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'The apotheosis of holding company accounting': Unilever's financial reporting innovations from the 1920s to the 1940s

Kees Camfferman and Stephen A. Zeff

Abstract

The annual reports of Unilever were widely hailed in the 1940s as outstanding examples of holding company accounting. The accounts did indeed contain many new and innovative features, including segment reporting of sales turnover. This contrasts with the frequently negative assessments of the company's reporting before World War II, and the fact that the company was on record as a relatively late adopter of consolidated statements. In this paper, Unilever's reporting practices from the 1920s to the 1940s are analysed. We argue that the reporting changes of the 1940s had clear antecedents in the 1920s and 1930s, when they emerged in conjunction with the transformation of Unilever from a family-dominated enterprise into a professionally managed organisation. We also argue that, in order to evaluate properly Unilever's pre-war reporting practices, one needs to take into consideration the nature of Unilever as a complex federation of companies, rather than a unitary organisation, and to examine the chairman's address at the annual general meetings. The speeches by Francis D'Arcy Cooper, in particular, contained important disclosures not found in the annual reports.

By the early 1940s, Unilever's commitment to improve its financial reporting was sufficiently developed for its officials, in particular Geoffrey Heyworth and P.M. Rees, to play important roles in the drafting of the English Institute's Recommendations on Accounting Principles and in the deliberations of the Company Law Amendment Committee whose report led to the Companies Act 1947. We therefore conclude that Unilever should be ranked with such companies as Dunlop Rubber among the key actors in the modernisation of British financial reporting during the 1930s and 1940s.

Keywords: Unilever; Lever Brothers; financial reporting; Companies Acts; holding company reporting; segment reporting; voluntary disclosure

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Introduction

Zeff *et al.* (1992: 75–6) stated that Lever Brothers and Unilever were in the forefront of publicly traded companies in the world to report a breakdown of sales turnover by product line and geographical area in its annual report to shareholders. Beginning in its 1945 annual report, the company introduced a supplementary disclosure of sales turnover (i.e. revenues) for nine product lines and for transport services for both the 1944 and 1945 financial years. Beginning two years later, the company presented and discussed a breakdown of its sales turnover for 1946 and 1947 by six major geographical regions, and it included a characterization, but without figures, of the profitability in a number of the sub-regions and countries. This latter narrative, consuming six pages in the directors' report, anticipated by more than 20 years the US Securities and Exchange Commission's (SEC) requirement for a Management's Discussion and Analysis of Operations (MD&A). These voluntary disclosures came at a time when the company was listed in London and Amsterdam, but was contemplating a listing in New York.[1] In this paper, we show that Lever Brothers reported segment information even as early as in the 1920s and continuing well into the 1930s. We also show that, by 1945, the company was able to explain further improvements to its financial reporting in terms of an explicit financial reporting strategy, with the objective of providing shareholders and others with an array of financial information beyond what was required by Great Britain's out of date companies legislation.

It is our objective in this paper to discuss the evolution of the company's financial reporting strategy from the 1920s to the 1940s. We believe that such a study is justified, not only because of the importance of Unilever as one of the largest enterprises of the period and because of the remarkable quality of its financial reporting, but also because Unilever's financial reporting developed in close interaction with the process of modernisation of British financial reporting culminating in the Companies Act 1947. Because of this, we conclude that Unilever should be recognised as a key player during the period of accounting reform in the 1940s.

This paper is organised as follows. We start with a brief section on the formation of Unilever. The main body of the paper consists of two sections describing the development of Unilever's financial reporting, the first covering the 1920s and 1930s and the second the period of World War II and the immediate post-war years. To keep the paper within limits, we focus our discussion on the twin 'group accounting' issues of consolidation and segment reporting, which we believe did most to establish Unilever's reputation as a financial reporting pioneer during the 1940s. To be sure, the 1940s also saw a number of other important changes, for instance concerning tax accounting and inflation-adjusted profits, but we touch upon these only in passing. We open both historical sections with short biographical sketches of the three most influential figures in this story – Francis D'Arcy Cooper, Geoffrey Heyworth and P.M. Rees. All three played important roles in Unilever's financial reporting, and through these individuals, Unilever's financial reporting was linked up with contemporary developments in the wider accounting world.

The period covered in this paper ends in the 1940s. By that time, the consolidation and segment reporting policies in Unilever's annual report had matured to the point where they were continued at that level until well into the 1960s. Moreover, the sustained movement for company law reform in Great Britain had culminated in new legislation, so that any subsequent changes in Unilever's financial reporting would have to be analysed in the light of the demands arising in the post-reform environment.

Formation of Unilever

In the 1930s Unilever was a mammoth enterprise with a complex web of corporate relationships extending throughout the world, embracing more than 200 companies. Its operating companies produced and marketed a wide range of oil- and fat-based products, particularly soap and margarine. Unilever came into existence following successive mergers in 1927 and 1929 (Wilson, 1954; Chandler, 1990: 378–89; Fieldhouse, 1978: Ch. 2). In 1927, two predominantly Dutch groups with extensive international networks in margarine and related oil- and fat-based products, Jurgens and Van den Bergh's, merged. The resulting group was organised into two holding companies, one Dutch and the other British: N.V. Margarine Unie and Margarine Union Limited, respectively. The two companies' boards of directors were identical, with members of the Dutch founding families predominating, as before. Shareholders' rights were apportioned by means of a dividend equalisation agreement, and the two companies issued identical annual reports, in English and Dutch, except for issues relating to local company and tax law.

Two years later, the two holding companies merged with the British group Lever Brothers Limited to form Unilever, in what Chandler has called the largest international merger to occur prior to World War II (1990: 382). Lever Brothers had been formed in 1885, and it was incorporated as a private company in 1890. It had been taken public in 1894 even though, until the 1920s, it continued to be dominated by its founder, William H. Lever, later the first Lord Leverhulme. Lever Brothers had expanded its worldwide operations both by takeovers and internal growth, and it maintained an especially large operating presence in the British Empire and the United States. Margarine Union/Unie and its predecessors had a large complementary presence on the European continent, particularly in central and eastern Europe.

As with Margarine Union/Unie, Unilever was composed of two holding companies: Unilever Limited, in Great Britain, and Unilever N.V., in the Netherlands.[2] The two companies had identical boards of directors, except that the chairman of each company was the vice-chairman of the other. The balance of voting power on the boards was almost equally divided between the British and Dutch interests. Unilever also adopted a dividend equalisation agreement between the two holding companies. For all practical purposes, the two companies acted as one. In most years, the board chairman's address to the shareholders for each company was the same but for the language.

Apart from the two holding companies, most of the operating companies that were combined into Unilever retained their corporate identities, and some of them, notably Lever Brothers, had their own stock market listing and outside shareholders or debenture holders, and therefore they continued to publish separate accounts. This was already a feature of Lever Brothers before the merger, as Fieldhouse has written:

> Of greater practical importance [than the move of headquarters to London], however, were the first steps taken during and after 1923 towards rationalisation of the multifarious industrial and other enterprises founded or acquired by Lever. To this point almost all had retained their legal identity and autonomy, each with its own board, management, factories, sales force and so on. In many respects all these survived until the 1930s for Lever had developed a strong dislike in his later years of what he called 'scrambling eggs' and this bolstered the natural aversion of the management of associated companies to losing their independent existence.
>
> (1978: 34)

Much the same could be said for the companies combined into Margarine Unie/ Union, and it remained a characteristic of Unilever throughout most of the 1930s.

Following the 1929 merger, Unilever's principal head office was in London, where the chief executive officers of both of the holding companies were based. A secondary head office was in Rotterdam, where the operations of the Dutch holding company were centred. During World War II, however, contact between the operating wings of the two holding companies was severed, as the Rotterdam office, the seat of N.V., and its continental subsidiaries found themselves in German-occupied Europe. The two companies issued their own annual reports for the financial years 1939 through 1944. For this period, our paper is concerned almost entirely with the annual reports of Limited, because all of the interesting developments in Unilever's financial reporting during the war occurred in Britain and were adopted after the war by N.V.

The changes in Unilever's financial reporting discussed in this paper began to appear during the company's transition from control by its founders and their families to the ascendancy of professional management (see Chandler, 1990: 378–89). By the time that Unilever was formed in 1929, the predecessor companies had already, to varying degrees, introduced non-family members at the highest ranks. Yet a degree of family control continued in evidence until well into the 1930s (see Sluyterman and Winkelman, 1993). Three individuals from the first generation of professional managers and technical specialists who succeeded the founding families also played leadership roles in Unilever's financial reporting between the 1920s and 1940s. They were: Francis D'Arcy Cooper, Geoffrey Heyworth, and P.M. Rees. Each of these was also to some extent involved in the work of major committees that had an important influence on the course of British financial reporting, and so provided a link between Unilever's reporting and these wider developments. Cooper will be introduced at the start of the section on the 1920s and the 1930s, and Heyworth and Rees at the start of the section on the 1940s.

