

# Annual Report Readership and Understanding: An International Comparison

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## Abstract

This paper extends the initial research reported in Lord et al (2005) on the readership of annual reports by members of co-operatives. Lord et al (2005) surveyed members of a New Zealand (NZ) supply co-operative, whereas this study is of two United Kingdom (UK) consumer co-operatives.

The analysis establishes that there are differences in readership and understanding of annual reports, depending on the type of co-operative and possibly the country culture. Information about profits/earnings is the most important item provided by annual reports. UK readers ranked rebate information much lower than NZ readers. UK respondents read narrative portions more thoroughly (a confirmation of the findings of Lee & Tweedie, 1977), whereas NZ respondents read the numerical financial sections most thoroughly. The thoroughness of reading of annual reports was positively correlated with understanding of accounting terms and also positively correlated to the reading of three or more other sources of information about companies. Respondents with a more extensive accounting background showed more understanding and read the annual report more thoroughly. The majority of respondents considered that the annual report contained sufficient information for members, but some suggestions for additions and improvements were offered.

## Introduction

The baseline study by Lord et al (2005) provided an insight into a little researched aspect of financial reporting, how members of co-operatives use their annual reports. It was noted that their findings were “not necessarily generalisable between countries and to other types of co-operatives, such as consumer co-operatives” (p15). Therefore, with the support of the Co-operative College’s Principal, Mervyn Wilson, the opportunity was taken to extend the study to two UK consumer co-operatives.

The structure of the paper is as follows. The next section introduces the literature, paying particular attention to the Lord et al (2005) paper which provides the basis for comparison in this paper. Information about the two UK co-operatives studied is then presented. This is followed by the method used, the findings, a comparative discussion and a conclusion.

## Literature

Lord et al (2005) reported the first study of the use made of annual reports by members of a co-operative. They surveyed members of Foodstuffs (South Island) Ltd in New Zealand, a co-operative owned by and supplying retail grocers, ranging from small corner-stores to big, warehouse-style supermarkets. This paper extends the on-going research to two consumer co-operatives: The Co-operative Group and Chelmsford Star Co-operative Society Ltd, both UK-based.

Lee & Tweedie (1977) provided the structure from which Lord et al’s (2005) and this study were developed. Lee & Tweedie (1977) examined the understanding and usage of annual reports by shareholders in publicly listed companies. Their finding that readers of annual reports rely mainly on the narrative parts sparked a number of studies on the narrative parts of annual reports, such as the CEO’s review. Those studies, which are listed and reviewed by Jones & Shoemaker (1994), examined either the content or the readability of the narratives. Epstein (1975) and Epstein & Pava (1993) found a different situation in the US, where the financial statements were considered to be more useful than the narrative parts. This literature is surveyed in more detail in Lord et al (2005). More recently, Balata and Breton (2005) warned that the narrative and the numerical information is not always consistent. They questioned whether the narrative sections of reports should be subject to standards or even to audit scrutiny.

Lord et al (2005) changed the focus from investor-owned companies to co-operatives. Only a small number of changes were required to the questionnaire, to ensure that the terminology was appropriate. It was expected that responses would be different from those found in Lee & Tweedie (1977). Some would be due to changes in annual reporting in the last 25 years, others due to the nature of co-operatives compared to investor-owned firms, and yet others to the particular features of the co-operative studied.

Consistent with Lee & Tweedie (1977),

profitability was the most important information for the respondents. By contrast, the most thoroughly read statements were the financial sections and the directors' report. Members of the co-operative read all sections of the report more thoroughly than did the private investors in Lee & Tweedie (1977). However, all members of Foodstuffs were actively involved in running their own retail businesses, and could therefore be expected to have greater experience in reading financial statements than members of consumer co-operatives. Eighty-three per cent of respondents believed that the annual reports gave sufficient information for members, although a number wanted profit forecasts and budgets to be disclosed. Respondents felt the report allowed them to assess profitability, capacity to survive and managerial efficiency.

