

## Effective Annual Reports

In the present era of globalisation and cutthroat competition, increased attention is being paid on the presentation of the annual reports to make the companies stand out of the pack. This article identifies certain conventions and thumb-rules for effective communication by going through SEC guidelines on Plain English, literature on effective use of graphs & tables and rules for style in written communication for enhancing effectiveness of annual reports.

By January each year, the team responsible for preparing Annual Report gets down to the job on hand. For the teams that started work earlier, this is the time to fine tune the content and presentation. For others who have not started the work on annual report by this time, there is an alternative to just replace the current year numbers in the previous year's annual report. In addition to replacing the numbers, there are a few rules which, if followed, can make the annual report a more effective communication.

**Written communication can take any one of the following forms:**

- a. Text
- b. Tables
- c. Graphs
- d. Pictures
- e. Maps and Diagrams

Often effective written communication uses a combination of these forms.

Text is what we come across the most in written media. Tables, graphs, pictures and maps are more seen in visual media like television, power point presentations and hoardings.

Computers have the ability to integrate text with tables, graphs, pictures, maps and diagrams. With increasing use of computers, effectiveness of written communication can be enhanced by integrating multiple forms in one document based on their specific utility.



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**Empirical studies on readability have found the following:**

- Font size between 10-12 are conducive for faster reading
- Full sentences in upper cases are hard to read
- Left aligned text alignment with right end ragged is preferred
- Line spacing of 2 points more than the font size is conducive
- Column length of 32-64 characters promote faster reading
- Long paragraphs can be broken into bullet points for better communication

The rationale for all the points listed above is ease of visual differentiation. Sentences in upper cases retard reading speed as the height of letters is equal requiring more attention to each letter. Similarly, right justified alignment of sentences reduces reading speed as the spaces between words vary requiring frequent change in speed of sight flow. Likewise the logic for shorter column length is the ability to sight an entire line in one go.

### Text categories

Text by itself is a broad category. It includes narration, essay, epistles, sermons, questions and answers and dialogue forms. Each one of these forms meets a specific requirement. Salient features of each of these forms and their suitability for annual report is described herein.

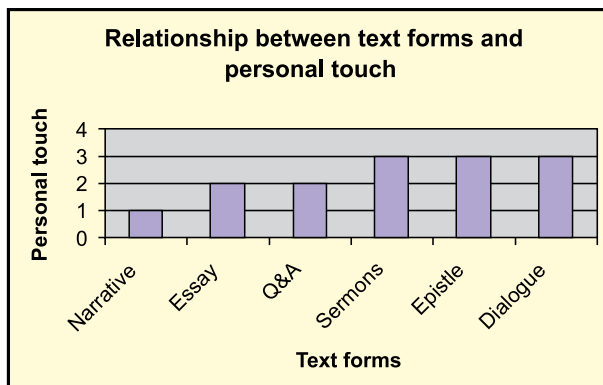
Narrations are more effective when something needs to be told, recounted or described. Typically, industry scenario, economic environment and business conditions communicated in a narrative form are effective. The merit of narration is in its objectivity by keeping the writer in background.

Essays are a variant of narrative form in which the viewpoint of the author is visible. This form is ideal for management discussion and analysis of business performance where the reader of the annual report can see the business performance and financial statements through the eyes of the management.

Epistles or letters have a much more personal touch and they provide an effective choice for sharing a personal insight or opinion. This is the most used form for Chairman/CEO's communication with the stakeholders. In this the personality of the individual comes to the fore for the reader to judge the 'pilot' steering the business.

Sermons have a personal touch and take the form of verbal communication like a lecture, oration, talk or address. This form is not often used in annual reports. Exceptions are an iconic figure sharing their personal experiences and lessons, typically an acknowledged guru or a retiring Chairman or CEO. They draw extensively upon their personal experience and insights to draw lessons for the benefit of readers.

Question and answer format is often used to present facts and opinions to the reader in a more engaging form. The questions provide a context for the answers and thereby enhance the reception of information shared. Information required by shareholders which are procedural in nature like answering a check list or information on transfer process, non receipt of dividend warrants, procedure to record change of address are frequently handled through question and answer formats.



Dialogue format is rarely used in annual report presentations. A variant of dialogue format is the interview. Exceptions seen are of interviews between a top rated analyst and CEO or a large customer interacting with an industry analyst or employees reacting to a change. Dialogue format has the merit of bringing in a sense of reality that is tough to achieve in other forms.

## Tables and Graphs

Tables and graphs are a very effective way of presenting quantitative information. In the words of Edward R Tufte in his best known work the Visual Display of Quantitative Information, "at their very best, graphics are instruments for reasoning about quantitative information. Often the most effective way to describe, explore and summarise a set of numbers –even a very large set –is to look at pictures of those numbers. Furthermore for all the methods of analysing and communicating statistical information, well designed data graphs are usually the simplest and most powerful."

The contrast between a graph and a table is best illustrated by the analogy of an analog clock and a digital clock. Graph is an analog presentation that immediately communicates relationship between two variables, while tabular presentations have the precision of a digital clock.

Graphs were first used for public communication in 1795 by the French National Convention when they introduced the metric system. Earlier efforts to introduce the system had failed as some people who understood the metric system cheated the majority who did not understand the new system. French Committee on Public Instruction was instructed to prepare graphs depicting relationship between the old measurement system and the new measurement system. With graphs people who did not earlier understand could easily estimate the relationship between the old measures and the new measures without making specific calculations.