Unilever's financial reporting during the 1920s and 1930s

Francis D'Arcy Cooper (1882–1941) and the Greene Committee

Francis D'Arcy Cooper joined the board of Lever Brothers in 1923. 'Probably because his father was an accountant before him', it was reported in the Unilever house organ, '[Cooper] began business by entering accountancy; he was not specially drawn to the profession, indeed he disliked arithmetic!' (Knox, 1976: 222). He was a nephew of the founder of Cooper Brothers & Co. (Edwards, 1984: 781), which was one of the leading firms of chartered accountants in the UK. He himself became a partner in Cooper Brothers in 1910 and, following the war, became its senior partner. One of the firm's largest audit clients was Lever Brothers, and the autocratic Leverhulme came to acquire great respect for Cooper's sagacity as well as for his reputation in the financial community. Cooper's success in persuading the banks to provide Lever Brothers with desperately needed finance enabled the company to stave off liquidation following Leverhulme's ill-advised purchase of the Niger Co. in 1920 (Edwards, 1984: 781–2). Cooper was gradually given a greater role in the shaping of company policy until, in 1923, he resigned from Cooper Brothers to become vice-chairman of Lever Brothers (Edwards, 1984: 782; Wilson, 1977: 131). He was named chairman following Leverhulme's death in 1925.

Cooper did much to place the financial and operating management of Lever Brothers on a rational plane. After the formation of Unilever, Cooper became a director of Unilever and he also retained his position as chairman of Lever Brothers – which was, following the merger, one of the largest operating subsidiaries in the Unilever organisation. As Fieldhouse (1978: 39) has written, 'Since Cooper held undisputed control over the largest single unit in Unilever, was accepted as an outstanding businessman, and, perhaps most important, was neutral as between the Van den Berghs, Hartogs and the rest, he was well placed to assert his position as effective head of the federal enterprise'.[3] Cooper played a key role in imposing unity of direction on Unilever, culminating in the major reorganisation of 1937. This cleared away much of the remaining organisational diversity inherited from the predecessor companies and, among other things, marked the disappearance of the remaining elements of family control over Unilever. A serious illness slowed him in 1939, and he died in December 1941.[4]

In July 1925, Cooper gave evidence to the Greene Committee on Company Law Amendment. He was the only chairman of a large industrial group to appear before the Greene Committee (Bircher, 1991: 62), and he was asked in particular for his opinion on accounting and reporting by holding companies. In his written and oral testimony, he considered two possible approaches and found both to be wanting. First, Cooper stated his opinion that consolidated balance sheets would convey no meaningful information:[5]

> The incorporation in a statement purporting to be the balance sheet of a holding Company of the assets and liabilities of other legal entities, would not, in my opinion, be a true statement of the position of the holding Company, nor would it be a true statement of the position of each of the subsidiary entities. It would be a conglomeration of figures, futile as an aid to any person desirous of understanding the true position, and, so far as it was taken literally, misleading.
>
> (*Minutes of Evidence*, 1925: ix)

Second, Cooper rejected the publication of separate accounts of subsidiaries as a possible alternative approach to holding company reporting, mainly on the ground that this would cause unacceptable competitive damage. Asked whether the shareholders would not want to know 'the way in which the subsidiaries stand and which branch of the business is profitable and which is not', Cooper answered: 'I think they are not entitled to know that' (*Minutes of Evidence,* 1925: para. 3777).

In the end, the Greene Committee did not recommend the required publication of consolidated accounts nor any disclosures concerning the operations of subsidiaries. Subsequent commentators have concluded that, on the subject of holding company accounting, the Committee was strongly influenced by Cooper's testimony (Kitchen, 1972: 126; Edwards and Webb, 1984: 40). Mainly as a result of this testimony, Cooper has been characterised as a conservative (Bircher, 1991: 62), as 'not constructive' (quoted in Kitchen, 1972: 129), one who resisted reform (Edwards, 1989: 237), and as a manager who evinced 'paternalism, and possibly disdain, for actual shareholders' (Bircher, 1991: 78).

Cooper's position in 1925 therefore appears to be an unlikely starting point for the development of Unilever into a paragon of holding company reporting. Yet we will show that, under Cooper's direction, Lever Brothers and subsequently Unilever experimented with novel forms of holding company reporting, including especially the provision of sales and profits by product line and geographical region. Hence, Cooper's reputation of disdain for shareholders and unwillingness to innovate in financial reporting requires some revision.

Outline of changes in reporting practice

The development of Unilever's reporting practices during the 1930s is difficult to summarise because of the complexity of the Unilever organisation. Apart from the identical annual reports of the two Unilever holding companies (in Dutch and English), several subsidiaries published their own annual reports, not always by the use of similar accounting policies and in comparable formats. Moreover, Cooper's speeches, as chairman, at annual general meetings, were frequently used to disclose important financial information not found in the printed annual reports. Taken together, these several sources yield an image of a gradual, sometimes halting, but on balance a significant expansion of the range of published financial disclosures during the 1920s and 1930s.

The main facts relating to the development of holding company accounting in the annual reports can be summarised as follows.

Prior to the formation of Unilever in 1929, Lever Brothers did not publish consolidated financial statements. Among the Dutch predecessors of Unilever, Van den Bergh's and one of its subsidiaries apparently included consolidated balance sheets in loan prospectuses in 1925 or 1926 ('Van den Bergh's Fabrieken', *De Kroniek,* 1926: 105). However, neither did so in its annual report. Following the merger in 1927 between Jurgens and Van den Bergh's, the combined entity, Margarine Union/Unie included a 'consolidated balance sheet' in its first (1928) annual report. In reality, however, this was merely a balance sheet with combined figures for the British and Dutch holding companies. The two companies' operating subsidiaries were omitted from the statement. The following year, after the creation of Unilever, a combined profit and loss account was added to the combined balance sheet in the holding companies' annual report. Again, these were incorrectly described as 'consolidated'. In 1931, the presentation of combined financial statements was suspended owing to the volatile currency fluctuations between the Netherlands and Britain.

In 1934, Unilever added a 'consolidated statement of working capital' to its annual report, and this time all subsidiaries were included in the consolidated figures.[6] In the 1937 report, this was expanded to become a 'consolidated overview', by inclusion of consolidated data on issued share capital, long-term receivables and loans, pension funds and pension contributions, and investments in and depreciation of fixed assets. In the 1939 annual report, publication of this overview was suspended. Prior to World War II, none of the major subsidiaries published consolidated statements in their own annual reports.

In the absence of consolidation, there were other initiatives to provide more information on the unconsolidated subsidiaries. From 1927 onwards, the Lever Brothers annual report mentioned the rate of return on total book value for the subsidiaries carried on the balance sheet. The audit report referred to this figure as well. Beginning in 1932, Unilever included a 'statement of profits' (subsequently called a 'consolidated statement of profits'). This statement opened with consolidated net profit (i.e. the combined net profit of the holding companies and the subsidiaries, less the minority interest therein), which was then reconciled to the holding company profit and the profit appropriation. This statement might be seen as an approximation of the equity method of accounting, at least as far as the income statement is concerned. In the balance sheet, subsidiaries remained at cost throughout the pre-war period.

The absence of consolidated statements was also to some extent compensated for by the inclusion in the annual report, from 1929 to 1936, of summary balance sheets and profit and loss accounts, including net profit, for six major subsidiaries.[7] The usefulness of this feature was significantly reduced, however, when it became clear in the 1932 report that most stocks of raw material had been transferred to specially created subsidiaries. The six companies for which separate information was given were thus largely reduced to holding companies themselves.

As indicated above, important financial information was also provided in the chairman's speeches at annual general meetings.[8] At the 1926 Lever Brothers meeting, Cooper volunteered the total (consolidated) sales turnover figure for 1925 in pounds sterling (and tonnage of product), which was an exceptional disclosure in the 1920s. He reported the total sales figure for every year thereafter until 1937, when Lever Brothers was amalgamated into Lever Brothers & Unilever, Limited. Moreover, from 1927 to 1931 Cooper used his chairman's address at Lever Brothers to report the breakdown of profit in pounds sterling by eight or more product lines and by up to eight geographical regions. An illustrative excerpt from these speeches is reproduced in Appendix A. In 1930, moreover, sales turnover was given for two regions. The public reporting of sales and profit breakdowns was without precedent at the time.