Lord et al (2005) found support for Lee & Tweedie's (1977) conclusions that thorough readers had a better understanding of reporting practice, that there was no relationship between size of shareholding and understanding, and that readers of other sources of information, such as newspapers, had a higher understanding. However, they did not find any relationship between accounting training and understanding, nor between reading of other sources of information and thoroughness of reading of the reports. Lord et al (2005) also found that respondents from small businesses were not thorough annual report readers and showed only a low understanding of financial terms.

Co-operatives are diverse organisations, differing according to the nature of the services provided to members through their position in the market place. Some co-operatives, housing for example, may be capital intensive, and will be able to offer security for borrowings. Others, such as a purchasing co-operative, may have few non-current assets and be financed solely by members. One important objective of a marketing co-operative is to raise the market price of the goods or services produced by its members. In contrast, the primary objective of a supply co-operative may be to reduce the market price that members must pay for their inputs and/or to improve the reliability of supply. Also differences are to be expected where a co-operative has a range of activities compared to a co-operative operating in one sector of the economy. Where the members of a co-operative are predominantly active business people they may be expected to have a narrower range of higher financial skills than those possessed by

members of a consumer co-operative where the membership is more typical of the population as a whole. All these differences need to be borne in mind by the directors when preparing financial reports and by financial advisors when analysing and interpreting the data reported.

This study examines the reading of annual reports by members of two UK consumer co-operatives. These members were expected to have a broad range of financial skills but not necessarily an advanced accounting knowledge. In contrast, the members of Foodstuffs, in Lord et al (2005), were all business people who were expected to have a higher level of accounting understanding.

## **The co-operatives**

The Co-operative Group (CWS) Ltd is the UK's largest consumer co-operative. It operates in the food retail sector (supermarkets and 'top-up' food stores), financial services (The Co-operative Bank and CIS life and general insurance services), specialist retail (pharmacy, travel, departmental stores, travel, motor vehicles, and funerals), and property, farm production and other trading.

The Co-operative Group's retail operations largely result from the acquisition from the early-1980s onwards of formerly independent consumer co-operatives that were in trading difficulties. Member dividends (patronage rebates) had ceased in most of these societies. In the 1990s active members started to demand the restoration of member benefits. The initial schemes introduced were customer loyalty schemes, not genuine dividend schemes, in that they were available to all customers, not just members. The CWS had always paid a dividend based on purchases to its corporate members. Following the transfer of engagements by Co-operative Retail Services to the CWS in 2001, the majority interest in the Society switched from corporate to individual consumer members, which made the inconsistency of approach untenable. Also the Report of the Co-operative Commission in 2001 recommended that, 'after reinvestment in the business, all Societies should allocate part of its profits to be returned to members as an individual dividend' (p21). Following a review the Board agreed to reintroduce a true dividend, ie, a dividend to members based

on their purchases – the traditional patronage refund. (Wilson, 2005).

The Co-operative Group is unusual in having both individual and corporate members (other co-operatives for whom the Group provides a federal service) (Co-operative Group, 2004). Individual members exercise their democratic rights via eight regional boards. Corporate members and regional boards are entitled to send representatives to attend and vote at the annual and half-yearly general meetings of the society. The board of the Co-operative Group comprises 28 elected non-executive directors; 17 representing the individual members and 11 representing the corporate members. The Group and its subsidiaries employed 69,611 persons at 8 January 2005 ([www.co-op.co.uk](http://www.co-op.co.uk)).

The Chelmsford Star Co-operative Society Ltd is a consumer co-operative serving some 48,000 members in mid and South Essex, eastern England. It is governed by a board of 10. The society operates food convenience stores, departmental stores, travel centres and funeral services. The food division is the society's core business accounting for 68% of the gross takings. The average number of employees in 2004 was 159 full-time and 384 part-time (Chelmsford Star, 2005).

