ( ) No ( )

If "yes," add 20 points.

Correctness In Presentation Builds Conviction.

Just as accuracy of information is essential to reliability, so is correctness of presentation essential to conviction. Correctness
in presentation includes correct grammar, spelling, punctuation, capitalization, abbreviations, usage of numbers, and correct appearance. These items, seemingly not too important, are perhaps as important as many of the contents. For if the contents are not presented according to high standards of correctness of presentation, then the reader loses esteem for the information being presented.

It is a well known principle in communications that correctness in presentation is essential to effective communication. The principle is a corollary of the principle of the initial impression as discussed in the chapter on the analysis of the medium of the annual report. Thus the Principle of Correct Presentation may be stated as follows: Communication of information according to high standards of correct presentation builds conviction. Conviction is necessary to determine the "effect" of any communication process. Since the annual report is recognized as a form of public communication, it needs conviction to influence opinions of the readers.

Correct grammar and punctuation are an indispensable aid to clear, correct, and convincing writing. They help to express thoughts. But if they are used wrongly, according to accepted standards, then they tend to destroy confidence of the reader. The reader sees misspelled words and incorrect usage of punctuation. He thus gains the impression that the writing is sloppy. Sloppy expression implies sloppy thinking. These are not qualities which build confidence and thus conviction.

Correct usage of punctuation, for example, is an organic part of communication. Without it, communication cannot occur. Usage may vary with individuals, but fundamental principles are the same. Correct
punctuation is in itself a form of communication. Therefore certain minimum standards are set up to follow. If these standards are not followed, the desired "effect" does not occur.

**Proposed standard:** Does the report follow correct standards of grammar, punctuation, spelling, capitalization, abbreviations, usage of numbers, etc?

Yes ( ) No ( )

If "no," subtract 1 point for every error.

Points_________

**Sincerity In Reporting Builds Conviction.**

Sincerity may best be defined by the question, "Do you yourself believe in what you are saying?" Sincerity, then, is self-belief in the contents of any communication. This belief has to be conveyed to the reader before he tends to believe what is being said.

Sincerity is a priceless ingredient in all human contacts. A lack of sincerity, spoken, or written, cannot be successfully disguised; it deceives no one. But it is something that wins and keeps confidence. It is also hard to measure quantitatively.

Sincerity is usually achieved by enthusiasm on behalf of the reporter. This enthusiasm rubs off onto the next person, but the enthusiasm cannot be forced. It has to be real. It usually is measurable by "little extras" which are given to those who are influences. These "little extras" may also be shown in the annual report. For example, the person signing the "president's letter "may want to include an appreciation of those people who make the corporation successful—employees, stockholders, customers, creditors, and management. Such an expression of appreciation needs sincerity before it is believed. A
perfunctory closing appears forced, but a sincere appreciation is likely to be believed. Therefore its use is recommended.

Proposed standard: Does the report include a sincere statement of appreciation for those people who are responsible for any success of the company?  

Yes ( )  No ( )

If "yes," add 4 points.  

Points

Objectivity In Reporting.

One of the most effective ways to add conviction to any communication is through the use of facts. Facts need to be the basis for annual reporting. But facts by themselves are not enough. They need to be interpreted. This is the task of the president's letter. And yet many presidents, in an attempt to be factual, present only the facts without any attempt to interpret them.

One of the fallacious ideas existing in reporting is that the report should "let the facts speak for themselves." Thoughtful reporters know that the facts alone seldom can, but that they speak clearly only when they are told in proper order and perspective—and thus interpreted—by a honest reporter. Nevertheless, this fetish of objectivity exists although a briefest statement may be interpretive by a mere descriptive objective.

The pure factual objectivity which many annual reports have sought has often been an ideal. But very few statements worth reading can be shorn of adjectives. For example, whenever a president writes of a "prosperous" year, a "socialistic" administration, or of "high" taxes,  

1. See the results of the management survey, page 53.
he is influencing the reaction of readers in a somewhat non-objective way. An honest reporter also will admit that he influences reader reaction by the placement of information. The mere fact that he tells of the net earnings at the beginning of the report is an unobjective admission that he considers it important.

The idea of presenting only "straight facts" in the report leaves a twilight zone of interpretation untouched by the reporter. Annual reporters, therefore, should continue to strive for as much objectivity as possible, but should have no qualms against interpretation when it is necessary to the understanding of any fact. Who, what, when, where, and why no longer answer all the questions. "What does it mean?" is an important question that reporters should try to answer.

Perhaps "editorializing" when necessary will clarify and convince readers who like to know what is happening. There is ample justification for stating the management's position or the company's position concerning special economic problems when the corporate welfare is dependent upon sound public attitudes. But such "editorializing" should be made clear that it is an attempt to state opinions and not facts.

Proposed standard: Does the annual report attempt to interpret any of the facts? Yes ( ) No ( )

If "yes," add 8 points.

Points

Blind Devotion To Conservatism.

In an effort to present the truth, recognition must be made of conservatism in financial reporting. Several attacks have made on the accounting profession that conservatism tends to distory the truth. It also is not consistent with logical thinking. It has been claimed,
for example, that overstatement of the valuation of assets is considered a violation of good accounting. And yet, understatement of assets may be considered a virtue. It should be recognized that both are misstatements—both are not truths.

Conservatism, appropriate in many cases, is derived from a common belief that understatement creates less mischief than overstatement. With honest men this is probably true; and yet understatement may serve the purposes of dishonest men as well as overstatement. Conservatism is also supposed to lessen errors in judgment since judgment errors are usually considered to be more on the side of optimism. And yet many errors in judgment are derived from too conservative estimates.

Some of the more common applications of conservatism in reporting financial information are:

1. Writing off intangible assets even though these intangibles exist.

2. Charging to expenses purchases of long term assets even though the long term asset exists.

3. Overdepreciating long term assets thereby creating "hidden reserves."

4. Stating inventories at the lower of cost or market, thereby creating a loss before the inventory is sold.

5. Setting up "reserves" for something which has little possibility of happening.

6. Costing inventories at "lifo" in an attempt to equalize income when facts do not match this procedure.

It is also encouraging to see that the accounting profession
through its research activities is trying to eliminate these so-called "abuses." The American Institute of Accountants through its research bulletins, the American Accounting Association through its statements and monographs, and the National Association of Cost Accountants through its bulletins—all are trying to eliminate doubtful accounting practices which conservatism may support.

Conservatism is to be commended if it preserves the financial position of the company. But conservatism hampers progress. It also blankets the truth which is essential to building a belief in the management, the company, the industry, and free enterprise. This belief is necessary to build conviction in reporting.

Limitations Of Conviction In Mass Media.

Since the annual report is a mass medium of communication, its influence is great. However, many times mass media are highly exaggerated as to their effectiveness on a mass audience. Therefore certain conditions are necessary before belief in the annual report is brought about. These conditions are especially important if one of the objectives of the annual report is to enhance public understanding of the economic facts of our free enterprise system.

Anytime that mass media are used to promote social objectives, e.g., to enhance public understanding of free enterprise, research in mass communication indicates that one or more of three conditions are necessary to make for effective belief in what is communicated. These three conditions are known as (1) monopoly, (2) channeling rather than
change of basic values, (3) supplementary fact-to-face contact.

Monopoly: This condition occurs when there is little or no opposition to the mass media or to the values which it communicates. For example, it has been learned by some that labor unions have had a virtual monopoly on influencing their members through newspapers, bulletins, pamphlets, etc. before top management realized the fact that their (management's) actions and words were not being believed. Thus many companies use an annual report as one of many media to counteract the monopoly. Once opposition arises to the monopoly and once the media are balanced against each other, the net effect of each medium counteracts each other. The virtual monopolization of media for social objectives, however, will produce great effects upon audiences.

Channeling rather than change of basic values: Mass media may be successfully used to channel people's attitudes. But to ascribe to it the belief that mass media will change attitudes is rather doubtful. For example, advertising is directed toward channeling preexisting attitudes to a desired objective—usually that of buying a particular brand. Once the gross behavior pattern has been established, it can be channeled in any direction. But mass media in trying to change people's attitudes is not too successful, except over a long period of time or if a monopolization of attitudes prevails. Consequently annual reports can be successful in channeling people's attitudes, but they would have a hard time trying to change attitudes, except by continual

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use or by monopolization of the annual report audience.