Comparable disclosures were not given at the annual shareholder meetings of other Unilever subsidiaries and affiliated companies during the 1930s, nor, until 1938, at the annual meetings of the two holding companies. However, in 1938 and 1939, Cooper, as chairman of Unilever, reported the global sales turnover for the group as a whole. In 1938, he also gave a breakdown of turnover for several product lines, as well as a breakdown of tonnage for products sold, accompanied by the aggregate tonnage for all products sold. In 1939, he provided particulars on the sales turnover and profitability of certain product lines and geographical regions, if only expressed in round figures and sometimes in relative rather than absolute figures. Some figures were given in physical quantities (e.g. in metric tons of soap or margarine) instead of in monetary amounts. Cooper also attempted a kind of value-added statement, showing how much of the aggregate sales turnover of approximately £200 million (itself a disclosure that was rarely supplied by companies) accrued to employees, shareholders, and the suppliers of goods and other services.

During the war, no chairman's speeches were given. Only in the 1940 report was total sales turnover (excluding operations on the continent) reported in a section of the annual report entitled 'Review of the Company's Trading'. Thereafter, no total sales turnover or segment information was supplied again until 1945.

Evaluation: contemporary practices and press reactions

The main impression from the previous summary is that, while Unilever stopped short of publishing full consolidated statements before World War II, there were significant steps taken in that direction as well as important disclosures of information relevant to holding companies.

During the 1930s, some other companies were publishing consolidated statements. Blommaert (1995: 122–3) found that 11 Dutch listed companies, out of some 500, published such statements prior to 1940, and Bircher (1991: 189–93) reported that nine out of the 40 largest UK holding companies (by market capitalisation) included a consolidated balance sheet and/or profit and loss account in their 1938 or 1939 accounts.[9] It was well known, of course, that Dunlop Rubber Company Limited published a full set of consolidated statements beginning in 1933 (see de Paula, 1948, Ch. V). Unilever was therefore clearly not among the first to publish consolidated statements. Moreover, its first 'consolidated' balance sheets were no more than combined statements of the two holding companies. This mislabelling of combined statements as consolidated statements could perhaps be explained by the lack of a literature on consolidated statements, apart from the publication of Gilbert Garnsey's celebrated 1922 lecture on the subject (Garnsey, 1923; see Kitchen, 1972).[10] Yet Garnsey was a partner in Price, Waterhouse & Co., one of the joint auditors of Margarine Union/Unie and Unilever. Moreover, another Price, Waterhouse partner, A. Lowes Dickinson, was an avowed advocate of preparing consolidated statements. During his years in the US, Dickinson played an important role in encouraging his firm's major client, United States Steel Corporation, to publish consolidated statements for 1902, thus setting an important standard of American practice (DeMond, 1951: 60; Allen and McDermott, 1993: 32–3).[11]

In evaluating Unilever's progress towards the adoption of consolidated reporting, there is no need to assume a lack of precedents or a lack of knowledge of the subject. Moreover, the subject of consolidation was repeatedly brought to the company's attention by the financial press, which subjected the company to a steady stream of criticism for failing to produce consolidated statements. However, the press was not insensitive to the problems faced by Unilever, nor did it fail to notice such improvements as did take place. Press comments on Unilever's reporting therefore show a curious mixture of criticism and praise, as if the financial press was unsure of what might reasonably be expected from a company of this extraordinary size and complexity.

A good example of these mixed feelings is provided by *The Economist*. In 1929, it characterised Lever Brothers as having a 'tradition of Olympian reticence' ('Lever Brothers', 13 April 1929). Commenting on the balance sheet items relating to associated companies, it observed in the same article: 'It is unwise to hazard an interpretation of movements in these enormous items, whose composition is wrapped up in permanent obscurity; like the capitalisation of the company in which ordinary shares represent only 4 per cent. of the whole, they are part of the Lever tradition.' Yet, the same article conceded that the disclosure of the average rate of return on subsidiaries was a part of the report 'which other companies might be encouraged to copy'. The year before, the paper had adopted a tone of praise and encouragement: 'On the whole, the directors are to be commended for their continued efforts to introduce greater clarity into the company's accounts. We would urge them not to be weary in well-doing, but to take an even bolder step next year, and publish a combined balance sheet incorporating the accounts of the subsidiary companies' ('Lever Brothers', *The Economist*, 7 April 1928: 699). Commenting on the first annual report of Margarine Unie/Union, *The Economist* called it 'a pattern of lucid exposition' ('Margarine Union', 27 April 1929: 936). Yet in 1932 it wrote that 'A year's Unilever accounts are a symphony of which the investor hears only the concluding bars. From Greenland's icy mountains to Afric's sunny fountains its subsidiaries, sub-subsidiaries and sub-sub-subsidiaries extend, and all that shareholders can conclude from the published reports is that trading profits have been satisfactorily maintained…' ('Unilever Accounts', 16 April 1932). On the adoption of a consolidated statement of working capital in the 1934 report, it wrote: 'Shareholders will heartily congratulate the directors on their decision, for none of the world's great holding concerns has hitherto excelled the Unilever group in the issue of annual statements calculated to make Oliver Twists of shareholders' ('Unilever – First Results', 6 April 1935: 799).

Finally, after having complained for about a decade about the absence of consolidated statements,[12] *The Economist* showed itself very understanding when, in the 1937 report, Unilever stopped short of a full consolidated balance sheet:

> The major introduction is a consolidated statement of earnings, assets and liabilities. The directors have not, however, attempted to give a consolidated balance sheet, which, if based merely on the conversion of currency book values into sterling, would be misleading. In any case, the sterling figures must be regarded as approximate, and further, the reserves and undistributed profits held by subsidiary and allied companies, while considerable, could only be computed – and then arbitrarily – by a complete revaluation of over 400 manufacturing units. Armed with a consolidated earnings statement, full particulars of working capital, and long-term claims and liabilities, together with the free reserves of the parent companies, most investors will consider that they have ample and strictly relevant information for

> assessing the position of the group… Although a complete consolidated balance sheet is not presented – in our view rightly – it is possible to infer from the available figures that the approximate book valuation placed on the interests in subsidiary and allied concerns, is equivalent to £114 1/2 millions.
>
> ('Unilever Group Results', 30 April 1938: 242[13])

Criticism and praise can also be found elsewhere in the financial press. The absence of consolidated financial statements was frequently pointed out as a major defect both in Britain and the Netherlands.[14] But it was also noted that Unilever was searching for alternatives or substitutes. Lever Brothers' disclosure of the rate of return on subsidiaries was called 'the most useful substitute for a combined balance sheet which we have seen' (*The Accountant,* 'Finance and Commerce–Audited Yield from Subsidiaries', 28 April 1934: 605). Another favourable comment on this feature appeared in *The Times* ('City Notes – An Admirable Example', 15 April 1930: 23): 'If other companies were to follow this admirable example of giving the average return earned on book values they would go far to satisfy reasonable criticisms of the inadequacy of public company accounts'.

Similarly, the disclosures provided by Cooper in his various speeches were favourably commented upon. *The Times* wrote that Cooper had given 'A very informative speech, which might well be imitated by other company chairmen …' ('Lever Meeting', 2 May 1930: 22; on the same speech, see *De Telegraaf* 'Lever Bros', 3 May 1930). *The Economist* observed that the speeches held 'by the chairmen of the various Unilever companies ... have thrown a flood of light on the trading position' ('A Unilever Survey', 5 May 1934: 987).

However, the amount of comment on these disclosures appears relatively small in the light of their novelty. We now know that these disclosures were unprecedented and not to be seen in the reports and accounts and even the chairman's addresses of other companies until the 1960s.[15] Cooper's addresses dealt at some length with the economic and business conditions in various parts of the world and represented an even earlier anticipation of the SEC's Management's Discussion and Analysis than did the company's 1947 annual report, mentioned above.

