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A study of management's relationship with stockholders since the 1920's

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BOSTON UNIVERSITY
School of Public Relations and Communications

Thesis

A STUDY OF MANAGEMENT'S RELATIONSHIP
WITH STOCKHOLDERS SINCE THE 1920'S

By

J. Robert Margadonna
(B.S. in B.A., Bryant College, 1955)

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Approved

by

First Reader

Charles F. Hogan
PROFESSOR OF PUBLIC RELATIONS

Second Reader

Carl E. Hills
ASSISTANT PROFESSOR

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CHAPTER I

THE PROBLEM AND DEFINITIONS OF TERMS USED

The Problem

Statement of the problem

It was the purpose of this study (1) to trace management's relationship with stockholders from the 1920's up to the present time, noting the change in management's attitude, policies, and practices and (2) to learn the reasons for this change.

Importance of the study

Years ago management passed off the stockholder with a mere shrug of the shoulder thinking it the thing to do. Today, however, there is a definite trend on the part of management to capture the stockholder's loyalty and interest. Partly because of this, the field of stockholder relations is constantly expanding and today offers tremendous opportunities for young men and women. It is only fitting that people who hope to pursue this field know about the history of management-stockholder relations, the changed attitude of management toward the stockholder, and why management has changed its attitude. In this thesis, the author has attempted to impart this knowledge.

Scope of the study

This study covers only industrial enterprises, public

utilities, and railroads. The scope of the treatment does not include banks, insurance companies, or any other type of financial institution.

Definitions of Terms Used

Management

The term "management" refers to the board of directors of corporations who, at law, directly represent the stockholder. It is used in a plural sense meaning managements.

Corporation

The term "corporation" was interpreted as meaning only publicly owned enterprises.

Stockholder-owner

For the purposes of this thesis, stockholder and owner are used synonymously meaning a holder of one or more shares of stock in one or more corporations.

Questionnaire survey

The term "questionnaire survey" will frequently be referred to in this thesis. It is a study made by the author of 109 representative corporations.

A letter accompanied by a questionnaire, primarily of historical nature, was sent to 225 representative corporations throughout the country in order to ascertain the policies and practices of these corporations since the 1920's. Of the 225 corporations to which the questionnaire was sent, 109 or approximately 49% returned it. Many of the companies returned

the questionnaire only after a follow-up letter was sent.

The sampling procedure, the questionnaire sent, the names of the corporations sampled, and a detailed breakdown of the results are shown in Appendix I.

Annual report study

This is a study made by the author of the annual reports of twenty-five corporations dating from 1920 to 1955. Various findings of this study are shown in the chapters to which they are applicable.

In the letter sent with the questionnaire to the 225 corporations in the questionnaire survey, the author asked for a few annual reports of the 1920's, 1930's, and 1950's so that a study of annual reporting could be made. Only twenty-five corporations were able to supply such a complete list of annual reports. For this reason, this part of the study is confined to twenty-five corporations. The names of the corporations whose annual reports were studied and a complete summary of the findings are shown in Appendix II.

Organization of Remainder of the Thesis

The next chapter of this thesis deals briefly with the increase in stock ownership and what stockholders want from management. In Chapter III management's relationship with stockholders during the 1920's and early 1930's is discussed. In this chapter the reader will get a clear understanding of how management regarded the stockholder during this time.

Chapter IV deals with stockholder relations from the mid-1930's up to World War II. Chapter V is devoted to stockholder relations today, and the last chapter gives a summation of the study as well as the probable future outlook of stockholder relations.

CHAPTER II

THE STOCKHOLDER

Prior to World War I America's corporations were primarily owned by a relatively few wealthy investors and banks. Since World War I, America's corporations have become owned by an ever increasing number of individuals many of whom are people of moderate means.

In November, 1928, John Moody, president of Moody's Investors Service said:¹

More and more the corporate industries of the United States are becoming the property of the public, and more and more are individual citizens investing their wealth and their savings in corporate securities. In my view this new era in America is in its first stages only. The coming decade will witness its expansion and extension far beyond its present state.

Table I gives some idea of the tremendous dispersion in stock ownership that has taken place in America's corporations in the past thirty years. The table is comprised of the stock lists of twenty-five representative corporations for the years 1925, 1935, 1945, and 1955. Twenty-three of the twenty-five corporations have had a continued increase in the number of their stockholders and there were almost four times as many stockholders in these twenty-five corporations in 1955 than in 1925.

¹ John H. Sears, The New Place of The Stockholder (New York: Harper and Brothers, 1929) p. 37

TABLE I

**STOCKHOLDERS OF TWENTY-FIVE REPRESENTATIVE
CORPORATIONS FOR THE YEARS 1925,
1935, 1945, AND 1955**

Name of company	Number of stockholders			
	1925	1935	1945	1955
Acme Steel	1,300	1,900	4,000	16,000
American Tobacco	30,000	59,000	74,000	85,000
American Tel. & Tel.	361,000	657,000	684,000	1,408,000
Armco Steel	4,213	19,140	32,137	50,275
Burroughs Corp.	1,100	1,300	23,000	27,000
Chesapeake & Ohio R.R.	7,082	32,453	82,329	90,575
Chrysler Corporation	10,000	37,700	54,000	88,000
Colgate-Palmolive	3,803	13,500	13,607	18,000
Deere & Company	4,800	7,000	15,600	21,000
Eastman Kodak	20,000	37,000	42,000	90,000
Firestone Tire & Rubber	3,485	9,197	12,850	15,440
General Foods	2,000	62,000	60,000	60,975
Granite City Steel	1,000	1,610	2,195	10,000
Johns-Manville	275	6,900	8,400	15,100
Lehn & Fink Products Co.	2,000	5,100	5,500	8,600
Louisville Gas & El.	8,931	13,115	10,976	23,053
New York Central R.R.	40,000	56,000	59,000	40,000
Norfolk Western R.R.	12,618	12,948	13,979	32,372
Pabco Products Inc.	1,805	3,257	4,263	5,219
Philip Morris	5,000	5,000	10,000	28,000
Philips Petroleum	4,500	32,300	46,000	90,246
Rockwell Manufacturing	150	400	700	11,500
Selby Shoe Company	600	900	850	1,000
Southern Railway	14,070	16,837	16,605	18,281
Swift & Company	47,378	53,701	59,895	64,296
Total Book Stockhold.	587,118	1,145,258	1,335,886	2,317,932

* This information was derived from the questionnaire survey.

In 1928 Joseph S. McCoy, actuary of the United States treasury, estimated the total number of actual stockholders in the United States as being 3,000,000.² According to a study made by the New York Stock Exchange in 1955, 7,500,000

² Ibid., p. 36

people now comprise the rapidly growing stockholder public.³ These people come from all walks of life. The typical stockholder may very well be a farmer, a journalist, a mechanic, or even a housewife.

What do these people desire from the corporations in which they have invested their wealth and their savings? Of prime importance to the stockholder is that he receives a dividend. But according to a nation-wide study made by the Opinion Research Corporation in 1951, dividends are not enough to satisfy the average stockholder.⁴ The study showed that the average stockholder wants attention paid to him and he wants to be made to feel that he belongs to his company. He wants to be fully informed so that he can get to know his company, its management, its character, its principles and policies. The question now is: was the average stockholder of twenty or thirty years ago any different than the stockholder of today. It appears not. A survey made by the Johns-Manville Corporation in the mid-1930's revealed that the company's stockholders wanted to know about the company's history, its management, its problems, its policies and practices.⁵

3 Understanding the New York Stock Exchange, New York Stock Exchange, May 1955

4 What Stockholders Say About Stockholder-Management Relations, Opinion Research Corporation, November 1951

5 Milton Wright, Public Relations for Business (New York: McGraw-Hill, 1939) p. 269

From this it can be concluded that the American stockholder has never wanted to be a mere number on the books but has always wanted a sense of belonging that comes from a close relationship.

The following chapters of this thesis are devoted to tracing management's relationship with the stockholder or how management has treated the stockholder from the 1920's up to the present time.

CHAPTER III

THE 1920'S AND EARLY 1930'S THE DARK AGES OF STOCKHOLDER RELATIONS

Probably no corporate public has been more neglected than the stockholder public of the 1920's and early 1930's. These were the years in which management seemed to regard the stockholder as not any different than the bondholder except that the stockholder was entitled to a share of the profits. "Keep the stockholder at full arm's length" seemed to be the attitude of the times.¹ Management showed little interest in the stockholder and even froze him out of some of his basic rights. Professor Ripley, formerly of Harvard University, said in 1927:

The position of the minority stockholder is extremely unsatisfactory. I do not wonder that he sometimes doubts whether corporate stocks are property at all or not. He does not seem to enjoy any of the substantial rights of property in connection with them. He is merely contributing money for the conduct of a business which other men run as they please. If he does not approve of what they do there seems nothing for it but to sell the stock (though their acts may have depreciated its value immensely). He cannot even inquire or protest without being told to mind his own business the very thing he was innocently trying to do!²

1 Bruce Watson, "A Market to Shoot At," Public Relations Journal, February, 1949, p.22

2 William Z. Ripley, Main Street and Wall Street (Boston: Little, Brown, and Company, 1927) p. 13

Most companies would get the stockholder's money and then show no interest in him except for sending him the dividend check, notice of the annual meeting, which is required by law, and an annual report. The latter was usually skimpy and sometimes even unreliable. In some cases even the annual report was not sent to the stockholder.

The questionnaire survey shows the following as of 1930:

- 1- Thirteen of the 109 corporations did not send their stockholders annual reports.
- 2- Six of the corporations reported to have sent quarterly reports to their stockholders.
- 3- Seven of the companies reported to have sent stockholders special letters when something important occurred.
- 4- Four of the corporations reported to have sent welcome letters during this time.
- 5- One company sent a letter of regret to stockholders who sold their stock.
- 6- Two of the corporations reported to have sent stockholders post-annual meeting reports.
- 7- Only two companies made special offers and/or sent stockholders samples of their products.
- 8- Not one of the companies held regional meetings.
- 9- Not one of the corporations distributed stockholder magazines.
- 10- One company sent stockholders copies of its house organs.
- 11- Three of the companies reported to have held open houses.

In connection with the above findings concerning quarterly reports, special news letters, welcome letters,

post-meeting reports, and open houses, some companies did not state the year in which one or more of these practices were commenced; therefore it was impossible to tell whether or not these practices were part of these companies' stockholder relations programs during this period. Only those companies that reported to have practiced these techniques are noted above. This is the reason for the use of "reported" in connection with these five practices. It is possible that more of the companies did practice these techniques during this period, but not many more because the percentage of corporations that did not give dates concerning one or more of these practices is very small.

The majority of the companies whose practices could be ascertained during this period sent their stockholders only a notice of the annual meeting and an annual report. Some companies such as Hooker Electrochemical, Whitehall Cement Manufacturing Company, National Motor Bearing Company, and the Southern Utah Power Company did not even issue an annual report during this period. Other companies did not begin sending an annual report to stockholders until the 1920's. American Machine and Foundry did not issue its first annual report until 1924. The Cleveland Electric Illuminating Company, which has a fine stockholder relations program today, did not issue an annual report to stockholders between 1912-1920.

Another important finding of the survey is that not one

of the companies conducted a survey so as to disinter their stockholders' wants and desires or characteristics or anything else that could help them in building a better and closer relationship.

Since this survey was representative of many industries, it can be concluded that most corporations did little in the way of stockholder relations techniques. This survey showed, however, that American Telephone and Telegraph and Swift and Company were ahead of the pack. American Telephone & Telegraph during this period sent its stockholders quarterly news letters, an annual report, and held open houses for stockholders starting in 1921, and the company has continued to hold open houses in regional form right up to the present time. It also sent new stockholders a welcome letter and sent a letter of regret to stockholders who sold their stock.

Swift & Company also appeared to be a forerunner during this period. This company sent stockholders an annual report, interim reports, a welcome letter to new stockholders, which was commenced in 1925, and made special product offers to stockholders as early as 1923.

General Motors and United States Steel are other companies who are reported to have maintained close contact with their stockholders. But this was not the case of most corporations. The stockholder who supplies the capital which is required for equipment, tools, and other expansional uses and who assumes the risk merely received notice of the

annual meeting and an annual report. This was all the attention that was paid him.

Many Corporations Resembled Secret Conspiracies

Lewis D. Gilbert, the prominent authority on stockholder relations, said that before 1932 many corporations resembled secret conspiracies whose aims were to suppress information concerning their financial position.³ During the 1920's and early 1930's most corporations gave their stockholders little information concerning their companies' operations, financial structure, products, or future plans. The annual report, as was shown, was just about the only source of information from the company. But in most cases it consisted of a letter from the president, a balance sheet, and a profit and loss statement. In other cases the annual report consisted solely of the financial statements. Furthermore, many times the financial statements were condensed and cut-down so that a thorough analysis could not be made. Professor Kipley when describing annual reports during this time said: "The average corporate report is as dark as the inside of a cow."⁴

To show the lack of information in annual reports it is well to take some concrete examples.

³ Lewis D. Gilbert. Dividends and Democracy (New York: American Research Council, 1956) p. 10

⁴ Sears, op. cit., p. 138

In 1930 the Wiser Oil Company suffered an operating loss of \$97, 789.59 and yet its annual report to stockholders was made up of only a balance sheet and profit & loss statement. There was no explanation for the loss, nor was there any mention of what plans, if any, had been taken to reduce the loss and get the company back to terra firma.

The 1929 report of Hershey Chocolate Corporation consisted of a mere three pages. The first page read: "HERSHEY CHOCOLATE CORPORATION & AFFILIATED COMPANIES, CONSOLIDATED BALANCE SHEET AND CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1929 TOGETHER WITH AUDITORS' CERTIFICATE."

On page one as noted above affiliate companies were mentioned, but nowhere in the entire report is there any mention of their names. There was nothing given the reader about how the company stood financially as compared with 1928, about products, industry trends, sales, and not even the names of the board of directors.

The Union Natural Gas Company of Canada is another corporation whose annual reports were comprised of only a balance sheet and income statement.

There were annual reports that besides the financial statements contained a letter from an officer of the corporation. Eastman Kodak's 1921 report to stockholders had a short letter from the secretary of the company and a condensed balance sheet and income statement. In the letter the

secretary said:

The directors submit herewith the audited statement of account for the year ending the 31st day of December, 1921, being the nineteenth full year of business of the company.

In the balance sheet presented the earnings of all the subsidiary companies are included for the period mentioned.

The balance sheet shows carried to surplus for the twelve months the amount of \$5,782,704.04 after charging off liberal amounts for depreciation, making ample provision for shrinkage in value of inventories, and paying four quarterly dividends of 1½% each on its preferred stock, four quarterly dividends of 2½% each, and extra dividends amounting to 30% on its common stock.

The secretary stated in his letter that \$5,782,704.04 was carried to surplus after charging off liberal amounts for depreciation, making ample provision for shrinkage in value of inventories, and payment of dividends. But nowhere in the letter nor in the financial statements was there any inkling given the stockholder as to how much was actually set aside for depreciation and how much was set aside for shrinkage in value of inventories. Moreover, the company did not give any information concerning sales for the year, labor cost, condition of property and equipment, and the probable future pattern of the business.

Philip Morris' 1924 report consisted of a short four paragraph letter from the treasurer and the financial statements. In the letter the treasurer stated that the company had changed its fiscal year and that it had entered into a working agreement with a company located in Philadelphia. He

then summarized the year by saying: "During the period covered by this report your company has put forth special efforts toward a continued development of its brands and those of its subsidiary with satisfactory results in establishing the various brands of cigarettes and your directors look forward to favorable results for the next fiscal year." Like the reports shown above there was nothing about sales, earnings, condition of property and equipment, labor cost and employee relations, and industry trends. Little illuminating information was given the reader for him to judge the quality and potential of the firm's operations. The following is the profit & loss statement that was presented:

Consolidated Profit and loss Statement For The 15 Months
Ended March 31, 1924

Net income for the 15 months ended March 31, 1924	\$84,860.39
Add surplus of 31 March, 1922	<u>147,516.49</u>
	232,376.00
Deduct dividends 50¢ per share on 276,000 shares	<u>138,000.00</u>
Surplus at March 31, 1924	94,376.88

The preceding is not an income statement but a statement of surplus. The statement as an income account is almost meaningless, for one cannot determine sales for the year, expenses, gross profit, net profit on operations, the margin of profit, or the operating ratio.

The balance sheet could have also contained more information. The asset side consisted of six items one of which was entitled investments, but there was no mention of

the source. Depreciation was jumbled in with taxes and other allowances with no mention of the actual depreciation set off for the year.

Of the two essential financial statements, the balance sheet and profit & loss statement, the latter is probably the more important because it tells whether a business is operating profitably or not. It shows the operations of a business over a period of time whereas the balance sheet is static, it shows the financial condition of a business as of a particular moment. Both, though, are needed to get a complete picture. It was the income statement that was most often condensed and suppressed during this period.⁵ Lawrence H. Sloan, then vice president of Standard's Statistics Company, on the basis of reports studied in 1927, found it possible to compare the gross incomes and net profits of only 235 corporations out of 545 leading industrial corporations studied or only 43%. Gross incomes were not reported by 57% of the companies.⁶

It is important to note here that probably most stockholders do not understand financial statements. Regardless of this, management has a duty to present complete financial statements at least for the benefit of those stockholders who

⁵ Ripley, op cit., p. 171

⁶ Alfred L. Bernheim. The Security Markets (New York: Twentieth Century Fund Inc, 1935) p. 581

do understand them and for the benefit of brokers and analysts who interpret the financial data to stockholders. As noted above, many corporations did not present adequate financial data during these years. And furthermore, only in a few cases did management attempt to discuss many of the items on the financial statements and employ charts, graphs, or other simplification devices to bring to life the figures for the benefit of the small stockholder.

