

K.U.Leuven / PwC Chair 2001 Corporate Reporting Survey

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This article immediately ties in with current corporate reporting problems as discussed by the 2/22/2001 seminar panel and the previous article (Robert Peirce), in that it reviews the findings from a questionnaire sent to Belgian portfolio managers and financial analysts, as recently as last December. The tables display the results of a survey on “corporate information beyond traditional financial reporting”. The survey contains seven (groups of) questions. First, we ask whether the current periodic financial reports (annual, semi-annual and, occasionally, quarterly) are useful at all. Second, we ask questions about the communication attitude of companies towards portfolio managers and analysts. The third question is about the perceived beneficial effects, if any, should the supply of corporate information to portfolio managers and analysts be improved. Under the fourth header, we enquire whether pre-announcements should be banned in Belgium, as currently is the case in the U.S. Fifth, we ask questions regarding the accessibility of various types of corporate information (both financial and non-financial). The sixth issue relates to the relevance of various types of information (both financial and non-financial). And lastly, we ask which types of information should be available and certified.

The seventh question is a yes/no one. For the other questions, respondents were asked to assess, respectively, usefulness (Q1), rareness (Q2), effect (Q3), agreement (Q4), accessibility (Q5) and importance (Q6) on a six-point scale. In the summary tables, below, we show the average score, the mode (the middle-ranked answer), and the standard deviation, a measure of disagreement among respondents.

As to the question whether financial reports are useful for the purpose of assessing the economic value of a firm’s stock (see question 1), portfolio managers and analysts see higher-frequency reports as somewhat less useful, but the decrease in usefulness is quite small. In particular, they allocate a score of 4.42 (out of 6) to annual financial reports, 4.06 to semi-annual ones, and 4.00 to quarterly financial reports. With respect to the communicativeness attitude of companies towards analysts and portfolio managers regarding the state of the firm (see question 2), the attitude ‘to provide information that is viewed relevant and useful to analysts’ was assessed to be most common, on average, with a score of 4.06. More active or pro-active attitudes are deemed to be rather rare: the option that ‘companies get in touch when new information becomes available’ gets an average

score of 3.06, and the entry 'companies anticipate questions and try to maintain a continuous dialogue with analysts and portfolio managers' scores even lower, with an average of 2.75.

In what respects is there a perceived value following from information (Q3)? The following effects are considered to be clearly beneficial from improved corporate communication with analysts and portfolio managers, in the sense that they obtain a mean score of more than 4:

- 1 increased company credibility (mean score 4.92);
- 2 better analysts' forecasts (4.92),
- 3 higher turnover in the stock market in the short run (4.69);
- 4 increased appeal to investors with long-term perspective (4.64);
- 5 improved relations with stakeholders (4.50);
- 6 more attention from financial analysts (4.47);
- 7 higher turnover in the stock market in the long run (4.28); and
- 8 increased share price (4.03).

Stated negatively, there was perceived to be less of an effect on long-run liquidity, volatility, and relations with various stakeholders.

1

1a. Is the regulated **annual** financial report useful to you for the purpose of assessing the economic value of a company's stock.

1.b. Is the regulated **semi-annual** financial report useful for that purpose?

1.c. Is a **quarterly** financial report useful to you for that purpose?

	(totally useless)					(very useful)	mean	median	std-dev
	1	2	3	4	5	6			
	2.8%	5.6%	19.4%	16.7%	30.6%	25.0%	4.42	5	1.36
	2.8%	8.3%	25.0%	22.2%	27.8%	13.9%	4.06	4	1.31
	2.8%	13.9%	19.4%	30.6%	11.1%	22.2%	4.00	4	1.43

2 With respect to the communication of information to analysts and portfolio managers regarding the state of the firm, companies may adopt widely divergent attitudes. How often do you encounter each of the attitudes listed below

Companies only provide information that they are legally required to

Companies provide also information that is viewed as relevant and useful to analysts

Companies answer all questions (except proprietary or sensitive ones)

Companies get in touch when new information becomes available

Companies anticipate questions and try to maintain a continuous dialogue with analysts and portfolio managers