Internal background of reporting changes

If it is true that in the 1920s and 1930s Unilever was making credible attempts to improve its reporting as a holding company, it may be asked how the decisions to do so were taken within the company. Unfortunately, the available archival materials contain only limited information about the formulation of reporting policy.[16] In general, it is clear that the Special Committee (in effect, the executive committee of the board of directors) took a decided interest in financial reporting. In 1932 it decided that it would henceforth approve the draft annual reports of all public companies in the group.[17] During the 1930s, it regularly planned the year-end cash and profit positions of these public companies.[18] Despite this interest in financial reporting, few traces of the accounting changes outlined above were found. Some information is, however, available on the adoption of a consolidated statement of working capital in the 1934 annual report. This change was suggested in a brief memorandum from the chief accountant, P.M. Rees, together with a proposal to include comparative figures and to exclude shillings, pence and cents. This memorandum gave no reason why consolidated information should be considered at that time, but the move appears to have been prompted by demands from shareholders.[19] This memorandum does include a short comment: 'It will be noted that this does not purport to be a Consolidated Balance Sheet which we have always contended and still contend would only be a misleading document to submit.'[20] One can infer from this remark that Cooper's rejection of consolidated balance sheets in his testimony before the Greene Committee in 1925 was not an indication of unwillingness to inform shareholders, but instead derived from a lasting conviction about the usefulness of consolidated results, a view that was shared by others at the top of the Unilever organisation. Interestingly, it also appears that, unlike the conjecture made by some press commentators, technical difficulties were not an important factor in Unilever's decision not to provide a consolidated balance sheet.

Based on the available evidence, we hypothesise that the initiatives to improve financial reporting during this period came predominantly from the UK side of Unilever (i.e., Lever Brothers), and that Cooper, in particular, played the pre-eminent role.

Neither of the two Dutch predecessor companies with a history of public financial reporting (Jurgens and Van den Bergh's) had displayed a notable tendency towards expanding its financial disclosures prior to their merger. Jurgens in fact had a rather negative reputation in this regard. In 1925, the Van Oss brothers, who were crusading journalists writing in the weekly magazine *Haagsche Post*, accused Jurgens of gross manipulation in its accounts and of reporting fictitious profits. A revaluation of subsidiaries was the main object of criticism. The episode attracted considerable notice, and it drew attention to the financial reporting by holding companies at a time when the reform of companies legislation was believed to be imminent in the Netherlands. The price of Jurgens' stock fell sharply, and a shareholder brought a lawsuit against the *Haagsche Post* for the loss sustained by the panic selling of the company's shares. For its part, Jurgens issued a categorical denial but in effect refused to provide any details to enable a substantiation of the charges. In the end, the affair had no effect on the reform of Dutch companies legislation (Zeff *et al.*, 1992: 42–3; Camfferman, 1995: 176). Looking back, the newspaper *De Telegraaf* characterised the reporting policies of Margarine Unie as follow:

> [T]he limited publicity that had characterised the Jurgens concern was continued by Margarine Unie. This should not in itself cause surprise. Since the leaders of the Jurgens concern were now joined by the Van den Berghs as directors of the new enterprise, and since the latter, as partners in a family firm, did not attach much value to openness either, it was natural that the new Margarine Unie was little inclined to be very communicative towards the public. In a few instances, the company had necessarily given some additional information to the public, for instance

> in order to ensure the success of a share offering. But in general it has adopted the Jurgens policy as its own.
>
> ('Het Unileverconcern biedt weerstand in de crisis', *De Telegraaf*, 16 April 1933)

If family control was an important factor, it could be pointed out that Lever Brothers under the chairmanship of William Lever should not have been keen on publishing information either. To be sure, the annual reports of Lever Brothers prior to the mid-1920s did not contain remarkable disclosures, yet even Leverhulme could occasionally publish surprising information. As early as the 1921 annual meeting, he displayed a pie-chart showing how the company's turnover was divided into the cost of raw materials, labour costs, interest, other costs and profits.[21] Moreover, with the succession of Cooper to the chairmanship in 1925, it can plausibly be argued that by then, and certainly by 1930, Lever Brothers was rather ahead of the two Dutch companies in the transition from family control to professional management.

Cooper's mark on Lever Brothers' financial reporting policy becomes evident from the surprising disclosures in his annual meeting speeches.[22] From 1931 to 1937, Cooper functioned as chairman of both Lever Brothers Limited and of Unilever Limited. Curiously, while his addresses to the Lever Brothers annual general meeting contained the important disclosures discussed above, his parallel addresses as Unilever chairman did not contain any such disclosures of sales figures or profit segmentation. Following the 1937 amalgamation, however, Cooper transferred the model of his Lever Brothers addresses to Unilever and thus began to disclose the sales figure for the group as a whole plus selected segment information. The fact that Cooper persisted in providing the global turnover and segment information for Unilever following the amalgamation underscored his personal commitment to this innovative disclosure of financial information.[23]

As to Cooper's views on segment reporting, the only recorded statement we have found is his assertion to the Greene Committee that shareholders 'are not entitled to know' how subsidiaries stand or which branch of the business is profitable and which not (*Minutes of Evidence*, 1925: para. 3777). In the light of the fact that, from 1927 onwards, he was providing this type of information to his shareholders, it is likely that before the Greene Committee he was primarily opposing claims of entitlement to this information on the part of shareholders, rather than denying its usefulness or his willingness to disclose at his own discretion. We can therefore only offer some speculations about his motives. The demand for segment reporting, a type of deconsolidation reporting, did not emerge until the 1960s, when conglomerate enterprises in large number began to be created in the UK and the US.[24] With Lever Brothers, it was the other way round. Already a conglomerate in the 1920s, but before consolidated statements had become a way of life, the company pioneered in the provision of segmental financial information. Cooper may have believed that the dissemination of consolidated statements went in the wrong direction. To convey an understanding of a conglomerate, one had to provide breakdowns by product lines or geographical regions, not consolidate across the entire diversified enterprise.

It is not clear why Cooper chose different models for his two addresses prior to 1938. The reason can hardly have been a difference in the availability of information between the Lever Brothers companies and the other parts of the group. A 1932 memorandum describing the tasks of Unilever's Head Office Administration (i.e. Chief Accountant's Department) lists as one of the principal routine duties 'to prepare the Weekly White List, which shows the estimated profit of the concern, in trades and countries'.[25] Although, for reasons of cost-cutting, it was proposed to prepare these lists on a monthly basis, there can be little doubt that, throughout the 1930s and across the entire Unilever organisation and not just within Lever Brothers, extensive resources were expended to supply management on a regular basis with the kind of statistics that Cooper quoted in his annual addresses. A possible explanation of the difference in financial disclosure as between Cooper's two annual addresses might be that some members of the Unilever board, particularly from the Dutch side, did not share his view on the disclosure of total sales turnover and the breakdown of profit information. However, because there was considerable overlap in the membership of the Lever Brothers and Unilever boards, the significance of this argument is difficult to assess.

Unilever's financial reporting during the 1940s

As in the previous section, we start our discussion with biographical sketches of two individuals who had a decisive influence on Unilever's financial reporting during this period and who ensured the involvement of Unilever with general developments in accounting.

Percy Montague Rees (1883–1970) and the Recommendations on Accounting Principles

P.M. Rees qualified as a member of the Institute of Chartered Accountants in England and Wales (English Institute) in 1905. In 1908, the firm in which he was employed became one of the auditors of Jurgens' accounts on the continent. Wilson has written that 'the growing complications of accountancy for the vast new [Jurgens] enterprises demanded the appointment of a professional accountant. The responsibility was assigned to a chartered accountant from England, Frank Hague – for the science of accountancy was further advanced in England than it was on the Continent' (1954: vol. II, 54). In 1923, Rees joined Jurgens as chief accountant in succession to Hague.

In 1927, after the merger between Jurgens and Van den Bergh's, Rees became the chief accountant of Margarine Union, and two years later he was named one of the two chief accountants, together with R. Norman Locking, of the newly created Unilever. Upon the death of Locking in 1931, the chief accountant who had served in that capacity for Lever Brothers and then Unilever since 1921, Rees became the sole chief accountant, retaining that post until his retirement in 1948.

In July 1942, Rees was selected as a charter member of the English Institute's newly created Taxation and Financial Relations (TFR) Committee which came to be the drafting committee of the Institute's path-breaking series of Recommendations on Accounting Principles (see Zeff, 1972: 7–20; Bircher, 1991: 232–42). The committee was set up 'to consider matters affecting taxation and the financial relationship of the business community with the Inland Revenue and other Government Departments' (Zeff, 1972: 8). At its first meeting, the TFR Committee asked for Council's permission to prepare drafts of guidance statements on accounting principles. The permission was granted, and these drafts, following an elaborate internal consultation process and eventual approval by Council, became known as Recommendations on Accounting Principles. The TFR Committee was aware that a revision of company law, including the norms for the presentation of financial statements, was in the offing, and it wished to issue guidance that might influence the Board of Trade committee that would propose the new legislation. In doing so, the Recommendations became the first attempt by the accounting profession in Britain at giving authoritative guidance on accounting principles.

