The Process of Producing Annual Reports

- Models on the Process of Producing Annual Reports derived from consultants' narratives

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Abstract

Annual reports are an important means of communication for companies. Readers use the information in the annual report to form a general picture of a company. In general, not many readers of annual reports reflect that this document is, apart from the numbers in the accounts, in large parts outsourced to public relations companies. Although information content of corporate annual reports have been studied in many ways the production process has been absent in accounting research so far. The purpose of this article is to describe and examine the process of producing annual reports as a means of communication for listed Swedish corporations. This study focuses on the interplay between the corporation's personnel and the public relations agency. An illustration of the annual report production process includes elements that are most useful in the development of a generic model, which will illustrate the interaction between the listed corporation and its public relations agency. The analysis shows that there is interplay between a listed company and public relations agency that aims to produce a certain picture among the readers of annual reports. However, it is not possible to draw a strict line that public relations work is solely limited to layout and pictures. In some cases of annual report production a listed corporation is heavily influenced and open to suggestions by the specific knowledge of a public relations company, when it comes to content and structure of texts numbers. Therefore, it is important to understand the process of annual report production as an interplay between the listed corporations and public relations professionals, as the annual report is contributing to maintain legitimacy, creating trust and confidence in the corporations and the activities it engages in.

Keywords: Annual reports, providers, disclosure theory, stakeholder theory, legitimacy theory, public relations, production process, Sweden

Introduction

Who cares about the information in annual reports? Whether it is based on facts or not, if the underlying values are aligned with the values of intended users, or if the provided information makes the reader believe in the future of the company and its stakeholders? In this paper we assume that those who do care about the validity of what is presented in annual reports are those who trust the values of the company, the performance of the company, the objectivity of the information, and the producers' honesty. Those stakeholders – be it investors, lenders, employees or any other stakeholder – are vulnerable to the actions of the producer if they put too much trust in the information. Do we know if there are any stakeholders who rely solely on this type of source and to what degree they are dependent on trusting the information from it? Researchers' knowledge in this area seems to be scarce (Stanton & Stanton, 2002; Parker, 1982). Even accounting standard-setters, who eagerly and increasingly refer to user needs, have been criticized for having a very limited conception of the user and a narrow concept of the purpose of accounting information – in fact they are suggested to "make up" the users (Young, 2006). But this needs not to be a problem as long as the companies know what their users want and provide them with the information they ask for. Is this the case?

Unfortunately there is as well little research on how companies relate to their users and we have been able to identify only one instance of a study which investigates how companies accommodate their reporting policies to stakeholders' demands (i.e. Camara, Chamorro & Moreno, 2009). On the contrary, academics show a remarkable lack of interest in both users and producers of financial reporting and have been reluctant to repeated calls for "bridging the gap between academic research and the world of "accounting in action"" (Arnold, 2009:803). However, there is an extensive amount of e.g. empirical disclosure studies applying scoreboards to measure the amount of information that is contained in corporate annual reports (Beattie et al., 2004). There are as well studies of the use of information such as Epstein & Pava (1995) who showed that the Management Discussion and Analysis (MD&A) was used more by inexperienced users. Another example is McInnes, Beattie and Pierpoint (2007) who found that the chairman's statement was the most important part read by most private shareholders. A more recent study showed that narrative reporting information in the annual report is used more frequently by those stakeholders that lack access to alternative communication channels of corporate reporting information (Rowbottom and Lymer, 2010). Research focusing on the process of the

production of annual reports is rare – the study of the production of annual report of a Danish university by Skærbæk (2005) being so far the only exception. Research on the interaction between producers and users is non-existent.

Our overall research interest is thus to contribute to the knowledge about communication between producers and users of annual reports. The specific purpose of the present paper is however to describe, analyse and discuss the role of communication consultants in the process of producing annual reports. We hereby would like to address the role of non-accounting expertise in financial reporting practices of companies and how it affects the understanding of the audiences of financial reporting. The motivations behind the paper are several. Firstly, companies do outsource the production of the annual report to communication consultancy firms or public relations agencies, companies that have specialist knowledge and production know-how. In Sweden 95% of all listed companies involve this type of companies where specialist consultants have influence on the form and content in a varying degree during the annual report production process (Rimmel & Jonäll, 2011). In a study of 334 FTSE companies, Beattie, Dhanani & Jones (2008) found that companies using "prominent corporate logos and external design consultants" had increased, from in 1965 being a minority to being a majority in 2004. Secondly, modelling the interaction between communication consultants and other actors involved in the process of producing annual reports may reveal if - and how - users' needs are addressed.

The remainder of the paper is structured as follows: In section two we describe the theoretical constructs used for the description and analysis of the role of the communication consultants in the process of producing annual reports. Section three contains the models of three different production processes in listed companies, i.e. the processes in Large Cap, Mid Cap and Small Cap companies. This is followed by a discussion and concluding remarks are presented in section five.