Lord et al (2005) describe a New Zealand co-operative, Foodstuffs (South Island) Ltd. When comparing the results of this study with the NZ study, it is obvious that respondents will have been influenced by the quality of the annual report that they have read. The authors reviewed each of the annual reports and believe that each report substantially exceeds the minimum amount of information required by contemporary legislation and accounting

standards. All compare very favourably with award-winning annual reports from investor-owned organisations. The reports ranged from 30 pages (Chelmsford Star), 40 pages (Foodstuffs) to 94 pages (Co-operative Group). Differences in readership should therefore be attributed to differences in respondents' characteristics rather than the content of the annual reports themselves.

## Method

The questionnaire used in Lord et al (2005) required only minor changes for the UK study, adding UK courses for the business background section, British newspapers, and terminology relevant to the two co-operatives. The questionnaire was sent to 600 members of the area committees<sup>1</sup> of The Co-operative Group. These are the primary tier in their democratic structure, from whom the twelve regional boards, and ultimately the national board of the society are elected. The response rate was 128 (21%).

The Chelmsford Star questionnaire was distributed to 80 members who had requested copies of the Annual Report in the mail, many of whom also attended the Annual Members Meeting. Responses were received from 31 (39%). The response rates are lower than the 46% in the Lord et al (2005) study. This is the inevitable result of the researchers being unable to carry out a follow-up mailing which would have led to a higher response rate.

The individual respondents had been involved with co-operatives for an average of 22 and 20 years respectively<sup>2</sup>, ranging from less than a year to 69 and 51 years respectively. This length of involvement strengthens the results, as the

	Co-operative Group	Chelmsford Star	Foodstuffs
To make directors accountable to members	88%	80%	63%
To give members an indication of the value of the company	73%	83%	68%
To justify rebates to members	42%	28%	42%
To give members an indication of the fair value of their shares	32%	43%	43%
To provide information for the Inland Revenue Department	29%	34%	11%
To give members data useful for investment decisions	26%	35%	29%

**Table 1: Purposes of financial statements ranked 1st or 2nd**

	Co-operative Group		Chelmsford Star		Foodstuffs
	Number of responses	%	Number of responses	%	%
Profits/earnings	52	41%	13	42%	54%
All information	35	27%	8	26%	31%
Sales & turnover	21	16%	5	16%	20%
Profits trend	16	13%	1	3%	6%
Future prospects	11	9%	5	16%	14%
Rebate information*	6	5%	2	6%	29%
Capital base (shares, reserves)	4	3%	1	3%	3%
Assets	3	2%	2	6%	26%
General trends	3	2%	1	3%	0%
Cash/liquidity		0%		0%	6%
	<b>(n=128)</b>		<b>(n=31)</b>		<b>(n=49)</b>

**Table 2: Important financial information**

\* Dividends in Lee & Tweedie (1977)

respondents could be expected to have considerable knowledge about the nature and objectives of co-operatives.<sup>3</sup>

## Findings

### Purposes of financial statements

Respondents ranked what they saw as the most important purposes of financial statements. The percentages of those ranked first or second for each survey are presented in Table 1. Consistent with Lord et al (2005) the top two reasons were to make directors accountable to members and to give members an indication of the value of the company. One other important reason given by respondents from the Co-operative Group to an open-ended question was justifying the social benefits of co-operation (6 respondents).

### Important financial information

As in Lord et al (2005), the most important information to the respondents was information about profits/earnings and all financial information (see Table 2). In the NZ study, rebate and asset information was more important, possibly because the respondents were all active business people who traded with the co-operative on a daily basis. Their businesses normally depend on achieving a high turnover of inventory involving small profit margins to generate positive cash flows. Cash flows and the efficient use of assets are key concepts with which they are familiar. Consequently it is not surprising that rebates and asset information was very important to them. The trend information was more important for members of the Co-operative

Group, along with comments about concerns over restructuring and viability.