Not only did the stockholder receive little information, but oftentimes the information that he did receive was misleading. It seemed to be a fairly common practice, particularly during the depression years, for companies to set off losses and expenses to surplus instead of deducting them from income so that they could show a profit.⁷

A notable example is the Doleheir Dye Casting Company. The company stated in its 1931 annual report that for the year 1931 the company's net profit was \$139,112.88 after depreciation, taxes, etc. This would give one the idea that the business was operating profitably. The company paid dividends of \$100,005.07; thus surplus should have been increased by \$39,107.81 but instead of increasing by this amount

⁷ For an extensive study see Anderson F. Farr's two articles: "Give the Stockholder the Truth," Scribner's Magazine, April 1933, pp.228-234 and "The Annual Corporate Report a Study in Evasion," Harper's Magazine, March 1934, pp. 421-434

it decreased from \$3,106,516.61 to \$1,535,076.35. Instead of charging off various losses to profit and loss (meaning deducting them from income), the company charged these various off to surplus. If the company had not charged these items off to surplus, it would have had to show a net loss for the year rather than a net profit.⁸

Another example is the Melville Shoe Company. It reported a net income for the year 1932 of \$721,643.00 and paid dividends amounting to 716,960.60 on three classes of stock. Therefore surplus should have increased by 4,682.40 but here again surplus decreased by \$1,200,000. The company merely set off charges aggregating one million dollars to surplus where they could not be seen so that a profit could be shown for the year. Meanwhile the stockholder's investment had shrunk.⁹

Independent audits were not mandatory during those days. It was not until 1933 that the New York Stock Exchange made independent audits mandatory for companies whose stocks are listed on the Exchange.¹⁰ It was not until 1934 that independent audits were required for all companies whose stocks are listed on national security exchanges. Many companies did publish reports containing auditor's certificates. However,

⁸ Anderson F. Farr, "Give the Stockholder the Truth," Scribners Magazine, (April, 1933), P. 230

⁹ Anderson F. Farr, "The Annual Corporate Report a Study in Evasion," Harper's Magazine, (March, 1934), p. 428

¹⁰ Alden Winthrop, Are You a Stockholder, (New York: Covici & Friede, 1937) p. 21

in some cases auditors were biased in their evaluations because of the wish to please the management.¹¹

As stated in Chapter I, the author made a study of the annual reports of twenty-five corporations. The study was comprised of one annual report of each of the twenty-five corporations for each of the following periods: 1920's, 1930's, and 1950's. As of the 1920's, seven of the twenty-five reports were classified as truly informative in that they had all or most of the following items: the names of directors and officers, names of subsidiaries, location of plants and markets, complete financial statements, discussion of earnings, dividends, products, sales or revenue, employee relations, industry trends, expenses, improvements, research activities, production, and future plans. One of the reports was classified as modern. That is, it had at least three of the following: a simplified financial summary or highlight page, pictures, graphs or charts, comparative data, and three or more colors. This gives some idea of the little attempt management made to simplify the report for the benefit of the stockholder who could not fathom financial data.

It must be stated here that railroad reports accounted for four of the seven truly informative reports. They were complete and gave a real insight into the business. However, it is the opinion of the author that they were much too

¹¹ Ripley, op cit., p. 216

complicated for the average stockholder to understand. Most of the annual reports had just a list of the board of directors, a letter from the president in which he confined himself to a scant summary of the financial condition of the business, a balance sheet, and income statement. It is reported that some companies, such as American Tobacco, Waltham Watch, National Biscuit, and the Scovill Manufacturing Company, vouchsafed only a balance sheet to their stockholders during this period.¹²

The reports of United States Steel, General Motors, American Telephone & Telegraph, Swift & Company, Armco Steel, and a few others were truly informative. As a matter of fact these companies were ahead of the field in that they constantly kept their stockholders in the know.

Judge Elbert H. Gary, then president of United States Steel, was proud of his company's informative reports and over-all policy of full disclosure. He said: "The people have a right to know how the people's business is being carried on; and the more they know about it, the better it will be for the business. Big business like human life cannot thrive properly in the dark."¹³

When discussing the informative annual report in 1927, Professor Ripley said.¹⁴

¹² ibid. p. 156

¹³ Sears, op cit., p. 140

¹⁴ Ripley, op cit., p. 165

The United States Steel Corporation now owned by 179,000 people has from the outset followed the precept well stated by Judge Gary, its president: "Corporations cannot work on a principle of locked doors and shut lips." From the first annual statement, outspread over entire newspaper pages in 1903 down to the present time, its record has been constantly admirable. The General Motors Company, first in its industrial class the world over, is a worthy second. It has 56,000 stockholders. And in the field of public utilities the Philadelphia Company and the Consolidated Gas Electric Light and Power Company of Baltimore offer prominent examples of reports as simple and understandable as their complicated structures permit.

General Motors had for one of its slogans "Stockholders are entitled to know." During this period, it mailed to stockholders quarterly news letters and at the end of the year issued a complete financial review in the form of an annual report which oftentimes ran as much as thirty pages. Accompanying the dividend checks usually appeared a booklet telling stockholders something they ought to know about General Motors.¹⁵

Armco Steel, then the American Rolling Mill Company, is another company that believed in full disclosure. It sent its stockholders interim reports, a special news letter when special developments occurred, a full and complete annual report, and in 1930 began issuing a report of what transpired at the annual meeting this being an edity in those days. Its 1926 report was one which any company today could be proud of. The first few pages gave the names of the company's subsidiaries, directors and officers of the corporation, and the

¹⁵ Sears, op cit., p. 140

location of plants and offices. After this was the president's letter in which he spoke of products and their demand, general business conditions, national growth and future, company growth and future, dividends, condition of property and equipment, improvements, research, and the company's operating record. Following this was a complete balance sheet and profit & loss statement. The last few pages were devoted to employee relations and world production of iron and steel. The report also contained charts and graphs which were used to highlight certain points on the financial statements.

American Telephone & Telegraph is another company that believed in full disclosure. It sent stockholders booklets giving facts about the Bell System, a complete informative annual report, and quarterly news letters, the latter being commenced in 1901.

The above companies were forerunners of the day. They believed in keeping their stockholders in the know. This, though, seemed not to be the attitude of most corporations. As was pointed out, most corporations issued only an annual report and this usually gave the stockholder little information about his company's affairs. Why this lack of information? The reason most often given is that companies did not inform stockholders because the information would get to competitors and give the latter an advantage thereby.¹⁶ Other

¹⁶ Bertrand R. Canfield, *Public Relations Principles and Policies*, (New York: Richard D. Irwin, 1952) p. 73

reasons given for silence are:¹⁷

- A- Some companies believed that since the average stockholder does not understand the problems of management, he should not be informed.
- B- Some companies assumed that the average stockholder was not interested in the company so long as he received regular dividends.

The first was probably the principle reason, for not only did most companies divulge little information to their stockholders, but they also disclosed little to the financial community. In writing The New Place of The Stockholder John Sears said:

The plea for more and better information is not based on the belief that the average small stockholder of today is any better equipped to receive and digest such information than was his predecessor stockholder of yesterday. Nor is it because he shows a marked eagerness for such information. The belief is that more and better information will be useful to the vast army of analysts, statisticians, accountants, and experts who stand ready to study the information furnished, and to select and interpret for the benefit of the stockholder.¹⁸

There was no Federal legislation concerning corporate information during those years except for railroads which had to meet the requirements of the Interstate Commerce Commission. A number of bills were introduced in Congress in the early 1920's, but unfortunately none of them succeeded.¹⁹ State laws were weak; they did not require corporations to set forth

¹⁷ ibid. p. 73

¹⁸ Sears, op cit., p. 137

¹⁹ J.K. Lasser and J.A. Gerardi, Federal Securities Act Procedure (New York: McGraw-Hill Book Company, 1934) p. 4

adequate corporate information.²⁰

The weakness in state laws was primarily due to the intense competition among the states. In short, states had appealing laws so as to get more and more businesses to incorporate within the respective states. It was the intense competition among the states which resulted in laws that enabled management to abrogate some of the stockholder's basic rights which will shortly be discussed.²¹

The following is part of an advertisement which appeared in the Daily Times Star (Delaware) October 20, 1926.²²

Simple annual reports are necessary but they do not require disclosure of the corporations financial affairs. Of all the company's books and records only an original or duplicate stock ledger must be kept in Delaware.

The following advertisement appeared in the Scientific American, 1921.²³

Incorporate in Arizona

Complete in one day. Any capitalization, least cost, greatest advantages. Transact business anywhere. Laws, by-laws, and forms free.

Much of the competition among the states was due to the desire for public revenue in that the more corporations in the state the more fees and taxes derived therefrom. The situation

²⁰ Adolf A. Berle and Gardiner C. Means, The Modern Corporation and Private Property (New York: The Macmillan Company, 1932) p. 317

²¹ Ripley, op cit., p. 33

²² ibid. p. 30

²³ ibid. p. 29

was well described by Federal Trade Commissioner, Myers in
1926:²⁴

Public opinion will not long tolerate a condition under which a few states vie with one another in creating corporations with unlimited capital and powers, without requirement that they engage in business in the states of their incorporation, and without provisions looking to the disclosure of their operations or accounts. An effort has been made to justify these loose incorporation laws on the ground that they encourage the development of industry within the states; but the effort fails in view of the omission of any provision that the corporations shall conduct their operations in whole or in part within the states of their incorporation. The reference is irresistible that the incorporation of companies is solicited by these states because of the license fees and other revenue derived from the business. The creation of corporations has lost its dignity as an exercise of the sovereign prerogative for the furtherance of commerce and in the interest of the people of the state. What was once regarded as the conferring of a great privilege, to be limited and circumscribed by all necessary provisions for the protection of the public, has become a bargain sale, and states are advertising and competing for the business.

The New York Stock Exchange was the leading influence in the 1920's and early 1930's in the promotion of adequate corporate information. Its listing requirements were such that when a company applied for listing, the company had to give among other things a complete record of its financial position. The Exchange obtained agreements from many of the firms to keep the information submitted at the time of listing up to date periodically.²⁵ All this information was made open to

²⁴ ibid. p. 34

²⁵ George L. Leffler, The Stock Market (New York: The Ronald Press Company, 1951) p.429

public inspection.

In the late 1920's the Exchange's policy of full disclosure became more rigid. In one case, that of the Allied Chemical and Dye Corporation, the Exchange threatened to remove the company's securities from listing for failing to publish adequate information. This company during the 1920's and 1930's published only a condensed balance sheet and income statement. In 1932 the big board stated that it would remove the company's securities from listing unless it issued more intelligible information. The company agreed and its securities were retained.²⁶

Although the New York Stock Exchange was the leading influence in the promotion of **adequate** corporate publicity, it could only influence firms whose stocks were listed on the big board and such companies numbered less than 1,000 in 1930. Furthermore, many of the firms whose stocks were listed on the big board gave the Exchange more information than they gave to their stockholders. For example, in 1926, the American Can Company submitted comparative financial statements to the Exchange yet such statements did not appear in the curt annual report to stockholders.²⁷

²⁶ Alden Winthrop, Are You a Stockholder (New York: Covici & Friede, 1937) p. 21

²⁷ Ripley, op cit., p. 210

The Annual Meeting a Prosaic and Cut and Dry Affair

All states require corporations to give their stockholders notice of the annual meeting so that stockholders can go to the meeting and personally vote their stock. But very few stockholders ever attended annual meetings during this period. As Lewis Gilbert put it, "Then an independent stockholder at an annual meeting was as rare as a polar bear in the tropics."²⁸

Why did stockholders fail to attend annual meetings? The main reason is that management showed a lack of interest in the stockholder. As one owner put it, "Everything is railroaded through; it's a cut and dry affair and everybody is anxious to get it over with and get home."²⁹

Management usually held the meeting in some remote and inaccessible place so that most stockholders could not conveniently attend.³⁰ The ones that did attend were often treated as intruders rather than owners. "The president's attitude was plainly that the whole affair was a damned nuisance, an intrusion on his privacy which he wanted to get

²⁸ Lewis D. Gilbert, Dividends and Democracy (New York: American Research Council, 1956), p. 8

²⁹ Sears, op cit., p. 148

³⁰ Gilbert, op cit., p. 9

over as fast as possible."³¹ After the usual preliminaries, most of which was legal jargon, the president would give the report for the year. Usually he would read it in a low tone of voice so that no one could hear him and then adjoin the meeting before any questions could be asked.³²

How the average stockholder felt about attending annual meetings in those days is told by John T. Broderick, in A Small Stockholder.³³

I have attended several of these annual gatherings, but as an observer and listener only, for there has never seemed to be anyway in which I could lend a hand with the proceedings. At the last meeting that I attended I asked a teller who sat near me if, so far as he knew, there was anything that I could do that would at least show my willingness to be useful. He replied that directors were to be elected and that, as a registered stockholder, I was entitled to vote. That gave me a sense of importance, which, however, did not last very long, for I saw presently that the directors whose terms of office were about to expire had in their possession proxies for over 70% of the outstanding shares, and had already decided to re-elect themselves. I had no cause to question the wisdom of their decision, for, so far as my knowledge went, they were all men of probity and business experience. So I refrained from voting, not from pique, but because it was patent that my vote could not influence the result. From a subsequent analysis of the case I was persuaded that, after all, I had unconsciously participated in the election of the directors because the funds of the corporation, a small share of which was mine, had been used to defray the expense for postage, stationery, and labor required to obtain the proxies. That, however, is a technicality, the consideration of which by a layman would lead him far

³¹ ibid. p. 193

³² ibid. p. 20 and p. 193

³³ John T. Broderick, A Small Stockholder (New York: Robson and Lee, 1926), p. 7

afield. Corporate procedure, with its intricacies and host of anomalies, is completely intelligible only to the erudite and able lawyers who have the task of its interpretation, and to a few cloistral pedagogues who can see rhyme and reason in any riddle. What I am trying to calculate at the moment is the measure of interest that there is for me in any meeting of corporation stockholders which I am entitled to attend. In fact, while I am usually ill at ease in the presence of death in any form, if I were obligated to choose between dying to one of these corporate powwows, with its arid ceremonial, and going to a funeral, with its moving solemnity, there is no doubt that I would pick the funeral. At a friend's obsequies one may at least speak a consoling word to the widow, if he knows how, and possibly serve as a pallbearer. Being a pallbearer is having a job to do in which one may take pride in doing well.

In 1933 there was a feeling among some stockholders of the American Tobacco Company that the bonuses paid to directors were too large in proportion with earnings. This found its way into the press. One would think that George Washington Hill, the company's president, would be present at the annual meeting to answer any questions of the dissatisfied stockholders and explain the reasons, if any, for the bonuses, but contrary to what one would believe Mr. Hill did not attend the annual meeting. Paul M. Hahn, vice president, who presided in his absence, explained that Mr. Hill "is a very busy man at his office." Could it be that Mr. Hill did not attend the meeting because he would have had to answer some embarrassing questions concerning the bonuse arrangements? The point that is being made is merely how some directors regarded their stockholders during this period.³⁴

³⁴ Winthrop, op cit., p. 53

Annual meetings are supposed to be conducted affairs whereby the owners of the business can ask questions of their directors and officers and exchange views concerning the business. But during this period annual meetings, for the most part, were prosaic and cut and dry affairs. Management tried to get the meeting over with as soon as possible never giving the stockholder a chance to participate. Lewis Gilbert summed up management's attitude this way: "Management regarded the stockholder as a necessary evil, one that occasionally had to be seen but certainly should never be heard."³⁵

Management Abrogates the Pre-emptive Right

If a corporation's capital stock is increased, existing stockholders have a right to subscribe to new stock before it is offered to the public. The purpose of this right, which is called the pre-emptive right, is to enable stockholders to protect and maintain their relative position in the organization.³⁶ This principle made its appearance in 1807, when by a sweeping decision the Massachusetts court evolved the doctrine of the pre-emptive right. This principle then became embedded into all corporation law.³⁷

³⁵ Lewis D. Gilbert, "Gilbert's Little Friends Become Big Fellows," Business Week, (March 10, 1956), p. 115

³⁶ Ronald A. Anderson, Business Law (Dallas: South-Western Publishing Company, 1952), p. 708

³⁷ Berle, op cit., p. 144

After 1919 states began to make amendments in their laws which gave the management of corporations power to disregard the pre-emptive right by a charter provision. The first states to do this are: Maryland, New Jersey, and Delaware and then other states followed suit.³⁸ A typical example of such a charter provision is that of the City Stores Company (Delaware) 1927:³⁹

No holder of stock of this corporation, nor any class of stockholders, shall at anytime have any preferential right of subscription to any shares of any class of stock of the Corporation now or hereafter authorized, issued, or sold, or to any obligations or securities convertible into stock of the Corporation, or any right of subscription to any thereof, now or hereafter authorized, issued, or sold, other than such, if any, as the Board of Directors in its discretion may determine and at such prices and on such terms as the Board of Directors may fix pursuant to the authority conferred by law and this Certificate of Incorporation.--City Stores Company (Del.)