Objectives of corporate reporting

For several decades, regulatory bodies and standard-setters around the world have been trying to develop a conceptual framework for financial reporting. Most recent to develop such a common and improved conceptual framework that provides the basis for developing future accounting standards is the joint project between the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). In

September 2010 the *Conceptual Framework for Financial Reporting 2010* (the IFRS Framework) was approved by the IASB (IASB 2010). The IFRS Framework describes the basic concepts that underlie the preparation and presentation of financial statements for external users. The primary objective of an overall corporate reporting is to provide users with useful information to be able to make decisions. The IFRS framework recognises a range of potential users, but specifically focuses on usefulness in making economic decisions. Prior research has however identified a wider range of user groups of corporate reporting some of these are: existing and potential equity investors; existing and potential loan creditors; existing, potential and past employees; analysts/advisers, including financial analysts, financial journalists, trade unions and credit rating agencies; the business contact group, including customers, suppliers and competitors; the government and the public (Rowbottom and Lymer, 2011; Beattie *et al*., 2008; McInnes *et al.,* 2008).

The objective of any corporate report is to communicate timely, reliable and relevant information about an organization. That information must be readily understandable because it will be used for making economic decisions. There are some qualitative characteristics in reporting that are likely to be most useful to users in making decisions about the organization on the basis of information in its corporate report. These qualitative characteristics are, according to the IFRS framework: relevance, faithful representation, comparability, verifiability, timeliness and understandability. Relevance and faithful representation are the fundamental qualitative characteristics of useful financial information. Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. These last four characteristics are relating to the content of information and how it is presented. To satisfy the diverse needs of user groups, statements in addition to the profit and loss account, balance sheet and cash-flow statement are supposed to be needed. As there are many diverse users of corporate reports, meeting the needs of all of them would be impossible. Even trying to balance their needs would result in long and laborious reports.

In IAS 1 the basis for presentation of financial statements are to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 sets out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. It also addressed the importance of other disclosures needed for users to be able to make

decisions. Though; much of company disclosure narratives are not regulated but entirely up to the company to decide. Often companies involve specialist consultants from Public Relations Companies in the communication process (Rimmel and Jonäll, 2011). Therefore PR and IR bureaus are in a position where they can strongly influence what is reported.

Previous research on the process of producing annual reports

The background to the study of Skærbæk (2005) was the observation of annual report research as focusing on the end product and its reception rather than on the process of preparation. As a response to this lack of interest from research, Skærbæk interviewed actors involved in the production of the annual report at a university to explore the producers' view on how to make a successful report. His analysis of the interaction practices of the actors is based on Goffman's Frame Analysis aiming at uncovering the primary framework of the report and identification of "incidences of 'rules', 'concrete occurrences' and 'postulates' of activity" (p. 390) and "'keyings' and/or 'fabrications'" (p. 390) within the process. Of particular relevance to our paper is that the analysis shows how two reports were prepared to meet the expectations of two different targeted groups of users - the government and the other sponsors. The top management made use of rhetorical devices when they transformed the accounting framework of the governmental report into a ceremony while preparing the innovation report to the other sponsors. Some actors outside the university (i.e. the Ministry of Science and the Ministry of Finance) helped the university managers to decide how inside 'secrets' should be handled – what information to be disclosed – to secure trustworthiness of the reports and of the university.

Our own search for similar types of research has not been successful. We have not been able to find any other empirical study of annual reporting processes – neither in business organizations nor in public sector organizations. If academic research has been criticized for "making up users" it may well be criticized for "making up producers". It seems like we do not know much about who is involved, what they do and the explanations to what happens in the interaction. Against this background, the research questions of this paper are: What is the role of communication consultants in the production of annual reports in business organizations? Whom do they interact with? What are the consequences of their involvement?

Theoretical Frameworks

Disclosure theory

Many researchers have made varying attempts to provide a framework for disclosure theory (Beattie *et al*., 2004; Rimmel, 2003; Street and Bryant, 2000; Wiedman, 2000; Adrem, 1999; Cooke, 1989). Disclosure theory is theoretically rooted in economic justifications that disclosure of information underlies agency and information problems, which impeded capital markets optimal allocation of resources (Beattie *et al*., 2004; Healy and Palepu, 2001). Healy and Palepu (2001) mentioned that there are numerous solutions to the agency problem. Normally, the principals seek to align agents towards an optimal contractual relationship by compensation agreements, which bind management to disclose relevant information. This makes it possible for shareholders to analyse whether the corporation's resources have been managed in the principals' best interests. The disclosure of relevant information in financial reporting can be used to monitor the agent's fulfilment of the contractual agreements as it facilitates the disclosure of events and transactions in which managers behave in a manner that is not in the principals' best interest.

In an earlier article Healy and Palepu (1993) showed that financial reporting requirements in annual reports do not help managers to communicate effectively with their shareholders. Therefore, managers will attempt to improve the credibility of their financial reporting by voluntarily providing additional disclosures. Voluntary disclosures allow the reduction in agency problems since agents may articulate the corporation's long-term strategy or specify nonfinancial indicators that might be useful for the principal to analyse the effectiveness of such strategy.