**Supplementary face-to-face contact:** A mass medium, which is neither monopolistic nor channelising, may prove effective if it meets a third condition: supplementary face-to-face contacts. Several reasons account for effective communication if there is a joining of the mass medium with direct personal contact. First, personal contact serves to reinforce the contents of the mass medium. Such mutuality produces a confirmation of each other, or what is known as a "clinching effect." Salesmen use this device to clinch their sales talk. Presidents of companies use this device at their annual meetings of stockholders.

Another reason why supplementary personal contacts build conviction is that the mass medium lessens the task of the local contacter. He need not be as vigorous as the mass medium unless, of course, a new topic is being pushed. For example, the president of the company may ask the vice presidents to supplement information in the annual report by their remarks in a stockholder's meeting.

Another reason why face-to-face contacts are necessary to build conviction is that the representative's appearance symbolizes the legitimacy and significance of the mass medium. His appearance confers status and authority. He backs the medium, thus building conviction in the mind of the audience. In this arrangement, the mass medium builds an audience for the personal appearance of the president, who validates the status of the mass medium.

Thus the annual report may be most effective in building conviction by recognizing three mass medium limitations. It proves effective when
it operates in a monopoly, or when it operates to channelize attitudes rather than to change these attitudes, or when it is supplemented by face-to-face contacts.

Pitfalls Of Conviction.

Since belief by the reader is the basis for conviction, it is logical to assume that disbelief by the reader would not create conviction. This disbelief may be caused in several ways: (1) the use of fallacious reasoning; (2) glittering generalities; (3) unlike comparisons; (4) examples not typical; (5) prejudiced authority; (6) insufficiency of information; (7) withholding of information.

Use of fallacious reasoning: If the reader thinks that the reasoning is not correct, naturally he doubts the validity of the report. Some of the basic fallacies in reasoning are:

1. Making unlike comparisons.
2. Using cases which are not typical.
3. Relying on prejudiced or out-of-date authority.
4. Making a hasty generalization from insufficient facts.
5. Mixing cause and effect.

Thus principles of logic have to be followed if the reader is to believe the report.

Glittering generalities: People do not easily grasp the meaning of abstract or general terms. The human mind can best deal with specific concrete terms. Thus glittering generalities should be avoided because they don't mean too much to a reader. In fact, if glittering generalities are used, the reader does not grasp the real meaning but is confused by such terms as "poor sales," "normal profit," "satisfactory
returns," "high profits," "excellent prospects," etc. These words have no definite, specific, or concrete meaning when used alone. To be effective, they have to be used with specific terms.

The following is a list of glittering generalities which are commonly used in annual reports:

<table>
<thead>
<tr>
<th>Normal</th>
<th>Fair</th>
<th>Some</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>Superior</td>
<td>Few</td>
</tr>
<tr>
<td>Reasonable</td>
<td>Excellent</td>
<td>Many</td>
</tr>
<tr>
<td>Good</td>
<td>Bad</td>
<td>Several</td>
</tr>
<tr>
<td>Fine</td>
<td>Poor</td>
<td>At an early date</td>
</tr>
<tr>
<td>Large</td>
<td>Big</td>
<td>As soon as possible</td>
</tr>
<tr>
<td>Much</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Unlike comparisons:** Comparison of one industry to another industry might not be warranted. Comparison of 1933 prices to 1952 prices might lead to erroneous conclusions. An obvious unlike comparison makes the reader doubt the validity of other statements. This is not conducive to a convincing report.

**Examples not typical:** Using an isolated example as a typical case is not conducive to belief, especially if the reader is acquainted with the example. Once he realizes that the example is not consistent or comparable, he doubts the validity of other items.

**Prejudiced authority:** If prejudiced or out-of-date authority is used, naturally a reader doubts the information. The big question which always arises is, "What is prejudiced authority?" Often times what is one man's opinion is another's disbelief.

**Insufficiency of information:** Sufficient evidence is necessary to prove a point. The same applies in communication. Insufficiency of information casts doubt upon a fact or opinion presented in a report.
Withholding of information: Arbitrary withholding of information casts doubt upon what has been said. Thus full disclosure of information is necessary to build conviction.

Proposed standard: Does the report include any of the following "pitfalls of conviction" which causes reader disbelief?

<table>
<thead>
<tr>
<th>Pitfall of Conviction</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of glittering generalities</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Unlike comparisons</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Examples not typical</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Prejudiced authority</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Insufficiency of information</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Withholding of information</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

If "yes," subtract 2 points for each one. Points

Principles Of Influencing People.

For people to be convinced, they have to be influenced. By what principles are people influenced? What "magic formula" is needed to convince people of anything? Fortunately there are principles of influence. There is a sort of "magic formula" which successful influencers use to convince people. This formula uses the principles of attention, interest, desire, proof, and action.

Principle of attention: To influence a person, it is necessary to present or to do something of interest to the person. In an annual report, interest is obtained by many mechanical and writing devices—color, pictures, presentation of interesting anecdotes, jokes, analogies, comparisons, highlights, cartoons, novelties, gadgets, etc.

Principle of creating desire: After attention and interest have been achieved, it is necessary to create a desire for the person to do something. In an annual report the objective is to read the report. Making the reader read the report is done by using graphs, pictures,
and well-written text geared toward the basic desires of the people who are the audience. Thus a knowledge of people's basic desires is essential.

**Principle of proof:** Once a person is interested and has been exposed to various desires, it is necessary to prove to him what has been said is true. Thus proof is necessary. In an annual report this is done by such devices as statistics, auditor's certificate, independent tests of products, awards given to the company, etc.

**Principle of action:** Once a person is convinced, it is necessary to make him act according to the desired objective. In the annual report the desired objectives are to make a person read the report so that he will understand and accept the events of the business as essential to his and the company's progress. The broad objective is to make him support private enterprise by relating the economics of the company to the industry and to the nation and world.

A close analysis of these principles shows that they are basic in any influencing process. Since communication is used to influence action, it is imperative they be followed in any reporting procedure. If not, the report will not be effective.

**Conclusions—Proposed Standards.**

Based upon the information in the preceding pages, the following standards are proposed:

1. a. Is the annual report basically a factual document?

   Yes ( ) No ( )

   If "yes," add 5 points. Points__________
b. Does the annual report also include some opinions of the management?
   Yes (  )  No (  )
   If "yes," add 3 points.

   Points__________

2. Does the report present any unpleasant facts, problems, or difficulties?
   Yes (  )  No (  )
   If "yes," add 5 points.

   Points__________

3. Does the annual report contain an accountant's or auditor's report (certificate or opinion)?
   Yes (  )  No (  )
   If "yes," add 20 points.

   Points__________

4. Does the report follow correct standards of grammar, punctuation, spelling, capitalization, abbreviations, usage of numbers, etc?
   Yes (  )  No (  )
   If "no," subtract 1 point for every error.

   Points__________

5. Does the report include a sincere statement of appreciation for those people who are responsible for any success of the company?
   Yes (  )  No (  )
   If "yes," add 4 points.

   Points__________

6. Does the annual report attempt to interpret any of the facts?
   Yes (  )  No (  )
   If "yes," add 8 points.

   Points__________
7. Does the report include any of the following "pitfalls of conviction" which causes reader disbelief?

- Use of glittering generalities
- Unlike comparisons
- Examples not typical
- Prejudiced authority
- Insufficiency of information
- Withholding of information

If "yes," subtract 2 points for each one.

Points: _______
CHAPTER XV.  EFFECT ANALYSIS—CHARACTER AND VARIETY IN REPORTING

The president's letter offers an excellent opportunity for the company to make use of a public relations device. It is here that the character of the management is displayed. And yet, so few reports make any attempt to do so. However, more and more companies are taking advantage of their opportunity to present the character of its management by written and graphic communications.

But just what is this character? In written communications, character is best defined as the personality of the communicator revealing itself through the style of expression which he used. Character in reporting, then, is the communicator's style.

The style and personalities of the presidents are varied. One type of personality may be presented by the president who says: "This is purely a factual, cold blooded business report. The facts are presented. The reader can take them or leave them. I make no attempt to dress them up." Another type of president's personality is the humanist who says: "Business is made up of human beings. They make the facts presented in this report. And I think that these human beings should continue to make the facts of business. Part of our troubles arise because we have not recognized this human element. Consequently, this report is an attempt to have people understand our problems."

Communication And The Profit Objective.

Both of these personality types have been successful in achieving their objectives. Perhaps their objectives are different, but one ob—
jective they both have in common is to make profits. Both types of men have to communicate to achieve this objective. Along with other objectives, the purpose of communication is to produce profits. Without them, no business can survive for any length of time. So it is easy to understand why many managements direct their efforts primarily to profits and secondarily to the people who produce them. This attention to money values tends to dehumanize the communication process necessary to produce these same values.