In short, the directors have the right to dispose of increased capital stock without first offering it to the stockholders. Some states, such as California and Indiana set aside the pre-emptive right further by stating that stockholders would not be entitled to the right unless the right was specifically reserved in the charter.⁴⁰ As Messrs. Berle and Means put it in 1930: "The modern trend in corporate

³⁸ Ripley, op cit., p. 39

³⁹ Sears, op cit., p. 227

⁴⁰ Douglas Hamilton Bellemore, Investments Principles and Practices (New York: B.C. Forbes and Sons, 1953), p. 108

financing is to cut the Gordian knot altogether.⁴¹

Many corporations today still do not grant their stockholders pre-emptive rights. The author made a survey of eighty industrial corporations listed in Moody's Investors Catalogue for 1955. The results show that more than half of the companies are not legally obligated to grant their stockholders the pre-emptive right because of charter provisions. However, a corporation may not be legally obligated but still grant its stockholders the pre-emptive right. And Lewis Gilbert points out that in recent years more and more corporations are using this method of financing because not only is it less expensive, but it is an excellent way of building profitable stockholder relations.⁴²

Nonvoting Stock

Prior to 1911 there seemed to be little restriction on the voting rights of stockholders. Occasionally a corporation could be found whose preferred stockholders were denied voting power because of charter provisions, but a real trend in this regard did not begin until after 1911.⁴³

After 1911, the practice of denying preferred stockholders the right to vote became more prevalent. Nonvoting

⁴¹ Berle, op cit., p. 178

⁴² Gilbert, Dividends and Democracy, p. 215

⁴³ Ripley, op cit., p. 85

preferred stock took two forms: Full nonvoting preferred and contingent voting preferred. The latter was such that preferred stockholders were not entitled to vote unless dividends had not been paid for a certain length of time and then they were usually entitled to vote equally with the common. The length of time required in most cases was four "full" quarterly dividend defaults. In some cases, so long as the preferred stockholder was paid some kind of a dividend, he was not entitled to vote. Full nonvoting preferred stock was such that regardless of whether or not dividends were arrears preferred stockholders still did not have voting rights. Some of the companies that issued full nonvoting preferred stock are: Standard Oil of New Jersey, Standard Oil of Ohio, Atlantic Refining, International Milling, and Bethlehem Steel.⁴⁴

Around 1920 came the practice of disfranchising the common stockholder by splitting up common stock. Many corporations split up their common stocks into class A and B, the latter usually carrying exclusive voting power and of course held by the management. The common stock of the American Tobacco Company, Liggett and Myers, R. J. Reynolds Tobacco Company, Dodge Brothers, Pan American Petroleum, and Bethlehem Steel to name a few were classified in this manner.⁴⁵

⁴⁴ W.H.S. Stevens, "Stockholders' Voting Rights and the Centralization of Voting Control," Quarterly Journal of Economics (May 1926), p. 354

⁴⁵ ibid. p. 360

By the mid-1920's both nonvoting preferred and nonvoting common stocks were quite popular. However, about this time much criticism arose against nonvoting common stock in that it was argued that this type of stock gave management complete voting power with little or no investment.⁴⁶ In 1926, the New York Stock Exchange refused to list anymore nonvoting common stocks. The New York Curb did the same a short while later. Because of the ruling of the two major exchanges and criticism in financial circles, nonvoting common stocks began to disappear in the late 1920's and early 1930's.⁴⁷

In 1940, the New York Stock Exchange stated that it would refuse to list any further issues of preferred stock unless the stock carried the following minimum voting rights: (1) That preferred stockholders have the right to elect at least two directors upon default of six quarterly dividend payments and (2) "The affirmative approval of at least two-thirds of the preferred stock voting as a class, as a prerequisite to any charter or bylaw amendment altering materially any existing provision of such preferred stock."⁴⁸

In the survey conducted by the author of eighty industrial corporations for 1955 mentioned in the discussion of

⁴⁶ George L. Leffler, The Stock Market (New York: The Ronald Press Company, 1951), p. 16

⁴⁷ ibid. p. 16

⁴⁸ ibid. p. 432

pre-emptive rights, the results concerning voting rights are as follows:

- 1- In seventeen of the corporations both common and preferred have equal voting power.
- 2- In sixty of the companies common stockholders have exclusive voting power. Preferred stockholders get voting power only if dividends are in arrears for a certain length of time and if something comes up that particularly concerns preferred stockholders, such as a proposed issue of preferred stock.
- 3- Only in one of the companies is full nonvoting preferred stock in existence.
- 4- Only two of the corporations, both nonlisted companies, have two classes of common stock outstanding. In both cases, one class carries full voting power while the other does not.

Thus today the general practice is to give common stockholders complete voting power and preferred stockholders contingent voting power. Full nonvoting preferred and nonvoting common stocks are the exception rather than the rule.

In summarizing: The 1920's and early 1930's were the dark ages of stockholder relations. Management paid the stockholder little attention, saw no use for him, and froze him out of some of his basic rights. Most corporations considered the stockholder only to the extent of sending him the dividend check, notice of the annual meeting, and an annual report, the latter usually skimpy and sometimes even unreliable. But the New Deal was coming and with it Federal legislation.

CHAPTER IV

THE ADVENT OF FEDERAL LEGISLATION

The Federal Securities Act of 1933

On May 27, 1933 Congress passed the Federal Securities Act better known as "The Truth in Securities Law." The purpose of this act was to provide full and fair disclosure in the sale of securities.¹

In 1933, the first year of the Act's existence, the Federal Trade Commission was vested with the authority to administer the Act. The following year, 1934, the Securities and Exchange Commission took over surveillance of the Federal Securities Law.

The Act requires corporations to file a registration statement with the Securities and Exchange Commission before securities are sold to the public. The information required in the registration statement covers thirty-two points, some of which are: the name of the issuing corporation, state of incorporation, names of directors and officers who earn more than \$25,000 annually, complete information concerning the firm's capital stock structure, and complete details about the firm's financial condition including a three year comparative balance sheet and profit & loss statement.²

¹ Schedule A

² Schedule B

The Act also requires corporations to offer a prospectus to all persons contemplating purchase of the firm's securities. The prospectus is a summary of the information required in the registration statement and is a little easier to understand.³

As of 1933, companies offering securities to the public were now required to make full and reliable disclosure of their affairs both to the government and to persons contemplating purchase of the securities.

Securities Exchange Act of 1934

In 1934, Congress enacted the Securities Exchange Act for the purpose of regulating security exchanges and over the counter markets.⁴ Specifically it has the following objectives:⁵

- 1- To ensure just and equitable trading in security markets.
- 2- To regulate the use of credit for the purpose of security trading.
- 3- To regulate trading by corporate insiders on national security markets.
- 4- To make sure that the public gets reliable information concerning companies whose securities are listed on national security exchanges.
- 5- To regulate the use of proxies by corporate insiders.

³ Douglas Hamilton Bellemore, Investments Principles and Practices (New York: B.C. Forbes and Sons, 1953), p. 205

⁴ Section 1

⁵ Bellemore, op cit., p. 268

It is with the last three that we are concerned.

The Act created a new federal body, the Securities and Exchange Commission, to administer the Act as well as the 1933 Act superseding the Federal Trade Commission.⁶

The Act required all security exchanges that operate in interstate commerce and through the mails to register with the Securities and Exchange Commission.⁷ The registered exchanges are:⁸

- | | |
|---|--|
| 1- American Stock Exchange (The N.Y. Curb until Jan. 5, 1953) | 9- New York Stock Exchange |
| 2- Boston Stock Exchange | 10- Philadelphia-Baltimore S.E. |
| 3- Chicago Board of Trade | 11- Pittsburg Stock Exchange |
| 4- Cincinnati Stock Exchange | 12- Salt Lake Stock Exchange |
| 5- Detroit Stock Exchange | 13- San Francisco Mining Exch. |
| 6- Los Angeles Stock Exchange | 14- San Francisco Stock Exchange |
| 7- Midwest Stock Exchange | 15- Standard Stock Exchange of Spokane |
| 8- New Orleans Stock Exchange | 16- Washington D.C. Stock Exch. |

Under the Act all corporations that apply for listing on any national security exchange must submit the following information both to the SEC and the exchange concerned:⁹

- 1- The organization, financial structure, and nature of the business.
- 2- The terms, position, rights, and privileges, of the different classes of securities outstanding.
- 3- The terms on which the registrant's securities are to be, and during the preceding three years, have been offered to the public or otherwise.
- 4- The names of the directors and officers and each security holder of record holding more than 10% of the stock outstanding and the amount of their remuneration.

⁶ Section 4 ⁷ Section 6

⁸ Bellemore, op cit., p. 267

⁹ Section 12

- 5- Remuneration to others than directors and officers exceeding \$20,000 per annum.
- 6- Bonuses and profit sharing arrangements.
- 7- Options existing or to be created in respect to their securities.
- 8- Balance sheets and profit & loss statements for not more than three preceding fiscal years certified by an independent public accountant.
- 9- Any further financial statements required by the Commission.
- 10- Copies of articles of incorporation and bylaws.

Not only do corporations have to submit this information to the SEC at the time of listing, but they also have to keep this information up to date by periodic reports certified by independent public accountants. Moreover, the financial statements must conform to SEC requirements as to items shown and how treated.¹⁰ These statements are examined by the Commission's accountants to see whether they are reliable, complete, and prepared in accordance with sound accounting principles. This information is open to public inspection at the offices of the SEC. The offices are widely used by the financial community and therefore the information is widely disseminated.¹¹

The Securities and Exchange Commission also recognized that officers and directors are in an advantageous position in comparison with other stockholders in that they can use

¹⁰ Section 13

¹¹ Leffler, op cit., p. 336

inside information to further their own interests when trading in the company's securities. For this reason, the SEC requires directors and officers who own more than 10% of the stock to give the amount of their holdings at the time of listing and if there is any change in such ownership in any given month, the insider must make it known to the SEC not later than ten days following the close of the calendar month.¹² This information is published in the financial pages of large city newspapers so that stockholders can determine how company insiders view company prospects.¹³

With regard to proxy regulations, the SEC requires the following information to accompany the proxy statement:

- A- A statement concerning on whose behalf the solicitation is taken.
- B- Complete information concerning voting rights, kinds of stock outstanding, names of directors and officers and their remuneration and the amount of their ownership interest, and a statement concerning the types of action to be acted upon at the annual meeting.

In 1943 the SEC formalized the proposal rule. The rule is such that when a stockholder makes a proposal concerning corporate affairs, the proposal has to be carried on the firm's proxy statement to stockholders with provisions for a yes and no vote. Although this rule was not formalized until 1943,

¹² Section 16

¹³ Bellemore, op cit., p. 273

the SEC, during the 1930's, had ways and means of encouraging corporations to carry stockholders suggestions in the proxy.¹⁴

The Stockholder's Position with Respect to the Acts

It is important here to discuss where the stockholder stood with respect to these acts in the 1930's.

Under the 1933 Federal Securities Act, corporations had to make full and reliable disclosure of their affairs both to the SEC and potential stockholder when selling new securities. As of 1933 then, people who contemplated purchase of the securities of a corporation could rest assured that the information they would get would be true, accurate, and complete.

With respect to the Securities Exchange Act of 1934, corporations which applied for listing on any national security exchange had to make full disclosure of their affairs both to the SEC and the exchange concerned, and the information required at the time of listing had to be kept up to date by periodic reports. All this information was widely disseminated.

Listed corporations also had to give their stockholders more direct information. They now had to give information concerning voting rights, executive compensation, bonuses, and management ownership. However, it must be stated here that much of the information required by the SEC was not, as is the case today, required to be sent to the stockholders by the corporation. For example, in many cases the SEC required

¹⁴ Gilbert, Dividends and Democracy, p. 54

quarterly information from listed corporations, but yet the SEC did not require these companies to submit quarterly reports to their stockholders. And annual reports to stockholders were not required to be anymore informative.¹⁵

It is the opinion of the author, however, that the Federal Acts had a profound effect on management in that management began to realize that stockholders are the owners and as such are entitled to adequate information. As will be seen in a moment, most of the annual reports issued in the years following Federal legislation were more informative than the ones issued before 1933 and 1934.

Some Progress Is Made

In the years following Federal legislation up to World War II there was evidence of a change beginning to take place in stockholder relations. Some companies were maintaining closer contact with their stockholders and on the whole annual reports were more informative.

As of 1942 the questionnaire survey shows the following:

- 1- Only two of the 109 companies were not sending annual reports.
- 2- Thirteen of the firms reported to have sent their stockholders quarterly information.
- 3- Special news letters are reported to have been sent by fifteen of the corporations.

¹⁵ Bellemore, op cit., App. D. p.XIV or Winthrop, op cit., p. 287

- 4- Nine companies reported to have sent welcome letters.
- 5- One company sent a letter of regret when stockholders sold their stock.
- 6- Nine of the companies reported to have sent post-annual meeting reports.
- 7- None of the companies had yet held regional meetings.
- 8- Three of the corporations were sending house organs to their stockholders.
- 9- Thirteen of the companies reported to have held open houses for their stockholders as part of the annual meeting or otherwise.
- 10- Four of the firms were making special offers or sending samples of products.
- 11- Two of the companies distributed stockholder magazines.

As stated in Chapter III, page eleven, in connection with the above findings concerning quarterly reports, special news letters, welcome letters, post-annual meeting reports, and open houses, some of the companies did not state the year in which one or more of these practices were commenced; therefore it was impossible to tell whether or not these practices were part of the stockholder relations programs of these companies during this period. Only those corporations that reported to have practiced these techniques are noted above. This is the reason for the use of "reported" in connection with these five practices.

Although the majority of the corporations, whose practices could be ascertained during this period, were still only sending stockholders an annual report, notice of the annual meeting, and a dividend check, more of the companies had increased

contact with their stockholders. In Chapter III it was pointed out that Swift & Company, American Telephone & Telegraph, United States Steel, General Motors, and Armco Steel were ahead of the pack in regard to paying the stockholder attention. In the late 1930's General Foods, General Mills, and Johns-Manville came to the forefront of attention.

In the late 1930's and early 1940's Johns-Manville was sending its stockholders quarterly reports, post-annual meeting reports, and sent all new stockholders a letter of welcome. In 1937 this company conducted a survey of its stockholders to determine their interests in Johns-Manville. The results showed that stockholders wanted to know about the background of the company, its management, its problems, its policies and practices. In order to satisfy the stockholders, the company issued stockholder magazines periodically. Each issue covered or answered a different point of interest.¹⁶

General Foods also came to the forefront of attention during this period because of its fine stockholder relations program. The company sent a letter of welcome to all new stockholders after they registered their stock. In addition, the company sent to all stockholders: an annual report, quarterly information, post-annual meeting reports, and all stockholders were entitled to a Christmas box offer of

¹⁶ Milton Wright, Public Relations for Business (New York: McGraw-Hill, 1939), p. 269

products which they could get at cost. This offer was commenced in 1934, and the company has continued this practice, except during World War II, right up to the present time.

General Mills also showed a great interest in its stockholders in the period following the enactment of Federal legislation. In 1939 this company began holding regional meetings for its stockholders. This practice, which was to gain great impetus after World War II, was initiated by the chairman of General Mills, James F. Bell. Mr. Bell believed that since most of the company's 10,000 stockholders could not attend the annual meeting which had to be held in Wilmington, Delaware, the meeting should be brought to the stockholders. As a result, General Mills held seven regional meetings in seven different cities in 1939 and eight each in 1940 and 1941. The meetings were discontinued during World War II, but resumed again on an even year basis after the War.¹⁷

In the years following the enactment of Federal legislation up to World War II, the annual reports of America's corporations became more informative. The following is an excerpt from an article which appeared in Printers' Ink,

¹⁷ James F. Bell, "General Mills Meets Stockholders in Regionals," Printers' Ink (November 15, 1940), p. 73

March 21, 1941:¹⁸

For quite a few years now there has been a mounting trend to make annual reports more expanded in their information, simpler in wording, and more inviting in presentation.

The annual report study, which is a study made by the author of twenty-five corporations' annual reports, showed that most of the corporations presented more informative annual reports in the period 1935-1941 than before this period.

Fourteen of the reports were classified as truly informative in that they had all or most of the following: the names of directors and officers, names of subsidiaries, location of plants and markets, complete financial statements, discussion of earnings, dividends, products, sales or revenue, employee relations, industry trends, expenses, improvements, research activities, production, and the future outlook. The study showed further that most of the reports still were not modern only four were classified as such in that they had at least three of the following items: a simplified financial summary or highlight page, pictures, graphs or charts, comparative data, and three or more colors.

A study made in 1936 by C.M. Chester, then president of the National Association of Manufacturers and chairman of General Foods, showed that more than half of the 400 representative corporations studied were making more informative

¹⁸ Paul Cameron, "Humanized Reports," Printers' Ink, (March 21, 1941), p. 73

annual reports to stockholders than prior to and during the depression.¹⁹

Thus a change began to take place in stockholder relations in the years following the enactment of Federal legislation to World War II. More companies were maintaining closer contact with their stockholders, and the annual report, in most cases, was more informative. The day of a better and closer relationship between management and the stockholder was on the horizon.

¹⁹ C.M. Chester, "How Business Can Sell Itself To Stockholders," Printers' Ink, (July 23, 1936), p. 94

CHAPTER V

STOCKHOLDER RELATIONS TODAY

Since the end of World War II, management has been showing an ever increasing interest in the stockholder. Whereas in the 1920's and early 1930's management paid the stockholder little attention and saw no use for him, in the past ten years management seems to be making a veritable effort to capture his loyalty and his interest. For example, more and more corporations are granting their stockholders pre-emptive rights because they realize this is an excellent way of building a better relationship with stockholders. Since 1953, such corporations as Middle South Utilities, Dow Chemical, Merritt-Chapman and Scott, Sinclair Oil, Philadelphia Electric, Bethlehem Steel, Texas Instruments, National Aviation, and American Machine and Foundry to name a few have granted their stockholders the right to subscribe to additional stock before the stock was offered to the general public.¹

An indication of the increasing concern for the stockholder on the part of management is shown by the matter of surveys. The questionnaire survey shows that prior to 1940 only three of the 109 corporations had ever conducted a survey

¹ Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, p. 210

of their stockholders so as to find out what they might want in annual reports or to ascertain their wants and desires. Since 1940, twenty-eight of the corporations have conducted surveys and twenty-four of them have conducted surveys since World War II.