Empirical accounting research on disclosure has focused primarily on cross-sectional variation in contracting variables to explain management's financial reporting decisions (Core, 2001). However, according to Gigler and Hemmer (2001) an increasing number of empirical studies started to establish theoretical links between the properties of mandatory financial reports and the amount of information that managers provide through voluntary disclosures. Disclosure theory presumes that disclosed information enhances stakeholders understanding of corporation's economic risk and as a result lowers the cost of capital. A variety of economic and institutional factors determine whether contracting, regulation and information intermediaries eliminate information asymmetry, or leave some residual information problem. These factors include the ability to write, monitor and enforce optimal contracts, proprietary costs that might make full disclosure costly for investors,

regulatory imperfections and potential incentive problems for intermediaries themselves. Research on corporate disclosure, therefore, focuses on cross-sectional variation in these factors and their economic consequences.

There is an extensive amount of empirical disclosure studies relating to the use of disclosure scoreboards to measure the amount of information that is contained in corporate annual reports (Beattie *et al*., 2004). One study singled out by many researchers as the beginning of disclosure scoreboards for measuring disclosure was a study carried out by Cerf (1961). For this study, a disclosure index was developed to measure the extent of disclosure in corporate annual reports of 527 US corporations. Singhvi and Desai (1971) developed a disclosure index of 34 disclosure items, similar to Cerf's 31 items and weights, to identify characteristics associated with disclosure quality and to investigate probable implications and quality for financial analysts decision-making process for investments. Cooke (1989) developed a disclosure scoreboard consisting of 224 items, which in large parts stemmed from previous disclosure scoreboards.

Although disclosure scoreboards showed considerable variations in the extent and measurement of disclosed items, they commonly share the interest in examining the relevance and usefulness of issued information for investors (Giner Inchausti, 1997). A chronological review of some of the most frequently quoted disclosure studies helps to illustrate how current disclosure scoreboards have evolved and that many are built on earlier disclosure studies (Rimmel, 2003). Consequently, the amount of disclosed information contained in annual reports is of imminent importance to disclosure theory, as these type of studies often assume that the amount of disclosure stand proxy for the quality of disclosure (Beattie *et al*., 2004). Furthermore, many disclosure studies assume that a higher level of disclosure reflects corporations attempt to satisfy the information needs of a varying group of stakeholders.

Stakeholder theory

Stakeholder theory assumes that every company has external relationships with various parties. Each one of these has a specific or special interest in the company. Gray, Kouhy and Lavers, (1995) consider it inappropriate to rely solely on self-interest and profit maximization as the only and main explanation for the corporate provision of information, when social and political factors also affect a company. Thus, it is to be expected that each

group's information needs and communication preferences will vary. It is impossible to satisfy every single interest why groups of stakeholders often are identified. The nature of the relationship that each group has with the company varies, as do the decisions that each group takes concerning the company.

The term stakeholder was defined by Freeman (1984) as "...any group or individual who can effect or is affected by the achievement of the organization's objectives". This means that the stakeholders and the company are interdependent. Companies are dependent of that stakeholders want to participate in its activities and stakeholders are dependent on the company to satisfy their needs. Freeman (1984) also refers to shareholders as those who have legitimate claims on a firm, claims which are established through exchange relationships.

Stakeholder theory focuses on the implicit and explicit contracts between the company and its stakeholders (Donaldson and Preston, 1995). Business leaders have a unique position in relation to this contract because of its strategic position in the company. They can because of this position influence how these contracts appear. The relationship between companies and stakeholders involve implicit or explicit contracts, which aim is to try to reconcile divergent interests (Donaldson and Preston, 1995).

The relationship between stakeholder trust and company information is of particular importance. All relationships depend on trust in one form or another. Trust can be defined as belief without full information (Tomkins, 2001). In the relationship between managers and stakeholders there is often an information asymmetry. Business leaders can influence the information provided to stakeholders, which complicates the problem (Hill and Jones, 1992, p. 140). Business leaders who are perceived as open and willingly to provide information can contribute to increased trust in the company but also for the managers themselves. Another way in which management can increase the degree of trust in the relationship between the company and its stakeholders is to select communication channels and experts to provide information to stakeholders.

Legitimacy theory

Legitimacy theory is closely linked to stakeholder theory and legitimacy theory also deals with the relationship between business and society (Deegan, 2000). The two theories look at accounting as a tool to meet stakeholder demands and thereby make the company's

business legitimate. The theories are not identical as they emphasize different things. One could say that they are complementary because stakeholder theory identifies the company's stakeholders and describes the company's relationships with them while legitimacy theory brings out different strategies to legitimate the company in relation to these stakeholders.