Business Communication Is Human Communication.

It has been said that the depression made many managements believe that paying attention primarily to money values did not produce profits. Something was missing. The short range view of profits was not realizing the long range objectives of producing and selling goods and services to the consumer. Top management was said to have discovered that human beings were responsible for production and selling. Consequently, following the depression, human values became increasingly important. Thus it became apparent that the human factors in the communication process had to be analyzed before any favorable effect could be obtained. One of the first human values to be analyzed and reevaluated were those relating to the communicator.

Limitations of the Communicator.

Human factors cannot be eliminated from communications. Consideration must be made as to who communicates. In business, the key person, next to the policy maker, is the communicator. If he is sure of his objectives, he has to know the means to reach his objectives. He should
know the audience, the message, the media, and his own limitations. However, such sureness does not always exist. The communicator may not be sure of his objectives. Or if he is sure, perhaps he minimizes the effect of his message, his audience, or his channel of communication, with resulting loss of objectives. Any of the four processes may break down with the result that no communication takes place.

**Control Of Communications Is With Communicator.**

If a communications act does not take place, the responsibility is with the communicator. If the annual report is not effective, the responsibility is management's. Since the communicator controls the message and the medium, and since he should realize the interests, capacities, and desires of the audience, any failure rests on the communicator. If "what" he says misses the audience, then no communication takes place. Therefore the real control of communications lies with the communicator. Such a responsibility is heavy, especially on top management trying to tell the story of a complicated business to a mass audience.

To be sure, the communicator cannot fully control his audience at all times. But since he should recognize that any communication is directed to an audience, he has to take measures to insure that his message is being absorbed by his audience. If that absorption does not take place, the communicator has failed. But failure does not mean he should give up. His task is to try again until his responsibility is relieved and his message communicated.
Familiarity With The Communicator.

One of the best ways to make sure that a message is communicated is by making the communicator familiar to his audience. A stranger to his audience—and most writers are strangers to their readers—has a more difficult task to communicate his message because the audience knows virtually nothing about him. Thus a public speaker has a better chance to communicate than a writer. The speaker's mere presence gives some clues to the audience—his physical aspects, his voice inflections, his gestures, his facial expressions. The writer has none of these. He has to use other devices to make himself familiar to his readers.

These considerations give rise to the basic communications Principle of Familiarity With The Communicator: The more an audience knows of a communicator and what he stands for, the more effective his communications will be. And yet, how many annual reports ever take advantage of the techniques offered to them to make top management familiar with the audience of the annual report?

One technique to make for effective written communication is to use photographs and background data of the communicator for the benefit of the reader. Such use is recommended for annual reports. The more

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1. This principle is well illustrated by the following example from "Science and Writing," by James M. Clarke in Communication of Ideas, on page 163: "These more remote influences on meaning actually begin with the author's relation to his audience. If a minister exclaims, 'God Almighty!' his hearers understand the meaning to be spiritual and reverent, if they know him to be a minister. If a bartender exclaims, 'God Almighty!' his meaning is taken to be blasphemous unless he is known as a religious man. The more an audience knows of a writer...the more surely his meanings will be grasped."
familiar the readers are with top management, the more effective will be the report.

**Proposed standard:** Does the annual report include the following data about the officers and directors?

- a. Photograph of directors and officers [Yes ( ) No ( )]
- b. Position of directors and officers [Yes ( ) No ( )]
- c. Length of service of directors and officers [Yes ( ) No ( )]
- d. Miscellaneous information of directors and officers [Yes ( ) No ( )]

For each "yes," add 4 points. Points____________

Another technique in annual reports to make the communicator familiar with his audience is through the use of his signature. A signature personalizes a message and is a symbol of the writer. Therefore its use is recommended as a device to express the character of management.

**Proposed standard:** Does the annual report include a facsimile of the signature of the communicator? [Yes ( ) No ( )]

If "yes," add 2 points. Points____________

**Conflict Between Character And Objective Style In Reporting.**

There is a basic conflict in reporting between the use of the objective third person style and the individuality of style in expression. This conflict stems from a tradition to report facts objectively. In so doing there has been a blind devotion to the use of the third person style\(^1\) of reporting those facts. The result of this devotion to the

\(^1\) Third person style may be explained by the use of the "passive voice" of verb construction in direct contrast to the "active voice." For example, "It has been reported" is third person style. "I reported" (cont. on next page)
third person style has been a stifling of individual expression to the use of the very formal and stiff, impersonal type of expression.

The use of the third person style is commended as being impartial, scholarly, and scientific. However, the style makes for very boring reading... and boring reading does not make for "interest" which is essential to effective communication. By writing in a direct style, the same facts can be presented in an active sense without losing the same factual impartiality required of scholars and scientists. For example, the following "facts" are presented in the "third person style" and the "active style." Which is more effective?

**Passive:** Unsatisfactory results in the generating plant have been reduced through the use of a new generator.

**Active:** A new generator has reduced unsatisfactory results in the generating department.

**Passive:** Present production methods are based on the belief that a large screen is preferred by the customer.

**Active:** Our engineers base production on the belief that the customer prefers large screens.

Active verbs are an expression of character. They bring sentences to life. They create an expression easy to understand. A communicator normally uses active verbs in conversation. Therefore he should use them in written communication to express his personality.

Another reason why the third person style has been used is that the communicator is relieved of directly stating his views. Fear of (cont.)

is active and personal style. Another example: "Sales for the year were reported at $3,000,000" is impersonal: "Our company's sales were $3,000,000 this year" is a direct and personal style.
being put "on record" causes the communicator to use an impersonal approach, where he smothers his views in passive verbs, long sentences, and big words. For example, take this: "The conclusions drawn from such a study are to the effect that it seems advisable to initiate action for the adoption of the incentive plan. If a presentation of the plan is made to the employees, our opinion is that their approval will be forthcoming." Notice that the verbs are passive. The communicator is afraid to "go on record." The communicator should state, "I believe that we should adopt the incentive plan. Once our employees understand it, they will favor it." Notice the active verbs...the direct style...the forcefulness...the personality of the writer...his "going on record"...his lack of buck-passing.

Proposed standard: Does the report use active verbs to convey a direct style of expression? Yes ( ) No ( )

Points

Variety In Reporting.

There is an interesting psychological reason why variety is so important in reporting. The reason is simple: People like variety. Any reader of fiction, any viewer of television, or any listener to a radio knows that if he has read, seen, or heard the same thing once or twice, the less interested he is...the more boring the message is...the less effective will be the reception for the message. The same is true for annual reporting. If the audience is about the same as last, the report will have to appear different.

Another basic reason for variety in communication is this: Rarely in the realm of words will anyone find "the"way to communicate. Words
are never fixed like numbers. There are numerous ways to express an idea. Words cannot be standardized like machines. Consequently different ways of expression are needed. Patterns of words, sentences, paragraphs, and reports have to be changed to meet changing conditions.

Another reason for variety is the constant tension of day-to-day life. This tension is expressed in a basic conflict. In the human mind there is the constant desire for security and a desire for adventure. On the one hand people like things not to change. On the other, people can't stand things if they don't change. Most people will settle for fixed scientific laws, but will not settle for this constancy in day-to-day living. This day-to-day living includes the written, graphic, and spoken words which make up every day's activities. Consequently, annual report have to appear different from those of preceding years, even if the difference is only slight.

Application Of Variety In Annual Reporting.

To express the character of the management and even the character of the business, it is desirable for each report to be built around a central theme which necessarily should change from year to year. Usually this theme can be built from some outstanding event or combination of events which occurred during the year. Or the central theme may be an emphasis on any one of the activities of the business; for example, any of the following might serve: expansion, research, war activities, management, production, distribution, etc.

In addition to a central theme, the physical appearance of the report may be changed to give an impression of variety. However, merely
changing the cover without a change in presentation of contents is not as effective as originality and variety in both. Fortunately, a change in annual reports from year to year is measurable by casual inspection. Consequently, based on the assumption that variety is essential to effective communication, the standard of variety in reporting is proposed.

**Proposed standard:** Is the annual report "different" either in presentation of contents or in presentation of appearance from the annual report of last year?  
Yes ( ) No ( )

If "yes," add 6 points.

Points

Lack Of Character—Trite Expressions.

Trite expressions are among the most common defects in business reporting. They are the lack of character in expressing oneself. Many writers use them with the result that their language is trite, stereotyped, and flat. Such language leaves the reader cold. When such language is read in a letter or report, that letter or report has no trace of personality. It does not make a favorable impression on the reader simple because there is no originality or character in the writing.