	(very rare)					(very common)	mean	median	std-dev
	1	2	3	4	5	6			
	2.8%	22.2%	27.8%	13.9%	22.2%	11.1%	3.64	3	1.42
	0.0%	2.8%	22.2%	44.4%	27.8%	2.8%	4.06	4	0.86
	8.3%	25.0%	16.7%	25.0%	25.0%	0.0%	3.33	3.5	1.33
	2.8%	33.3%	27.8%	27.8%	8.3%	0.0%	3.06	3	1.04
	11.1%	38.9%	22.2%	19.4%	8.3%	0.0%	2.75	2.5	1.16

3 What beneficial effects might follow from improved corporate communication with analysts and portfolio managers.

increased company credibility
increased share price

higher turnover in the stock market (liquidity) in the short run

higher turnover in the stock market (liquidity) in the long run

increased appeal to investors with long-term perspective

reduce regulation or stave off new regulation

more attention from financial analysts

higher demand in case of a stock issue

decreased volatility

better analysts' forecasts

improved relations with various stakeholders

	(no effect)					(strong effect)	mean	median	std-dev
	1	2	3	4	5	6			
increased company credibility	0.0%	0.0%	2.8%	25.0%	50.0%	22.2%	4.92	5	0.77
increased share price	0.0%	2.8%	22.2%	44.4%	30.6%	0.0%	4.03	4	0.81
higher turnover in the stock market (liquidity) in the short run	0.0%	16.7%	19.4%	44.4%	16.7%	2.8%	3.69	4	1.04
higher turnover in the stock market (liquidity) in the long run	0.0%	2.8%	11.1%	47.2%	33.3%	5.6%	4.28	4	0.85
increased appeal to investors with long-term perspective	0.0%	2.8%	8.3%	25.0%	50.0%	13.9%	4.64	5	0.93
reduce regulation or stave off new regulation	9.1%	27.3%	27.3%	27.3%	9.1%	0.0%	3.00	3	1.15
more attention from financial analysts	0.0%	0.0%	16.7%	25.0%	52.8%	5.6%	4.47	5	0.84
higher demand in case of a stock issue	2.9%	5.7%	25.7%	37.1%	25.7%	2.9%	3.86	4	1.06
decreased volatility	13.9%	16.7%	36.1%	5.6%	25.0%	2.8%	3.19	3	1.43
better analysts' forecasts	0.0%	2.8%	5.6%	16.7%	47.2%	27.8%	4.92	5	0.97
improved relations with various stakeholders	2.8%	0.0%	11.1%	22.2%	58.3%	5.6%	4.50	5	0.97

4 In the US, the Securities & Exchange Commission recently banned pre-announcements, that is, informing analysts and portfolio managers ahead of the general public. Do you agree with such a ban?

	(totally disagree)					(totally agree)	mean	median	std-dev
	1	2	3	4	5	6			
Do you agree with such a ban?	2.8%	8.3%	11.1%	5.6%	19.4%	52.8%	4.89	6	1.51

It will be recalled that the US Securities and Exchange Commission, about a year ago, banned companies from releasing sensitive information to journalists and analysts prior to the general release of that information to the public at large. Most respondents also believe that pre-announcements should be likewise banned in Belgium (see question 4). The average score was 4.89.

As to the *accessibility* of corporate information (see question 5), the following items were deemed rather *unaccessible* (with a mean score larger than 4 – note that for this question ‘totally accessible’ was given a score equal to 1, and ‘unavailable’ a score equal to 6):

- 1 employee satisfaction (4.83);
- 2 success rate of R&D investments (4.67);
- 3 customer satisfaction (4.53);
- 4 process quality (4.42);
- 5 reliability of reporting processes (4.36);
- 6 company budgets (4.33);
- 7 investments in human capital (4.32); and
- 8 risk management strategy (4.00).