Legitimacy Theory is based on a perception that there is a social contract between the organization and the society. Society expects the organization to carry out their activities in a certain way (Deegan, 2004). Several theories have in common that they emphasize that companies use voluntary disclosure to influence the public perception of the company (Brown and Deegan, 1998). Accounting researchers have used both legitimacy- and stakeholder theory because, according to Gray (1996), it makes it possible to focus on "*the role of information and disclosure... in the relationship(s) between organizations, the State, individuals and groups'*

Legitimacy Theory is the most widely used theory to explain the presence of supplementary information in the financial statements (Gray *et al*., 1995). The perception of the social contract is used to reflect society's expectations of how organizations should conduct its operations or supply information. Business leaders and management has incentives to fulfill the terms of this implicit contract because if society suspect that such contract has been broken it can apply sanctions on the organization (Gray *et al*. 1996). Business leaders often engage in a process of legitimating in order to extend, maintain or defend a company's legitimacy (Dowling and Pfeffer, 1975; Ashforth and Gibbs, 1990; Suchman, 1995). They do this by giving reasons and explanations for behavior in a way that the companies' actions are legitimized. Such statements can be designed in a way that both activities within and outside the boundaries of the firm are explained. The reasons are often those which are compatible with social norms, values and expectations on the organization. This is made to ensure support and legitimacy from the organization's entire environment. Pfeffer (1981). Through communication organizations can try to influence norms, values and beliefs that external stakeholders hold (Dowling and Pfeffer, 1975; Sethi, 1975, 1977, 1978, 1979, Lindblom, 1994). This could be done by communicating with selected symbols and stated values in an attempt to be perceived as legitimate (Dowling and Pfeffer, 1975; Jackall, 1988)

Previous research has shown that several different sources of information are read by a majority of shareholders (Bartlett and Chandler, 1997). One of these sources read are the company Annual Report. The most important sections for shareholders in this report,

according to Bartlett and Chandler, are the financial summary, the chairman's statement and the profit and loss account. The narratives are generally rated more important than the financial statement sections. McInnes, Beattie and Pierpoint (2007) found that the chairman's statement was the most important part read by most private shareholders and Epstein and Pava (1995) showed that MD&A was used more by inexperienced users. A more recent study showed that narrative reporting information in the annual report is used more frequently by those stakeholders that lack access to alternative communication channels of corporate reporting information (Rowbottom and Lymer, 2010).

Method

Being interested in the production of corporate annual reports it was necessary to gain access to listed companies and the public relation agencies they hired to get insight on how the processes and interplay take place to produce a corporate annual report. At first, it was thought of observing the interplay between listed companies and the public relations company during the period when the annual report is being produced. Although Swedish companies normally are very open minded to research, granting access to most secretive corporate areas, it was an impossible mission to convince listed companies to participate observing their annual report production. Here this research would have ended; if not public relation agencies would have found interest on the subject of this research. A number of senior consultants specialised in the production of corporate annual reports participated in interviews, where they spoke uninterrupted about their experience from the interplay between the public relations agency and the listed corporations during the annual report production process.

At the start of each interview, the public relations consultant was initially assured to remain anonymously and that the given evidence was untraceable neither to a specific public relations agency nor to their clients. Accounts were provided by number of specialised consultants from leading Swedish public relations agency that are covering or have worked with a large portion of corporations listed at the Swedish stock exchange. During the interviews all consultants draw on their specialist knowledge regarding specific challenges for the vary sizes of listed corporations they have worked with in annual report production.

The generic model of corporate annual report production was developed after these interviews and modified towards different sizes of listed companies. In follow-up meetings with the participating consultants further accounts have been given to portray the varying role of public relation agencies during the corporate annual report production. Therefore, additional questions had been possible to be addressed and further clarifications were provided. The typical encounter lasted about one hour and the longest lasted three hours. Each encounter was very open-minded and numerous anecdotes contained informal evidence that developed the understanding on the interplay between public relation agencies and their clients. During the interview and meetings many responses were identical when it came to the description of the generic annual report production model. In this respect the unexpected access problem with the corporation was nothing to worry about afterwards.

The Annual Report Production Model

The development of a generic model of corporate annual report production shows in principle four major players in interplay. The first player is the Chief Information Officer (CIO) that is head of investor relations within a corporation facilitating the communication between the corporation and its stakeholders. The second player is the Chief Financial Officer (CFO) who is in charge of corporate accounting. The third player is the public relations agency that is hired to provide their specialised communication knowledge and production know-how, helping the listed corporation to produce a professional corporate annual report. The fourth major player in corporate annual report production is the auditing company that is assuring that the financial statements are fulfilling the statutory requirements approving the corporate annual report as a legal document. The Chief Executive officer (CEO) or the president is traditionally not very much involved in during the production process per se but carefully reads and reviews the final annual report draft before signing it.