Other financial information that was of concern, particularly to the Co-operative Group, was performance relative to competitors and leakage and wastage (the level of stock losses in retail, an important factor in the viability of a business). By contrast, competitor information was less important for the NZ co operative, Foodstuffs, possibly because it has over 50% market share. For both UK co-operatives, respondents were also concerned that the level of salaries paid to executives not become excessive.

### Importance of sections of the annual report

Respondents were asked to rank the importance of each section of their respective annual reports (see Tables 3 and 4). In spite of varying rankings and nomenclature, the traditional financial sections were deemed to be important. This was consistent with Lord et al (2005). Narrative sections, such as chair's statements, chief executive's review and directors' reports, were also ranked highly. The low ranked sections were disclosures on corporate governance, directories etc.

Sixty four per cent of Co-operative Group respondents and 80% of Chelmsford Star respondents considered that the financial information given in the annual report is sufficient for members. Twenty one per cent and 20% respectively considered that there is too much information.

Most of the respondents felt they could realistically assess the co-operative's profitability from the present type of annual report (70% and

Sections	Ranked 1 or 2	Overall ranking
* Consolidated profit and loss account	27%	1
* Chair's statement	23%	2
* Chief executive's review	22%	3
* The Group at a glance	21%	4
* Food retail	18%	5
Balance sheets	13%	6
* Analysis of operating profit	10%	7
Highlights	9%	8
Finance review	7%	9=
Report of the independent auditor	7%	9=
Statement of total recognised gains and losses	6%	11=
Key financial statistics (trends)	6%	11=
Corporate responsibility	4%	13=
Analysis of profits from regional business activities	4%	13=
Remuneration report	3%	15=
Note of historical cost profits	3%	15=
Notes to the financial statements	3%	15=
Specialist retail	3%	15=
Property, production and other trading	2%	19=
Consolidated cash flow statement	2%	19=
Co-operative financial services	2%	19=
Corporate governance	1%	22=
Reconciliation of movement in members' funds	1%	22=
Accounting policies	1%	22=
Board and executive	0%	25=
Statement of responsibilities of the directors	0%	25=

**Table 3: Co operative Group: Relative importance of each section of the annual report**

Sections	Ranked 1 or 2	Overall ranking
* Group Balance Sheet	43%	1
* Group Revenue Account	39%	2
* Group Cashflow Statement	30%	3=
* Directors' Report	30%	3=
* Five Year Comparative Statement	26%	5
Auditors' Report	9%	6=
Group Value Added Statement	9%	6=
Notes to Financial Statements	9%	6=
Statement of Directors' Responsibilities and Corporate Governance	9%	6=
Five Year Comparative Charts	9%	6=
Highlights of the year 2003/4	4%	11=
Annual General Meeting of Members	4%	11=
Addresses & Telephone Numbers	4%	11=
Directors, Officers & Advisers Mission Statement	4%	11=
Statement of Accounting Policies	0%	15=
Highlights of the year 2003/4	0%	15=
Chelmsford Co-operative Party Council Annual Report	0%	15=