As to the importance of information items (see question 6), most of the items listed in the questionnaire were considered to be important for the purpose of picking or recommending stocks. Most important, with mean scores above 5, were:

- 1 evolution of the sector (5.34);
- 2 market growth (5.31);
- 3 cash flow (5.26);
- 4 the company’s projected turnover (5.09); and
- 5 R&D investment (5.00).

Note that all of these most important items were considered to be ‘rather’ accessible (see also question 5). It is interesting to note also the information items that were deemed to be unimportant (with a mean score below 4), namely:

- 1 customer satisfaction (3.94);
- 2 turnover per employee (3.69);
- 3 auditor’s reputation (3.41);

- 4 employee satisfaction (3.40);
- 5 investments in human capital (3.40);
- 6 environmental efforts (2.94).

The low score for environmental efforts may surprise some.

Finally, it was asked whether the listed information items *should* be made available (0 when not; 1 when yes) and, if so, whether they should be certified (0 when not; 1 when yes) (question 7). Only employee satisfaction (0.47) and environmental efforts (0.47) are perceived as items that are not on the average analyst's we-should-know list, in the sense that their mean scores are below 50%. As to certification, the vast majority of the respondents believe that most information items should *not* be certified. However, it is obvious that most respondents do believe that information items of a 'financial' nature should be certified, in particular:

- 1 actual turnover (0.97);
- 2 cash flow (0.81);
- 3 actual changes in costs and expenses (0.64);
- 4 investment in plant and equipment (0.64);
- 5 R&D investments (0.61);
- 6 interest expenses (0.61); and
- 7 marketing expenses (0.56).

This, of course, just presents the results of the survey. Policy implications for companies, investors, and regulators may emerge at the occasion of the Chair's 2002 Round Table meetings and the Summer Seminar.

5 For the purpose of picking or recommending stocks, to what extent are the following types of information accessible to you:

	totally accessible					unavailable	mean	median	std-dev
	1	2	3	4	5				
actual turnover	63.9%	19.4%	8.3%	0.0%	8.3%	0.0%	1.69	1	1.19
the company's projected turnover	0.0%	13.9%	41.7%	19.4%	25.0%	0.0%	3.56	3	1.03
actual changes in costs & expenses	25.0%	19.4%	27.8%	16.7%	11.1%	0.0%	2.69	3	1.33
company budgets	2.8%	0.0%	19.4%	30.6%	33.3%	13.9%	4.33	4	1.12
cashflow	22.2%	25.0%	22.2%	13.9%	16.7%	0.0%	2.78	3	1.40
customer satisfaction	0.0%	2.8%	22.2%	13.9%	41.7%	19.4%	4.53	5	1.13
evolution of the sector	8.3%	30.6%	22.2%	30.6%	8.3%	0.0%	3.00	3	1.15
market share	0.0%	25.0%	33.3%	13.9%	27.8%	0.0%	3.44	3	1.16
turnover per employee	28.6%	11.4%	22.9%	22.9%	14.3%	0.0%	2.83	3	1.44
employee satisfaction	0.0%	2.8%	19.4%	2.8%	41.7%	33.3%	4.83	5	1.18
investments in human capital (training etc.)	0.0%	8.8%	11.8%	23.5%	50.0%	5.9%	4.32	5	1.07
output per employee	13.9%	11.1%	19.4%	25.0%	30.6%	0.0%	3.47	4	1.40
Investment (plant and equipment)	16.7%	33.3%	27.8%	13.9%	8.3%	0.0%	2.64	3	1.17
R&D investment	11.1%	33.3%	30.6%	19.4%	5.6%	0.0%	2.75	3	1.08
Success rate of R&D investments	0.0%	8.3%	11.1%	13.9%	38.9%	27.8%	4.67	5	1.24
product quality	0.0%	5.6%	30.6%	27.8%	33.3%	2.8%	3.97	4	1.00
process quality	0.0%	5.6%	13.9%	27.8%	38.9%	13.9%	4.42	5	1.08
product development	0.0%	8.3%	47.2%	30.6%	13.9%	0.0%	3.50	3	0.85
market growth	2.8%	36.1%	30.6%	22.2%	8.3%	0.0%	2.97	3	1.03
interest expenses	38.9%	30.6%	13.9%	13.9%	2.8%	0.0%	2.11	2	1.17
patents, licences held, intellectual properties	5.6%	8.3%	52.8%	22.2%	11.1%	0.0%	3.25	3	0.97
environmental efforts	2.8%	11.1%	30.6%	36.1%	16.7%	2.8%	3.61	4	1.08
corporate mission and vision	16.7%	44.4%	25.0%	13.9%	0.0%	0.0%	2.36	2	0.93
marketing expenses	11.1%	22.2%	33.3%	22.2%	11.1%	0.0%	3.00	3	1.17
brand strength	0.0%	22.2%	33.3%	30.6%	13.9%	0.0%	3.36	3	0.99
acquisition	19.4%	36.1%	27.8%	13.9%	2.8%	0.0%	2.44	2	1.05
information on innovation	2.8%	13.9%	44.4%	27.8%	8.3%	2.8%	3.33	3	1.01
risk management strategy	2.8%	2.8%	19.4%	47.2%	22.2%	5.6%	4.00	4	1.01
reliability of reporting processes	0.0%	2.8%	22.2%	22.2%	41.7%	11.1%	4.36	5	1.05
auditor's reputation	5.6%	19.4%	36.1%	5.6%	25.0%	8.3%	3.50	3	1.42