The corporate annual report includes a multitude of content composed of numbers, texts and pictures. Commonly, a distinction is made between the *Narratives* (often referred to as Part 1) and the *Financials* (often referred to as Part 2). Due to listing agreement requirements, auditing companies are hired by listed corporations to assure that the underlying economic transactions are well documented and entered the financial

statements correctly. It is important to mention that it is not mandatory for auditing companies to audit the narrative parts of Swedish corporate annual reports. During all interviews there was a common understanding that the role o PR agencies varies with the size of a company. In Sweden there are two different stock exchanges the NASDAQ OMX and the NGM Equity. The NASDAQ OMX is by far the largest and contains three lists categorised into Large Cap, Mid Cap and Small Cap illustrating the capitalisation of corporations. Consequently, the respondents' described the following three variations of the annual report production model regarding small listed companies, medium listed companies and large listed companies.

These three variations are only applicable for those companies where public relation agencies have been involved in the annual report production process, which according to a recent survey applies to 95% of all Swedish listed companies (Rimmel and Jonäll, 2011).

Annual Report Production Model for Small Listed Corporations

Most of the respondents started with the production process of annual reports for small listed companies (see Figure 1). The reason for this is that the public relation agency has the largest degree of influence on the production process of annual reports both on content and form. Typically, the annual report production is owned by the CIO of the small listed company who is responsible that the annual report is ready to distribute at a certain point of time. The CIO is responsible that the CFO delivers the financial statements to fill the financial part 2 of the annual report. Although being in charge, commonly the CIO has very limited number of employees, if at all, working entirely with annual report production process. In many cases the CIO and the CFO is one and the same person. The public relations agency consists of a number of specialised consultants. Due to the fact the public relations companies seldom just have a single client for whom they are producing annual reports they have professional knowledge regarding structure and design of annual reports.

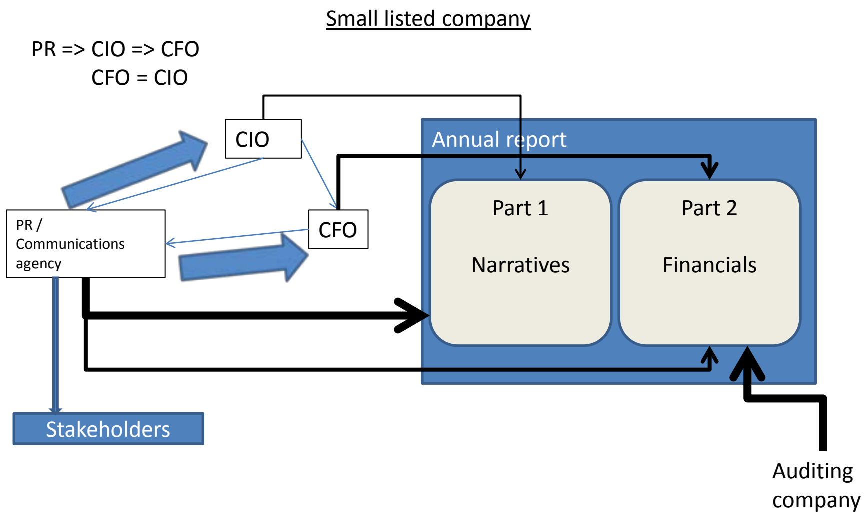

Figure 1. The Annual Report Production Model for Small Listed Corporations

Therefore, the public relations agency has the possibility to influence the CIO regarding content and design of the annual report. In many cases, the CFO of small listed companies follow templates suggested by their auditing companies on the financial statements, as well as applying template notes to the accounts in order to be certain to comply with IFRS requirements. Since the accounting department has limited number of employees they often do not have the possibility to be experts in all IFRS questions. Therefore, the large possibility of influencing the content and form of part 2 in the annual report production process is illustrated in Figure 1 as a bold arrow from the auditing company. Certainly, the CFO provides the numbers from the accounts and the financial statements but expertises from the auditing company's handbooks are acquired. It is common for small listed companies that even the public relations agency have specialised consultants that work on the narrative part of the notes to the accounts. In this case, it is also common the consultants start to work from their standard template fitting it to context of the small listed company. The part where it is most common that the public relations agency is providing considerable input is on the narrative part of the corporate annual report for the small listed company.

Due to their expertise specialised consultants can have considerable influence on the CIO on how the corporate annual report should be structured and designed. Moreover, the public relations agency often has substantial control on contextual information regarding

the small listed corporation. The contextual information is not simply reduced to provide the background of the market environment the small listed corporation is operating in, but compiled a comprehensive list of information items. It is common that specialised consultants interview senior management and the board of directors to deliver descriptions on the corporate objectives and strategy; insights into performance and prospects like risk analysis, product information, industry-specific key performance indicators (KPI). The management discussion and analysis (MD&A) is often written by a copy writer specialist after an interview with the CEO or corporate president. If the public relations agency might be among the largest it could be the fact that they have one specialised consultant who is a well versed copy writer and writes numerous MD&As or CEO letters. In this case there might be a similarity in structure and writing style apparent when comparing different listed companies.