Reliance Upon Other People's Writing.

It is believed that many people write trite and lifeless reports because, when starting out in business, they copied the style of others. When doing this, they wrote reports which lacked their own character simply because these reports displayed no originality in expression.

In writing a report, a reporter looks in the files for a similar report to use as a guide. Once he has found one, he unconsciously
starts using the same phrases, thinking that if the wording worked for one person, it will work for him. Soon he starts using the same words for similar situations. He gets the idea that there is a special language for business—different from speech—with the result that his ideas are crystallized into trite, hackneyed language. Soon his way of thinking grows the same way, for in reality, communication of ideas depends on thinking of the idea first. But since his communications have been done automatically, his chain of thinking falls into the same pattern with the result that the reader does not follow logical reasoning or thinking.

Natural Writing—Avoiding Trite Expressions.

If words are written naturally, as in conversation, then the reader perks up. He reads with interest—and once his interest is aroused, he will clearly try to understand what has been written. But trite and hackneyed words and phrases pass by him like water off a duck. The reader, scanning over the words and phrases that he has seen and read many many times, doesn't grasp the meaning of trite expressions because his mind is not concentrating on words written automatically. But if that same reader reads natural expressions, he reads with interest and will easily try to grasp their meaning.

List Of Trite Expressions.

The following are some of the phrases condemned by good business writers as being trite, hackneyed, or stereotyped.

- Above
- According to our records
- Acknowledge receipt of
- Acknowledge with pleasure
- Acknowledge with thanks
- Acknowledge yours
- Advise
- Advise us accordingly
- Along this line
- And oblige
Answering your letter
As per
As regards
As to
Assuring you of our interest
in the matter
Assuring you of our prompt
attention
At a loss to explain
At a loss for words
At all times
At an early date
At hand
Has come to hand
At the present time
At this time
At the present writing
At the earliest possible time
At this moment
At your earliest convenience
Attached find
Attached please find
Attached hereto
Attached herewith
Await the pleasure of a reply
Awaiting your future orders
Awaiting your further commands
Beg to acknowledge
Beg to advise
Beg to announce
Beg to assure
Beg to call to your attention
Beg to inform
Beg to inquire
Beg to remain
Beg to request
Beg to state
Communication (meaning report
or letter)
Complying with your request
Concerning yours (referring to
a letter)
Contents carefully noted
Contents duly noted
Contents noted
Continued patronage
Deem it advisable
Esteemed favor
Esteemed order
Enclosed please find
Enclosed find
Enclosed you will find
Even date
Favor
Favor us with an answer
Favor us with an order
Favor us with your reply
For your information wish to
advise
Feel free to call on us
Has come to hand
Have before me your letter
Hereby apply
Herewith hand you
Herewith inclose
Herewith please find
Hoping to hear from you
Hoping to be forever
I am
I remain
In due course of time
In due time
In connection therewith
In this connection
In re
In receipt of
In regard to
In relation to
In reply to your
In reply wish to state
In reply would say
Instant (or inst.)
Kind favor
Kind order
Kindly advise
Kindly advised
Kindly inform
Kindly return same
Meets with your approval
Note from your letter
Order had gone forward
Our Mr. Jones
Our records show
Party
Per
Please advise
Please be advised
Please find check
Please find enclosed
Please let us hear from you
Please note
Please rest assured
Please do not hesitate to call
on us
Definition Of Hackneyed, Stereotyped, and Trite.

To be technical, the following are the different definitions of the terms.

1. Hackneyed expression means stale and worn out through overuse.

2. Stereotyped expression means that the same expressions are used in situations where there are similarities which call for the same thought in the same form and in the same words. Consequently, stereotyped has come to mean automatic.

1. This list is a compilation of trite expressions collected by the author over a period of years. Similar lists may be found in business communications literature, e.g., William H. Butterfield's book, The Business Letter in Modern Form, published by Prentice Hall.
3. Trite expressions mean expressions which originally were
striking and novel, but which have become so commonly used
that all their original interest has been worn out.

All of these expressions, no matter what they are called, have the
same characteristics—dull, ordinary, commonplace, lifeless, and unin-
teresting.

Proposed standard: Does the report include any trite, hackneyed,
or stereotyped expressions? Yes ( ) No ( )

For each one, subtract one point. Points________________

Conclusions—Proposed Standards.

Based on the preceding discussion, the following standards are
proposed:

1. Does the annual report include the following data about the
officers and directors?
   a. Photograph of directors and officers Yes ( ) No ( )
   b. Position of directors and officers Yes ( ) No ( )
   c. Length of service of directors and
      officers Yes ( ) No ( )
   d. Miscellaneous information of
      directors and officers Yes ( ) No ( )

For each "yes," add 4 points. Points________________

2. Does the annual report include a facsimile of the signature
   of the communicator? Yes ( ) No ( )

If "yes," add 2 points. Points________________

3. Does the report use active verbs to convey a direct personal
   style of expression? Yes ( ) No ( )

If "yes," add 10 points. Points________________
4. Is the annual report "different" either in presentation of contents or in presentation of appearance from the annual report of last year?

Yes ( ) No ( )

If "yes," add 6 points.

Points

5. Does the report include any trite, hackneyed, or stereotyped expressions?

Yes ( ) No ( )

For each one, subtract one point.

Points
CHAPTER XVI. APPLICATION OF STANDARDS TO ANNUAL REPORT

Various opinion polls and surveys indicate that financial reporting has come a long way since 1900; but they also indicate that improvement is necessary in order to effectively communicate information. Since the annual report is the core around which financial reporting centers, it is obvious that it should measure up to certain high standards for corporate reports. The standards proposed in the following pages are an attempt to improve these reports so that the varied audiences may read, understand, and use the information presented.

Basic Concepts For Proposed Standards.

The annual report has come to be a social document. As such, it has a wider audience than mere shareholders. Its audience now includes shareholders, creditors, employees, governmental agencies, and the general public. If this be true, then management has an obligation to report the activities of the business organization to those various groups of people who have a direct interest in the affairs of the company. But to do so involves reporting in such a manner as to satisfy the general reader and the specialist.

Thus the objective is to report information to the varied groups in a clear, concise, convincing manner so that the reader's interests are considered. But the character of management should be evident because it is reporting on its activities in managing the organization for the benefit of the stockholders, creditors, employees, government and the general public.
If the management does an effective job of communicating, the annual report should serve as a medium of enhancing public understanding of the management, the company, the industry, and the economy. Such understanding is vital if the free enterprise system in our country is to prevail.

Annual Reporting Is A Communication Process.

The standards proposed are the result of those principles and standards which are necessary to communicate by written and graphic means.

Communicating is a five-fold process: Someone tells something by some medium or channel to someone else with some effect or objective in mind.

Thus there are five basic groups of standards. They include: (1) audience standards, (2) content standards, (3) medium standards, (4) effect standards, and (5) communicator standards.

Instructions For Measuring Annual Reports Against Standards.

To apply the proposed standards to any annual report, one should follow a definite pattern.

1. Read the annual report carefully: Reading the report takes about half an hour. This step helps to familiarize the reader with the contents.

2. Count the number of words and paragraphs in the report: A thorough count of the narrative portion insures familiarity with the report. A minimum of ten pages of words should be counted. All of the words in the president's letter should be counted plus every second or third page thereafter until a minimum of ten pages are counted. Of course, counting all the words would be much more effective.

Place the number of words in each paragraph after each paragraph.
Then add the number of words in each paragraph at the bottom of the page, getting the total words and paragraphs for each page.

Count as one word the following: dates, numbers, hyphenated words, contractions, and abbreviations.

3. **Count the number of sentences in the report**: A sentence is a complete thought. Sometimes sentences are punctuated by periods, semicolons, colons, and dashes. Count each complete thought as a sentence, but do not count a compound sentence (two sentences joined by and, but, or for) as two sentences.

Place the number of sentences on each page at the bottom of the page.

4. **Count the number of three-or-more-syllable words**: These are hard words. Do not count: (1) capitalized words (unless beginning a sentence; (2) combination or hyphenation of short easy words, e.g., book-keeper; (3) verb forms made three syllables by adding -ed, or -es, e.g., accounted.

Place the number of hard words at the bottom of the page.