**Table 4: Chelmsford Star: Relative importance of each section of the annual report**

Section	Read Thoroughly		Read Briefly		Do Not Read		n
	No	%	No	%	No	%	
Food retail	67	56%	46	38%	7	6%	120
Chair's statement	60	50%	55	45%	6	5%	121
Chief executive's review	56	48%	57	49%	4	3%	117
Analysis of operating profit	52	47%	40	36%	19	17%	111
Consolidated profit and loss account	51	46%	48	43%	13	12%	112
The Group at a glance	54	44%	61	50%	8	7%	123
Highlights	52	44%	59	50%	6	5%	117
Finance review	47	43%	48	44%	14	13%	109
Analysis of profits from regional business activities	46	42%	45	41%	18	17%	109
Balance sheets	46	40%	53	46%	16	14%	115
Specialist retail	42	38%	55	50%	13	12%	110
Remuneration report	40	35%	58	51%	16	14%	114
Key financial statistics	37	35%	49	47%	19	18%	105
Statement of total recognised gains and losses	39	35%	46	42%	25	23%	110
Co-operative financial services	39	34%	63	55%	13	11%	115
Corporate responsibility	33	31%	58	54%	17	16%	108
Consolidated cash flow statement	30	29%	45	43%	30	29%	105
Property, production and other trading	30	27%	62	56%	18	16%	110
Board and executive	28	26%	68	63%	12	11%	108
Notes to the financial statements	28	26%	50	46%	30	28%	108
Reconciliation of movement in members' funds	26	24%	48	44%	35	32%	109
Note of historical cost profits	25	24%	41	40%	37	36%	103
Corporate governance	25	23%	58	54%	24	22%	107
Report of the independent auditor	22	20%	51	47%	35	32%	108
Statement of responsibilities of the directors	19	18%	59	56%	28	26%	106
Accounting policies	16	15%	46	44%	42	40%	104

**Table 5: Co-operative Group: Reading of the annual report**

90% of respondents respectively). They also believed that the annual report could be used for assessing capacity to survive (44% and 55%), managerial efficiency (26% and 35%) and the co-operative's investment policy (21% and 16%).

Additional financial information which members thought should be given in their Co-operative's annual reports included profit forecasts (30% and 16% respectively), and more detail on human resources (27% and 23%). Disclosure of budget information was suggested by 27% and 10%, as was increased disclosure of existing information (13% and 6%). Also Co-operative Group respondents would value the inclusion of: benchmarking (against other co-operatives or against competitors – 6 respondents), more segmental information (by geographical region or by business – 6), remuneration (of CEO, directors etc – 7), and policies for growth and expansion (2).

Suggestions for improvement of the presentation included: expressing information in lay-person's language (Co-operative Group respondents: 10; Chelmsford Star: 4), graphical display (such as bar charts – Co-operative Group: 5; Chelmsford Star: 1), more narrative detail (for example, about investment decisions, problems or loss making units – Co-operative Group: 6) and larger font (Co-operative Group: 2).

#### **Thoroughness of reading of the annual report**

Respondents were asked which sections of the annual report they read and how thoroughly. Thorough reading was assigned a rating of 2, brief reading, 1, and sections not read at all scored 0. Percentages in each category are shown in Tables 5 and 6. It should be noted that as the Chelmsford Star questionnaire was sent only to members who had asked for a copy of the annual report, the percentages of thorough reading are, not surprisingly, much higher than in the other studies.

Section	Read Thoroughly		Read Briefly		Do Not Read		n
	No	%	No	%	No	%	
Directors' Report	24	80%	5	17%	1	3%	30
Highlights of the year	17	63%	9	33%	1	4%	27
Group Balance Sheet	17	61%	10	36%	1	4%	28
Group Cashflow Statement	17	61%	10	36%	1	4%	28
Group Revenue Account	15	56%	11	41%	1	4%	27
Notes to Financial Statements	15	54%	11	39%	2	7%	28
Five Year Comparative Statement	15	52%	13	45%	1	3%	29
Directors, Officers & Advisers Mission Statement	12	50%	9	38%	3	13%	24
Five Year Comparative Charts	14	48%	14	48%	1	3%	29
Statement of Directors' Responsibilities and Corporate Governance	12	41%	15	52%	2	7%	29
Auditors' Report	12	41%	12	41%	5	17%	29
Group Value Added Statement	10	38%	15	58%	1	4%	26
Statement of Accounting Policies	9	33%	14	52%	4	15%	27
Annual General Meeting of Members	8	31%	17	65%	1	4%	26
Highlights of the year 2003/4	7	28%	14	56%	4	16%	25
Chelmsford Co-operative Party Council Annual Report	3	11%	15	56%	9	33%	27
Addresses & Telephone Numbers	1	4%	10	37%	16	59%	27

**Table 6: Chelmsford Star: Reading of the annual report**

For Co-operative Group, six of the seven most thoroughly read sections were also ranked as most important (marked with an asterisk \* in Table 3) For Chelmsford Star, the top five sections in Table 4 were also read thoroughly.