The Financial World has sent a questionnaire annually since 1946 to 1,000 corporations throughout the country. The questionnaire is similar to the one sent by the author in that it is in effect a check list of practices such as welcome letters, regret letters, etc. The results show that the various methods of communication are being used by more and more corporations. In short, the results show that progress has been at an accelerated rate for the past ten years. (See Appendix III for the results of this survey)

Lewis Gilbert said a short while ago: "Today the stockholder is getting a better deal. Management is clarifying annual reports, moving the sites for annual meetings from inaccessible places to large centers so stockholders can attend more easily, issuing post-meeting reports, and holding regional meetings. Public Relations consulting firms that specialize in stockholder relations techniques say that business is booming."²

² Lewis Gilbert, "Gilbert's Little Friends Become Big Fellows," Business Week, (March 10, 1956), p. 114

Management Is Maintaining a Closer Relationship

As of July 1956, the questionnaire survey shows the following:

- 1- All of the 109 corporations distribute annual reports.
- 2- Sixty-five or sixty per cent of the companies distribute quarterly information.
- 3- Special news letters are sent by forty-seven or forty-four per cent of the companies.
- 4- A letter of welcome is sent to new stockholders by sixty-eight or sixty-one per cent of the corporations.
- 5- Seven of the companies send a letter of regret to stockholders who sell their stock.
- 6- Forty-seven or forty-four per cent of the firms send stockholders a post-meeting report.
- 7- Four of the companies distribute stockholder magazines to their owners.
- 8- Seventeen or sixteen per cent of the corporations distribute company house organs to their stockholders.
- 9- Thirteen or twelve per cent of the corporations make special offers or send samples of products to their owners.
- 10- Two companies hold regional meetings.
- 11- Thirty-seven or thirty-five per cent hold open houses as part of the annual meeting or otherwise.

Table II, which gives a recapitulation of the findings, shows that more and more of the corporations have increased contact with the stockholder since the 1920's. Eighty-nine of the 109 corporations send their stockholders something more than just the notice of the annual meeting, annual report, and dividend check. All twenty of the corporations that

include the stockholder in their programs only to the extent of sending him an annual report, notice of the annual meeting, and dividend check have net assets of less than twenty million dollars and most of these have net assets of less than \$10,000,000. This indicates that these companies are very small corporations, and it is probably economically impossible for them to carry on elaborate stockholder relations programs.

TABLE II
QUESTIONNAIRE SURVEY FINDINGS CONCERNING
METHODS OF COMMUNICATION
SINCE THE 1920'S

Methods of communication	As of 1930	As of 1942	As of 1956
Annual reports.....	96	107	109
Quarterly information.....	6*	13*	65
Special stockholder news letters..	7*	15*	47
Welcome letters.....	2*	9*	68
Regret letters.....	1	1	7
Company house organs.....	1	3	17
Post-annual meeting reports.....	2*	9*	47
Stockholder magazines.....	0	2	4
Samples or special offers.....	2	4	13
Open houses.....	3*	13*	37
Regional meetings.....	0	0	2

* This means that only those companies that reported to have practiced these techniques are noted above, see pp. 11 & 44.

The Chrysler Corporation which vouchsafed stockholders only an annual report during the 1920's now sends its 88,000 stockholders besides the annual report, quarterly news letters, post-meeting reports, and special news letters when something important occurs. The company also sends new stockholders a letter of welcome and sends a letter of regret when a

stockholder sells his stock.

The American Tobacco Company whose annual reports were made up of only a balance sheet during the dark days of the 1920's now sends in addition to an informative, appealing annual report, quarterly reports, special news letters, post-meeting reports, samples of company products at Christmas time, a welcome letter to new stockholders, and it holds open houses from time to time. This company also provides transportation for stockholders to the annual meeting.

The Cleveland Electric Illuminating Company is another company which shows an intense interest in its stockholders. This company formerly sent its stockholders only an annual report. Today, the company distributes to its 28,716 stockholders besides the annual report, post-meeting reports, quarterly information, and it holds open houses and regional meetings for stockholders. The company also sends new stockholders a letter of welcome after they register their stock.

The stockholders of Pabco Products only got an annual report thirty years ago. Today, they receive in addition to the annual report, quarterly information, post-meeting reports, and they are invited to open houses from time to time.

The above companies are just a few industrial enterprises picked at random to show the closer relationship that management is maintaining with stockholders today. This is not only going on among industrial enterprises, but it is going on apace in public utilities and railroads as well.

The Annual Meeting No longer a Gut and Dry Affair

In Chapter III it was pointed out that few stockholders ever attended annual meetings during the 1920's and early 1930's, and the ones that did attend were usually treated as intruders rather than owners. Lewis Gilbert points out that today record attendance at annual meetings is no longer a novelty or exception, but it is the standard rule.³ Management is moving the sites for annual meetings to accessible places so that more stockholders can attend and is encouraging stockholders to attend. Management is encouraging stockholders to ask questions and give their views, and seems to be making a real effort to make the stockholder feel as a true owner and partner in the enterprise.

The following editorial appeared in the Richmond News Leader, February, 1955:⁴

Time was when many a corporation deliberately picked a remote spot for its annual meeting in the hope of discouraging as many stockholders as possible from attending. A few companies, for example, Republic Steel still meet 54 miles out of New York at Flemington with the result that stockholders must disembark from a train at Flemington Junction and seek a taxi to their destination. But the picture improves as more corporations discover the public relations value of a well attended annual meeting which small stockholders are made to feel real participants.

³ Lewis Gilbert, Fourteenth Annual Report of Stockholder Activities at Corporation Meetings, 1953, p.7

⁴ Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, p. 17

In 1953 American Telephone & Telegraph had to use television to accommodate the large number of stockholders that attended the annual meeting that year. The large meeting room was filled on a first come first serve basis. After this room was filled, two adjoining large rooms were filled. Because television facilities were employed, the stockholders in the two adjoining rooms could hear and see everything that went on. When a stockholder wanted to ask a question, he was escorted by an usher into the meeting room where he could address the chairman. This marked the first time that television had ever been employed in connection with a corporation's annual meeting.⁵

Here are some annual meeting attendance figures of some corporations for the years 1954 and 1955:⁶

	1954	1955
General Electric.....	2,453	3,284
General Motors.....	1,860	2,730
National Dairy.....	442	466
Radio Corp. of America.....	915	1,050
International Tel. & Tel.....	700	1,800
Chesapeake & Ohio Railway(a)..	450	500
Standard Oil of New Jersey....	2,300	2,500

As noted above, in each case the 1954 figure is larger than the 1955 attendance figure. Record attendance seems to be commonplace today.

⁵ Lewis Gilbert, Fourteenth Annual Report of Stockholder Activities at Corporation Meetings, 1953, p. 8

⁶ Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, p. 7

(a) This was obtained from the 1954 and 1955 post-meeting re-

More and more corporations are now providing transportation for their stockholders to the annual meeting. Some of the companies that are providing transportation are: American Tobacco, Liggett & Myers, the Southern Company, and the New York Central Railway Company.⁷ In 1951, for example, the New York Central ran a special train out of Grand Central Terminal, New York City, to carry 500 stockholders to its annual meeting in Albany, New York. After the meeting, a free luncheon was served at a nearby hotel and then the stockholders were returned by train to the Grand Central Station.⁸ The Financial World study shows that as of 1955 seventy of the 1,000 corporations provide transportation for their stockholders to the annual meeting as compared with thirty in 1951.

The annual meeting is no longer a mere formality. Today management gives the stockholder a chance to participate and encourages the stockholder to participate. Here is an editorial from the Wall Street Journal, May 22, 1953:

Any reader of this newspaper must again and again have been struck by the veritable revolution in corporation stockholders' meetings that has been carried out within the few past years. Memory does not have to go back very far to recall a time when the typical annual meeting was little better than a farce. Company managements had ready means of suppressing their stockholder critics

ports of the company.

⁷ Lewis Gilbert, Fifteenth Annual Report of Stockholder Activities at Corporation Meetings, 1954, pp. 10-14

⁸ Canfield, op. cit., p. 94

and seldom hesitated to use them.

For glaring contrast see the accounts of two meetings in yesterday's issue of this newspaper.....In the ballroom of a New York hotel 400 stockholders of the Sinclair Oil Company heard President Spencer describe the company's current business and its prospects. Then for an hour or more the management listened to outspoken critics of certain of its policies.

This revolution in company-stockholder relations is not of course, solely the result of a change in management attitude. But it must be recognized that as a rule company managers have loyally responded to the new order initiated by legislation. A great many of them have gone much further than the law requires in encouraging and facilitating stockholder participation in the direction of company affairs.

Long live this revolution!⁹

The following is an editorial from The Commonwealth, well known Roman Catholic journal of opinion, May 6, 1955:¹⁰

This is the big season for the annual meetings of leading American corporations. They are no longer the mere formalities which automatically gave active management carte-blanche in former years. Attendance is reaching overflow proportions. Stockholders' questions from the floor are greatly on the increase--some seemingly spontaneous and others prepared considerably in advance.

Today management realizes that personal contact is one of the best means for gaining increased goodwill and loyalty of a group. The annual meeting offers management one of the few times in which it can meet stockholders face to face; thus more and more companies are striving to make the meeting a memorable occasion.

⁹ Lewis Gilbert, Fourteenth Annual Report of Stockholder Activities at Corporation Meetings, 1953, p. 7

¹⁰ Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, p. 18

A great many corporations exhibit product displays or displays of the company's equipment or machinery. Many corporations show movies of production processes, new products and their uses, and movies which bring to life the figures on the financial statements. Some of the companies that have shown movies at annual meetings in recent years are: General Mills, Burroughs Adding Machine Company, General Electric, Central Hudson Gas and Electric Company, United States Rubber, and United States Steel.

The Financial World reports that the number of companies providing luncheon for stockholders is definitely on the increase. The study showed that as of 1955, 170 of the 1,000 corporations provided luncheon for their stockholders whereas only fifty did so in 1951. Many companies that make consumer goods enable stockholders to taste some of the products. For example, at the end of the 1955 annual meeting of the Cambell Soup Company, stockholders were invited to try the various soups, juices, and pies made by the company. General Foods and General Mills are other companies that do this. This not only makes stockholders happy, but it is also an excellent way of turning stockholders into consumers and boosters of the company's products.

The Chesapeake and Ohio Railway Company gave its 1955 annual meeting the following theme: "The Stockholder's Big Day." The meeting went as follows: First there was the

election of the board. After the election of the directors, the president gave the annual report of the company in which he talked about the company's business and future prospects. Then the president threw the meeting open to stockholders' questions and views. After the question period, stockholders were treated to a free luncheon during which the officers and directors of the company met many of the owners and discussed informally with them the affairs of the business. After the luncheon, stockholders were taken on a tour to view an exhibit of old and new railroad equipment and the railroad's modern research facilities.¹¹

Management realizes that most stockholders cannot travel thousands of miles to the annual meeting. For this reason, an increasing number of companies are bringing the meeting to the stockholders either by means of regional meetings or by rotating the annual meeting. The latter will be discussed first.

Most states except notably Virginia, Massachusetts, Rhode Island, Montana, and Maine now permit a corporation to hold its annual meeting in a state other than the one of incorporation.¹² The result is that there is a growing trend to rotate the annual meeting. The originator of the idea is the

¹¹ Derived from the post-meeting report of the company.

¹² Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, p. 21

Westinghouse Corporation which began this practice a few years ago. This company has held its annual meetings in Pittsburg, Philadelphia, Bloomfield, New Jersey, Buffalo, and Columbus, Ohio. Other companies that are now rotating their annual meetings are: International Telephone & Telegraph, Avco Corporation, Rochester Gas & Electric Company, Jones & Laughlin Steel Company, and the Southern Company.¹³

The regional meeting which was originated by General Mills in 1939 is becoming increasingly popular. General Mills believed that since most stockholders could not attend the annual meeting, the company should bring the meeting to the stockholders; thus the company began to hold regional meetings in many cities throughout the country in 1939. General Mills held seven regional meetings in seven different cities in 1939 and eight each in 1940 and 1941. The meetings were suspended during World War II, but resumed again after the War on an even year basis.

General Mills spends much time and money in making these regional meetings a success. The following is what Sidney Self of the Wall Street Journal says about General Mills' regionals:¹⁴

One of the most notable jobs of handling annual meetings is being done by General Mills. The company's home town

¹³ Lewis Gilbert, Fifteenth Annual Report of Stockholder Activities at Corporation Meetings, 1954, p. 24

¹⁴ Gilbert, Dividends and Democracy, p. 202

is Minneapolis and though there are many stockholders there, it is difficult for stockholders to get to Minneapolis from other parts of the country. So the mountain comes to Mahomet.

General Mills holds a series of regional stockholder meetings every two years. This year they will be held in Los Angeles, San Francisco, Chicago, Buffalo, Boston, Washington, Minneapolis, and New York.

The meetings, attended by hundreds of stockholders, are practically a road show. This year they include an animated film called "Mr. Winkle Returns," featuring a modern day Rip Van Winkle who discovers how much the company has changed in the last 26 years. A pretty girl home economist appears dressed as a Brownie to show the audience the firm's new brownie mix and other products. There are talks by officers, a question and answer period, and refreshments. There is no doubt but that this policy not only keeps stockholders happy but also helps sell merchandise.

Bristol-Myers held its first regional meeting in 1954.

Busses took 400 odd stockholders from New York City to one of the company's plants at Hillside, New Jersey. After a tour of the plant in which stockholders had an opportunity to view their property, they were treated to a free luncheon during which the officers and directors of the company mingled with the owners and discussed informally with them the affairs of the business. After the luncheon, a question and answer period was held.¹⁵

The Beatrice Foods Company has held regional meetings for quite a few years now. In 1954 this company became one of the first companies to hold a regional meeting outside of the United States as it held one in the Hawaiian Islands for

¹⁵ Lewis Gilbert, Fifteenth Annual Report of Stockholder Activities at Corporation Meetings, 1954, p. 19

160 stockholders.¹⁶

Besides General Mills, Bristol-Myers, and Beatrice Foods other companies that are now holding regional meetings are: Textron American, Detroit Edison, Consolidated Natural Gas Company, Middle South Utilities, Cleveland Electric Illuminating Company, American Airlines, Wisconsin Power and Light, and the Missouri, Kansas-Texas Railroad.¹⁷

Stockholders Are Kept Fully Informed

Today the American stockholder is receiving more information and receiving it more often than ever before. No longer is management operating on a principle of locked doors and shut lips. All corporations give their stockholders annual reports and most companies distribute quarterly information to their stockholders which keeps them abreast with financial trends, important developments, and informs them of the probable future pattern of the business. In addition to these, a great number of corporations distribute post-annual meeting reports which inform stockholders of what transpired at the annual meeting. And many companies send out special news letters when something important comes up, such as a labor strike or a shutdown of a plant.

¹⁶ ibid. p. 19

¹⁷ Lewis Gilbert, Sixteenth Annual Report of Stockholder Activities at Corporation Meetings, 1955, pp. 21-29

The annual report which was formerly skimpy and sometimes even unreliable has undergone phenomenal change in the past ten years. Most annual reports today are informative readable documents of the year's results. Management is employing charts, graphs, pictures, and other simplification devices in order to get the story across to stockholders and so they will understand it. Harry A. Bullis, chairman of General Mills, said this about his company's reports a short while ago: "Our General Mills reports have undergone the transition from dry, strictly financial statements to what we hope are modern readable summaries of the year's work."¹⁸ The Financial World, which makes a study of the annual reports of 5,000 corporations annually and gives a gold trophy to the corporation that issues the most appealing, informative, and simplified annual report, stated that each year more and more corporations receive merit awards for their annual reports. In 1940 sixteen of the 5,000 corporations received merit while in 1954 this number increased to 1,895.¹⁹

The annual report study conducted by the author of the annual reports of twenty-five corporations showed that the reports of 1955 were much more informative than the reports issued prior to the end of World War II. Twenty-two of the

¹⁸ Canfield, op cit., p. 84

¹⁹ Weston Smith, "Stockholder Relations Policies in 1,000 Corporations," Financial World, (January 25, 1956), p. 37

reports were classified as truly informative in that they had all or most of the following items: the names of directors and officers, names of subsidiaries, location of plants and markets, complete financial statements, discussion of earnings, dividends, products, sales or revenue, employee relations, industry trends, expenses, improvements, research activities, production, and future plans. Twenty-one of the twenty-five reports were classified as modern. That is, they had at least three of the following: a simplified financial statement or highlight page, pictures or drawings, graphs or charts, comparative data, and three or more colors.

The following is a summation of the findings since the 1920's:

	1920's	1930's	1950's
Truly informative	7	14	22
Modern	1	4	21

This gives some idea of the evolution that annual reports have undergone since the 1920's.

Management Is Educating Stockholders

Management is not only giving stockholders more informative reports and more information as a whole, but it is educating stockholders today--about the following:

- 1- Importance of employees.
- 2- Need for high calibre managerial talent.
- 3- Importance of advertising and other promotional efforts
- 4- Need for retaining some of the earnings in the

business.

- 5- And educating stockholders to be more useful members of the corporation.

With regard to the first three: employees, management, and advertising, they represent a large expense to a firm and many times stockholders do not see the importance of them. For this reason, management is educating stockholders of the importance of employees, of having good managerial talent, and of advertising and other promotional efforts.

Management is going to great lengths today to show the stockholder that the employee is important in the operations of a company and that it is important the worker be paid a good wage so that he will continue to produce at a high level of efficiency. A section of the 1955 annual report of General Foods had this theme: "Behind the GF Figures Are People." The management said:

The keystone of General Foods personnel policies and practices is the premise that growth is contingent largely on the development of the people who are GF. Their group loyalty, diligence, and enthusiasm are necessary ingredients of its success. Thus in fiscal 1955, as in previous years, General Foods continued to base its personnel policies and practices on its acknowledged responsibilities to the individual employee--both to provide him with right working conditions and fair remuneration and to help him grow with GF. Proper employee spirit, GF management knows, is just as essential to successful operation as the right machines and adequate buildings.