5. **Count the personal references**: Personal references include: (1) names of people (whole name is one reference); (2) all personal pronouns (except those referring to things). Examples: I, me, my, he, him, his, she, her, they, them, their, you, your, we, us, our, etc.; (3) words that deal with human beings (such as man, woman, child, folks, people, friend, etc.).
6. **Prepare the following table:** After a complete familiarization, add the information in a table (example):

<table>
<thead>
<tr>
<th>Page No.</th>
<th>No. of Words</th>
<th>No. of Sentences</th>
<th>No. of Paragraphs</th>
<th>No. of Hard Words</th>
<th>No. of Personal References</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

**Total**

7. **Compute the following information:**

1. Average sentence length computed by:

   \[
   \text{No. of words} \quad \frac{\text{No. of words}}{\text{No. of sentences}}
   \]

2. Average paragraph length computed by:

   \[
   \text{No. of words} \quad \frac{\text{No. of words}}{\text{No. of paragraphs}}
   \]
3. Number of hard words per 100 words computed by:

\[
\text{No. of hard words} \times 100
\]

4. Number of personal references per 100 words computed by:

\[
\text{No. of personal references} \times 100
\]

**Audience Standards.**

Once the statistical information is computed, apply the following audience standards by inspecting and judging the report.

1. Is the annual report specifically addressed to--

   a. Stockholders (shareowners, shareholders) Yes ( ) No ( )
   b. Employees Yes ( ) No ( )
   c. Creditors Yes ( ) No ( )
   d. Governments Yes ( ) No ( )
   e. Customers Yes ( ) No ( )
   f. Public Yes ( ) No ( )

   For every "yes," add 5 points.
   
   Points__________
   
   (Maximum 25)

2. Does the beginning paragraph of the annual report tell the sales or profits (losses)?

   Yes ( ) No ( )

   If "no," add 5 points.
   
   Points__________

3. Does the report reflect a "you" point of view in its text?*

   Yes ( ) No ( )

   If "yes," add 10 points.
   
   Points__________

*measured by such phrases as "your company," "your management," "your interests," etc.

Considerable judgment is necessary to determine this standard, but the report should reflect a personal approach before answering "yes."
4. Does the report use names of employees, creditors, stockholders, and management in its text or beneath pictures in the text?

   Yes ( )  No ( )

   For every name used, add one point.  Points

   (Maximum 20)

   *does not include managerial names on the directors and officers' page, but does include their names anywhere else in the report's text.

5. If the company negotiates with a union, is the union name mentioned in the annual report?

   Yes ( )  No ( )

   If "no," subtract 3 points.
   If "yes," add nothing.

   *If no union, this standard does not apply.

   The report should indicate whether or not there is a union. If it doesn't, research is needed to determine if the company negotiates with a union.

6. Is the tone and content of the report written to an individual instead of being written to no one in particular?

   Yes ( )  No ( )

   If "no," subtract 5 points.
   If "yes," add 5 points.

7. How many personal references per 100 words are there in the narrative portion of the annual report?

   *personal references include:
   1. Names of people (whole name is one reference).

   2. All personal pronouns, (except those referring to things). Examples: I, me, my, he, him, his, she, her, they, them, their, you, your, we, us, our, etc.

   3. Words that deal with human beings (such as man, woman, child, folks, people, friend, etc.).
After the count, apply the following standard:

<table>
<thead>
<tr>
<th>Personal references per 100 words</th>
<th>Add these points</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 or more</td>
<td>40</td>
</tr>
<tr>
<td>3 to 4</td>
<td>30</td>
</tr>
<tr>
<td>2 to 3</td>
<td>20</td>
</tr>
<tr>
<td>1 to 2</td>
<td>10</td>
</tr>
<tr>
<td>0 to 1</td>
<td>0</td>
</tr>
</tbody>
</table>

Points __________

The points after the standard are weighted according to their importance in making the annual report an effective means of communication. They are weighted according to a comparative judgment of one standard to another.

After measuring the annual report to the audience standards, compute the total points.

TOTAL POINTS FOR AUDIENCE STANDARDS

Content Standards--Income Statement.

Since the annual report is read for information purposes, it should provide certain information. The following are minimum content standards concerning the income statement.

1. Does the report contain comparative financial statements or financial statistics by years?  
   Yes ( ) No ( )

If "yes," apply the following scale:
The report contains comparative statements or statistics

<table>
<thead>
<tr>
<th>Points*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>for two years only</td>
<td>4</td>
</tr>
<tr>
<td>for three years only</td>
<td>6</td>
</tr>
<tr>
<td>for four years only</td>
<td>8</td>
</tr>
<tr>
<td>for five years only</td>
<td>10</td>
</tr>
<tr>
<td>for six years only</td>
<td>12</td>
</tr>
<tr>
<td>for seven years only</td>
<td>14</td>
</tr>
<tr>
<td>for eight years only</td>
<td>16</td>
</tr>
<tr>
<td>for nine years only</td>
<td>18</td>
</tr>
<tr>
<td>for ten years only</td>
<td>20</td>
</tr>
<tr>
<td>for fifteen years only</td>
<td>30</td>
</tr>
</tbody>
</table>

* 2 points for the number of years.  

Total points________________________  
(Maximum 30)

2. Does the report contain additional financial statements other than the three basic ones?

Yes ( ) No ( )

If "yes," apply the following scale:

The report contains:

<table>
<thead>
<tr>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source and disposition of working capital (called by other names: application of funds, working capital statement, etc.)</td>
</tr>
<tr>
<td>Detailed schedules of plant and equipment</td>
</tr>
<tr>
<td>Detailed schedule of inventories</td>
</tr>
<tr>
<td>Detailed schedule of investments</td>
</tr>
<tr>
<td>Detailed schedule of long term debt</td>
</tr>
<tr>
<td>Detailed schedule of subsidiaries</td>
</tr>
<tr>
<td>Detailed schedule of retirement fund</td>
</tr>
<tr>
<td>Other detailed schedules (use judgment for their importance)</td>
</tr>
</tbody>
</table>

Total Points________________________  
(Maximum 40)
3.  a. Is the volume (in dollars) of sales or revenue presented in the income statement?  

   Yes ( )  No ( )

   If "yes," add 3 points.
   If "no," subtract 3 points.

   Points____________________

b. Is "other income" included as a part of the total revenue or sales?  

   Yes ( )  No ( )

   If "yes," add 3 points.

   Points____________________

c. Is the revenue or sales (in dollars) broken down into any of the following in some other part of the report?  

   Sales or revenue by territories  
   Sales or revenue by customer  
   Sales or revenue by product  
   Sales or revenue by any logical basis  

   Yes ( )  No ( )  
   Yes ( )  No ( )  
   Yes ( )  No ( )  
   Yes ( )  No ( )

   If "yes," to any part, add 2 points for each "yes."  

   Points____________________  

   (Maximum: 10)

4.  a. Does the income statement include an item signifying the "cost of materials or services."  

   Yes ( )  No ( )

   If "yes," add 5 points.
   If "no," is there a good reason?  
   If a good reason, add 5 points.

   Points____________________

b. Is this "cost of materials or services," set forth in detail (including beginning and ending inventories) in some other part of the report?  

   Yes ( )  No ( )

   If "yes," add 5 points.

   Points____________________

5. Does the income statement show as a separate item an amount for employment costs (example: wages, social security taxes, pensions, etc.)?  

   Yes ( )  No ( )

   If "yes," add 5 points.

   Points____________________
6. a. Is there a separate depreciation charge in the income statement?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points__________________  
   * may be combined with depletion, amortization, or write-offs.  
   b. Does the report describe the system of computing the annual depreciation charge?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points__________________  

7. a. Does the income statement show the amount of taxes?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points__________________  
   b. Is there in the report a detailed schedule of taxes paid?  
   Yes ( ) No ( )  
   If "yes," add 5 points.  
   Points__________________  

8. If the company has any bonds or notes payable, does the income statement show any interest expense*?  
   Yes ( ) No ( )  
   If "no," subtract 5 points.  
   If "yes," add nothing.  
   Points__________________  
   *Some corporations may not have any bonds or notes. However if they do, there should be some interest expense.  

9. Is the "net income" or "net profit" figure clearly labeled near the bottom of the income statement?  
   Yes ( ) No ( )  
   If "yes," add 10 points.  
   Points__________________
10. a. Assuming that there is a combined income statement and retained earnings statement, if the corporation paid any dividends, is the amount shown near the bottom of the income statement?

Yes (  )  No (  )

If "no," subtract 5 points.
If "yes," add nothing.

Points__________

b. Is the amount of ending retained income (retained earnings, or profits, or earned surplus) shown at the bottom of the combined income and retained earnings statement?

Yes (  )  No (  )

If "yes," add 5 points.