Co-operative Group and Chelmsford Star readers were found to be more likely to read thoroughly the narrative parts of the annual report, similar to Lee & Tweedie's (1977) findings, and in contrast to Lord et al (2005), where the numerical sections were most thoroughly read.

As in Lord et al (2005), the thoroughness of reading was further analysed for individual respondents. The 2, 1 and 0 scores, as described above, were summed for each respondent. Those who had scored above a threshold of 65% of the possible maximum, including reading thoroughly at least two-thirds of the numerical financial statements, were categorised as thorough readers. Twenty-nine per cent of Co-operative Group and 48% of Chelmsford Star respondents were thorough readers. Those who read some parts of the annual report but scored less than the threshold were categorised as "less interested" (67% Co-operative Group; 52% Chelmsford Star). Four per cent of Co-operative Group respondents and none of the Chelmsford Star

respondents were non-readers. Reasons for lack of reading by Co-operative Group members were difficulty in understanding (3 respondents), lack of time (2) and lack of interest (2), the same reasons as found by Lord et al (2005); another reason for non-reading was that the report was too wordy or detailed (2).

#### **Analysis of data in reports**

Twenty six per cent of Co-operative Group and 23% of Chelmsford Star respondents carried out some analysis of the data in the annual reports. This mainly involved comparison with prior periods or competitors, or some form of ratio analysis.

Most respondents read several other sources of information about business, most reading three or more other sources (77% and 90% respectively), some reading only two other sources (19% and 10%), and few reading only one or none (2% and 0%). The most thoroughly read other sources were the *Co-operative News* and local newspapers (see Tables 7 and 8). The most common type of information derived from these sources was general information and financial measures. Reasons for not reading other sources given by Co-operative Group respondents were lack of understanding (5 respondents), lack of interest (2), lack of time

Source	Read Thoroughly		Read Briefly		Do Not Read		n
	No	%	No	%	No	%	
Co-operative News	66	54%	51	41%	4	3%	123
Local newspaper	43	38%	62	55%	7	6%	112
Companies' annual reports	25	23%	69	63%	16	15%	110
Companies' six monthly reports	17	17%	54	55%	26	27%	98
The Financial Times	11	12%	31	33%	50	54%	93

**Table 7: Co-operative Group: Sources of information about companies**

(2), the same reasons as found in Lord et al (2005). One respondent commented that they received sufficient information from the annual report.

### Understanding

As in Lord et al (2005) and Lee & Tweedie (1977), the respondents' understanding of financial matters was assessed by summing scores on questions about: the meaning of common financial terms; how profitability, capacity to survive, managerial efficiency and investment policy could be assessed; and how accurate the financial results were felt to be. This score for understanding was used in the following correlations.

Lord et al (2005) found that thorough reading was correlated with understanding and brief reading was negatively related to understanding. A similar result was found for Co-operative Group members (thorough readers – 29% of respondents:  $r=0.275$ ,  $p=0.002$ ; brief readers – 67% of respondents:  $r=-0.208$ ,  $p=0.019$ ). These result were not found for Chelmsford; however many more Chelmsford respondents were thorough readers (48%) and there were no non-readers.

As in previous studies, there was no relationship between the size of shareholding in other companies and understanding of the annual reports and financial terms.

As in Lee & Tweedie (1977), but in contrast

to Lord et al (2005), there was a positive relationship between reading three or more other sources of information about companies (77% of Cooperative Group respondents) and thoroughness of reading of the annual reports ( $r=0.257$ ,  $p=0.003$ ). There was also a negative relationship between those who only read two other sources (19%) and their thoroughness of reading annual reports (Co-operative Group only:  $r=-0.221$ ,  $p=0.013$ ). This relationship was not observed for Chelmsford or Foodstuffs.