Apart from Rees, the other non-practising member of the newly established committee was F.R.M. de Paula, who, as company comptroller, had persuaded the directors of Dunlop Rubber Company Limited to publish a consolidated balance sheet as early as 1933. De Paula had, through articles, speeches and a textbook on auditing, established a reputation as an innovative thinker. Although Rees' views had not appeared in print, it is likely that the Institute's Council was aware that, with Rees and de Paula, they were appointing two kindred spirits to the TFR Committee.[26] In 1954, when de Paula died, Rees wrote:

> I first met [de Paula] some fifty years ago when we had both just started in practice in friendly rivalry with great hopes and few clients and we both kept body and soul together by tuition for the examinations. After spending roughly half our professional lives in practice, we each took up appointments in industry where, by continual collaboration, we shared the ambition of making published accounts simpler and more informative.
>
> (1954: 670)

Bircher has written that 'the final output in the form of the [Institute] Recommendations owes much to the generative ferment in the drafting sub-sub-committee of [K.A.] Layton-Bennett, Rees and de Paula' (1991: 239). 'In the early days of the committee', Rees wrote, 'I worked with [de Paula] in the preparation of the first drafts of the original Institute Recommendations' (*The Accountant*, 18 December 1954: 670).[27]

The TFR Committee and its subcommittees fulfilled their responsibilities with alacrity, and, in less than two years, eight Recommendations were published. Recommendation 7, issued in February 1944, was entitled, 'Disclosures of the financial position and results of subsidiary companies in the accounts of holding companies'. It recommended that companies publish a consolidated balance sheet and profit and loss account.

For two years, Rees served as committee chairman, and he retired from the committee in 1953, having rarely missed a meeting in 11 years. In 1944, Rees became only the second non-practising member to be chosen to the English

Institute's Council, following de Paula, who had been named to the Council the preceding year. Rees retired from the Council in 1956 at age 73.

Geoffrey Heyworth (1894–1974) and the Cohen Committee

Geoffrey Heyworth joined Lever Brothers in 1912 as a clerk and spent a short period in the accounts department. He then obtained considerable business experience with the company's Canadian subsidiary, and, upon his return to Britain in 1924, he became involved with the company's export trade. In 1925, he became the Sales Controller of Lever Brothers' home soap trade, based at Port Sunlight, near Liverpool. He became a director of Unilever in 1931, when it swelled to more than 200 operating companies. Heyworth was charged with sorting out the many and assorted soap companies resulting from Lord Leverhulme's practised habit of buying competitors' businesses. Sir David Orr, who served as Unilever chairman from 1972 to 1984, has written:

> This left a disparate collection of companies still competing amongst themselves and jealous of their individual identities. The job of rationalizing this group of independent companies was a delicate one. Regional strengths had to be maintained, order instilled, and managers appraised and appointed in accordance with business needs. Heyworth's programme of reorganization [consummated in 1937] was a pioneering move for those times and a model for the future.
>
> (1986: 405)

Heyworth succeeded Cooper as chairman of Unilever Limited in 1941 upon the latter's death. Orr has written,

> Heyworth established an international reputation as an expert in the field of professional management. This included not only technical and production skills but also accounting, distribution, marketing, and personnel management. His speeches dealing with these topics at the Unilever annual general meetings became management textbooks.
>
> (1986: 405)

It was said that 'few men did more than he to strengthen public confidence in business' (Obituary in *The Times*, 17 June 1974).

Heyworth retired as chairman in 1960, and in 1948 he was knighted by the Queen. He was created the first Baron Heyworth in 1955 (see also Zinkin, 1985). From 1943 to 1945, Heyworth served as the only representative from industry on the Cohen Committee on Company Law Amendment. The Committee, chaired by Mr Justice Cohen, was appointed by the Board of Trade with a view towards modernising companies legislation. As with the TFR Committee, the Cohen Committee was purposely composed of progressive thinkers, as it was believed that a major reform of company law was long overdue (Bircher, 1991: 129–39). Heyworth was a member of the Cohen Committee's Sub-Committee on Accounts, which was responsible for developing the recommendations on accounting (Bircher, 1991: 243–4).

In the end, 'Much of the contents of the first eight Recommendations eventually found expression in the 1945 Report of the Cohen Committee and in the revised Companies Act itself' (Zeff, 1972: 16). One of the major Cohen Committee recommendations was in line with the Institute's Recommendation 7 on consolidated statements (*Report of the Committee on Company Law Amendment*, 1945: 72–6), and a corresponding provision was included in the Companies Act 1947. The new act was silent, however, on the disclosure of sales turnover or on segment reporting, both of which were not made a public issue in the UK until the 1960s.

The 1939 to 1944 Reports and Accounts

The developments during the period 1939–44 were characterised, at first, by a reduction in the information content of Limited's annual report and accounts because of the inevitable interruptions provoked by the wartime hostilities. From 1942 onwards, the paper shortage and difficulties in communicating with subsidiaries in occupied territories continued and even became more severe, yet, because the company apparently learned to cope, the amount and scope of information in its annual reports began a steady expansion.[28]

There can be little doubt that the publication of full consolidated statements in the 1943 report (as opposed to fragmentary consolidated data or combined balance sheets of the holding companies, as had been done before the war) was the single most important development in Unilever's financial reporting during the war, not least because it went against the long-held belief within Unilever that consolidated balance sheets would be misleading. But initially, that is from 1939 to 1941, the war caused a reduction rather than an expansion of consolidated information. In Unilever's 1939 report, it was stated:[29]

> A further consequence of the war is that it has not been possible to prepare the Consolidated Statement of the two Companies, which in previous years has been attached to the published Accounts, and in view of the Equalisation Agreement [between the two holding companies] the publication of the Consolidated figures of LIMITED alone would only be misleading.
>
> (Lever Bros & Unilever Annual Report for 1939: 2)

Nevertheless, some consolidated figures were included in the 'review of trading', the most notable being the consolidated sales figure for Limited and its subsidiaries. Apart from these, the 1939 report retained the pre-war Statement of Consolidated Profits, which showed the consolidated profits (after deduction of minority interests) and the amounts retained by subsidiaries. The years 1940 and 1941 saw little further change except for some smaller details added to the Statement of Consolidated Profit, mainly in regard to War Damage Contributions, staff pensions, and taxation. On War Damage Contributions and taxation, the changes foreshadowed the solutions that were adopted subsequently in Recommendations on Accounting Principles 2 and 3, issued by the English Institute's Council in 1942 and 1943, respectively.[30]

Formally, the Recommendations began to play a role in the 1942 annual report. In a May 1943 memorandum, Rees brought to the attention of the Special Committee that 'the Council of the Institute of Chartered Accountants have issued recently certain recommendations as regards the form of Published Accounts. These recommendations have since been adopted by the larger companies, and it has to be decided whether we shall do the same in all our published accounts.'[31] Given that the first two Recommendations had been issued as recently as December 1942, Rees may have overstated his case somewhat when he suggested that there had already been widespread adoption. Nevertheless, the adoption of the Institute's series of Recommendations as a matter of principle was agreed, with the lone exception, based on a proposal by Rees, concerning the presentation of income tax recoverable from dividends.[32]

The 1942 report arguably marked the beginning of Unilever's second and, this time, definitive adoption of consolidated reporting. The Statement of Consolidated Profit in the 1942 report begins to look like a proper consolidated profit and loss statement, because of the following changes:

- minority interests were separately shown, so that the statement opened with 'aggregate profits' of the group as a whole;
- (consolidated) items for depreciation and debenture interest were separately shown;
- profit appropriation items such as balances carried forward and proposed dividends (which previously constituted about half of the statement) were no longer shown in the statements.