Approximately 50% of the companies in the questionnaire survey stated that they are now discussing the importance of the employee with the stockholder.

Many corporations educate the stockholder of the importance of paying directors, officers, and other executives good emolument. They emphasize that because there is a limited number of high quality executives, it is important that the present staff be paid well so that executives will stay with the firm and maintain their incentive. The following is what Alfred P. Sloan, chairman of General Motors, told stockholders in one of the company's annual reports:²⁰

Reference has been made already to the need for the talent of the highest quality available. There will always be a limited number who can qualify at the top. The demand for that limited number is always in excess of the supply. The standards demanded for the future will be higher than ever before. To encourage individuals to a life service with any organization requires an expanding field for accomplishment and an opportunity for economic advancement as well.....

This discussion provides an opportunity to restate what has been said to the stockholders many times in many different ways, namely, that the cost to the business of maintaining the highest available standards of managerial talent is relatively inconsequential. What such talent may create in terms of more job opportunities, better product values, and additional profits is more important. The penalty of any different approach might well involve and in fact must eventually bring into question, the effectiveness of the whole administrative structure of the business.

Another lesson that an increasing number of companies are trying to get across to stockholders today is the essentiality of spending money on advertising and other promotional efforts. Many times stockholders do not understand the importance of this expense and they think it cuts earnings. Management, on

²⁰ The 1946 annual report of the company.

the other hand, tries to show that advertising increases earnings. The following is what the stockholders of Lehn & Fink Products were told in one of the company's annual reports:²¹

Trademarks and goodwill are more than assets in Lehn & Fink's balance sheet. The stepping stone to greater consumer acceptance and sustained and increased sales, they are influenced to a greater degree by the company's advertising and promotional efforts.

Philip Morris told its stockholders in 1951:²²

Our advertising has continued truthful, strong, and hard-hitting and provides both a stimulus and an aid to our salesmen and distributors in presenting our products to the favorable notice of more and more smokers. Our shows on radio and TV are selected primarily for their entertainment value, but at the same time they are planned to provide varied opportunities to many people throughout the country. The response of these vast audiences to our sales messages was reflected in the year's results.

The questionnaire survey shows that thirty-seven of the 109 corporations or 33% are pointing out the importance of advertising and other promotional efforts.

Management is also educating stockholders of the importance of retaining a substantial part of the earnings in the business. This is so stockholders won't complain that not enough of the earnings have been paid in dividends. Seventy-five of the 109 corporations in the questionnaire survey stated that they are discussing the essentiality of retaining a large portion of the profits in the business. The following is

²¹ The 1955 annual report of the company.

²² The 1951 annual report of the company.

how American Viscose Corporation discussed the matter in one of its annual reports:²³

Unless a corporation like American Viscose requiring a large investment in plant and equipment and earnings greatly in excess of prewar years and retains a substantial part of such earnings in the business, it will not have the funds to replace or to modernize plant and equipment as it becomes necessary to do so.

Today, management realizes that a company's stockholders, in most cases, represents a large group of individuals which if educated to be salesman and ambassadors of a firm can increase sales substantially and can help support the political aims of an enterprise.

Most industrial companies and many public service companies, such as airlines and railroads are educating their stockholders of the importance of using and recommending the company's service or products in that when they buy or recommend the company's goods, they are in truth helping themselves.

Lehn & Fink products said this in its 1955 annual report: "Once more we ask you to use in your home, the products we manufacture and get your friends to use them."

The following is what Philip Morris told stockholders in one of its annual reports:²⁴

Philip Morris cigarettes are our company's principal product. Amongst the other brands manufactured by it

²³ Derived from the 1947 annual report of the company.

²⁴ The 1945 annual report of the company.

are Marlboro Cigarettes, English Oval Cigarettes, and Revelation and Bond Street Smoking Tobaccos. Your support of these products is solicited both on the basis of their intrinsic merit and because your help in this way constitutes a valuable aid to the continued growth of the business.

In the back page of Hershey Chocolate Corporation's 1946 annual report is a sketch of a boy and girl eating a Hershey chocolate bar and at the bottom it says: "Our stockholders, as individuals can greatly advance the company's interest and their own by using Hershey's Products in their homes and recommending them to others."

A study made by the Opinion Research Corporation in 1951 of 250 representative corporations showed that 65% of the companies were urging their stockholders to help increase sales by buying and recommending the products of the company.²⁵

The realization that stockholders can increase company sales is one of the main reasons why most corporations put so much product material in annual reports and why an increasing number of companies are making special offers or sending samples of their products today. Some of the companies that are making special offers or sending samples are: United States Envelope Company, Ruberoid Company, American Tobacco, Colgate-Palmolive, Brown Shoe Company, Hershey

²⁵ What Stockholders Say About Stockholder-Management Relations, Opinion Research Corporation, November 1951, p. 60

Chocolate, Norwhich Pharmacal, General Foods, General Mills, and the Borden Company. The last three have been doing this for years.

Management has also awakened to the fact that a large group of stockholders can influence public opinion and make themselves heard in the political arena. Thus, today, more and more corporations are educating their stockholders of the importance and benefits of the free enterprise system and of specific political issues. It is believed that when stockholders understand the importance of free enterprise and the benefits derived therefrom, they will be more likely to support favorable legislation and help combat unfavorable legislation. Standard Oil of New Jersey, General Motors, the Borden Company, and Distillers Corporation-Seagrams Limited have devoted sections of their annual reports to the importance of free enterprise and our way of life.

Prior to 1954, it was felt by management that the excise profits tax that corporations had to pay to the Government was exorbitant. Many companies went to great lengths to show the stockholder that the high taxes decreased earnings and thereby resulted in smaller dividends. Some companies actually asked stockholders to write to their congressmen asking the latter to see what they could do about a tax reduction. The following is what the Borden Company told stockholders in its 1951 report:

The responsibility of American business is to supply the country's goods and services at a fair price, to employ people at a fair wage, and to use the savings of thrifty Americans at a fair return. This responsibility has recently been enlarged to include the financing of Government activities as a fourth function. It is questionable whether business, in carrying this increasingly heavy tax burden, can effectively discharge its primary responsibilities.

Profits are important--Profits, and their role in the economy must be viewed clearly and coldly, with hard thinking and without emotion. When the profit motive is discouraged or repudiated, the national character suffers as the individual loses his incentive to further effort and accomplishment and to provide for his own future.

From an economic standpoint, profits have an urgent importance in sparking industrial progress. Quite apart from the fact that institutions and individuals rely upon them for dividends, profits are needed to finance replacements and modernization of plants and equipment to enable a company to operate efficiently. A tax-crippled or profit-restricted business community cannot properly serve an expanding country that aspires to an ever-improving standard of living.

Here the management showed the stockholders how taxes interfere with the profit motive which is one of the pillars of the free enterprise system. Although the management did not ask stockholders to write to their congressmen, it brought to light that something should be done, and it armed the stockholders with the facts that they could use in influencing public opinion.

General Motors devoted a section of its 1947 annual report to the importance of economic incentive and showed how high taxes discourage this. The management added: "It is said that the free enterprise system cannot operate with this chain around its neck. It is accepted that the existing tax structure is a monstrosity. As such it is entirely

inadequate to meet the problems of modern enterprise. Something must be done if we really want the system to work."

Not only does management educate stockholders of things that affect the free enterprise system as a whole, but also of specific issues pertaining to a given industry or company. For example, in the 1955 annual report of the New York Central Railway, Robert E. Young, chairman of the Central, in his letter told stockholders of the sorry position railroads are in today in that they must pay high taxes and conform to strict government regulations while their competitors, such as the airlines and motor transportation face no such strict regulation. The result is that earnings are down and in many cases old worn-out railroad equipment, which is so vitally needed, cannot be procured without putting the railroads in further debt. He ended his letter by urging all stockholders to help the situation by telling the railroad story to all those with whom they come in contact.

The Wisconsin Power & Light Company is another company which has educated stockholders of specific political issues and has engaged its stockholders' support. When the company wanted a rate change, it got its owners support through a stockholder committee which went out and marshalled support for a rate change. The committee has also helped to promote the sale of new security issues.²⁶

²⁶ ibid. p. 44

Before dispensing with this discussion on education, it is interesting to point out the lessons that General Mills tries to get across to stockholders. The company tells its stockholders:²⁷

- 1- To get to know the company, its products, its management, and its potentialities.
- 2- To take a keen interest specifically and have an interest in business.
- 3- To buy the goods made by the company and insist on getting them.
- 4- To urge others to buy them and thus contribute to the company's success.
- 5- To protect the company from impairments to service, employment, and profits arising from the adverse influence of political action.
- 6- To act as partner, friend, lawyer, salesman, advertising and promotional representative, and proctor and counselor to management and labor.
- 7- In short, to get behind the company morally, spiritually, as well as financially.

The Reasons for the Change

Since the end of World War II, management's attitude toward the stockholder has undergone great change. Formerly management showed little interest in the stockholder and saw no use for him. But today management is maintaining a closer relationship with the stockholder, giving him more information, educating him, and is making a real effort to

²⁷ James F. Bell, "Stockholders As Working Partners," Printers' Ink, (January 3, 1942), p. 18

capture his loyalty and his interest.

Why this increased concern for the stockholder? The questionnaire survey provides the answer to this. 92 of the 109 corporations stated that they are taking a greater interest in the stockholder today and most of the companies gave one or more of the following reasons:

- 1- Stockholders are an important source of capital when additional funds are needed.
- 2- They can increase company sales by buying and recommending company products.
- 3- Stockholders can help support the political aims of the corporation. That is, supporting favorable legislation and combatting unfavorable legislation.
- 4- A happy and satisfied stockholder is likely to recommend the company as an investment to others.
- 5- A satisfied stockholder is less likely to criticize company policies and practices and is more likely to be loyal to the management.

The following are the answers given by some specific corporations:

A utility's ability to attract equity capital for expansion purposes is greatly enhanced if a sound shareholder relations program is in effect.

Cleveland Electric Illuminating Company.

90,000 stockholders represent a very important public that can be helpful in many ways--such as getting new business, support for legislation to end unfair government regulation and more freedom to compete for available business.

Chesapeake & Ohio Railway.

As a public utility the company is continually in need of funds for expansion and satisfied stockholders will

be more interested in purchasing new securities.

Laclede Gas Company

Future progress of the company will undoubtedly be dependent on the acquisition of new capital, some of which will probably be obtained from present stockholders.

Scovill Manufacturing Company

There is a general trend toward giving the stockholder more information about his company. We believe they are entitled to such information. Also, we realize that stockholders are in a position to promote sales of our products.

Motor Wheel Corporation

Greater cognition of the importance and usefulness of stockholders by corporate management as the ownership of corporations becomes more widely held.

General Foods

The following question was asked the 109 corporations:

"What are your company's objectives in stockholder relations?"

This question was asked in order to find out what these companies hope to gain from the relationship. The following are the answers presented in order of frequency:

- 1- To get stockholders to maintain an active interest in the firm.
- 2- Getting stockholders to maintain their investment in the firm and being willing to invest further funds.
- 3- To get stockholders to consume the company's products and recommend their use.
- 4- To reduce criticisms of company policies and practices.
- 5- To win the allegiance and loyalty of stockholders so as to keep present management in power.

6- To get stockholders to support the political aims of the corporation.

Both the reasons why management is taking a greater interest and what management hopes to gain from the relationship are similar. From these findings the following conclusion can be drawn: Management is paying the stockholder more attention and trying to win his loyalty and interest because:

1- The stockholder public is a large public and one that can be useful to a corporation--in the following ways:

- (a) By maintaining their investment in the firm and being willing to invest further funds when new equity capital is needed.
- (b) Stockholders can increase company sales by using and boosting the company's products.
- (c) They can recommend the firm as an investment to others.
- (d) Stockholders can help support the company in the political arena.

2- Loyal stockholders are less likely to criticize company policies and practices and make trouble for management. This is of no small significance. Management realizes today that when stockholders are influenced, they can be a powerful force. This is shown by the increased number of proxy fights that have taken place in recent years in which small stockholders have been called on to cast the deciding votes. Some of the companies in which proxy fights have taken place in recent years are: New Haven Railroad, Montgomery Ward, Decca Records, New York

Central, American Woolen, Lehigh Valley Coal Company, Ever-sharp Razor, Fairchild Engine and Airplane, Twentieth Century Fox, and the Minneapolis & St. Louis Railway.²⁸

Management Wants More Owners

Many corporations are actively trying to increase the number of their stockholders today. Since 1946, for example, a large number of corporations have split up their stock in order to get more stockholders on the books. More and more corporations are advertising their dividends and annual reports so as to interest potential investors in the firm.

The questionnaire survey shows that fifty-five or fifty-one per cent of the firms are actively trying to increase the number of their stockholders today. The typical reasons given are:

- 1- The more stockholders a company has the greater the number of people to support the company. That is, financially, politically, and sales wise.
- 2- A large number of stockholders makes the company better known and gives it more prestige.
- 3- The greater the number of stockholders the greater the assurance that the free enterprise system will remain in tact.

The following are some typical comments:

²⁸ Gilbert, Dividends and Democracy, p. 141

Because more people will then be interested in the company's affairs and in purchasing its products. It is also desirable to have a broad ownership base when equity financing is conducted.

Philips Petroleum Corporation

The broader the ownership, the more prospective users of our products there will be,

Hershey Chocolate Corporation

The greater number of shareholders, the more people talking Monarch, and more extended interest in our products. Also, we welcome and appreciate the additional responsibility of management with an increased number of shareholders.

Monarch Machine Tool Company

A broad base of corporate ownership aids the free enterprise system.

Armeo Steel

Because in our opinion, it is the corporate stockholder who will play an important role in combatting communism and helping to preserve our way of life.

An industrial enterprise (a)

Thus management not only realizes that a large group of stockholders can be a valuable asset of a company, but it also realizes that the greater the number of people that have a stake in the free enterprise system the greater the assurance that the free enterprise system will survive.

(a) The company requested that its name be withheld.

CHAPTER VI

SUMMARY OF THE STUDY AND FUTURE OUTLOOK

Summary of the Study

The American stockholders represent one of the most important groups of people. These people supply the capital which is needed for tools, equipment, and other expansional uses and who assume the risk. It is the stockholders' money which has helped spark the growth of our economy. The growth of our entire economy always has and always will be dependent upon the willingness of these people to channel their financial resources into it.

As corporate owners, stockholders want a fair return on their investments from the enterprises in which they have invested their wealth and their savings. But dividends are not enough to satisfy the average stockholder. The average stockholder wants attention paid to him from his management and a sense of belonging that comes from a close relationship. He wants to be fully informed so that he can get to know his company, its management, its character, its products, its principles and policies. Yet, until the last decade, stockholders, for the most part, were neglected.

During the 1920's and early 1930's management paid the stockholder little attention, saw no use for him, and abrogated some of his basic rights. Most corporations considered

the stockholder only to the extent of sending him an annual report, notice of the annual meeting, which is required by law, and the dividend check.

Most corporations resembled secret conspiracies in that they divulged little information concerning their financial positions, operations, products, or future plans. In most cases, the only source of information from the company was the annual report. This was usually a curt document and sometimes even evasive.

A great number of corporations refrained from giving the stockholder adequate information because they feared the information would get to competitors and give the latter an advantage thereby. Other companies did not give the stockholder adequate information because the average stockholder does not understand the problems of management. Still others were of the opinion that stockholders are not interested in their company so long as they receive regular dividends and therefore should not be informed.

In 1933 Congress passed the Federal Securities Act which requires corporations to make full disclosure of their affairs when selling new securities to the general public.

The following year, 1934, the Securities Exchange Act was passed by Congress. The Act makes it obligatory for companies whose stocks are listed on national security exchanges to make full disclosure of their affairs periodically

both to the Securities and Exchange Commission and the exchange concerned. The Act also requires listed companies to give more information directly to their stockholders.

The Federal acts had a profound effect on management in two ways. First, management realized that stockholders are the owners and as such are entitled to adequate information pertaining to their company's affairs. Second, management realized that there was no longer any use in keeping its affairs a secret because competitors could find out anyhow.

In the years following the enactment of Federal legislation up to World War II, management issued more information. In most cases, the annual reports of this period were more informative than the annual reports issued prior to and during the depression. However, management was still not as yet utilizing graphs, charts, and other simplification devices to bring to life the figures on the financial statements for the benefit of the stockholder who could not understand complicated financial data. Thus in the years following Federal legislation up to World War II, management made more information available to the stockholder, but the former did not seem to care as to whether or not the stockholder could understand it.

Since the end of World War II, there has been an appreciable change in management's attitude toward the stockholder. In the past ten years management has become stockholder relations conscious. More and more corporations are making

a veritable effort to capture the stockholder's loyalty and interest.

Management is maintaining closer contact with the stockholder, giving him more information, and giving it more often than ever before. And management is simplifying the information for the benefit of those stockholders who cannot fathom complicated financial data.

Today most corporations want their stockholders to know how the latter's money is being used. They want their stockholders to know the company, its management, its character, its principles and policies. This is because when stockholders know their company, its aims, what it is doing and why, they are more likely to be allegiant to their management.

No longer does management want stockholders to stay at arm's length, but it wants stockholders to take an active interest in the firm and support it in every possible way. More and more companies are educating their stockholders to be salesmen and goodwill ambassadors of the firm. This is because management has awakened to the fact that it has overlooked one of its richest relationship sources.

