DOCUMENT RESUME

ED 370 138 CS 214 352

AUTHOR Myers, Marshall
TITLE Rhetoric Hewn by Audience and History: The Evolution of the Annual Report as a Business Document.
PUB DATE 19 Mar 94
NOTE 11p.; Paper presented at the Annual Meeting of the Conference on College Composition and Communication (45th, Nashville, TN, March 16-19, 1994).
PUB TYPE Speeches/Conference Papers (150) -- Historical Materials (060) -- Viewpoints (Opinion/Position Papers, Essays, etc.) (120)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Annual Reports; *Business; *Business Correspondence; Federal Regulation; Higher Education; Persuasive Discourse; *Technical Writing
IDENTIFIERS *Historical Background; Rhetorical Genres; Rhetorical Strategies

ABSTRACT

Various genres of writing, such as corporate annual reports, do not evolve fully adapted to the purpose for which they were created. A historical review of use to professionals and students shows that annual reports have gradually developed from modest beginnings to become elaborate, slick, and purposeful documents, bending in time to economic conditions, adapting to a changing and complex audience and responding to new rules and government regulations. The first annual report issued in the United States was in 1837 by the Baltimore and Ohio Railroad. Ownership of corporations moved more into the public's hands in the late 19th century, and out of the hands of one person or a handful of owners. Annual reports into the 1920s were more an attempt to withhold information rather than to inform stockholders. A trend began toward companies revealing more and more information, after passage of the Securities Exchange Act of 1934. Paul Runyan's annual reports for Litton Industries, particularly one in 1962, transformed the annual report into a "sales machine with vision and creative energy." The Securities and Exchange Commission in 1978 responded to increasing public pressure and asked for more information in annual reports. Since 1980, the federal government has moved toward even more standardization of reports. The 1990s began with a few companies shying away from long annual reports and publishing summary reports that met minimum requirements. (Contains 10 references.) (RS)

CS

Rhetoric Hewn by Audience and History: The Evolution of the Annual Report as a Business Document

Marshall Myers

Texas Tech University

Conference on College Composition and Communication

March 19, 1994

While we are quick to acknowledge that people and events shape the course of history, we don't often discuss the role of people and circumstances in molding the form and purpose of a rhetorical artifact. We sometimes tacitly assume that various genres of writing evolve fully adapted to the purpose for which they were created.

But, of course, they do not. Indeed, documents like the annual report, for example, gradually developed from quite modest beginnings to become elaborate, slick, and purposeful documents, bending in time to economic conditions, adapting to a changing and vastly complex audience, and responding, albeit begrudgingly, to new rules and government regulations.

In fact, the very definition of the annual report bespeaks of a complex document and hints at the sweeping changes it has undergone since its beginnings:

> A corporation's financial and organizational report prepared by its officers on a yearly basis, as required by law, stating the

> corporation's assets, liabilities, earnings, general financial condition, profits, and losses and other information that may provide evidence to stockholders, customers, and creditors of the organization's ability to pay its debts, and indicating the officers' goals and assessment of its performance potential (Nisberg 16).

How did the annual report evolve as a genre? Why does the present document attempt to serve so many masters: from shareholders to the federal government, from customers to creditors, or from security analysts to potential buyers? Why does the document focus on so many purposes? In other words, how did the annual report get to be what it is today?

Although some controversy exists over when the first American annual report appeared, evidence seems to indicate that the first annual report issued in the United States was issued in 1837 by the Baltimore and Ohio Railroad. This document was published at a time when there were absolutely no government regulations requiring such a document to be made available either to the company's stockholders or to the general public (Cato, 1985, 17). What is so significant about the Baltimore and Ohio Railroad issuing an annual report is that the railroad would actually publish a report at all, even though the tone and tenor of the company's financial secretary's note seemed to indicate that at least he wasn't entirely happy with issuing such a document:

> The foregoing is an approximate estimate of the present situation of the company, and may not be strictly accurate, but it certainly comes within two or three thousand dollars.
>
> (Meyer 12)

This statement clearly indicates a prevailing attitude at the time: American business was very reluctant to disclose the financial state of the company in any form. Indeed, that unwillingness has been a recurrent theme in the history of annual reports. In point of fact, a large corporation, during much of the nineteenth century, was usually owned by one person or a mere handful of owners who, for the most part, dictated the direction that a large company would take, free from the constraining influences of having to account to a host of stockholders (McLaren 3). American companies at this time believed that what they chose to do with their factories, railroads, and banking institutions was really no one's business except those who owned large chunks of stock in the corporation or institution.