At first sight, it looks as if these changes were made as a deliberate first step towards the publication of a consolidated balance sheet in the 1943 report. In that report, the first to contain a consolidated balance sheet of Limited and its subsidiaries, the directors revealed that 'preparations were made a year ago to have comparative figures available [to be shown in the consolidated balance sheet]'. The apparent meaning of this is that, sometime during the preparation of the 1942 report (which was published in September 1943), the decision had been made to move towards a full set of consolidated financial statements. However, in a lengthy August 1943 memorandum discussing all major changes in the 1942 report, Rees made no mention of consolidated balance sheets. As to the consolidated profit statement, he observed that 'so far as can be foreseen, it embraces such recommendations as have been or will be made by the Institute of Chartered Accountants and covers points which will be suggested by them in their evidence before the Cohen Committee'.[33] Given that Recommendation 7, which was approved by the English Institute's Council in February 1944, as well as the English Institute's submission of evidence before the Cohen Committee, came out strongly in favour of consolidated accounts, the absence of a reference to a consolidated balance sheet in Rees's memorandum is somewhat surprising. It is true that Recommendation 7 noted the limitations of a consolidated balance sheet, and observed that aggregate profits might be stated even if 'for any reason the publication of a complete Consolidated Balance Sheet is impracticable or inappropriate'. Similarly, the Institute's evidence argued that companies should be permitted to provide information equivalent to consolidated accounts in another format (Bircher, 1991: 264). Therefore, Rees may have intended to make use of these escape clauses. In addition, in August 1943 he may still have expected that the case for consolidated balance sheets would be made less forcefully in Recommendation 7. In any case, a decision evidently was made shortly afterwards, but not necessarily prior to the publication of the 1942 report, to prepare and issue a consolidated balance sheet in the 1943 report. One can only speculate that this may have followed from the realisation that the adopted policy of following the Recommendations would not have been very credible if the company had opted out on this important issue. The 1943 report contained a separate page of Consolidated Accounts, consisting of the already familiar Statement of Profits and a new consolidated balance sheet. The directors, in their report, made it clear that Unilever was still a rather reluctant convert, and cautioned readers as follows:

> The Consolidated Balance Sheet must be read with certain qualifications in mind. The first of these is that, as the Directors have stated on previous occasions, they consider a submission of a statement which consolidates the balance sheets of a group of companies comprised in a world-wide undertaking, involving the conversion of various currencies into one common currency, may tend to be misleading and the Consolidated Balance Sheets now presented must serve as a general guide and no more to the position of the LIMITED Group as a whole so as to show the main trends in the employment of the Company's resources.[34]

The 1943 report did not merely include a consolidated balance sheet, it also complied in other respects with Recommendation 7, for instance by indicating the nature and measure of 'controlling interest' and describing the procedure to handle different year-ends.[35] *The Economist* ('Unilever Accounts', 1944) devoted extensive attention to Unilever's 1943 report because of its wider implications:

> The publication of a consolidated balance sheet by Lever Brothers and Unilever, Limited, marks another milestone on the road towards informative accounts … . If, realising these limitations [of consolidated accounts for a company like Unilever], as they do, the board of Lever Brothers and Unilever, Limited, think it worth while, even under some pressure from public opinion, to publish a consolidated balance sheet, the arguments against publication of similar figures by less complex groups are reduced to vanishing point – that is unless they are frankly based on a belief in obscurity for its own sake. It may be of significance that the chairman of the company is a member of the Cohen Committee.

Unilever's 1944 annual report did not reflect any significant changes in regard to its consolidation policy. Even though the war had ended by October 1945, when the 1944 report was issued, N.V. was still not capable of preparing its 1944 figures. Hence, Unilever's consolidation included Limited and its subsidiaries only. In the 1944 report, the directors did not repeat the extensive cautionary remarks on the limitations of a consolidated balance sheet.

As regard N.V., there is little to say about its financial reporting during the war. As it was cut off from Britain and was under separate management, N.V. did not participate in the developments described above. Between 1939 and 1944, N.V. did not report any consolidated information, and the directors' reports from 1939 to

1943 were terse and dealt mainly with dividends. The 1944 report, which was published shortly after liberation of the Netherlands, reflected some important differences. The balance sheet showed clear signs of a more modern layout, along the lines already followed by Limited (e.g. a separate heading for 'current'). The directors' report was also more extensive, but that was mainly because of the need to discuss the complex process of undoing contractual and other legal changes imposed by the occupation authorities and of sorting out the resulting claims.

The 1945 report

Unilever's 1944 annual report had already been well received, even though, because of the wartime paper shortage, it was compressed into four fold-out pages. Nonetheless, *The Economist* ('Unilever Problems', 27 October 1945) wrote, 'Subject to this all-important limitation [the non-inclusion of N.V.], the accounts are excellent both in material and in presentation'.

Unilever's 1945 annual report was released in November 1946. Expanded to 16 pages, it included a detailed consolidated balance sheet and profit and loss account, and, for the first time, separate sets of notes to both statements. The report also included a schedule of capital expenditures and depreciation as well as a note and accompanying diagram depicting the organisational structure of the two holding companies. In the report, Unilever's management unveiled its Statement H, which reported the comparative sales turnover for 1945 for ten groups of products and services, together with the metric tons for five of these groups, and accompanied by comparative information for 1944.[36] It also displayed a breakdown of total turnover by (1) sales to third parties, (2) the value of production for the Ministry of Food and the West Africa Produce Control Board, and (3) the supplies of marketable goods and services within the organisation. (Statement H is reproduced as Appendix B to this paper.) To our knowledge, no company anywhere in the world published a tabular summary, or any reporting on a regular basis, of monetary segment information prior to 1945.[37] In fact, even the disclosure of sales turnover in financial statements was a practice that was virtually unknown outside of North America in the 1940s.

This package of information was hailed in the financial press as a reporting breakthrough. *The Economist* called Unilever's 1945 financial statements 'the apotheosis of holding company accounting' and 'an accounting *tour de force*' ('Lever and Unilever Accounts', 23 November 1946). *The Times* opined that Unilever's 1945 report was 'truly formidable' ('Unilever New Accounts', 22 November 1946). *The Investor's Chronicle* wrote that '[Geoffrey Heyworth's] selection [on the Cohen Committee] was a tribute to the efforts which the Unilever group has always made to present a lucid and comprehensive statement of its affairs, and this time the accounts give effect to the Committee's report wherever practicable' ('Unilever Documentary', 23 November 1946). *Het Financieele Dagblad* (The Financial Daily) of Amsterdam became almost lyrical:

> Apparently, after realising that shareholders need to be given better information, the joint board of the Dutch and English Unilever have made a very laudable, and,

> in our opinion, for the time being, in all respects a successful attempt – one that is unique among international approaches to publicity in the business world – to give us a clearer, better-arranged and more detailed report than has been usual until now anywhere in the world. We have the fullest praise for this approach. Confidence in [Unilever] shares will, through this openness (which the company plans to expand), undoubtedly further increase.
>
> ('Unilever-publiciteit–Heeft ongeëvenaard niveau van perfectie bereikt', 21 November 1946)

Perhaps the greatest praise came from *The Statist*, which said that the 1945 report was 'one of the outstanding company documents of the year, and may indeed fairly be said to make new history in industrial finance records' ('Lever Brothers & Unilever', 23 November 1946). Most of the commentators may have judged Unilever's 1945 accounts against the standard set by the Cohen Committee report and failed to grasp the significance of the disclosure of segment turnover, which went well beyond the Committee's recommendations. *The Financial Times* ('Unilever Dividend Policy', 22 November 1949) was an exception, calling Statement H '[a]n excellent table', and reproduced it in full.

Factors leading up to the 1945 annual report

It is interesting to attempt to trace the evolution of the thinking about segment reporting in the post-Cooper Unilever organisation. In December 1943, Cooper's successor, Heyworth, discussed the issue during the hearings of the Cohen Committee. Several witnesses before the Committee 'favored requiring that both sales and profit figures be broken-down by major product activities' (Hein, 1978: 269). One of these was Hargreaves Parkinson, the editor of *The Financial News* and former city editor of *The Economist*. In discussing the issue with Parkinson, Heyworth argued that statutory requirements would be ineffective given that 'the various subsidiary companies might make agreements with each other for equalising profits and so on' (*Minutes of Evidence taken before the Company Law Amendment Committee,* 1943, para. 2704). Although he added, rather implausibly for the chairman of one of the largest conglomerates in Britain, that he did 'not know what the technique would be' for equalising profits 'and so on', it seems safe to assume that his views would have carried sufficient weight to prevent the Committee, had it been so inclined, from recommending mandatory segment disclosures. But, just as Cooper had started to provide segment information to his shareholders a few years after he had argued before the Greene Committee that they were not entitled to it, so Heyworth committed himself to segment reporting within five months after the publication of the Cohen Committee report.

In 1945, plans for important changes in disclosure were clearly developing, even though their implementation had to be delayed for practical reasons. During discussion in the Special Committee of the 'Review by the Chairman' to be included in the 1944 annual report, the following was minuted:

> it was appreciated that this year it would not be practicable to include turnover figures in the review, but it was stressed that these should be mentioned next year,

based on the formula laid down some time ago under which inter-company sales of marketable products would be included. Mr Heyworth referred to the project of publishing the review separately from the accounts when paper supplies are adequate. He said it was proposed to present the facts in more dramatic form, incorporating illustrations and if desirable graphical representations, bearing in mind the necessity for some basic continuity in the form which would enable it to be adapted [sic] more or less consistently from year to year, and it was hoped conditions would permit of adopting this new form for the 1945 accounts.