It must be recognized that this increased interest in the stockholder by management has in turn stimulated the stockholder to take a greater interest in the company. For example, more and more stockholders send in suggestions or recommendations for improving the company products and facilities. Many of these suggestions have proved valuable to their

companies.

There are three reasons why management is taking a greater interest in the stockholder, giving him more information, educating him, and making a veritable attempt to capture his loyalty and his interest. The first is the widespread competition for investment funds which has been brought about by our nation's vast industrial expansion. Second, the cognition that a large group of stockholders can be a valuable asset of the firm in that they can be instrumental in increasing sales, providing equity capital, supporting the political aims of a firm, and recommending a company as an investment to others. Third, the increased number of proxy fights that have taken place in recent years has made management realize that it must constantly have the stockholder's loyalty and support if it wants to stay in power.

The Future of Stockholder Relations

What does the future hold for stockholder relations? All indications are that management will continue to show an ever increasing interest in the stockholder and continue to take the stockholder into its confidence.

In the future, management will continue to increase contact with the stockholder by increasing the flow of communications. It can also be expected that in the future more and more corporations will grant their stockholders pre-emptive rights when selling new stock as they realize that this

method of financing is not only less expensive but that it is an excellent way of building profitable stockholder relations.

Management realizes today that personal contact is one of the best means of gaining the increased loyalty and goodwill of a group. Since most stockholders cannot attend the annual meeting because of the great distances they must travel, it can be expected that in the future more and more corporations will hold regional meetings and/or rotate their annual meetings so as to give more owners an opportunity to meet their management as well as an opportunity to participate in company affairs. It can also be expected in the future that an increasing number of companies will provide transportation for stockholders to the annual meeting and provide free luncheon at the meeting as well.

Keith Funston, president of the New York Stock Exchange, said that American Industry will need 60 billion dollars to finance its expansion goals for 1965. Of this total, 30 billion will come from institutional investors and 30 billion must come from private investors. The American public invests on the average one billion dollars annually; thus it will have to triple its annual investment rate if it is going to help industry meet its expansion goals for 1965. This alone suggests that in the future management will be out to fancy the stockholder all the more.

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APPENDIX I

THE QUESTIONNAIRE SURVEY

The Sampling Procedure

This survey was conducted in order to trace the stockholder relations policies and practices of a number of corporations since the 1920's. The survey was to be a representative, random sample of public utilities, railroads, and industrial enterprises. The only source available where the complete universe is given, so that a random sample can be made, is the Standard & Poor's corporation manuals. From the six manuals, the author listed all the public utility, railroad, and industrial enterprises incorporated before 1925 excluding subsidiary and affiliate companies. The total number of companies listed amounted to 2,005 and this figure was divided by 225 the number of corporations to which a questionnaire would be sent. The result was that every eighth company on the list was selected for the sample.

The questionnaire accompanied by a letter was sent to the 225 corporations on May 1, 1956. By the 30th of May, only sixty-two of the companies had returned the questionnaire. On June 5th a follow-up letter and questionnaire were sent to seventy-five of the companies that had not yet replied. Forty-seven of these companies returned the questionnaire by

July 19th.

Thus out of 225 corporations, 109 or 49% of the firms returned the questionnaire. The 116 companies that did not do so had no doubt one or many reasons: the questionnaire would take too much time to answer, it could be interpreted as an intrusion on corporate privacy, it asked questions that would have to be answered in the negative. Many of the companies that did return the questionnaire requested their names be kept confidential in connection with the information and that the information be used only for consolidated summaries.

The Questionnaire

- 1- What are your company's objectives in stockholder relations?
- (A) Getting stockholders to maintain an active interest in the firm. _____
- (B) Getting stockholders to maintain their investment in the firm and being willing to invest further funds. _____
- (C) To reduce criticisms of company policies and practices by stockholders. _____
- (D) To win the allegiance and loyalty of stockholders so as to keep present management in power. _____
- (E) To get stockholders to consume the company's products and recommend their use. _____
- (F) Getting stockholders to support the political aims of the corporation. _____
- (G) OTHERS (Explain)
- 2- In what year did your company issue its first annual report? _____
- 3- Has your company ever failed to issue an annual report?
Yes___ No___
- 4- (IF YES) In what period? 1920's___ 1930's___ 1940's___
1950's___
- 5- In what year did your company hold its first annual meeting? _____
- 6- Has your company ever failed to hold an annual meeting?
Yes___ No___
- 7- (IF YES) In what period? 1920's___ 1930's___ 1940's___ 1950's___
- 8- Does your company hold regional meetings? Yes___ No___

- 9- (IF YES) When did your company begin this practice?
1920's___ 1930's___ 1940's___ 1950's___
- 10- Does your company encourage its stockholders to send in suggestions and recommendations for improving the company's products, facilities, etc? Yes___ No___
- 11- (IF YES) Approximately when was this practice inaugurated?
1920's___ 1930's___ 1940's___ 1950's___
- 12- Has your company ever made use of a stockholder's suggestion or recommendation for improving the company's products, facilities, etc? Yes___ No___
- 13- Has your company conducted any surveys concerning the nature and characteristics of its stockholders and/or surveys relating to stockholders' interests and desires? (This also includes surveys conducted by independent research organizations for your company) Yes___ No___
- 14- (IF YES) In what period? 1920's___ 1930's___ 1940's___
1950's___
- 15- Would you say that the typical stockholder in your company is:
- a-very much interested in his company _____
- b-fairly interested in his company _____
- c-has little interest in his company _____
- d-is not at all interested in his co. _____
- 16- Does your company advertise its dividends? Yes___ No___
- 17- Does your company advertise its annual reports? Yes___ No___
- 18- Approximately how many stockholders did your company have in:
- 1925 _____
- 1935 _____
- 1945 _____
- 1955 _____
- 19- Did the number of stockholders in your company increase or decrease during the depression?
Increase___ Decrease___

20- Do you think it is to the company's advantage to have its employees own stock in the company? Yes___ No___

21- (IF YES) Why?

22- (IF NO) Why?

23- Check whether or not your company sends the following material to its stockholders, and state the approximate year they were first issued?

- | | |
|--|----------------------|
| A- Dividend enclosures. | Yes___ No___ Year___ |
| B- Quarterly reports. | Yes___ No___ Year___ |
| C- Special stockholder news letters. | Yes___ No___ Year___ |
| D- Notice of the annual meeting. | Yes___ No___ Year___ |
| E- Letter of welcome. | Yes___ No___ Year___ |
| F- Letter of regret when a stockholder sells his stock. | Yes___ No___ Year___ |
| G- Basic report. | Yes___ No___ Year___ |
| H- Company house organ. | Yes___ No___ Year___ |
| I- Report of what transpired at the annual meeting. | Yes___ No___ Year___ |
| J- Stockholder magazines. | Yes___ No___ Year___ |
| K- Special offers to stockholders. | Yes___ No___ Year___ |
| L- Samples of company products. | Yes___ No___ Year___ |
| M- Does your company hold open houses or plant tours as part of the annual meeting or otherwise? | Yes___ No___ Year___ |

- 24- Does your company have a stock ownership plan for its employees? Yes___ No___
- 25- (IF YES) When was this plan inaugurated?
1920's___ 1930's___ 1940's___ 1950's___
- 26- Is your company actively trying to increase the number of its stockholders? Yes___ No___
- 27- (IF YES) Why?
- 28- (IF NO) Why?
- 29- Would you say that your company is taking a greater interest in its stockholders than it did in the 1920's and 1930's? Yes___ No___
- 30- (IF YES) Can you give me some of the reasons why your company is taking a greater interest in its stockholders?
- 31- Check the six or seven major items about which your company especially wants the stockholders to be informed at the present time.
- (A) The company's products--their uses and applications. _____
- (B) Industry trends. _____
- (C) The need for spending money on research. _____
- (D) Research activities. _____
- (E) The need for promotional literature such as advertisements of the company's products etc. _____

- (F) General economic conditions. _____
- (G) The need for retaining some of the profits
in the business. _____
- (H) Importance of employees. _____
- (I) The free enterprise system and specific
political issues regarding the company. _____
- (J) The financial facts of the company such
as sales, profits, expenses, etc. _____
- (K) Responsibilities to the company as
stockholders. _____
- (L) Relations with the government. _____

32- Who handles stockholder relations in your company?

Secretary _____

Public Relations Department _____

Financial Stockholder Relations Staff _____

(Other) Explain.

The First Letter

81 Cumerford Street
Providence 9, Rhode Island
May 14, 1956

Mr. J.B. Donahue, Secretary
Selby Shoe Company
Porthmouth, Ohio

Dear Mr. Donahue:

I am a graduate student at Boston University School of Public Relations and Communications now working on my thesis which is on the subject of stockholder relations. In this thesis I am trying to show the change that has taken place in management's relationship with stockholders since the 1920's. That is, today management is taking a greater interest in its stockholders and giving them more information than it did twenty or thirty years ago.

Much of my thesis will be based on the findings of a survey of 225 corporations. The companies have been carefully selected to give a representative sample of public utilities, railroads, and industrial enterprises. Your company is one of the companies that has been selected in order to make my sample a truly representative one.

I would appreciate it if you would be kind enough to answer the questionnaire that I have submitted to you. Your answers will play a very important role in the formation of the conclusions of this study.

I would also appreciate your sending me a few annual reports of the 1920's, 1930's, 1940's, and 1950's along with any other material that you send to stockholders.

Yours very truly,

J. Robert Margadonna

The Follow-up Letter

81 Cumerford Street
Providence 9, Rhode Island
June 4, 1956

Miss. Inez Cox, Secretary
Southern Utah Power Company
Cedar City, Utah

Dear Miss. Cox:

I am writing in reference to a questionnaire sent you last month which pertains to stockholder relations. Because no answer has been received, I have the feeling that it may have been lost.

Therefore, another questionnaire is enclosed which I would greatly appreciate your answering, or those questions that can be answered most easily.

I would also appreciate your sending me a few annual reports.

Yours very truly,

J. Robert Margadonna

Some Replies

The Baltimore & Ohio Railroad Company

Dear Mr. Margadonna:

I have received your letters of April 30th and June 4th enclosing, among other things, a quite comprehensive questionnaire. In accordance with the request contained in the last paragraph of your letter of April 30th, we are sending you under separate cover copies of the Company's annual reports for the years 1920, 1925, 1930, 1935, 1940, 1950, and 1955.

Now with respect to the questionnaire. We do not feel that we can assume the burden of undertaking to answer such a comprehensive questionnaire. At the last annual meeting of the stockholders of the Company, there was represented either in person or by proxy something in excess of 90% of the Company's outstanding capital stock, which would appear to indicate that the Company's relations with its stockholders are quite satisfactory.

A Large Public Utility with 23,000 Stockholders

Dear Mr. Margadonna:

In response to your request of May 14th, enclosed is the completed questionnaire on which you asked for information concerning our Company.

Also enclosed are copies of some of our Annual Reports, where available, together with copies of recent Prospectuses.

We appreciate your interest in our Company, and we send you our best wishes in the preparation of your thesis. This information is furnished you solely for your use, and we would appreciate your treating it as confidential.

A Large Industrial Company with 17,850 Stockholders

Dear Mr. Margadonna:

We are enclosing published financial reports for the year ended October 31, 1940 and October 31, 1955. Also returned herewith is your questionnaire relating to stockholder relations which we have filled out to the extent that we did not have to do much research ourselves to answer the questions. We believe there is sufficient information in our answers that they will be of some value to you.

We ask that the information be kept confidential and used only for consolidated summaries.

Armco Steel Corporation

Dear Mr. Margadonna:

It was a pleasure to have received your letter and survey form requesting information on our shareholder relations.

We have completed the form to the best of our ability and it is enclosed. We are also including several annual reports and a few current samples of the Armco "Shareholders' Digest."

We hope that you will find this material useful and if we may be of any further service please don't hesitate to call on us.

Standard Railway Equipment Manufacturing Company

Dear Mr. Margadonna:

In reply to your letter of May 14, 1956 addressed to Mr. L.S. Larson of this Company, I am returning the completed questionnaire which was forwarded with that letter.

Also included are copies of several annual reports together with other representative stockholder communications.

In the event that you prepare a summary of the answers

received to your questionnaire, we would appreciate receiving a copy.

Bethlehem Steel Corporation

Dear Mr. Margadonna:

I acknowledge receipt of your letter of the first inst.

Your questionnaire is rather comprehensive and many of the questions would require some explanation. I am sorry I cannot take the time to answer it. I am, however, sending you a sample of our Annual Reports as requested and the latest copy of the Bethlehem Review which was mailed to all employees and stockholders.

Scovill Manufacturing Company

Dear Mr. Margadonna:

I am returning your questionnaire on stockholder relations which I have found to be most interesting. It seems that a good many companies are now devoting more attention to the type of information furnished to their stockholders through annual reports, annual meetings, special mailings, and so forth. Unfortunately, our records are not complete enough to allow us to answer all of your questions, but I feel that the information furnished will be of some value in your survey.

I am also enclosing copies of our Annual report for the years 1942, 1945, 1950, and 1955. Just before World War I, our company began distributing a simple one page report (balance sheet only) to stockholders. The 1942 report is typical of the reports issued prior to World War II. In 1945 we went to the larger size report copy enclosed. We believe that our 1955 report is also a departure from previous ones in that it contains more information pertaining to company operations.

I hope that the information furnished will be of value to you in your survey and we are pleased to have had the opportunity to participate in what appears to be a most interesting and constructive venture.

The Cleveland Electric Illuminating Company

Dear Mr. Margadonna:

Thank you for your letter of May 16, 1956 requesting information about this Company's share owner relations program. The completed questionnaire is attached along with several annual reports and Presidents' Quarterly Reviews which we send our share owners.

I hope this information will help you to develop your thesis on stockholder relations.

The Companies that Returned the Questionnaire

- 1- Acme Steel Company
- 2- Acme Wire Company
- 3- Aero Supply Manufacturing Company
- 4- American Machine and Foundry Company.
- 5- American Telephone & Telegraph
- 6- American Tobacco Company
- 7- Armco Steel Corporation
- 8- Artloom Carpet Company
- 9- Atlas Plywood Corporation
- 10- Bastian-Blessing Company
- 11- Beatrice Foods Company
- 12- Breeze Corporation
- 13- Brown Shoe Company
- 14- Burroughs Manufacturing Company
- 15- Bush Manufacturing Company
- 16- Cambell Soup Company
- 17- Catelli Food Products Company
- 18- Central Illinois Electric & Gas Company
- 19- Chain Belt Company
- 20- Chesapeake & Ohio Railway Company
- 21- Chicago & Northwestern Railroad Company
- 22- Chrysler Corporation
- 23- Cleveland Electric Illuminating Company
- 24- Colgate-Palmolive Corporation
- 25- Deere and Company
- 26- Detroit Gray & Iron Foundries Company
- 27- Dominion Foundries & Steel Ltd.
- 28- Doughboy Industries Inc.
- 29- Eastern Stainless Steel Company
- 30- Eastman Kodak Company
- 31- Elgin Watch Company
- 32- E.J. Brach & Sons
- 33- Empire District Electric Company
- 34- Falconbridge Nickel Mines Ltd.
- 35- Firestone Tire & Rubber Company
- 36- Foote Mineral Company
- 37- Fort Wayne Corrugated Paper Company
- 38- Gellman Manufacturing Company
- 39- General Foods Corporation
- 40- General Shoe Corporation
- 41- General Steel Castings Corporation
- 42- Georgia Pacific Company
- 43- Granite City Steel Company
- 44- Hershey Chocolate Corporation
- 45- Hooker Electrochemical Company
- 46- Hubinger Company
- 47- Huttig-Sash and Door Company

- 48- Jefferson Electric Company
- 49- J.H. Ashdown Company
- 50- Johns-Manville Corporation
- 51- Kansas City Power & Light Company
- 52- Kendall Refining Company
- 53- Kysor Heater Company
- 54- Laclede Gas Company
- 55- Leece-Neville Company
- 56- Lehn & Fink Products Corporation
- 57- Louisville Gas & Electric Company
- 58- Luminator-Harrison Corporation
- 59- Magnavox Corporation
- 60- Manning, Maxwell, and Moore Company
- 61- McGraw Electric Company
- 62- Mexican Light and Power Company
- 63- Minnesota Power & Light Company
- 64- Minneapolis Honeywell Regulator Corporation
- 65- Monarch Machine Tool Company
- 66- Motor Wheel Corporation
- 67- National Motor Bearing Company
- 68- New Jersey Zinc Company
- 69- New York Central Railway Company
- 70- Norden-Ketay Corporation
- 71- Norfolk & Western Railroad Company
- 72- Oklahoma Gas & Electric Company
- 73- Oxford Paper Company
- 74- Pabco Products Inc.
- 75- Pfaudler Company
- 76- Philco Corporation
- 77- Philip Morris & Company
- 78- Philips Petroleum Corporation
- 79- Plymouth Cordage Company
- 80- Rockwell Manufacturing Company
- 81- Ruberoid Company
- 82- Scovill Manufacturing Company
- 83- Selby Shoe Company
- 84- Seven-up Bottling Company
- 85- Scott & Fetzer Company
- 86- Southern Railway Company
- 87- Southern Utah Power Company
- 88- Standard Railway Equipment Manufacturing Company
- 89- Stratford Pen Company
- 90- Struthers Wells Corporation
- 91- Swift & Company
- 92- Taylor Instruments Company
- 93- Tintic Lead Company
- 94- Tokheim Corporation
- 95- Trane Company
- 96- Twin Coach Company
- 97- Twin Disc Clutch Company

- 98- United States Envelope Company
- 99- United Elastic Corporation
- 100- Union Gas Company of Canada
- 101- Vanadium Corporation of America
- 102- Van Camp Sea Food Company
- 103- Virginia Coal & Iron Company
- 104- W.B. Coon Company
- 105- West Disinfecting Company
- 106- Wiser Oil Company
- 107- Wheeling Steel Corporation
- 108- Whitehall Cement Manufacturing Company
- 109- Whitting Corporation

Survey Results

WHAT ARE YOUR COMPANY'S OBJECTIVES IN STOCKHOLDER RELATIONS?