Hence, the annual report production process of small listed companies is in large parts significantly influenced by the knowledge and production know-how of the public relations agency, as illustrated by the very bold arrows from the public relations agency towards CIO and CFO. Not only that the public relations agency is responsible for the layout and pictures but the structure and text of the narrative part 1 of the corporate annual report mainly originates from specialised consultants and not from the CIO, who is responsible for the corporate annual report. The same applies for financial part, where auditing companies are largely involved.

Many examples have been provided during the interviews that the corporate annual report's information content is not systematically worked on out of an information usefulness analysis for the multitude of possible stakeholder groups. If at all being performed it is a task done by the public relations agency. However, such an analysis might be reduced the contact of a single analyst. Other stakeholder groups like private investors, suppliers, customers, authorities or employees are normally not considered. One explanation is that such a stakeholder analysis regarding their information needs is time consuming and costly. Small listed corporations might have very limited analyst following. Therefore, information preferences of stakeholders might not correspond with the information needs of different stakeholder groups regarding corporate annual reports of small listed corporations.

Annual Report Production Model for Medium Listed Corporations

The production process of annual reports for medium listed corporations was described as being largely identical for the annual report production model for small listed companies (see Figure 2). Even for medium sized listed corporations' public relation agencies have a high level of influence on the production process of annual reports both on content and form. The difference to small listed corporations' model is that medium sized have CIO and CFO function being distrusted on two separate persons. It is common that the process of annual report production is owned and controlled by the CIO of the medium listed corporation. In turn the CIO communicates with the CFO who is responsible for compute the financial statements for part 2 of the corporate annual report reflecting the economic transactions during the reporting year. Although the CIO is responsible for the corporate annual report production process as such, choosing services of a public relations agency outsource large parts of the production process to specialists of the public relations agency. The CIO of a medium sized listed corporation often has a small number of employees who are assisting in retrieving the necessary basic information that should made up the content of the corporate annual report. However, the CIO relies to a large extend on the knowledge and expertise that the public relations agency has accumulated through the production of corporate annual reports from other clients. Therefore, the public relations agency has a high degree of influence on the content and design of the corporate annual report. Although the CIO might have a good understanding on the companies' value creation process and contextual information the specialised consultants often draw on their experience when it comes to enhancing visibility of certain company insights in the corporate annual report. As the large bold arrows in Figure 2 illustrates public relation agency often make suggestions to the CIO as well as to the CFO on how impact of external trends and factors can be determined with corporate description on specific numbers and figures in order to enhance understandability on particular strategic path that the corporation might have chosen.

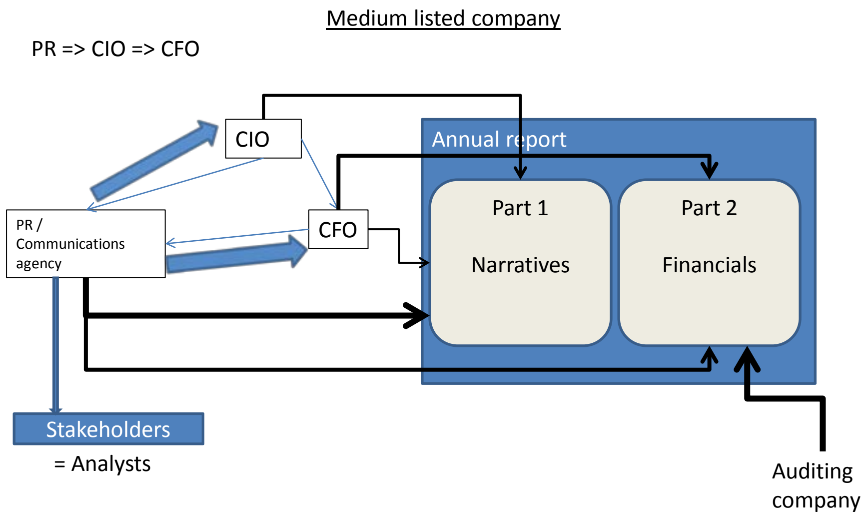

Figure 2. The Annual Report Production Model for Medium Listed Corporations

In consequence, the CFO also might contribute to the narratives part of the corporate annual report, which is illustrated by a small arrow from the CFO to part1 of the corporate annual report. It is still apparent that the CFO relies on suggestions from the auditing company with help from their templates for financial statement and notes to the accounts.

This is to ensure that the proposed statements and notes comply with IFRS requirements. In rare cases experienced CFOs of medium sized listed companies have a particular interest in IFRS and developed own handbooks on standards. However, that the CFO provides the numbers from the accounts and the financial statement by applying the expertise from auditing company's financial reporting handbooks. For the majority of medium sized listed corporations specialised consultants from public relations agencies rewrite the suggested notes to the accounts in order to increase readability. Therefore, the large possibility of influencing the content and form of part 2 in the annual report production process is illustrated in Figure 1 as a bold arrow from the auditing company and smaller arrow from the public relations agency is representing the possibility of influencing the text on the notes to the accounts in the financial statements.