(Special Committee Minutes, 17 September 1945 (E.1325), item 176, 'Limited Annual Report & Accounts, Year 1944')

Despite these reservations, Heyworth devoted a significant portion of his chairman's address at the company's annual general meeting (AGM) in October 1945 to his board's strategic plan for enhancing shareholders' understanding of Unilever's state of affairs and the results of its operations.[38] It was an address that was remarkable for the amount of thoughtful attention that he and his board had been giving to the question of how best to render an account to shareholders. Heyworth gave notice that his company was contemplating a more transparent approach for reporting to shareholders, including some kind of breakdown of figures according to 'each of our main industries region by region'. The following extract from his address enables one to appreciate the care and attention that Unilever proposed to dedicate towards providing shareholders with greater transparency:

Now to [discuss] the material to be issued prior to the [annual general meeting in 1946].

PRESENTATION OF ACCOUNTS

First, the accounts. Their purpose is to record the most accurate picture that is possible of the state of the company's affairs at the end of the year and of the results of the year's operations. For many years we have sought ways and means of doing this by simplifying the capital structure wherever this has been possible and by increasing the amount and quality of the detail given. Because of the magnitude and complexity of our operations it is not easy to do this and at the same time preserve clarity; in other words we have to balance the advantages of extra detail against the need of preserving a well defined outline. This problem is under continuous study, in which the board not only have the advice of a very capable and imaginative accountancy staff of their own, but call freely upon the wider experience of the professional auditors of the company. I think it can be said that we have a record of solid and progressive achievement in the presentation of our accounts. We have already adopted – some of it many years ago – most of the accountancy practice recommended in the recent Cohen Report and the remaining recommendations are already included in the improvements being studied for adoption next year.

The directors' report we regard as an integral part of the balance sheets and profit and loss accounts, explaining their contents and freeing them from detail that would obscure their broad impression.

It is the board's intention that the presentation of the accounts shall be progressively developed not only to reflect changes in the company's affairs, but to give the

> shareholders the clearest possible picture of the company's position that can be given in figures. In giving practical expression to this idea, we shall hesitate neither to invent new techniques nor to copy from others.
>
> REVIEW OF TRADING OPERATIONS
>
> Now to turn to the first section of the proposed review. This will deal with trading operations. The probability is that this can best be done by taking each of our main industries region by region; omnibus figures of sales turnover in currency will not be appropriate; we never think of our operations in that way ourselves; we think of tons of raw materials, cases or tons of soap, pounds or tons of margarine, and so on. We hope to make a first but necessarily modest attempt at presenting material of this kind to you next year.
>
> ('Mr Geoffrey Heyworth on Improvement of Methods', *The Statist*, 3 November 1945)

The Economist ('Lever Brothers' Information', 3 November 1945), *The Investor's Chronicle* ('Informative Chairmen', 3 November 1945), and *The Accountant* (10 November 1945) cited this last paragraph as a key part of Heyworth's address.

We have already noted the favourable press reaction to Unilever's 1943 and 1944 annual reports. Heyworth's announcement at the 1945 AGM of yet more reporting changes heightened expectations even further. *The Economist* observed:

> Lever Brothers and Unilever already hold high place – if not the highest – in the technical excellence of their directors' reports and accounts. In many respects they have already achieved Cohen Report standards, and next year's reports will include improvements, which are now being studied, to meet the remaining recommendations of the Report. But Mr Geoffrey Heyworth's speech at this week's meeting contemplates an extension of the range of factual information far beyond the presentation of an admirable set of accounts and explanatory directors' report, and equally beyond the directors' obligations towards the shareholders.
>
> ('Lever Brothers' Information', 3 November 1945)

Unilever's plan for providing a breakdown by product line was discussed in the board's Special Committee. Initially, the breakdown of information by product lines was to be in physical quantities, but thought was already being given to a disclosure of sales turnover, but at the aggregate level. The first mention of a possible disclosure of sales turnover in the minutes of the Special Committee was a few months later, in February 1946, when 'Mr Rees reported that Accounts Department were preparing a preliminary draft of the information it was proposed to shew in the Company's 1945 Accounts. They required, however, a ruling on one or two points and the following were agreed', which included the following point:

> b) Consolidated turnover
>
> Mr Rees tabled a memorandum shewing the formula it was proposed to adopt in determining items for the purpose of calculating the Consolidated Turnover. It was agreed to make this split on the basis of whether it would be practicable for

a separate undertaking to manufacture the products in question or to carry out the services rendered.

(Special Committee Minutes of 19 February 1946 (U.63), item 56, 'Published Accounts 1945')

The memorandum discussed how to include internal sales and services in total turnover. About 17 categories of intermediate products and services were identified for possible inclusion, in addition to the value of sales to third parties.[39] At this stage, apparently, disclosing aggregate sales turnover was already decided, but disclosing segmented turnover information was not, nor was it discussed. The discussion was confined to what internal sales should be included in the turnover figure. This was in line with Heyworth's October 1945 AGM address in which he promised information about physical quantities rather than monetary segment information.

The next, and also the last, reference in the 1946 minutes to segment reporting was for the meeting of 6 August, at which a preprint of the 1945 annual report (series U, supp. doc. 6464) was discussed:

> Accounts Department were asked to prepare a re-draft incorporating suggested amendments to the form and wording, particular attention being paid to the definition and logical sequence of the groups contained in Statement 8 as it was considered desirable to establish a form which could be adopted as a framework for future accounts and white sheet statements.
>
> (Minutes of 6 August 1946 (U.77), item 153, 'Annual Report & Accounts 1945')

Statement 8 was the draft version of what would become Statement H in the 1945 annual report. This draft contained less information than the final statement: amounts in pounds sterling were not to be given for all product categories (again, still in keeping with Heyworth's October 1945 address). Nor was there a breakdown of third-party, government-controlled, and internal sales. The total turnover figure given in Statement 8 was therefore not shown as the result of an addition but as a free-standing figure.

Statement 8 was apparently given close attention by the Special Committee. This can be seen from the reference in the minutes that the members wanted something that could be used in future reports and in the 'white sheets' (the monthly summary financial reports provided to the board of directors). It can, perhaps, also be seen from the fair amount of editorial comment scribbled on the draft included with the minutes.

Interestingly, one item of information was eliminated at a later stage (the scribblings do not indicate this elimination). The draft included wages as a percentage of sales turnover, which was not included in the published version. The total amount of wages was not, in fact, shown anywhere in the 1945 annual report.

The final decision to approve of the reporting of £-amounts for all product categories and for the one service category must have been made by the full board, and it would certainly have had Heyworth's support.

Statement H remained virtually unchanged in the 1946 and 1947 annual reports. These two reports extended to 24 pages, in comparison with 16 for the

1945 report. They contained a lengthier directors' report, more expansive notes to the financial statements, a 'highlights' summary of the more salient points in the accounts, and, for the first time, a 10-year summary of capital employed and profits distributed and retained. Also for the first time, the auditors' report covered the consolidated statements. Unilever's annual reporting continued to garner praise. *The Economist* termed the 1946 report as 'accounting elegance' ('Unilever and World Trade', 23 August 1947: 337).

The 1946 report replicated the form and presentation of the 1945 report. P.M. Rees forwarded a copy of the 1946 annual report to F.M. Wilkinson, the assistant secretary in the English Institute who managed the work of the TFR Committee. Wilkinson, a crusty conservative, pronounced as follows:

> If I may say so, [the Report and Accounts] seem to do three things very effectively: they give the ignorant the figures they really need; they give the inquisitive the information as to how those figures are arrived at, and they give accountants a terrible headache.
>
> (letter from Wilkinson to Rees, dated 18 August 1947)

The 1947 report: geographical breakdown of turnover

In the 1947 report, Unilever fulfilled Heyworth's promise in his 1945 address to shareholders, that information would be supplied 'region by region'. As noted above, Unilever had presented profitability information, and some sales turnover information, both by product lines and geographical regions in the 1920s and 1930s. Yet the 1947 report went much further. It contained comparative sales turnover figures for all four regions (Western Europe, North and South America, Africa/Middle East/Australasia (excluding the United Africa Company), and the Orient, and a separate report of turnover for the United Africa Company. These disclosures appeared in the directors' report and were accompanied by an extensive discussion of trends and prospects on a country-by-country basis within the regions. This disclosure was another example of Unilever going beyond the recommendations of the Cohen Committee report and, indeed, the best practice anywhere in the world.