There was also a relationship between reading three or more other sources of information and understanding for the Co-operative Group ( $r=0.186$ ,  $p=0.036$ ), as found in previous studies. Co-operative Group members who do not read the annual report also do not read other financial information ( $r=0.300$ ,  $p=0.001$ ), confirming previous studies. Members of Group or Regional Boards of the Co-operative Group were more thorough readers ( $r=0.192$ ,  $p=0.030$ ) than the members of the Committees and also had a higher level of understanding ( $r=0.295$ ,  $p=0.001$ ). The length of involvement in co-operatives had a positive correlation with thoroughness of reading ( $r=0.195$ ,  $p=0.035$ ).

Table 9 shows the background and experience of the respondents. Other qualifications included non-commerce degrees (eg BSc) and general business experience (eg self-employed business, farming, trade union secretary).

Among Co-operative Group respondents,

Source	Read Thoroughly		Read Briefly		Do Not Read		n
	No	%	No	%	No	%	
Local newspaper	14	50%	12	43%	2	7%	28
Co-operative News	9	36%	16	64%	0	0%	25
Companies' annual reports	3	10%	23	77%	4	13%	30
Companies' six monthly reports	2	7%	18	64%	8	29%	28
The Financial Times	0	0%	8	33%	16	67%	24

**Table 8: Chelmsford Star: Sources of information about companies**

	Co-operative Group		Chelmsford Star		Foodstuffs
	No	%	No	%	%
<b>Co-operative-specific courses</b>	80	63%	7	24%	19%
<b>Other training/experience:</b>					
Accounting qualification	7	5%	3	11%	2%
Courses in accounting	28	22%	5	18%	13%
Basic bookkeeping experience	34	27%	2	7%	27%
Financial management	28	22%	5	18%	
Management qualifications					13%
Directorships	32	25%	10	36%	13%
Other	69	54%	15	54%	16%
None	11	9%	1	4%	5%
		<b>(n=128)</b>		<b>(n=31)</b>	<b>(n=49)</b>

**Table 9: Background and experience of respondents**

those with a significant background in accounting (an accounting degree or financial management) were more likely to both thoroughly read the annual reports and carry out some analysis ( $r=0.241$ ,  $p=0.006$ ). Those with significant accounting background also showed higher understanding ( $r=0.370$ ,  $p=0.000$ ). Those with some accounting background (eg bookkeeping experience, some courses in accounting etc) had a negative correlation with understanding ( $r=-0.190$ ,  $p=0.032$ ). Those with no accounting background did not read annual reports ( $r=0.290$ ,  $p=0.001$ ) and showed no understanding of accounting terms ( $r=-0.242$ ,  $p=0.006$ ). Chelmsford Star respondents with a significant background in accounting showed high levels of understanding ( $r=0.422$ ,  $p=0.025$ ). Surprisingly, those with no accounting background were likely to have large other investments ( $r=0.555$ ,  $p=0.003$ ).

## Discussion

Despite the difference in size and type of co-operative, there is a consistency in the three co-operatives who all ranked information about profits/earnings as the most important information provided by the annual reports. Rebates were much more important to members of Foodstuffs. The Co-operative Group has recently been re-introducing a system of patronage rebates, and it is surprising that the level of interest was not higher. Chelmsford Star respondents also ranked rebate information as low priority; this may be due to the non-representative nature of the sample.

An issue that was raised by respondents in the UK co-operatives was the relative remuneration within the co-operative. The

co-operative business model has frequently restricted the range of pay rates within an organisation. Birchall (1994, p132) notes that in the 1920s, co-operative employees had “in general, wages and condition ... substantially better than in the private sector”. The Mondragon Co-operative originally limited the “gap between highest and lowest wages ... at three to one (now six to one)” (Birchall, 1997, p101). Equal Exchange co-operative in Canada has a maximum pay ratio of three to one (Equal Exchange, 2003). It is important in today’s world that this equitable treatment of employees is not lost.