Like in the model for small listed corporations, the structure and design of the corporate annual report for medium sized listed corporations is subject to considerable influence by the expertise from the public relations agency. The expertises of specialised consultants

from other clients assist the CIO to determine how the corporate annual report should be structured and designed. Especially on the narrative part specialist knowledge from consultants is often acquired to provide adequate contextual information in corporate annual reports of medium sized listed corporations. Like in the model for small listed corporations, specialised consultants interview senior management and the board of directors to deliver descriptions on the corporate objectives and strategy; insights into performance and prospects like risk analysis, product information, industry-specific key performance indicators (KPI). Even for medium sized listed companies the management discussion and analysis (MD&A) is frequently written by a copy writer specialist who interviewed the CEO or corporate president.

Therefore, it is apparent that public relations agencies start to work from their standard template of annual report that they fit and customise to context of the medium sized listed corporation. Due to the fact that the public relations agency make substantial contributions on the narrative part during the annual report production process of medium listed corporation the content of a corporate annual report is in large parts influenced by the knowledge and production know-how of the public relations agency.

As for small listed corporations, the information content in annual reports of medium sized corporations is not systematically worked on towards information needs of different stakeholder groups. In order to get feedback on the perceived overall quality of the annual report, public relations consultants or the CIO contacts a limited number of analysts. Hence, no focus specific effort has been put on the information needs of different stakeholder groups like private investors, suppliers, customers, authorities or employees.

Annual Report Production Model for Large Listed Corporations

The production process of annual reports for large listed companies (see Figure 3) is in large parts the same as for small or medium sized listed corporations. However, what differs is the degree of possibilities from public relations agencies influencing content and design during the annual report production process. The reason for this is that a large listed company usually has employed considerable number of personnel working within the corporate accounting department and have a well established investor relations unit.

In consequence, large listed corporation have the man power to develop their own blueprint wand ideas when it comes to corporate reporting. In consequence, public

relations agencies' involvement in the annual report production process is assigned to well-defined tasks. The possibilities to suggestions by the public relations agency influencing the content and form of the corporate annual report is considerably limited in comparison with the annual report production process for small and medium sized listed corporations.

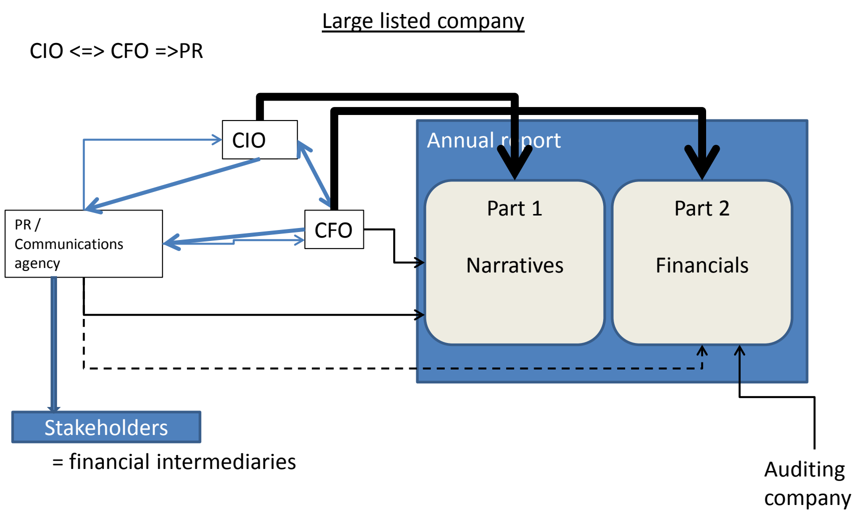

Figure 3. The Annual Report Production Model for Large Listed Corporations

The CIO of large listed corporations owns the process of annual report production and has control over content and form. The illustration in Figure 3 shows that there is often interplay between the CIO and CFO regarding emphasise on specific themes in the narratives part. There is a more defined distinction regarding the CIO and CFO. While the CFO mainly is responsible for financial statements and the note the CIO focuses on the narrative part. This is illustrated as large arrows from CIO to part1 and CFO to part 2. When it comes to the involvement of specialised consultants on the financial part the CFO most often limit this service to linguistic adjustments to the notes. This is why the arrow between public relations agency is illustrated as a slim dotted line. Even the role of the auditing company is comparably different to those they have in small and medium sized listed corporations. Due to the fact that the corporate accounting department consists of a larger number of personnel, the CFO has often established corporate accounting guidelines

for fulfilling the IFRS requirements and how to proceed in producing the financial statements and notes to the accounts.