They are listed in the order of frequency:

- 1- Getting stockholders to maintain an active interest in the firm.
- 2- Getting stockholders to maintain their investment in the firm and being willing to invest further funds.
- 3- To get stockholders to consume the company's products and recommend their use.
- 4- To reduce criticisms of company policies and practices by stockholders.
- 5- To win the allegiance and loyalty of stockholders so as to keep present management in power.
- 6- To get stockholders to support the political aims of the corporation.

HAS YOUR COMPANY EVER FAILED TO ISSUE AN ANNUAL REPORT?

Yes- 13 No- 94 No Answer- 2

Thirteen did not send annual reports during the 1920's

Two during the 1930's

One during the 1940's

All of the 109 companies send them now.

DO YOU CONDUCT REGIONAL MEETINGS?

Yes- 2 No- 107 No Answer- 0

Both companies began doing so in the late 1940's

DOES YOUR COMPANY ENCOURAGE ITS STOCKHOLDERS TO SEND IN SUGGESTIONS AND RECOMMENDATIONS FOR IMPROVING THE COMPANY'S PRODUCTS, FACILITIES, ETC?

Yes- 44 No- 62 No Answer- 3

Seven stated that they have been doing this since the 1920's.

Two since the 1930's.

Fourteen since the 1940's.

Six since the 1950's.

Fifteen did not state when the practice was started.

HAS YOUR COMPANY EVER MADE USE OF A STOCKHOLDER'S SUGGESTION?

Yes- 53 No- 42 No Answer- 14

HAS YOUR COMPANY CONDUCTED ANY SURVEYS OF ITS STOCKHOLDERS?

Yes- 31 No- 78 No Answer- 0

None of the 31 made surveys during the 1920's.

Three conducted surveys during the 1930's.

Nine during the 1940's.

Nineteen during the 1950's.

It is interesting to note here that of the twenty-eight corporations that have made surveys of their stockholders since 1940, twenty-four of them have made the surveys since World War II.

THE TYPICAL STOCKHOLDER IS:

Very much interested in his company say 36 of the firms.

Fairly interested in his firm say 64 of the companies.

Has little interest in his firm, 5 of the companies.

Has no interest whatsoever say 2 of the firms.
2 of the corporations did not answer the question.

DOES YOUR COMPANY ADVERTISE ITS DIVIDENDS?

Yes- 38 No- 71 No Answer- 0

DOES YOUR COMPANY ADVERTISE ITS ANNUAL REPORT?

Yes- 28 No- 81 No Answer- 0

DO YOU THINK IT IS TO THE COMPANY'S ADVANTAGE TO HAVE EMPLOYEES OWN STOCK IN THE COMPANY?

Yes- 106 No- 1 Questionable- 2

Most typical answers:

- 1- The employee gets a stake in the enterprise.
- 2- Stock ownership gives him a sense of belonging.
- 3- He takes a greater interest in the firm and works more efficiently.

The most typical negative answer is: if the market price of the stock drops employees blame management.

CHECK WHETHER OR NOT YOUR COMPANY SENDS THE FOLLOWING MATERIAL TO ITS STOCKHOLDERS AND STATE THE YEAR THEY WERE FIRST ISSUED.

Quarterly reports

Yes- 65 No- 44

Six are known to have begun this practice in the 1920's.

Seven reported to have sent them since the 1930's.

Twenty reported to have begun this practice after World War II.

Twenty-six did not state when this practice was started.

Special news letters

Yes- 47 No- 62

Seven of the companies reported to have begun this practice in the 1920's.

Eight reported to have begun this practice in the 1930's.

Twenty-two reported to have begun this after World War II.

Ten did not state when they began this practice.

Letter of welcome

Yes- 68 No- 41

Two companies reported to have begun this practice in the 1920's.

Seven reported to have sent welcome letters since the 1930's.

Forty-seven reported to have begun this practice after World War II.

Twelve companies did not state when this practice was started.

Letter of Regret

Yes- 7 No- 102

One company began sending a letter of regret during the 1920's.

None of the companies began this practice during the 1930's.

Seven of the companies have begun this practice since World War II.

American Telephone & Telegraph began sending a letter of regret to its stockholders who sold their stock in the 1920's, but it discontinued this practice in 1942.

House organ

Yes- 17 No- 92

One began doing so in the 1920's.

Two in the 1930's.

Fourteen since World War II.

Post-annual meeting reports.

Yes- 47 No- 62

Two began this practice in the 1920's.

Seven reported to have begun this practice in the 1930's.

Thirty-five reported to have started this since the end of World War II.

Three gave no dates concerning the commencing of this practice.

Stockholder magazines

Yes- 4 No- 105

None sent such magazines during the 1920's.

Two began doing so during the 1930's.

Two companies began this practice after World War II.

Special offers or samples

Yes- 13 No- 96

Two began this practice during the 1920's.

Two since the 1930's.

Nine began sending them after World War II.

Open houses

Yes- 37 No- 72

Three of the companies reported to have begun this practice during the 1920's.

Ten reported to be doing this since the 1930's.

Fourteen reported to be doing this since World War II.

Ten companies gave no dates.

DO YOU HAVE A STOCK OWNERSHIP PLAN FOR YOUR EMPLOYEES?

Yes- 40 No- 69

Seven instituted such a plan in the 1920's.

Four instituted such a plan in the 1930's.

Ten did so in the 1940's.

Nineteen have done so since World War II.

ARE YOU TAKING A GREATER INTEREST IN YOUR STOCKHOLDERS THAN IN THE 1920's AND 1930's?

Yes- 92 No- 16 No Answer- 1

Most of the companies gave one or more of the following reasons:

- 1- Stockholders are an important source of capital when additional funds are needed.
- 2- They can help increase company sales by using and boosting the company's products.
- 3- Stockholders can help support the company in political issues.
- 4- A happy and satisfied stockholder is more likely to recommend the firm as an investment to others.
- 5- A satisfied stockholder is less likely to criticize company policies and practices and is likely to be loyal to management.

ARE YOU ACTIVELY TRYING TO INCREASE THE NUMBER OF STOCKHOLDERS?

Yes- 55 No- 50 No Answer- 4

The following are the most often stated reasons:

- 1- The more stockholders a company has the more people there will be to support it.
- 2- A large number of stockholders make the company better known and gives it more prestige.
- 3- A broad base of stock ownership aids the free enterprise system.

Most of the companies that said that they are not trying to increase the number of their stockholders believe that they have enough stockholders already.

CHECK THE SIX OR SEVEN MAJOR ITEMS ABOUT WHICH YOUR COMPANY ESPECIALLY WANTS STOCKHOLDERS TO BE INFORMED AT THE PRESENT TIME

They are listed in the order of frequency:

- 1- The financial facts of the company such as expenses, sales, profits, etc.
- 2- The company's products and their uses.
- 3- The need for retaining some of the profits in the business.
- 4- Industry trends and general economic conditions.
- 5- The importance of employees.
- 6- Research.
- 7- The need for promotional literature.
- 8- The free enterprise system and specific political issues.
- 9- Relations with the government.
- 10- Responsibilities to the company as stockholders.

WHO HANDLES STOCKHOLDER RELATIONS IN YOUR COMPANY?

The secretary

The secretary and public relations dept.	17
Public relations dept.	16
Financial stockholder relations staff.	6
Treasurer	2
President	11

APPENDIX II

ANNUAL REPORT STUDY

As noted in Chapter I, this was a study of the annual reports of twenty-five representative corporations. The study was comprised of one annual report of each of the twenty-five corporations for each of the following periods: 1920's, 1930's and 1950's. In other words, twenty-five annual reports were studied for each of these periods or seventy-five in all. The following are the companies whose annual reports were studied:

- 1- Aero Supply Manufacturing Company
- 2- Armco Steel Corporation
- 3- Baltimore & Ohio Railway Company
- 4- Bethlehem Steel Corporation
- 5- Chrysler Corporation
- 6- Creole Corporation
- 7- Deere and Company
- 8- Dominion Foundries & Steel Limited
- 9- Eastman Kodak Company
- 10- Hershey Chocolate Corporation
- 11- Leese-Neville Company
- 12- Lehn & Fink Products Corporation
- 13- Louisville Gas & Electric Company
- 14- Kansas City Power & Light Company
- 15- Mexican Power & Light Company
- 16- Minnesota Power & Light Company
- 17- New Haven Railroad Company
- 18- Norfolk & Western Railway
- 19- Motor Wheel Corporation
- 20- Philip Morris & Company
- 21- Union Gas Company of Canada
- 22- Union Pacific Railway Company
- 23- Wheeling Steel Corporation
- 24- Wiser Oil Company
- 25- Washington Water & Power Company

TABLE III
THE FINDINGS OF THE ANNUAL REPORT STUDY

Report content	Number of companies		
	As of 1920	As of 1930	As of 1950
1- Names of directors and officers..	17	19	25
2- Names of subsidiaries.....	3	9	18
3- Complete financial statements....	13	20	25
4- Location of plants & markets.....	6	12	20
Discussion of:			
5- Earnings.....	6	12	24
6- Dividends.....	10	11	20
7- Products.....	8	12	21
8- Sales or revenue.....	8	11	21
9- Employee relations.....	6	12	19
10- Industry trends.....	5	14	22
11- Future plans.....	8	14	22
12- Expenses.....	13	15	25
13- Improvements or construction.....	8	13	22
14- Production.....	7	12	21
15- Research activities.....	2	4	20
A- Simplified financial summary or highlight page.....	0	1	19
B- Pictures or drawings.....	1	6	22
C- Comparative data.....	5	8	19
D- Charts or graphs.....	1	3	20
E- Three or more colors.....	0	2	18

Reports that had at least twelve of the items from one to fifteen above were classified as truly informative. Reports that had at least three of the items from A to E above were classified as modern. The following is how they were classified for each period:

	As of 1920	As of 1930	As of 1950
Truly informative	7	14	22
Modern	1	4	21

APPENDIX III

FINANCIAL WORLD SURVEY

SHAREHOLDER ANNUAL MEETING REPORTS

Please do not remove these exhibits

FINANCIAL WORLD EXHIBIT

SECURITY ANALYST YEARBOOKS

TENTH ANNUAL REVIEW OF THE

Shareholder Relations Policies of 1,000 Industrial Companies

Progress has been made during past decade in the use of techniques to maintain shareholder confidence and inspire new investment interest. Financial public relations counsel service fills need

By Weston Smith

The completion of a decade of surveys of the trends in shareholder relations policies provides ample evidence that an increasing number of managements have become interested in cultivating the confidence of the actual owners of their corporations. In recent years the desire to expand shareholder lists (geographically and by average holdings), plus the success of proxy contests in electing new managements, has focused attention on the opportunities provided by well-organized financial public relations programs.

Progress Accelerated

During the past ten years, progress has been at an accelerated rate, as some companies expanded the number of techniques utilized to influence shareholder opinion, while others embarked on programs to improve investor esteem of their securities. Although this new era in shareholder relations has included many trials and some errors, there has emerged a variety of techniques which have been proved effective by attaining objectives in this specialized area of public relations.

As a result of its Annual Report Surveys and these year-end reviews

of shareholder relations policies, FINANCIAL WORLD has accumulated statistics which provide the only continuing guidance as to *how many* industrial corporations are doing *what*. Credit for the success of this research, however, is attributed to the 5,000 corporations submitting their annual reports for rating each year, plus the 1,000 managements returning the shareholder relations questionnaire.

The officers of many corporations have welcomed the yearly questionnaires as an opportunity to review policies and programs in shareholder relations. The questionnaire is in

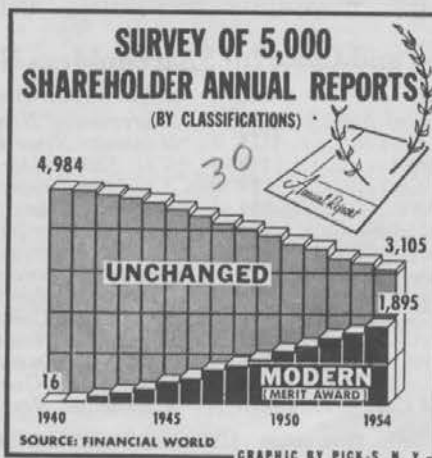
effect a check-list of techniques, printed material and practices. Therefore, it is encouraging that the statistics in the tenth review have scored gains in all divisions.

As usual, the greatest gains in any one area of shareholder relations was registered in the number of annual reports rated as modern and qualified for "Merit Awards"; 1,895 reports compared with 1,728 in the previous year. The simplified and informative annual report is generally regarded as the keystone of a well-rounded program, which should include the following basic objectives:

Three Objectives

- I. The maintenance of confidence among present stockholders;
- II. The cultivation of interest of new investors;
- III. The development of better investor acceptance for the company's securities in financial districts of leading cities throughout the nation.

To attain one or all of these objectives, plus the allied purposes for which a program is prepared, the judgment and decisions of the company's president or officer in charge



of shareholder relations are often the determining factors in the success of the activity. To many top executives, stockholder relations and liaison with the financial communities are part-time activities which can be better performed by professional counsel. Only the largest corporations can maintain departments for shareholder relations, and few companies have directors who devote their entire time to this function.

Professional Counsel

The guidance and services offered by individual financial public relations counsel firms vary, ranging from the handling of financial publicity, through all the techniques of shareholder and investor relations, to the more complex phases of corporate finance (financing, over-the-counter distribution, stock exchange listings, mergers, etc.). No one formula will fit the requirements of every company, because each management's problems and objectives are different. Thus, the program must be customized to assure a greater degree of success.

During the past six years, or since this subject was first added to the questionnaire, there has been a constant increase in the number of corporations employing financial public relations consultants, plus the general public relations counsel firms and advertising agencies which provide specialized guidance and services in this field:

Outside Counsel in:	—Percentage of 1,000 Companies—					
	1955	1954	1953	1952	1951	1950
Financial Publicity ...	12%	12%	8%	7%		
Shareholder Relations ...	15	10	6	5	10%	7%
Total	27%	22%	14%	12%	10%	7%

Interim Reports

In shareholder communications next in importance to the annual report are the interim earnings statements. Of the thousand companies answering, 802 distributed financial reports more than once a year: 624 quarterly, and 178 semi-annually. The following comparison reflects the success of the campaigns for more frequent earnings reports to shareholders:

Year:	—Percentage of Companies—		
	Semi-Annual	Quarterly Reports	Interim Reports
1955.....	17%	62%	80%
1954.....	18	60	78
1953.....	19	56	75
1952.....	22	51	73
1951.....	20	48	68
1950.....	20	45	65
1949.....	18	42	60
1948.....	15	40	55
1947.....	12	37	49
1946.....	10	36	46

Of the 802 interim reports issued in 1955, 561 or almost 70 per cent are printed in black or one color; 229 (28 per cent) have two colors; and the remainder are three or more colors. Last year 242 companies mailed the interim reports as an insert with the dividend check, while 560 or almost 70 per cent sent them under separate cover.

Dividend Enclosures

The number of companies employing dividend inserts or "stuffers" increased sharply in 1955, expanding to 61 per cent compared with 49 per cent in the previous year. Managements utilizing the earnings report as a dividend insert usually send them with each quarterly dividend check, but others send occasional inserts when there is a special message to the shareholders. More inserts are being converted into miniature tabloid newspapers, newsletters and

digest folders, usually illustrated with photographs or charts and printed in two or more colors:

Dividend Inserts:	—Percentage of 1,000 Companies—					
	1955	1954	1953	1952	1951	1950
Regularly	37%	27%	25%	24%	23%	22%
Occasionally ..	24	22	26	24	22	22
Total Inserts.	61%	49%	51%	48%	45%	44%
Newsletters..	8%	7%	6%	6%	..	..