## Advantages and limitation of graphs

William Playfair, an English statistician was the first person to apply graphs and tables to finance. In 1786, he wrote "I have succeeded in proposing

a new and useful method of stating accounts... As much information can be obtained in five minutes as would require the whole days to imprint in memory... by a table of figures."

The advantage of a graph is that it is quick, forceful, convincing, compact and interesting. However, this comes at the cost of being approximate, technical, demanding, costly and not always usable.

### Features of different text forms

Text forms	Personal touch	Dramatic effect
Narrative	L	L
Essay	M	L
Q&A	M	M
Epistles	H	M
Sermons	H	H
Dialogue	H	H

L= Low, M=Medium, H= High

Tables in contrast are clear, explicit, comprehensible, and economical. They however have the lacunae of being uninviting and too specific.

Research on use of graphs and tables has led to some thumb-rules being identified for its effective usage. The logic for them is equally compelling.

#### The thumb-rules for graphs emanate from the spatial characteristics:

- Use only 2D figures because graph is a spatial representation. 3D representations distort as cylinders or cuboids blocks twice its height is much more than twice the volume.
- Start the x and y axis from zero base line. Not using zero base line can render a 4% variance as 40% or 400% variance
- Reflect timelines from left to right chronologically. The eye is trained to move from left to right and hence earlier years to the later.
- Where both negative figures and positive figures are depicted, show zero base line in the middle of the graph

- Use both horizontal and vertical grid lines. They help relate different lines / bars in the graph by providing reference points to the eye.
- Use borders for graph to confine the line of sight and avoid distraction
- Do not use more than four colors in a graph. Mental ability required to process larger number of colors reduces the impact by slowing down comprehension.
- Pie charts are effective only for less than six slices. Beyond this comprehension is lost.

### Thumb-rules for using Tables

For use of tables there are fewer thumb-rules. Conventionally in tables depicting cause and effect relationship, causes are presented on rows and effects are captured on the columns. The second thumb rule is that the data on rows should be organised sequentially based on comparability of effect rather than alphabetically order or any other predetermined sequence that has less relevance for the data in the table.

The choice between using a table and graph is a critical decision as it contributes to effectiveness of communication.

Tables are effective in depicting relationship that has precision. Line graphs are superior to table only when a task of medium complexity is performed. For simple tasks, tables perform better than graphs.

Graphs are used to summarise the conclusions and have better recognition and recall as they reduce information load and can be processed faster.

### Pictures, maps and diagrams

'A picture is worth a thousand words' goes the popular saying and few can dispute this. And the power of a picture can be multiplied by judicious use of captions. Captions provide a framework to the viewer and highlight what the author wants the viewer to see.

Maps and diagrams are a variant of pictures. While maps depict a physically available spatial

relationship, diagrams depict abstract relationships between objects and concepts. Captions play a more critical role in maps and diagrams than in pictures as the author's framework is essential since diagrams and maps are more personalised than pictures.

Index is the map of a document and page numbers are its grid position. Just as a map without gridlines has limited utility, so too is a document without page numbers.

### Combining text with graphs...

Combining text with graphs, tables, pictures, maps and diagrams is a science, the science of psychology.

Where the object is to communicate a message which the reader in the past was unwilling to accept, inductive methods are found effective. In this you first state the reasons and then conclude. For annual reports this translates to text first and graphs later.

Where the objective is to communicate new details of a known idea, deductive methods are effective. In this you first state the conclusion and then explain reasons. For annual reports this translates to graphs first and text later.

### Getting the tone and the context

The objective of communication can be to instruct, convince, persuade or please.

To instruct is to presume that the reader is ignorant and to convince is to presume that the reader has a different opinion.

Persuasion on the other hand considers the reader to be indifferent and appeals to both logic and understanding. Effective persuasion involves first showing that the thing in question is right and second that it is desirable. Hence in persuasion, both reason and emotions are addressed.

To please, however, is of supreme importance. As without pleasure the reader will not invest his time to explore the writing.

Reading is an intellectual exercise. To please the intellect is to appeal primarily to reason and subsequently to emotions.

George Henry Lewes in his famous essay the laws of style, identifies three primary laws, the law of economy, the law of climax and the law of variety to capture the mind of a reader.

Law of economy can be summed up in one phrase 'rejection of whatever is superfluous'; He distinguishes between redundancy which should be avoided and retardation which should be cultivated.

Retarding is detaining the mind of the reader longer on a thought to secure the full effect of the thought, i.e. giving a pertinent example or illustration, while redundancy diverts the mind to some collateral details diluting the initial impact.

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This principle is important in selection of case studies, photographs and illustrations as they can significantly contribute to enhancing the effectiveness instead of reducing the impact.

The laws of climax and variety work together. Mr. Lewes writes "The condition of our sensibilities is such that to produce their effect stimulants must be progressive in intensity and varied in kind."

Using the law of climax requires that we gradually build up the logic with the forcefulness of impact increasing sequentially. While doing this it is essential that the sequence does not follow a predictable pattern. Readers mind can be stimulated by the unexpected and effective communication leverage on this.

In summary, all the laws and thumb-rules have their place. A skilled user often creates disproportionate impact by breaking a rule.

The only rule to breaking a rule, is to know which rule you are breaking and why. □