Points__________

11. If the company has a separate analysis of surplus (retained income statement), does it show the following:

a. Balance at the beginning of the period.
Yes (  )  No (  )

b. Net income or loss for the period
Yes (  )  No (  )

c. Dividends paid (if they were paid)*
Yes (  )  No (  )

d. Any appropriations (if any)*
Yes (  )  No (  )

e. Ending balance
Yes (  )  No (  )

If "yes," add 2 points for each "yes." Points__________

*If there were no dividends or appropriations, consider the answer "yes."

Add the total points for these content standards.

TOTAL POINTS OF CONTENT STANDARDS—INCOME STATEMENT

Content Standards—Financial Position.

The balance sheet (financial position statement) should furnish minimum information. Minimum standards (weighted negatively in most instances) are as follows. If the standard is not applicable, do not apply.
1. If the company has a consolidated balance sheet, does it report the following:

- Which subsidiaries are included
- Policy on intercompany profits
- Percentage of ownership of subsidiaries

Points ____________

If "no," subtract 2 points for every "no."
If "yes," add nothing.

2. If the company has marketable securities, does it report the following:

- Cost of securities
- Market value of securities

Points ____________

If "no," subtract 2 points for every "no."
If "yes," add nothing.

3. If the company has investments in subsidiaries, which are not consolidated, does it report the following:

- Cost of investment in subsidiary

Points ____________

If "no," subtract 2 points.
If "yes," add nothing.

4. If the company has inventories, does it report the following:

- Cost of each inventory
  (The lower of cost or market is not acceptable as "cost.")

Points ____________

If "no," subtract 2 points for each "no."
If "yes," add nothing.

5. a. If the company has inventories, does it report the cost determination methods (life, fifo, average, standard, etc.) of each inventory?

Points ____________

If "no," subtract 2 points for each "no."
If "yes," add nothing.
b. If the company has changed inventory methods during the accounting year, does the report show the effect of the change upon the net income?

If "no," subtract 5 points.
If "yes," add nothing.

Yes ( )  No ( )
Points__________

6. a. If the company has fixed assets (property, plant, and equipment), does it report the "cost" of those assets?

If "no," subtract 5 points.
If "yes," add nothing.

Yes ( )  No ( )
Points__________

b. If the company has fixed assets, does it deduct the estimated depreciation* from those fixed assets?

If "no," subtract 3 points.
If "yes," add nothing.

Yes ( )  No ( )
Points__________

*may include depletion

7. If the company has long term lease (rental) agreements, does it report the following:

Amounts of annual rentals
Periods for which payable
Principal details of agreements

Yes ( )  No ( )
Yes ( )  No ( )
Yes ( )  No ( )

If "no," subtract 2 points for each "no."
If "yes," add nothing.

Points__________

8. If the company has intangible assets (patents, goodwill, franchises, trademarks, etc.), does it report the valuation of these assets (cost, market, estimated, nominal, etc.)?

Yes ( )  No ( )

If "no," subtract 5 points.
If "yes," add nothing.

Points__________
9. If the company has changed methods of determining net income under defense contracts, and therefore affected the valuation of balance sheet items, does it report the effect of such changes?

If "no," subtract 3 points.
If "yes," add nothing.

Points

10. If the company has long term liabilities, does it report the following:

   Interest rates
   Due dates
   Description

If "no," subtract 2 points for each "no."
If "yes," add nothing.

Points

11. If the company has made any significant changes in its "reserves," does it report reasons for such changes anywhere in the report?

If "no," subtract 5 points.
If "yes," add nothing.

Points

12. Does the report show the following stockholder equity information:

   Classes of capital stock
   Number of shares authorized
   Number of shares issued
   Par (if any)
   Stated value (if any)

If "no," subtract 2 points for each "no."
If "yes," add nothing.

Points
13. Does the report show the following captions:

- Capital Contributed in Excess of Par (if any) or Capital Surplus (if any) Yes ( ) No ( )
- Earnings Retained in the Business (Retained Income or Earned Surplus) Yes ( ) No ( )
- Total Capital Stock and Earnings Retained (Total Stockholders' Equity) Yes ( ) No ( )

If "no," subtract 2 points for each "no." Points__________
If "yes," add nothing.

14. If the company has any contingent liabilities*, does it report them (lawsuits, guaranties, purchase commitments, commercial paper, taxes, renegotiation, etc.)?

Yes ( ) No ( )

If "yes," add 2 points for each one. Points__________
(Maximum: 12)

*usually reported in footnotes to statements

TOTAL POINTS OF CONTENT STANDARDS—FINANCIAL POSITION

Content Standards—Interested Groups.

Stockholders, creditors, employees, and the general public have an interest in information presented in the annual report. Therefore the following minimum contents standards are proposed:

1. Does the report show the following:

- Earnings (income) per share of common stock
- Dividends per share of stocks (all kinds)
- Book value per share of common
- Ratio of net income to stockholder's equity
- Ratio of net income to revenue(sales)

If "yes," add 3 points for each "yes." Points__________
2. Does the report show the following:

<table>
<thead>
<tr>
<th>Number of shareholders</th>
<th>Yes ( ) No ( )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of stockholders classified as to:</td>
<td></td>
</tr>
<tr>
<td>No. of shares held</td>
<td>Yes ( ) No ( )</td>
</tr>
<tr>
<td>Sex</td>
<td>Yes ( ) No ( )</td>
</tr>
<tr>
<td>Age</td>
<td>Yes ( ) No ( )</td>
</tr>
<tr>
<td>Occupation</td>
<td>Yes ( ) No ( )</td>
</tr>
<tr>
<td>Geographical distribution</td>
<td>Yes ( ) No ( )</td>
</tr>
</tbody>
</table>

If "yes," add 2 points for each "yes." Points

3. Does the report specifically explain the dividend policy of the company?

Yes ( ) No ( )

If "yes," add 10 points. Points

4. Does the report show the number(s) of units or services sold?

Yes ( ) No ( )

If "yes," add 5 points. Points

5. Does the report show the date of the annual meeting of stockholders?

Yes ( ) No ( )

If "yes," add 3 points. Points

6. Does the report show the ratio (current ratio) of current assets to current liabilities?

Yes ( ) No ( )

If "yes," add 3 points. Points

7. Does the report show the ratio (acid test ratio) of cash, receivables and marketable securities (if any) to the current liabilities?

Yes ( ) No ( )

If "yes," add 3 points. Points
8. Does the report show the ratio of total liabilities to total stockholders' equity?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

9. Does the report show the ratio of revenues to receivables or the average days outstanding of receivables?

Yes ( )  No ( )

If "yes," add 3 points.

Points___________

10. Does the report make any definite attempt to tell of future plans or of the future outlook?

Yes ( )  No ( )

If "yes," add 5 points.

Points___________

11. Does the report show and compare the number of employees with preceding years?

Yes ( )  No ( )

If "yes," add 2 points.

Points___________

12. Does the report show the assets per employee?

Yes ( )  No ( )

If "yes," add 2 points.

Points___________

13. Does the report show revenue per employee and costs per employee?

Yes ( )  No ( )

If "yes," add 5 points for each.

Points___________

(Maximum 10)

14. Does the report show the outside business affiliations of each member of the board of directors?

Yes ( )  No ( )

If "yes," add 5 points.

Points___________
15. a. Does the report show the salaries of directors and officers? Yes ( )  No ( )

If "yes," add 5 points. Points__________

b. Does the report show a breakdown of payroll costs by type of person? by number of persons? Yes ( )  No ( )

If "yes," add 5 points for each "yes." Points__________
(Maximum 10)

16. If the company has a pension plan, are the following data reported on?

a. Basic type of plan (trusteed, insurance, etc.) Yes ( )  No ( )
b. Description of groups of employees covered. Yes ( )  No ( )
c. Contributory or non-contributory. Yes ( )  No ( )
d. Retirement age. Yes ( )  No ( )
e. Computation of pension to be paid. Yes ( )  No ( )
f. Whether the plan is funded or whether "pay as you go." Yes ( )  No ( )
g. Annual cost. Yes ( )  No ( )
h. Past service costs. Yes ( )  No ( )

If "no," subtract 1 point for every "no." Points__________

17. Does the annual report give any indication of future plans or of the future of the business? Yes ( )  No ( )

If "yes," add 5 points. Points__________

18. Does the report indicate any research activities? Yes ( )  No ( )

If "yes," add 5 points. Points__________
19. Does the annual report indicate any activities of the publicity or advertising program?

Yes ( ) No ( )

If "yes," add 5 points.

Points_________

20. Does the report show the amount of taxes paid?

Yes ( ) No ( )

If "yes," add 5 points.

