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Optimisation of cliche synergies

JUST MANAGING
LEON GETTLER

WHEN prefabricated phrases construct sentences and do the thinking for you, delusion kicks in.

Market euphoria and the tail end of asset bubbles are largely supported by delusion, and language plays a big role. It's all about either selling a line for people to believe, or about obscuring the truth.

Take for instance a recent University of Michigan study. Apparently there's a simple reason why annual reports are hard to read: managers, in many cases, are trying to hide something.

The study, *Annual Report Readability, Earnings and Stock Returns*, found that the annual reports of underperforming companies are harder to read than those of companies that are performing well.

Feng Li, an assistant professor of accounting at the university, measured annual report "readability" using a sample of more than 55,000 company reporting years. He examined syllables per word and words per sentence in reports filed with the Securities and Exchange Commission.

He used two readability measures.

First, the "Fog Index" indicated the number of years of formal education a reader of average intelligence would need to read the text once and understand it. Fog = (words per sentence + per cent of complex words) x 0.4. Complex words were defined as words of three syllables or more.

Second, the Kincaid Index rated the reports on a US primary school level.

According to the study, annual reports of companies with lower earnings were more difficult to read. Similarly, companies that had volatile earnings were more likely to produce abstruse reports.

"Opportunistic managers may have incentives to make the annual report harder to read, if good earnings of this year are not persistent or if poor earnings are very persistent," the study said.

"On the other hand, firms with better future performance may want to disclose information more precisely to distinguish themselves from the 'lemons' by making their annual reports easier to read."

The problem goes beyond reports and prospectuses. It is also very much about the language of business and man-

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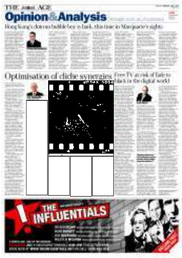

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agement. Like every discipline, there's jargon. But what's different about management buzzwords — a grab bag of usually meaningless and slip-shod euphemisms designed to mislead and deceive — is that it can change organisations and people's lives. Think of those who have been forced to "reinvent" themselves after they have been "downsized" and "rightsized" and their job has been "outsourced", "restuctured" or "delayered".

And it's everywhere. Years ago, the "person" was taken out of "personnel" when that function morphed into "human resources".

But there are signs that the person is coming back, with some HR people now working as "personal development officers". Taxpayers are "customers", corporatised hospitals have turned patients into "clients" and bad loans are "non-performing".

Walk into some businesses and you will even find that the receptionist has been replaced by a Director of First Impressions.

Then of course, there is the buzzword bible that is trotted out at meetings. Jargon includes: on the same page, skin in the game, thought leadership, quality action team (QAT), paradigm shift, take that offline, out of the loop, go the extra mile, result-focused, client-focused, total quality, ballpark, ticks in boxes, value-add, touch base, core business, thinking outside the square, stretching the envelope, putting this one to bed, closing the loop, at the end of the day, hot button, interface, guesstimate, key players, killer apps, focus collectively as a group, user-friendly, bells and whistles, benchmark, declining core technology, slippery slide, fast track, win-win, game plan and human capital.

The problem here is that when there is no relationship between actions and the meaning of the words, people can do anything they want. And that encourages sloppy management and, in some cases, deceit.

The old website of WorldCom, which emerged from bankruptcy due to accounting fraud as MCI Inc, is a case in point. It reportedly had a glossary of "essential terms and phrases" that included "wugga wugga" (the sound of a computer program), "blivit" (a bug in a sales pitch), "seedware" (promotional software) and WOMBAT (a bone-headed idea: a Waste Of Money, Brains And Time).

The link with deceit was made 60 years ago by George Orwell in his seminal essay, *Politics And the English Language*: "When there is a gap between one's real and one's declared aims, one turns, as it were, instinctively to long words and exhausted idioms, like a cuttlefish squirting out ink . . . Every such phrase anesthetises a portion of one's brain."

It is a point that regulators also recognise.

A 2003 study by Professor Ian Ramsay from the University of Melbourne's Centre for Corporate Law and Securities Regulation found that most prospectuses were over-detailed, repetitive, full of jargon and damn hard to understand.

In February, the Australian Securities and Investments Commission released draft guidance on shorter and more readable prospectuses.

According to deputy chairman Jeremy Cooper, issuers and advisers still had to get their heads around what disclosure actually meant. "So far, there's been a lot of 'over-disclosure' as a means of limiting liability," he said at the time.

In the US, the Securities and Exchange Commission has put out a proposed rule for improved disclosure, especially around executive compensation, proxy statements and annual reports.

Why are regulators turning themselves into the jargon bashers? SEC chairman Christopher Cox came up with one very good reason: "We want to promote the use of the active voice, not just because it makes for punchier sentences, but because it requires a definite subject to go with the predicate.

"That's the only way that investors will be able to figure out who did what to whom."

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How to read an annual report.

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