Annual Meetings

Further progress was registered last year in the handling of annual meetings of shareholders, the acknowledgement of proxies and the preparation of copies of the minutes or a summary of the minutes. New highs were reached in the number of managements sending special invitations (personal letters from the president, engraved cards or printed folders), providing transportation, offering a program or exhibit and serving luncheon, dinner or refreshments:

Shareholder Annual Meeting Technique:	—Percentage of 1,000 Companies—				
	1955	1954	1953	1952	1951
Holding Meetings	100%	100%	100%	100%	100%
Special					
Invitations ..	23	19	16	14	12
Transportation..	7	5	4	4	3
Program Offered	7	5	..	..	..
Exhibit					
Displayed ...	2	1	..	..	..
Luncheon, etc. .	17	12	8	6	5
Plant Tour	1	1	..	..	..
Regional					
Meetings	2	3	2	2	2
Minutes sent... 26	25	22	20	19	
PROXIES					
Acknowledged	16%	15%	13%	13%	11%
By Letter or					
Card	10	9	7	7	7
By Postal Card	6	6	6	6	4

Reports of the shareholder annual meeting were prepared in a variety of formats and styles last year: 79 companies sent out a form letter from the president, while 36 provided a multigraphed summary for those requesting it. There were gains, however, in the number of printed post-meeting reports: 75 managements

Selected Illustrated and Colorful Shareholders Newsletters in 1955

NEWSLETTER (Issuing Corporation):	Pages
Alcoa Aluminum News-Letter (Aluminum Co. of Amer.)	\$†8
*Share Owners' Quarterly (Amer. Tel. & Tel. Co.)	††12
Stockholders' Bulletin (American Viscose Corp.)	††8
Quarterly Memo (Arkansas Power & Light Co.)	†4
*NewsLetter to Shareholders (Chrysler Corp.)	††4
*News for Shareholders (Cincinnati Milling Machine Co.)	††4
Progress (Consolidated Electrodynamics Corp.)	††4
Du Pont Stockholder (E. I. du Pont de Nemours)	††4
*Highlights (Eastman Kodak Co.)	††4
*Fruehauf Quarterly (Fruehauf Trailer Co.)	†8
*Item (General Foods Corporation)	††\$12
Horizons (General Mills Corp.)	††28
Bulletin (Idaho Power Company)	†8
J & L Men and Steel (Jones & Laughlin Steel Corp.)	†\$76

NEWSLETTER (Issuing Corporation):	Pages
Shareowners' News (Marquette Cement Mfg. Co.)	†4
*Monsanto News (Monsanto Chemical Co.)	††4
*NSP Shareholders' Bulletin (Northern States Pr.)	††16
Aluminum Progress (Reynolds Metals Co.)	††8
*Briefs (Standard Oil Co., N. J.)	††8
Share Owners News (Sylvania Electric Products)	††10
Pipeline Progress (Texas Gas Transmission)	††4
*Quarterly Letter (Thompson Products, Inc.)	†4
UF Shareholder (United Fruit Company)	††16
Highlights (United Gas Corporation)	††\$24
*Shareholder News (United States Rubber Co.)	††4
*U. S. Steel Quarterly (United States Steel)	††8
*Stockholders Quarterly (Westinghouse Electric)	††8
*Stockholder News (Yale & Towne Mfg. Co.)	††4

*Issued as an interim report or dividend insert, or both. †Two colors. ††Illustrated with photographs, charts or cartoons. †††Three or four colors. †Maga-zine format.

used folders (4 to 6 pages) to summarize the meeting, and 70 offered stapled booklets (8 to 48 pages)—many of these are illustrated with photographs of the actual meeting and are printed in two or more colors. The 1955 annual meeting report of General Electric Company was judged "Best-of-All Industry" in the FINANCIAL WORLD competition, with second place going to International Business Machines and third to Worthington Corporation.

Gift offers to shareholders continue to increase with many of the food and drug products companies offering Christmas packages of samples at reduced prices. Some of the tobacco and cosmetic companies also make a special appeal to stockholders to buy their products for Christmas. Most unusual gift offer of the year was by the Pennsylvania Railroad: six king-size old-fashioned glasses (the same as those used on the Congressional Limited) for \$3 per set.

Letters to Shareholders

"Welcome" letters, sent to shareholders shortly after they have registered their stock, have continued to gain in usage. At the same time the decline was continued in letters of regret to investors who have sold their stock:

Total Sending	Welcome Letters			Total Regret Letters
	With Annual Report	With Quarterly Report	With Both Reports	
1955.. 59%	31%	3%	18%	3%
1954.. 55	30	3	18	4
1953.. 44	28	2	17	5
1952.. 41	25	2	17	7
1951.. 38	21	2	15	10
1950.. 37	20	2	14	14

It will be noted in the foregoing tabulation that most companies send a copy of the latest annual report with the welcome letter. Other mailing pieces sent to welcome new shareholders include: fact books, employe house organs, external house magazines, product catalogues, samples of products, or return post-cards to request reports or various

booklets. Last year American Machine & Metals sent a silver medalion encased in a clear plastic block with an hour glass to all new shareholders to remind them of the company's twenty-fifth anniversary.

Statistical Yearbooks

There was a moderate increase in the number of companies preparing special statistical brochures for security analysts, investment advisers and other professionals. During the past year 41 public utilities and industrial companies (exclusive of railroads, which are required to do so by the ICC) produced statistical supplements to the annual report or yearbooks, compared with 32 companies in 1954:

Security Analyst Yearbooks Brochures Published in 1955

Title—Sponsor	Pages
Statistical Review—Amer. Gas & Electric	1124
Facts & Figures—Armco Steel Corp.	1128
Review of Operations—B'klyn Union Gas	1168
Review of Operations—Cent'l & South West	1128
Some Facts About Chrysler Corporation..	36
Information—Cincinnati Gas & Electric...	1140
*Statistical Data—Columbia Gas System...	11100
Financial Review—Commonwealth Edison	11820
Serving New York—Cons. Edison, N. Y.	11548
Daystrom Today and Tomorrow—Daystrom, Inc.	1164
Facts & Figures—Florida Power & Light	1120
Growing Enterprise—General Acceptance Corp.	136
Information Series—Gen'l Public Utilities	30
Financial Statistics—General Telephone Corp.	128
Operating Statistics—Gulf Oil Corp.	16
Special Report—Interstate Power Co.	1124
Statistical Record—Johns-Manville Corp.	8
Core of the Great Plains—Kansas Gas & Elec.	1132
Ten-Year Review—Kentucky Utilities Co.	1144
Progress Report—Long Island Lighting Co.	1132
*Information—R. H. Macy & Co., Inc.	1136
Financial & Operating Data—Middle South Util.	1124
Statistical Supplement—N. Y. State El. & Gas	1136
Facts About the Oxford Paper Company..	1128
Supplement—Pacific Lighting Corp.	1138
Financial & Historical Data—Parke, Davis	19
*Financial & Statistical Review—Phila. Elec. Progress With Natural Gas—Portland Gas & Coke	1140
Information Concerning Public Service El. & Gas	1148
Story of Sheller Manufacturing Corporation	1124
Financial & Operating Statistics—Socony-Mobil	124
Selected Supplementary Statistics—Standard Oil, Ind.	4
Background Information—Sylvania Elec. Products	16
Statistical Release—Texas Eastern Transmission	1148
Statistical Manual—Texas Gas Transmission	1132
Today—Texas National Petroleum Co.	116
Information—Texas Utilities Company...	1132
Financial & Operating Review—Toledo Edison Co.	1124
Statistical Report—Union Oil Co. of Cal.	30
Historical Financial Data—United Gas Corp.	1136
Statistical Information—Wisconsin Public Service	1118

Selected Printed Post-Meeting Reports Distributed in 1955 Published Booklets of Minutes of Shareholder Annual Meetings

(Q&A: Stockholders' questions and answers included)

Corporation:	Pages	Corporation:	Pages
Abbott Laboratories	114	*Int'l Business Machines	116
Aeroquip Corp. (Q&A)	124	Int'l Harvester Co. (Q&A)	20
American Airlines, Inc. (Q&A)	14	Jones & Laughlin Steel Corp.	8
Am. Broadcasting-Paramount (Q&A)	1116	Kennecott Copper Corp. (Q&A)	118
Am. Encaustic Tiling (Q&A)	6	*Kresge (S.S.) Co.	112
American Metal Co.	16	Libby, McNeill & Libby	8
American Optical Co.	6	Link-Belt Co.	12
Am. Radiator & S.S. (Q&A)	120	Lorillard (P.) Co. (Q&A)	8
American Tobacco (Q&A)	8	Macy (R. H.) & Co., Inc. (Q&A)	20
American Viscose	118	Massey-Harris-Ferguson Ltd.	116
Atlantic City Electric	112	Merritt-Chapman & Scott (Q & A)	1124
Atlantic Refining Co.	112	Mountain Fuel Supply	8
Avon Products, Inc.	8	Murphy (G. C.) Co.	4
Blaw-Knox Co.	12	Nat'l Dairy Products	112
Bowater Paper Corp., Ltd.	132	Nat'l Gypsum Co.	4
Butler Brothers	6	National Lead Co.	16
Calaveras Cement Co.	4	*North Amer. Aviation (Q&A)	18
Calumet & Hecla, Inc. (Q&A)	12	*Northern States Power	112
Cerro de Pasco Corp.	116	*Ohio Oil Co.	18
Chain Belt Co.	8	Peoples Gas Lt. & Coke (Q&A)	136
Chesapeake Industries (Q&A)	36	*Pitney-Bowes, Inc. (Q&A)	112
Chesapeake & Ohio Ry. (Q&A)	1112	*Radio Corp. of America (Q&A)	1120
Chrysler Corporation	4	Royal McBee Corp. (Q&A)	12
Columbia Gas System	12	St. Joseph Lead Co. (Q&A)	8
Congoleum-Nairn, Inc. (Q&A)	120	Scott Paper Co.	12
*Cons. Edison, N. Y. (Q&A)	1120	Seattle Gas Co. (Q&A)	8
Cons. Natural Gas (Q&A)	24	Southern Pacific Co.	6
Continental Can Co. (Q&A)	136	Standard Oil of California	8
Curtis Publishing Co.	8	*Standard Oil Co. (Indiana)	18
Dixon (Jos.) Crucible Co.	14	Standard Oil Co. N. J. (Q&A)	1144
*Du Pont de Nemours (Q&A)	4	*Standard Oil (Ohio) (Q&A)	1120
Electric Bond & Share (Q&A)	11120	St. Lawrence Corp., Ltd.	12
Electric Storage Battery (Q&A)	12	Sylvania Electric Prod. (Q&A)	124
Equitable Gas Co.	12	United Air Lines (Q&A)	24
Fairchild Camera (Q&A)	1120	Union Carbide & Carbon (Q&A)	1112
Fruehauf Trailer Co.	12	Union Electric of Mo.	4
Gas Service Co.	8	*Union Oil Co. of Cal.	112
General Electric Co. (Q&A)	11120	*United Fruit Co. (Cruise)	1112
General Foods Corp.	116	U. S. Plywood Corp.	4
Glidden Co. (Q&A)	4	U. S. Rubber Co. (Q&A)	1120
*Harris-Seybold Co. (Q&A)	1118	Western Union Telegraph Co.	18
Illinois Central R.R. (Q&A)	124	*Westinghouse Electric (Q&A)	118
Inland Steel Co.	14	Woolworth (F. W.) Co. (Q&A)	120
Interchemical Corp.	18	Worthington Corp. (Q&A)	112

*As part of the quarterly newsletter, interim report or dividend insert. †Two colors. ‡Illustrated with photographs of meeting. §Includes charts or maps. ¶Three or four colors.

*Includes copy of annual report to shareholders. †Two colors. ‡Illustrated with photographs, charts and/or maps. ¶Three or four colors. §Short-side binding.

Progress Reports

Many railroads and public utilities have been supplying statistical supplements with their annual reports to security analysts and other professionals for years, but it is comparatively recently that companies outside these regulated industries compiled statistical yearbooks for those who wish more breakdowns, percentages and ratios than are found in the annual reports to shareholders and the public.

Many more companies last year published Fact Books, Progress Reports and other illustrated brochures for distribution to shareholders and others—the following selection of 51 booklets contrasts with only 18 submitted in 1954:

Facts Books and Progress Reports Sent to Stockholders and Others

Title—Sponsor	Pages
Something About Atlantic Refining Co.	112
Story of Progress—Bailey Selburn Oil & Gas	124
Underlining Steel—Basic Refractories, Inc.	120
Beechcrafts at Work—Beech Aircraft Corp.	140
This Is Blaw-Knox in New Highway Program	118
Index of Products—Borg-Warner Corp.	18
Product Development—Burrhoughs Corp.	116
This Is Byron Jackson Co.	120
A Quick Look at Chain Belt Co.	124
An Introduction to Con Edison, N. Y.	132
The Story of Diamond Alkali Co.	128
Dravo—Dravo Corporation	124
Family Album—Eagle-Picher Co.	116
Introducing Federal-Mogul-Bower Bearings	116
35-Year Progress Report—Ferro Corp.	128
The Fruehauf Manufacturing Story	120
Progress Report—Fitzsimmons Stores, Ltd.	124
Atoms for Peace—General Dynamics Corp.	156
Development & Growth of General Motors (Statement Before Senate Committee)	144
Seeing Paper Made—P. H. Glatfelter Co.	132
An Introduction to the Glidden Co.	120
17 Questions of Concern to Gulf Oil Shareholders	18
Electronics & Telecommunication—Int'l Tel. Who's Who in Intertype Corporation	128
Lorillard and Tobacco—P. Lorillard Co.	164
Looking at Marathon Corporation	112
On the Threshold of Tomorrow—Glenn Martin	128
Mando's Pictorial Report—Minn. & Ontario Paper	120
Convenience-Comfort-Economy—Nat'l Fuel Gas	158
This Olin Mathieson Chemical Corp.	120
An Introduction to Pullman, Inc.	112
R.C.A.—What It Is, What It Does	148
Raytheon Products—Raytheon Mfg. Co.	116
National Park Campaign—Sinclair Oil Corp.	14
Pictorial Report—Republic Aviation Corp.	120
Resistoflex Today—Resistoflex Corp.	116
The Ruberoid Story—Ruberoid Co.	4
Facts for Shareholders About Simca	152
The Jersey Standard Story—S.O. (N. J.)	180
Introduction to Sohio—Standard Oil (Ohio)	18
A Look at Sun Oil Company	124
Facts About Sylvania Electric Products	118
This Is Temco Aircraft Corporation	128
The Story of Tennessee Gas Transmission Co.	132
Big Opportunities—Texas Gas Transmission	120
Of People & Packaging—Union Bag & Paper	120
The Atom in Our Hands—Union Carbide	144
Pictorial Report—United Aircraft Corp.	132
The Story of United Gas Corporation	140
Blueprint for Tomorrow—U. S. Gypsum Co.	148
A Pictorial Sketch of Wallace & Tiernan Co.	120

*Gatefold cover or page. †Two colors. ‡Illustrated with photographs, charts and/or maps. §Three or four colors.

The percentage gain in reprints of speeches before luncheon meetings of the security analysts was even greater—19 speech reprints against eight in 1954:

Reprints of Presidents' Speeches at Security Analyst Luncheons in 1955

City—Corporation	Pages
N. Y.—Aeroquip Corporation	124
N. Y.—American Machine & Metals	12
Phila.—Atlantic Refining Co.	20
N. Y.—American Motors Corp.	24
N. Y.—Colorado Interstate Gas	132
N. Y.—Empire District Electric	24
N. Y.—General Acceptance Corp.	124
St. L.—Diamond Alkali Co.	124
L. A.—Hoffman Electronics	14
N. Y.—Inland Steel Company	116
N. Y.—Interstate Power Co.	10
N. Y.—Koppers Co., Inc.	124
L. A.—Nat'l Dairy Products	112
St. L.—National Gypsum Co.	16
N. Y.—Sheraton Corp. of America	20
N. Y.—Square D Company	116
N. Y.—Standard Oil (Indiana)	120
N. Y.—Stewart-Warner Corp.	12
Cleve.—Towmotor Corporation	8

*Multigraphed. †Two colors. ‡Illustrated with photographs, charts and/or maps. §Three or four colors. ¶Includes return postcard for additional copies of reprint.

Financial Advertising

In addition to the conventional "legal notices" (statements of condition, redemption notices, meeting announcements, requests for bids, etc.), managements can schedule two basic forms of advertising to reach shareholders whose stock is held in brokers' names, prospective investors and the professionals:

I. Annual report advertisements, plus quarterly report announcements when applicable;

II. Dividend declarations (regular, extras and stock).

Records on the above forms of financial advertising have been compiled only a short time, but the following comparison indicates the trend:

MEDIA: (Daily Newspapers or Financial Magazines)	Percentage of 1,000 Companies		Dividend Announcements	
	1955	1954	1955	1954
Both Newspapers and Magazines	8.8%	7.6%	20.6%	17.1%
Newspapers Only	6.2	6.3	7.0	8.7
Plant City Papers	5.6	5.5		
Magazines Only	7.6	7.2	5.2	6.4
Total, All Media	28.2%	26.6%	34.8%	32.2%

The foregoing tabulations show that the trend is upward with the number of companies advertising their annual reports and dividends—the tendency is to schedule advertisements in both newspapers and financial publications, rather than in one or the other.

Companies in the petroleum industry were the leaders in 1955 in annual report advertisements, second place going to the public utilities:

Leading Industrial Annual Report Advertisers	
I—Oil and Gas	II—Public Utilities
Brooklyn Union Gas	Citizens Utilities
Cities Service Co.	Dayton Power & Light
Continental Oil	Detroit Edison
Cosden Petroleum	General Telephone
Creole Petroleum	Louisiana Power & Light
El Paso Natural Gas	Montana Power
Gulf Oil	Northern States Power
Miss. River Fuel	Ohio Edison
Richfield Oil	Pacific Gas & Electric
Sinclair Oil	Puget Sound Pwr. & Lt.
Skelly Oil	Shawinigan Wat. & Pwr.
Standard Oil, Ind.	Southern Calif. Edison
Standard Oil (Ky.)	Toledo Edison
Standard Oil (N.J.)	Union Electric Co., Mo.
Standard Oil (Ohio)	
Sunray Mid-Continent	III—Chemical and Drug
Texas Company	Sixteen Companies
Union Oil, Calif.	
II—Public Utilities	IV—Electronics
Amer. Tel. & Tel.	Twelve Companies
British Columbia Power	V—Steel & Iron
Central Hudson G. & El	Ten Companies

One new form of financial advertising appeared in the past year: a report of the shareholders' annual meeting. General Electric Company scheduled two facing pages in two colors in national magazines to provide the summary of its stockholder meeting in Schenectady, N. Y. Radio Corporation of America used a full page in financial journals for a similar purpose. An increasing number of industrial corporations also used institutional advertisements slanted to investors in financial publications and business newspapers.

In addition to the types of advertising media listed above, a few companies also listed the following publications in which they had scheduled annual report advertisements and dividend announcements: general national weekly magazines, farm journals, trade publications, labor press, women's magazines and employe house organs.

Fulfilling Responsibilities

The Tenth Annual Review of the Shareholder Relations Policies of 1,000 Industrial Corporations reflects all along the line the progress made by managements in fulfilling their responsibilities to their shareholders and the investing public.

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