The same applies for the CIO of a large listed corporation who has established own templates on form and design, which the public relations agency then has to apply during the annual report production process. Thus the arrows in Figure 3 are much thinner from the public relations agency to the CIO and to the narratives. In contrast, the arrows from CIO and CFO to the public relations agency are thicker in comparison to models for small and medium sized listed corporations, as the CIO and CFO of a large corporations are more likely to tell the public relations how to apply their provided annual report production policy.

The public relations agency has very limited influence on the CIO and CFO regarding content and design of the annual report, although they are still very experienced from work with other clients and professional knowledge regarding structure and design of annual reports. Their input is merely to work with the presentation of the contextual framework. This information is in large parts provided by the investor relations unit, which in turn retrieved this information from specific parts within the corporations. Therefore, the public relations agency is fine tuning the received contextual information on the background of the market environment, corporate objectives and strategy; insights into performance and prospects like risk analysis, product information, industry-specific key performance indicators (KPI). However, one area that is still a task for specialised consultants are the MD&A and CEO letter. Here they are subject to be influenced by the specialised consultant to the same extent as they are for small and medium listed corporations.

Hence, the annual report production process of large listed corporations is merely controlled by the CIO and few opportunities are left to the public relations agency to influence form and content during the annual report production process.

When it comes to stakeholder group analysis the investor relations unit of the large corporation tries to retrieve information from financial intermediaries like analysts, fund managers or institutional investors. Although more focused on the information usefulness and how the corporate annual report content is being perceived this is far from being a systematic analysis from a multitude of possible stakeholder groups. In that sense, the information preferences of a certain stakeholder group might be.

Concluding discussion

Given the fact that tremendous amounts of accounting studies have studied a multitude of perspectives regarding content and design of annual reports, it is curious that there have been no attempts so far to study how annual reports are being produced. Reviewing the accounting journals there has been much emphasise but on developing different theoretical strands that are presuming that the content of annual reports is exclusively controlled by companies. This reminds more of a black box approach, where the annual report is treated like an objectified instrument of truth, like one of the respondents mentioned during the interviews.

Evidence from this study suggests that the annual report production process is not exclusively controlled by the corporation but it is to a varying degree influenced by the specialist knowledge of consultants working for public relation agencies. It becomes apparent that it is unlikely that the interplay between listed corporations and public relations agencies have no implications on the information disclosed in corporate annual reports or how information preferences of different stakeholder groups have been served.

This study implies challenges to the current development in disclosure theory. The dominating content-analytical methods that are applied in disclosure studies might not just have to deal with the weakness of establishing a comprehensive disclosure profile that Beattie, McInnes and Fearnley (2004) propose. According to this study, such a claim might be valid for large listed corporations only, or those few companies that have not involved public relations agencies and mastering the task of annual report production entirely on their own.

However, academic disclosure research has missed the fact that the involvement and the large influence of public relation agencies on small and medium size listed companies might lead to fact that specific types of information might be disclosed more frequently. Streamlining disclosure and specific information patterns might occur due to the fact that the public relations agency applied their own annual report templates on several clients. Like the example of the specialised copy writer for MD&A and CEO letter reveals there might be a systematic risk of identical information patterns in disclosure apparent. If one consultant is writing up to fifteen CEO letters within a short period with high production pressure on the consultant it is not unlikely that these fifteen CEO letters might be written after a certain template. In consequence for disclosure studies this would lead to specific

amounts or items being counted for depending on the public relations agency involved in the annual report production process. As a result, disclosure profiles those content analysis methods, no matter if hand collected or computer-assisted, try to establish might be biased not by the level of individual corporation or industry but by size and which public relations agency had been involved in the annual report production process.

Other research areas that might be challenged by this research are stakeholder theory and legitimacy theory. Stakeholder theory focus on that management of corporations has incentives to contract efficiently with each stakeholder groups in order to minimise costs. Contracting costs can be reduced through developing a relationship of trust between the corporation and its stakeholders. One way of increasing that trust is to reduce the information asymmetry between corporation and stakeholders. Holland (2004) that annual report played a central role in a comprehensive system of disclosure that builds trust for stakeholders. Numerous accounting studies presume that the annual report is being designed as a multipurpose information vehicle that is fine-tuned to satisfy the information preferences of different stakeholder groups. The evidence from this study revealed that listed companies are not considering a multitude of different stakeholder groups but merely analysts or financial intermediaries. In a legitimacy theory context, it is argued that management has incentives to disclose information that legitimises their operations in the eyes of different groups in society. This is might be challenged by the fact that for small and medium sized listed corporations the disclosed information not necessarily originates from management but a well versed copy writer. Therefore, it could be questioned how systematically corporations work on legitimising their actions towards different groups in society when it comes to the disclosed information in annual reports.

A major contribution of this study is to open accounting research into a new direction studying the complex processes that take place during the period of producing the corporate annual report. The present study and the models derived from the encounter with public relation specialists is exploratory in nature and the model illustrating the interplay between four major players in the annual report production process is quite aggregated and simplified. Therefore, further research that builds on, refines and extends these models is necessary and welcomed.

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