Points_________

21. Does the report indicate what good or services are sold?

Yes ( ) No ( )

If "yes," add 10 points.

Points_________

22. a. Does the report show the following:

Specific address of general office Yes ( ) No ( )
Names of directors Yes ( ) No ( )
Names of officers Yes ( ) No ( )
Name and address of auditors Yes ( ) No ( )
Name and address of transfer agent and registrar Yes ( ) No ( )

If "no," subtract 5 points for each "no."

Points_________

b. If applicable*, does the report show the following:

Location of sales offices Yes ( ) No ( )
Location of factories or plants Yes ( ) No ( )
Location of subsidiary companies Yes ( ) No ( )

*If applicable to the company, the answer should be "yes."
If the answer is "no," subtract 2 points for each "no."
If not applicable, do not consider.

Points_________
23. Does the report show the following:

Highlights of the history of the company.  
Organization chart of the company.  
Highlights of the history of the industry.

If "yes," add 5 points for each "yes."  

Yes ( )  No ( )

Yes ( )  No ( )

Yes ( )  No ( )

Points____________________

24. Does the report in one place* state the company's basic policies, principles, and objectives?  

Yes ( )  No ( )

If "yes," add 25 points.

Points____________________

*It is realized that such policies may be reported throughout the report. But it is believed that the inclusion of these policies in one compact position will be much more effective. However, this standard is not proposed to discourage reporting of the policies throughout the report. If they are not in one place, but throughout the report, add 10 points.

25. Does the report indicate the company's relation with various governmental agencies?  

Yes ( )  No ( )

If "yes," add 10 points.

Points____________________

TOTAL POINTS OF CONTENT STANDARDS—OTHER

Medium Standards.

There are certain standards of physical presentation for the annual report. They are:

1. Does the size of the page of the report measure up to any of the following?  

Yes ( )  No ( )

8 1/2 x 11 inches  
8 x 10 1/2  
7 3/4 x 10 3/4

If "yes," add 10 points.

Points____________________
2. If the report has more than 8 pages, does it have an index?
   Yes ( )  No ( )

   If "yes," add 5 points.

   Points ________

3. If the report has more than 8 pages, are the pages numbered?
   Yes ( )  No ( )

   If "yes," add 3 points.

   Points ________

4. How many basic colors* does the report use?
   a. Black alone.  5 points
   b. Black and one ink color.  10 points
   c. Black and two ink colors.  15 points
   d. Black and three ink colors.  10 points
   e. Black and four ink colors.  5 points

   *Colors do not include tints.

   Apply one standard only to determine points.

   Points ________

5. What size type does the report use in the main portions of the text? Apply the following scale:
   
   12 point type  20 points
   10-11 point type  10 points
   8-9 point type  5 points

   *Apply to smallest type in text.

   Points ________

   This is 14 point type.
   This is 14 point type.
   This is 12 point type.
   This is 12 point type.
6. Does the report make use of at least two different sizes of captions or headings, both larger than the regular size type?  
   Yes ( )  No ( )
   If "yes," add 5 points.  
   Points__________

7. Does the cover page meet the following standards?
   a. Heavier weight paper than inside.  
      Yes ( )  No ( )
   b. Title of report.  
      Yes ( )  No ( )
   c. Name of company.  
      Yes ( )  No ( )
   d. Fiscal year covered.  
      Yes ( )  No ( )
   e. Type of business.  
      Yes ( )  No ( )
   Add 2 points for each "yes."  
   Points__________

8. Does the report include charts, graphs, and maps to supplement the information in the text?  
   Yes ( )  No ( )
   For every chart, graph, or map add 5 points.  
   Points__________
   (Maximum 50)

   Do not count a chart, graph, or map with the following characteristics:
   1. Not clear.
   2. Too complicated.
   3. Not legible.
   4. Figures too small.
   5. Incomplete labeling.
   6. Any other unfavorable characteristic.

9. Does the annual report (including cover) have a minimum of 20 pages?  
   Yes ( )  No ( )
   If "yes," add 10 points.  
   Points__________
10. Does the annual report include photos, pictures, or drawings to supplement the information in the text?

Yes ( ) No ( )

For every photo, picture, or drawings, add 2 points.

Points_________________________

(Maximum 30)

Do not count pictures or photos which have no caption.

TOTAL POINTS FOR MEDIUM STANDARDS

______________________________

Standards Of Clearness.

Based upon the idea of using words familiar to the reader, the following standards are proposed. Most of them are based upon the financial statements.

1. a. Is the title of the traditional "balance sheet" any of the following:

Financial Position Yes ( ) No ( )
Financial Condition Yes ( ) No ( )
Assets, Liabilities, and Stockholders Equity Yes ( ) No ( )

If "yes," to any one, add 3 points. Points_________________________

b. If the term "balance sheet" is used in the title, is there an explanation of what "balance sheet" means?

Yes ( ) No ( )

If "yes," add 3 points. Points_________________________
2. If there is a "reserve for bad debts," is it described in one of the following ways:

"Allowance for..."
"Estimate of..."

Yes ( ) No ( )

If "yes," add no points. If "no," subtract 3 points.

Points_______
(Maximum deduction: 3)

The word "provision" is not acceptable for this standard nor for the following one (3a, 3b).

3. a. If there is a "reserve for depreciation," is it described in one of the following ways:

"Accumulated..."
"Allowance for..."
"Estimate(d)..."

Yes ( ) No ( )

If "yes" to any one, add 3 points. Points_______

b. For any use of the term "reserve*" in any of the financial statements, subtract 1 point for each "reserve."

Points_______
(Maximum deduction: 10)

*This applies to any asset, liability, or owners' equity "reserve."

4. Are the "fixed assets" described by any of the following terms?

"Property, Plant, and Equipment"
"Plant and Equipment"
"Long Life Assets"

Yes ( ) No ( )

If "yes," add 3 points. Points_______
5. If there are "deferred charges" in the balance sheet, are any of the following descriptions used in their place or used to describe "deferred charges":

"Cost allocable to future..."
"Costs applicable to future..."
"Charge applicable to future..."
"Amounts paid in advance..."

Yes ( ) No ( )

If "yes," add no points; if "no," subtract 3 points.

(Maximum deduction: 3)

6. If the term "accrued" is used to describe an asset or liability, is either "payable" or "receivable" used with "accrued"?

Yes ( ) No ( )

If "no," subtract 1 point for each time it is so used.

Points____________

This standard applies to all financial statements, the current year's and other comparative statements if they are used. In fact, the terminology standards are applicable to all statements.

7. If the company has any "fixed liabilities," does it describe them as "long term" liabilities or debt?

Yes ( ) No ( )

If "yes," add nothing;
if "no," subtract 3.

Points____________

8. Is the term for the stockholders' equity section of the balance sheet any of the following?

Stockholders' (or shareholders') equity
Stockholders' (or shareholders') investment
Stockholders' (or shareholders') ownership
Stockholders' (or shareholders') interest
Stockholders' (or shareholders') capital

If "yes," add 3 points.

Points____________

(Maximum: 3)
9. a. If the financial statements display any "capital surplus," does it show its source? Yes ( ) No ( )
   If "yes," add nothing; if "no," subtract 3 points. Points______________

b. If the financial statements display any use of the word "surplus," subtract 1 point for each time it is used.
Points______________

10. If the company displays any "earned surplus," is it called by any of the following:
   Retained Income
   Retained Earnings
   Retained Profit
   or is it

   Combined with (earnings, income, or profit):
   Retained
   Accumulated
   Reinvested
   Invested
   Employed
   Used
   or is

   "Surplus" combined with an explanation with:
   Retained Income
   Retained Earnings
   Retained Profits

   If "yes," add 3 points. Points______________

11. If the company presents a statement of "earned surplus," does the title use any of the following for "surplus":
   Retained Earnings
   Retained Income
   Retained Profits
   or combinations of words used with these terms

   If "yes," add 3 points. Points______________
12. Every time the word "value" is used, is it properly modified by a descriptive word?  
Yes ( )  No ( )

For every "value" that is not properly explained or modified by an adjective, subtract 1 point.
Points__________________

This standard applies to the text of the report as well as to the financial statements.

13. Is the conventional "profit and loss" statement title replaced by any of the following:

Income  
Earnings  
Operations  
Income and Expense

If "yes," add 3 points.  Points__________________

14. For every "profit" or "income" except the "net" profit or "net income" in the earnings statement, subtract 2 points.

Points__________________

15. If the word "depreciation" is used in the earnings statement, is it explained; or if it is not used, is there substituted for it the idea of "wearing out or exhaustion"?