In his study of the annual report, Loyall McLaren notes that prior to 1860, every corporation in the United States had been created by a separate charter. It wasn't until 1888 that the Supreme Court of the United States ruled that "due process" applied not just to individuals but to corporations as well, effectively erasing "the doubts which had surrounded the corporate organization" (3), and paving the way for the beginnings of "stock flotation" as we now know it. As a result, equity issues on the New York Stock Exchange grew from a mere 219 in 1880 to 619 by 1920, a staggering rise of over 353 percent. Now, with ownership moving more and more into the public's hands, a need existed to communicate with the constituency of owners, despite some companies' reluctance.

Bryant notes that "in the old, pre-income tax days, owners were frequently managers, and big share owners were on boards of directors by automatic election." Thus, Bryant says, "such shareholders needed no fancy reports to know how their company was doing; they could ask and be assured of an answer" (106).

But by the 1920s, things had begun to change. And, of course, genuine change needed to happen. One company, for example, the publicly owned Royal Baking Powder Company, went thirty-five years without even issuing an annual report, while DuPont's 1907 report was a mere six pages long with only the barest compilation of information to satisfy only the handful of stockholders who were, in fact, the managers of the corporation. Once again, the annual reports seemed at times to be attempts to withhold information rather than to inform the stockholders on the outside of the corporate structure, where information was difficult, indeed, virtually impossible to find.

All this secrecy was in spite of a clarion call from the New York Stock Exchange, which as early as 1869 required its members to issue some form of annual report. In fact, few complied with the requirement (Poe 6). But in 1916, General Motors Corporation did publish a semiannual income account and balance sheet for the New York Exchange, the first real agreement by a large company to give the Exchange this amount of financial data. After this agreement with General Motors, the Exchange had the clout to require more and more companies to issue reports on the state of the individual corporation (McLaren 6-7).

Again, the time was ripe for change, and the change came in the depths of the Great Depression when the federal government stepped in to try to avert another major tragedy like the Stock Market Crash of 1929. With the passage of the Securities Act of 1933 and the Securities Exchange Act of 1934 (McLaren 7), there began what Adolph Lurie called a "trend toward more disclosure of information for stockholders" (17). The S.E.C. subsequently established rules that influenced both the kinds and the amount of information a company had to provide its stockholders. Essentially what those rules meant to the format and content of annual reports was that now companies had to, in some cases, at least, explain the figures in the balance sheet if the corporation was to attract investors and other stockholders. Such a move ushered in the need for a chief executive's letter to the stockholders as the means to explain the figures.

According to Lurie, the S.E.C.'s goal at this time was to move more and more companies toward revealing more and more information about their corporations' organization, financial shape, and future plans: "According to the S.E.C., the name of the game is disclosure" (17). In a very real way, then, the S.E.C. has encouraged the corporate world toward affording the potential investor as much information as possible.

But the first efforts at more required disclosure produced reports that have been described as "terse" and "niggling" at best (Poe 8). In fact, it wasn't until 1955 that the annual report, resplendent with color pictures, slick paper, and an attempt at writing that involved stockholders, began to be produced. To this end, I.B.M. hired Paul Rand, a leading graphics designer, to "deliver a sparkling magazine style in the modern annual report (Poe 8). What is significant about the advent of these I.B.M. reports was that other corporations began to realize that the same old tired prose, translucent only to trained accountants, would no longer suffice. If corporations hoped to attract new investors, they would have to produce prose that the average reader could understand. One executive captured the essence of this new rhetorical spirit this way: They wanted to find "a writer who had actually finished school" (Poe 8). Once again, corporations reluctantly moved toward revealing more of themselves to the investing public.

