



The Value of Company Annual Reports - An Academic's Perspective

The Corporate Financial Reporting system is a vital part of the governance machinery of all democratic capitalist democracies. Some respected academics would even go so far as hypothesising that Corporate Capitalism would never have got off the ground without reliable accounting systems. This view may overstate the case somewhat, but there is no doubt that financial reporting is very important in enabling and sustaining corporate capitalism.

The recent events at Enron flag up just how badly things can go awry when the Accounting and Auditing is bad. Good Accounting and Good Auditing are essential for business confidence. They provide vital protections for investors, customers, creditors, and company employees. When accounting goes bad most of the stakeholders in the company suffer in one way or another.

In addition to fulfilling a vital governance mission, corporate accounting reports are also vital for the task of valuing corporate securities, for assessing the creditworthiness of companies, and for assessing the attractiveness of potential takeover targets. There is a huge academic agenda that investigates the usefulness and reliability of the annual report for these purposes. Such work is especially well developed in the United States, but UK and European researchers are also engaged in these research areas, and some are starting to close the gap with US researchers.

Successful research in this area requires complete financial reporting histories for large samples of firms. Ideally this should cover all UK quoted companies as well as a large stratified sample of unquoted companies. A most unfortunate feature of the commercial databases is that they throw away the old reports of dead companies. This practice is nonsensical from the viewpoint of academic research. How, for example, can you investigate the causes of company liquidation, if the databases exclude all firms that were liquidated. For other purposes the actual format and presentation of the annual report is of importance to the researcher. He/she needs to be able to see exactly how and where a particular piece of information was displayed. For example does a company display its R&D spend prominently or does it hide it in the notes to the accounts?

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