If "yes," add 3 points.  Points__________________
16. Count the number of three—or-more—syllabled words per 100 words of text. Apply the following scale:

<table>
<thead>
<tr>
<th>No. of hard words per 100</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 to 9</td>
<td>40</td>
</tr>
<tr>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>13 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

Points__________________

Do not count: (1) capitalised words (unless beginning sentences); (2) combinations of short easy words, e.g., bookkeeper, etc; (3) verb forms made 3 syllables by adding \(-ed\), or \(-es\), e.g., accounted.

TOTAL POINTS FOR CLARITY STANDARDS

Standards Of Cleanness.

Proper arrangement of financial statements and information is necessary for clarity. The following are standards proposed:

1. Does the annual report have a one-page fact summary at the beginning of the report?
   Yes ( ) No ( )
   If "yes," add 8 points. Points__________________

2. Is the order of arrangement of the three financial statements as follows?
   First presented—earnings statement (profit, income)
   Second presented—retained earnings statement (surplus)
   Third presented—financial position (balance sheet)
   Yes ( ) No ( )
   If "yes," add 5 points. Points__________________
3. Is the formal balance sheet supplemented by any of the following:

Presentation of the basic accounting equation  
Presentation of a simplified balance sheet  
Explanation of the items in the balance sheet

For each "yes," add 10 points.  
Points ________  
(Maximum: 20)

4. Are there any "reserves" shown on the balance sheet between the liabilities and the stockholders' equity?

Yes ( )  No ( )

If "yes," subtract 8 points.  
Points ________

5. a. Determine the income statement arrangement.

If single step, add 25 points.  
If modified single step, add 20 points.  
If multiple step, add 10 points.

Points ________

b. Is the formal income statement supplemented by a simplified income statement either in written or graphic form?

Yes ( )  No ( )

If "yes," add 10 points.  
Points ________

6. In the financial statements is the net income figure cross referenced with the retained income (surplus) which, in turn is cross referenced with the stockholders' equity?

Yes ( )  No ( )

If "yes," add 5 points.  
Points ________

TOTAL POINTS FOR CLARITY STANDARDS
Conciseness Standards.

Conciseness in sentences and paragraphs is essential to clarity. The following standards are proposed.

1. Does each sentence in the report have a subject and verb, either expressed or implied? Yes ( ) No ( )

If "no," subtract 5 points for each incomplete sentence. Points__________

2. Compute the average sentence length* of the annual report; then apply the following table:

*number of words divided by number of sentences

<table>
<thead>
<tr>
<th>Average Number of Words in a Sentence</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 14</td>
<td>40</td>
</tr>
<tr>
<td>15 - 16</td>
<td>40</td>
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<tr>
<td>16 - 18</td>
<td>50</td>
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<td>19 - 20</td>
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<td>21 - 25</td>
<td>30</td>
</tr>
<tr>
<td>26 - 29</td>
<td>20</td>
</tr>
<tr>
<td>29 or more</td>
<td>10</td>
</tr>
</tbody>
</table>

Points__________

3. Compute the average paragraph length* in the number of words. Apply the following table:

*number of words divided by number of paragraphs

<table>
<thead>
<tr>
<th>Average Paragraph Length</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 - 75 words</td>
<td>25</td>
</tr>
<tr>
<td>76 to 100</td>
<td>20</td>
</tr>
<tr>
<td>101 - 125</td>
<td>15</td>
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<tr>
<td>126 - 150</td>
<td>10</td>
</tr>
<tr>
<td>151 and over</td>
<td>5</td>
</tr>
</tbody>
</table>

Points__________

*number of words divided by number of paragraphs
4. Are the cents omitted in the financial statements?

3. Does the annual report contain an accountant's or auditor's report (certificate or opinion)?

If "yes," add 5 points.

Points________________

TOTAL POINTS FOR CONCISSIONESS STANDARDS

2. Does the report present any unpleasant facts, problems, or difficulties?

Yes ( ) No ( )

Standards Of Conviction.

Conviction or believability in the report is essential. Therefore the following standards are proposed.

1. a. Is the annual report basically a factual document?

Yes ( ) No ( )

If "yes," add 5 points.

Points________________

b. Does the annual report also include some opinions of the management?

Yes ( ) No ( )

b. Does the annual report also include some opinions of the management?

Yes ( ) No ( )

Judgment is necessary to apply these two standards.

2. Does the report present any unpleasant facts, problems, or difficulties?

Yes ( ) No ( )

If "yes," add 5 points.

Points________________

Judgment again is necessary to apply this standard.

3. Does the annual report contain an accountant's or auditor's report (certificate or opinion)?

Yes ( ) No ( )

If "yes," add 20 points.

Points________________
4. Does the report follow correct standards of grammar, punctuation, spelling, capitalization, abbreviations, usage of numbers, etc?

Yes ( )  No ( )

If "no," subtract 1 point for every error.

Points________________

Any collegiate dictionary should serve as a guide to apply the previous standard. Errors should be caught when reading the report.

5. Does the report include a sincere statement of appreciation for those people who are responsible for any success of the company?

Yes ( )  No ( )

If "yes," add 4 points.

Points________________

6. Does the annual report attempt to interpret any of the facts?

Yes ( )  No ( )

If "yes," add 8 points.

Points________________

Interpretation should be amply evident. Just presenting facts is not enough to meet this standard.

7. Does the report include any of the following "pitfalls of conviction" which causes reader disbelief?

Use of glittering generalities     Yes ( )  No ( )
Unlike comparisons                  Yes ( )  No ( )
Examples not typical               Yes ( )  No ( )
Prejudiced authority               Yes ( )  No ( )
Insufficiency of information       Yes ( )  No ( )
Withholding of information         Yes ( )  No ( )

If "yes," subtract 2 points for each one.

Points________________

Again judgment is necessary to apply this standard. Most pitfalls will be "glittering generalities"--the use of too general words instead of using specific words.

TOTAL POINTS FOR CONVICTION STANDARDS
Standards Of Character.

A human style of expression is essential to influence the reader.

The following are minimum standards:

1. Does the annual report include the following data about the officers and directors?
   a. Photograph of directors and officers
   b. Position of directors and officers
   c. Length of service of directors and officers
   d. Miscellaneous information of directors and officers

   For each "yes," add 4 points.

2. Does the annual report include a facsimile of the signature of the communicator?

   If "yes," add 2 points.

3. Does the report use active verbs to convey a direct personal style of expression?

   If "yes," add 10 points.

   This is a hard standard to apply. However, a rough guide is this: If the report uses 20% or more of passive verbs (all verbs totaling 100%), then a passive style is being used. A direct style uses 80% or more of active verbs.

4. Is the annual report "different" either in presentation of contents or in presentation of appearance from the annual report of last year?

   If "yes," add 6 points.
5. Does the report include any trite, hackneyed, or stereotyped expressions?

Yes ( )  No ( )

For each one, subtract one point. Points

TOTAL POINTS FOR CHARACTER STANDARDS

Summary of Points.

Once the standards have been applied, make a summary somewhat as follows:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Possible Points</th>
<th>Actual Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content standards—income statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content standards—financial position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content standards—other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium standards</td>
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<tr>
<td>Clarity standards</td>
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<td>Conciseness standards</td>
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<td>Conviction standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Character standards</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total

A comparison of one company to another similar company will provide a basis for judging the effectiveness of one annual report to another.
Application of these standards should improve annual reports. If this is done, the varied readers will benefit. If shareowners, employees, creditors, governmental agencies, and the general public read and understand the annual reports, a better understanding of the economic facts of the business, industry, and economy will result. Such is the general objective of annual reporting.
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Doris, Lillian, Modern Corporate Reports, Prentice Hall, New York, 1948.


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**Articles**


Fortune, February 1944, Editorial, p. 46.


I, Robert D. Hay, was born in La Porte, Indiana, November 21, 1921. I received my secondary school education in the public schools of the city of La Porte, Indiana. My undergraduate training was obtained at the University of Oklahoma, from which I received the degree Bachelor of Science in 1949, and Master of Business Administration in 1950. I also passed the Certified Public Accountants examination and received a C. P. A. certificate in Oklahoma in 1949.

As an instructor and assistant professor I taught at the University of Arkansas from 1949 to 1952, specializing in business communications, management, and accounting. While on leave from the University of Arkansas from 1952-54, I received an appointment as instructor in the Accounting Department of The Ohio State University. I held this position for two years while completing the requirements for the degree of Doctor of Philosophy.