Important along the way, however, was the work of Paul Runyan who transformed the annual report of Litton Industries into "a spectacular sales machine... with vision and creative energy" (Meyer 12). Litton's 1962 report, for example, used a photo of the Acropolis on the cover to reinforce a text that burst with the spirit of freedom and that painted Litton as a company with great vision and creative energy (Poe 8). With such models out there as Litton's, who even hired Andrew Wyeth to paint the cover art (Meyer 12), it is no wonder that more and more corporations began producing elaborate and detailed annual reports. In fact, events just down the road provided even more impetus.

Effective March 15, 1978, the S.E.C, responding to increasing pressure from a general public becoming more and more disenchanted with questionable business practices, asked for even more information from annual reports. Silk and Vogel in Ethics and Profits state that about this time many companies felt very resentful that the government was "forcing" them to be more socially responsible (56). Such governmental intervention caused a backlash in many companies, prompting them to resist any "requests" the government made. The government, in turn, was forced to crack down on the business world in general with what most business leaders saw as needless government regulations.

With the crackdown, the government asked for even more information from annual reports than before. While many of the new requirements had to do with the financial disclosure, there were important changes that affected the narrative portion of the annual report. The S.E.C. now required, for example, a narrative description of the business, meaning that a company had to compose at least part of the annual report in prose for reading by potential investors and stockholders.

The years since 1980 have been called the "serious period" in the production of annual reports (Poe 8). That label applies because the federal government has moved toward even more standardization of reports by requiring certain financial documents as well as documents that would aid the reader in evaluating the past performance and managerial strategies of a particular company. According to one expert, Fraser Seitel, writing in U.S. Banker, the S.E.C.'s subtle pressure was designed to "make annual reports less tedious and more relevant" (89).

The 1990's began with a few companies like Chase Manhattan, General Motors, and McKesson Corporation shying away from long and often overpowering annual reports and resorting to publishing "summary reports," (Seitel 89). These "summary reports" meet the minimum requirements of the S.E.C., but offer little more.

Thus, the present-day annual report: a document with a colorful history, adapting to economic conditions, governmental regulations, and the demands of the stockholders, security analysts, and the forces of history. To understand the annual report as a rhetorical document, we must first understand just where it came from, for like so many business documents only when we appreciate the context out of which they arose are we ready to see just what the document is made of.

Sources

Bryant, Samuel. "How's the Annual Report Coming?" Fortune January 1964: 104-107.

Cato, Sid. "The Annual Report: 'Here I Come, World.'" Public Relations Quarterly 30 (1986): 17-21.

Lurie, Adolph. How to Read Annual Reports. Englewood Cliffs, New Jersey: Prentice-Hall, 1984.

McLaren, Loyall. Annual Reports to Stockholders. New York: The Ronald Press, 1947.

Meyer, Herbert E. "Annual Reports Get an Editor in Washington." Fortune 7 May 1979: 210-212; 216-222.

Nisberg, Jay N. The Random House Handbook of Business Terms. New York: Random House, 1988.

Poe, Randall. "The Old Gray Annual Report Ain't What It Used to Be." Financial World December 1979: 2-12.

Seitel, Fraser P. "Rethinking the Annual Report." U.S. Banker October 1989: 89-90.

Silk, Leonard and David Vogel. Ethics and Profit. New York: Simon and Schuster, 1976.

Sources

Bryant, Samuel. "How's the Annual Report Coming?" Fortune January 1964: 104-107.

Cato, Sid. "The Annual Report: 'Here I Come, World.'" Public Relations Quarterly 30 (1986): 17-21.

Lurie, Adolph. How to Read Annual Reports. Englewood Cliffs, New Jersey: Prentice-Hall, 1984.

McLaren, Loyall. Annual Reports to Stockholders. New York: The Ronald Press, 1947.

Meyer, Herbert E. "Annual Reports Get an Editor in Washington." Fortune 7 May 1979: 210-212; 216-222.

Nisberg, Jay N. The Random House Handbook of Business Terms. New York: Random House, 1988.

Poe, Randall. "The Old Gray Annual Report Ain't What It Used to Be." Financial World December 1979: 2-12.

Seitel, Fraser P. "Rethinking the Annual Report." U.S. Banker October 1989: 89-90.

Silk, Leonard and David Vogel. Ethics and Profit. New York: Simon and Schuster, 1976.