6 For the purpose of picking or recommending stocks, to what extent are the following types of information **important** to you?

	unimportant				vital	mean	median	std-dev	
	1	2	3	4	5	6			
actual turnover	0.0%	6.1%	9.1%	18.2%	21.2%	45.5%	4.91	5	1.26
the company's projected turnover	0.0%	2.9%	0.0%	14.3%	51.4%	31.4%	5.09	5	0.85
actual changes in costs & expenses	0.0%	2.9%	5.7%	20.0%	34.3%	37.1%	4.97	5	1.04
company budgets	2.9%	2.9%	8.8%	20.6%	50.0%	14.7%	4.56	5	1.13
cashflow	0.0%	0.0%	2.9%	17.1%	31.4%	48.6%	5.26	5	0.85
customer satisfaction	0.0%	8.8%	20.6%	41.2%	26.5%	2.9%	3.94	4	0.98
evolution of the sector	0.0%	0.0%	0.0%	14.3%	37.1%	48.6%	5.34	5	0.73
market share	0.0%	0.0%	2.9%	34.3%	37.1%	25.7%	4.86	5	0.85
turnover per employee	0.0%	20.0%	25.7%	31.4%	11.4%	11.4%	3.69	4	1.25
employee satisfaction	5.7%	17.1%	31.4%	25.7%	17.1%	2.9%	3.40	3	1.22
investments in human capital (training etc.)	5.7%	20.0%	28.6%	22.9%	20.0%	2.9%	3.40	3	1.26
output per employee	2.9%	14.3%	28.6%	34.3%	14.3%	5.7%	3.60	4	1.17
Investment (plant and equipment)	0.0%	0.0%	5.7%	40.0%	28.6%	25.7%	4.74	5	0.92
R&D investment	0.0%	0.0%	2.9%	31.4%	28.6%	37.1%	5.00	5	0.91
Success rate of R&D investments	0.0%	0.0%	5.9%	26.5%	47.1%	20.6%	4.82	5	0.83
product quality	0.0%	0.0%	8.6%	28.6%	54.3%	8.6%	4.63	5	0.77
process quality	0.0%	2.9%	11.4%	34.3%	48.6%	2.9%	4.37	5	0.84
product development	0.0%	0.0%	2.9%	40.0%	45.7%	11.4%	4.66	5	0.73
market growth	0.0%	0.0%	0.0%	14.3%	40.0%	45.7%	5.31	5	0.72
interest expenses	0.0%	5.7%	14.3%	40.0%	25.7%	14.3%	4.29	4	1.07
patents, licences held, intellectual properties	0.0%	8.6%	11.4%	31.4%	37.1%	11.4%	4.31	4	1.11
environmental efforts	5.7%	28.6%	42.9%	11.4%	11.4%	0.0%	2.94	3	1.06
corporate mission and vision	8.6%	2.9%	20.0%	20.0%	25.7%	22.9%	4.20	4	1.51
marketing expenses	0.0%	8.6%	17.1%	34.3%	31.4%	8.6%	4.14	4	1.09
brand strength	0.0%	0.0%	17.1%	17.1%	45.7%	20.0%	4.69	5	0.99
acquisitions	0.0%	5.7%	0.0%	20.0%	42.9%	31.4%	4.94	5	1.03
information on innovation	0.0%	2.9%	11.4%	40.0%	31.4%	14.3%	4.43	4	0.98
risk management strategy	0.0%	2.9%	14.7%	38.2%	29.4%	14.7%	4.38	4	1.02
reliability of reporting processes	0.0%	2.9%	26.5%	11.8%	32.4%	26.5%	4.53	5	1.24
auditor's reputation	11.8%	11.8%	29.4%	23.5%	17.6%	5.9%	3.41	3	1.40

