

Handsome annual reports cause investors to value company higher

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As firms begin the 2011 annual report process, which many do at this time of year, they may want to pay closer attention to the way those reports look. A recent study out of the University of Miami School of Business Administration found that investors, regardless of their experience, place a higher value on firms with attractive annual reports than they do on those that produce less attractive reports. The study found that annual reports that utilize more color are perceived to have at least one percent higher annual revenues than those with lackluster designs.

"The role of aesthetics in [consumer goods](#) like those you'd find on store shelves has been widely studied, but our research is novel in that we look at this effect in the extreme context of financial decision-making and what we find is just how boundless the role of aesthetics can be," said Claudia Townsend, assistant professor of marketing at the University of Miami School of Business Administration, who conducted the research with Suzanne Shu of the UCLA Anderson School of Management.

"Better-looking documents produce increased pride of ownership for a company, and this pride increases valuation. People are not aware of the effect of aesthetics on their financial decisions and we found that when their attention was drawn to this issue they were able to overcome the [bias](#) and make wiser investments."

Researchers conducted a series of three studies: one with finance students, one with members of the general population, and one with more experienced investors. [Respondents](#) in each study indicated that the

design of a firm's annual report would be of little significance in their valuation of a company. But after reviewing the first few pages and/or a sampling of annual reports, participants rated firms with more attractive reports higher than those with less attractive reports. Specifically:

- In the student study, in which participants were given the first three pages of two annual reports with the same [financial information](#), the students priced the stock shares of a firm with the more attractive annual report nearly 70 percent higher than shares of a firm with the less attractive report.
- In the general population study, respondents gave the product of a company with a more attractive annual report an average rating of 5.08 on a seven-point scale versus a rating of 4.79 for the product of a company with a less attractive annual report.
- In the study involving experienced investors, in which participants were asked to rank companies based on how likely they would be to invest in those firms, the findings suggested that including an additional color throughout a firm's annual report would have the same impact on an investor's firm ranking as a 20 percent improvement in revenue from the previous year.

"The implications of these findings should point [firms](#) in the direction of good graphic designers," added Townsend. "After all, it is a lot easier to add color to a printed piece of paper than to add revenue to a company's bottom line."

More information: The research paper can be found online at [www.sciencedirect.com/science/ ... ii/S1057740810000677](http://www.sciencedirect.com/science/.../ii/S1057740810000677)

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