Regarding thoroughness of reading of the annual report, there were contrasting results between the UK and the NZ studies. The NZ respondents read the numerical sections most thoroughly, whereas the UK respondents read the narrative sections. As the UK readers appear to rely more heavily on the narrative, it may be appropriate for co-operative boards to voluntarily extend the audit to the narrative sections of the annual report (Balata and Breton, 2005).

Interestingly, the UK co-operatives confirmed the findings of Lee & Tweedie (1977), despite the fact that the contents of annual reports have changed in the intervening 30 years and a different organisational form was being studied. This could be due to the different types of co-operative studied in the two countries, the UK consumer co-operative respondents being expected to be less accounting-oriented, as discussed in the literature section. Another possible explanation could be that there is a cultural difference which could be investigated in further research.

The Co-operative Group findings supported the results of Lord et al (2005), that thorough reading is correlated to understanding, and the

findings of Lee & Tweedie (1977), that thoroughness of reading was positively correlated with reading three or more other sources of information about companies. The latter contrasted with Lord et al's (2005) findings; however, in NZ there are fewer business publications produced on a daily basis.

This study of the UK co-operatives, consistent with Lee & Tweedie (1977) but in contrast to Lord et al (2005), found that the level of accounting background was positively correlated with understanding and, for Co-operative Group, also with more thorough reading. However, the NZ respondents were all actively participating in business, so even those without an extensive accounting background could be expected to have a reasonable level of understanding of financial terms.

The majority of respondents considered that the annual report contained sufficient information for members. A significant minority considered that there was already too much information. Suggestions for improvement included more information about future prospects, either as forecasts or budgets, more details about human resources including remuneration, more detail about adverse as well as positive outcomes, and some form of benchmarking. For example, the services provided by CoopMetrics ([www.CoopMetrics.coop](http://www.CoopMetrics.coop)) provide relevant information for North American co-operatives. The potential exists for a similar service in the UK.

Some respondents called for more segmental information, expressing narrative in lay-person's language, and graphical display, although the annual reports appear to be leaders in this type of disclosure already. Several respondents suggested a supplementary, one or two page, simplified version of the report "setting out key issues in simple terms".

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## Conclusion

This study continues the base-line work of Lord et al (2005), by extending their analysis both to another type of co-operative and internationally. It is another step forward in addressing the dearth of research in a significant sector of the economy. The analysis has established that there are differences in readership and understanding of annual reports, depending on the type of co-operative and possibly the country culture. As differences are being found across countries and between types of co-operative, there is still scope for further research. This should encourage other researchers to examine the effects of both country culture and type of co-operative on readership and understanding.

As the Co-operative Group is developing its "true Group Dividend" concept (Co-operative Group, 2004, p5), it may be expected that the response to its annual report will change. A longitudinal study of this co-operative could prove of considerable value to the boards of other co-operatives facing the increasingly competitive market environment.

In addition, six respondents in the Co-operative Group argued that a key purpose of a co-operative's annual report is justifying the social benefits of co-operation. This is consistent with the extension of company annual reports to triple bottom line reporting. Therefore co-operatives should use the annual report to communicate their policies on these issues with members and potential members, so that they are not left behind by investor-owned companies.

Despite the apparent excellent production of current annual reports, the findings also support the view that there is always room for improvements to make them more understandable and informative to members.

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## Notes

- 1 The non-randomness of the UK samples must be considered in the ensuing analysis.
- 2 For all UK figures in the paper, the first figure refers to the Co-operative Group and the second to Chelmsford Star.
- 3 For example, for the Co-operative Group the length of involvement in co-operatives was found to be positively correlated with the thoroughness with which the annual reports were read ( $r=0.195$ ,  $p=0.035$ ).