7 For the purpose of picking or recommending stocks, should the following types of information be **available** (column a), and, if made available, should it be **certified** (column b)?

	(a) check box by an "✓" if you think this information should be available	mean	median	std- dev	(b) check box by an "✓" if you think this information should be certified	mean	median	std- dev
	actual turnover	80.6%	0.81	1	0.40	97.2%	0.97	1
the company's projected turnover	94.4%	0.94	1	0.23	11.1%	0.11	0	0.32
actual changes in costs & expenses	75.0%	0.75	1	0.44	63.9%	0.64	1	0.49
company budgets	80.6%	0.81	1	0.40	16.7%	0.17	0	0.38
cashflow	80.6%	0.81	1	0.40	80.6%	0.81	1	0.40
customer satisfaction	58.3%	0.58	1	0.50	11.1%	0.11	0	0.32
evolution of the sector	88.9%	0.89	1	0.32	11.1%	0.11	0	0.32
market share	80.6%	0.81	1	0.40	38.9%	0.39	0	0.49
turnover per employee	69.4%	0.69	1	0.47	27.8%	0.28	0	0.45
employee satisfaction	47.2%	0.47	0	0.51	8.3%	0.08	0	0.28
investments in human capital (training etc.)	55.6%	0.56	1	0.50	11.1%	0.11	0	0.32
output per employee	58.3%	0.58	1	0.50	13.9%	0.14	0	0.35
Investment (plant and equipment)	72.2%	0.72	1	0.45	63.9%	0.64	1	0.49
R&D investment	77.8%	0.78	1	0.42	61.1%	0.61	1	0.49
Success rate of R&D investments	80.6%	0.81	1	0.40	27.8%	0.28	0	0.45
product quality	63.9%	0.64	1	0.49	25.0%	0.25	0	0.44
process quality	55.6%	0.56	1	0.50	19.4%	0.19	0	0.40
product development	77.8%	0.78	1	0.42	11.1%	0.11	0	0.32
market growth	83.3%	0.83	1	0.38	25.0%	0.25	0	0.44
interest expenses	75.0%	0.75	1	0.44	61.1%	0.61	1	0.49
patents, licences held, intellectual properties	77.8%	0.78	1	0.42	58.3%	0.58	1	0.50
environmental efforts	47.2%	0.47	0	0.51	16.7%	0.17	0	0.38
corporate mission and vision	75.0%	0.75	1	0.44	11.1%	0.11	0	0.32
marketing expenses	72.2%	0.72	1	0.45	55.6%	0.56	1	0.50
brand strength	69.4%	0.69	1	0.47	13.9%	0.14	0	0.35
acquisitions	86.1%	0.86	1	0.35	44.4%	0.44	0	0.50
information on innovation	69.4%	0.69	1	0.47	8.3%	0.08	0	0.28
risk management strategy	69.4%	0.69	1	0.47	36.1%	0.36	0	0.49
reliability of reporting processes	58.3%	0.58	1	0.50	44.4%	0.44	0	0.50