What was Unilever's motivation for disclosing a geographical breakdown of sales turnover? It is not improbable that the company's hand had been forced by *Fortune* magazine, which ran a three-part article on Unilever in its December 1947 and January and February 1948 issues (Burck, 1947; 1948a; 1948b). *Fortune* had approached the company in the spring of 1947 about the article project, and Unilever promised its co-operation, for it saw the article as a good public relations vehicle.[40] But Unilever placed clear limits on its cooperation, especially when *Fortune* requested 'some detailed information of turnover in individual countries or groups of countries' (Special Committee minutes of 26 November 1947 (U.106), item 138, 'Fortune'). At that stage, the company was not prepared to disclose these confidential figures even to its shareholders, let alone to financial journalists. Undeterred, the magazine reported its own estimates of Unilever's sales turnover by regions, comparing 1946 with 1937 (Burck, 1947: 213; Burck, 1948b: 80). This disclosure may have prompted the belief within Unilever that there was little point in hiding its own figures on geographical turnover, even though *Fortune*'s estimates appeared to be reasonable. The minutes of the Special Committee do not report the underlying reasons, but they do show that, by May 1948, a decision had been taken to include a geographical breakdown of turnover (Minutes of 26 May 1948 (U.123), item 62, 'Annual Report & Accounts 1947'). But Unilever's predilection to be informative to shareholders shone through. Many companies, confronted with the same situation, would not have disclosed their own figures.

Unilever's 1947 report, as with its two immediate predecessors, drew praise. *The Times*'s city editor said that the report 'once again depicts the company's year with a precision and clarity which few other companies can rival' and placed emphasis on the company's 'admirable example by publishing figures for its annual turnover' ('Unilever in 1947', 4 August 1948). *The Accountant*, for its part, endorsed *The Times*'s assessment ('Precision and Clarity', 28 August 1948). *The Economist*, which by 1948 had run out of superlatives, referred simply to the 'riches of information' contained in the report ('Unilever in Perspective', 7 August 1948).

Statement H was retained in Unilever's annual report until 1964, after which the breakdown of sales turnover by product and service lines was reported in a different format. The sales turnover apportioned by region was retained in the directors' report until 1961, and in following years it was presented in another format.

Reasons for Unilever's Financial Reporting Innovations in the 1940s

As might be expected in the light of our argument that Unilever was closely involved with general developments in financial reporting, the factors that help explain Unilever's innovative financial reporting in the 1940s have their counterparts in the general movement towards modernization of financial reporting, symbolised by the Companies Act 1947. That Act is seen on the one hand as a break with the past and an expression of a new social ethos, forged by World War II. On the other hand, it has been argued that the Act was essentially the culmination of attempts at moderate reform that had started well before World War II (see Maltby, 2000). In the case of Unilever, one finds a similar combination of pragmatic continuity and more idealistic innovation.

Above all, it should be mentioned that Unilever's segment disclosures in its annual reports beginning in 1945 were an extension of Francis D'Arcy Cooper's financial reporting practices and policy in the 1930s. During the 1930s, Cooper, the chairman of Lever Brothers as well as of Unilever, regularly presented segment breakdowns of sales turnover and profits in his annual speech to the shareholders of Lever Brothers. We have speculated that his failure to present similar information at the annual meetings of Unilever's shareholders might have been due to a measure of opposition or ambivalence towards disclosing such information from some of the family members of Unilever's board of directors. When selecting a vehicle for informing shareholders of the trends in segmental operations, he chose the one that was most under his control: the chairman's speech.

Geoffrey Heyworth was, like Cooper, a professional manager. He evidently shared Cooper's view that shareholders should, as far as practicable, be fully apprised of the results of Unilever's far-flung and widely diversified operations. In his address to the annual meeting in October 1945, quoted at length above, Heyworth said, 'It is the board's intention that the presentation of accounts shall be progressively developed not only to reflect changes in the company's affairs, but to give the shareholders the clearest possible picture of the company's position that can be given in figures'. Segmental breakdowns that Cooper related in his chairman's speech in the 1930s could, by the mid-1940s, with a less hidebound board of directors, be incorporated into Unilever's annual report. From the early 1930s to the middle of the 1940s, the percentage of family members serving on the Unilever board gradually declined from 45 to 30 per cent.

In these financial reporting initiatives, Heyworth was surely supported by Paul Rijkens, who, in 1937, had become the first outside manager to become chairman of Unilever N.V. After Cooper's death in 1941, he and Heyworth became the joint chairmen of Unilever until Rijkens' retirement in 1955. Rijkens spent the war-years in London and must therefore have had close knowledge of the reporting innovations planned and carried out during those years. While we have no direct evidence of the hand he played in these developments, it seems certain that he was at least supportive of them. He was known in general as a progressive spirit, and as a firm believer in a wider social responsibility of companies that is often associated with the Companies Act 1947 (see Maltby, 2000: 3–5). He professed accounting to be one of his hobbies (Rijkens, 1965: 15), and he was, following World War II, named chairman of a special committee in the Netherlands to propose improvements in company financial reporting. The committee's recommendations were truly forward looking (see Zeff *et al.*, 1992: 94–112).[41]

Moreover, as Unilever's progressive management found ways and means of rationalising the complex web of Unilever's multi-faceted operations via the development of internal reports on the sales volume and profitability of product lines and geographical areas, these same reporting methods commended themselves for use in communicating with shareholders (see Wilson, 1954: vol. II, 309–16).

In general, it may be said that the Unilever management during these years were genuinely committed to openness and the improvement of its financial reporting, and that this was one of the main drivers of change in its reporting policy. While the strength of this commitment is rather unique for this period, it did not mean that Unilever's management shaped its financial reporting without an eye on the company's specific interests. This is shown by occasional modifications in underlying legal relationships and the sequencing of transactions in order to avoid certain undesired reporting consequences.[42]

Other factors were also at work. Unilever's management was aware that the company's dominant position in its markets had scarred its reputation for fair dealing. *Fortune* wrote:

> But the parent company does not share this good will [that its products enjoy], and the name Unilever rings few bells except cracked ones. People who know a little about it denounce it as a monopoly not only where it is powerful but where it

> doesn't amount to beans. The Czechs still identify it with its German subsidiaries, and Britain's Socialists tend to think of it as an example of corporate iniquity that needs to be watched and curbed. And almost anyone who knows anything tangible about it, friend or foe, from Capetown to Oslo or from Shanghai to Vancouver, alludes to it as the 'Octopus'.
>
> (Burck, 1947: 88)

The forthrightness of Unilever's annual report to shareholders was seen by *Fortune* and others as one element in the company's public relations programme in the 1940s. As early as 1942, the Special Committee had decided under the heading of 'Public Relations' that 'it would be essential in the post-war world to take a positive rather than a negative line as regards the many important questions affecting industry in general, and our own in particular'.[43] The Board of Trade's announcement in June 1943 of the appointment of Heyworth to the Committee on Company Law Amendment would have been a very good example of this stance. For his part, P.M. Rees, Unilever's chief accountant, was an active member during the 1940s of a committee of the English Institute that was intent on recommending improvements in company financial reporting.

All of these considerations – a continuation in a more integral format of Cooper's forthcoming financial disclosure policy, especially as management came to devise new and more effective internal reporting; the freer hand given to Heyworth resulting from the change in composition of Unilever's board of directors; and management's need to burnish the company's image as a corporate citizen – help explain the appearance of the notable financial reporting innovations in Unilever's annual reports in the 1940s.

Conclusions

We have documented how Unilever emerged after World War II with a reputation as a leader in the modernisation of company financial reporting in Britain. Not only was the company an early adopter in the middle 1940s of the recommendations of the Cohen Committee on Company Law Amendment, it also went considerably beyond them by providing extensive voluntary disclosures. Preeminent among these disclosures, which were without precedent in Britain and elsewhere, was a breakdown of sales turnover by product line and geographical region. Even Unilever's disclosure of company-wide sales turnover was highly unusual at the time in Britain.

In contrast, before the war Unilever and its subsidiaries were frequently criticized in the financial press for their uninformative reporting. In the historical literature, the company is portrayed as a retarding factor in the modernisation of financial reporting, mainly because of the testimony of Francis D'Arcy Cooper, the chairman of Lever Brothers, before the Greene Committee on Company Law Amendment in 1925. Yet during the 1930s, Unilever's annual report began to evolve towards consolidated financial reporting. More important still, Cooper himself provided important and innovative financial disclosures in his speeches to annual general meetings such as total sales volume and profits for selected segments. In our view, this trend towards expansive reporting showed that Cooper's opposition to consolidated reporting in his testimony to the Greene Committee was not mere conservatism, but followed from the belief that there were more effective ways of giving insight into a large and diversified group of companies.

During and after the war, this trend continued with the adoption of full consolidation in 1942 and 1943 and the provision of systematic segment information in the annual report from 1945 onwards. By 1945, it became clear that the breakdown of sales turnover and profitability by product line and geographical region emerged as part of a coherent policy of reporting to shareholders. Yet, because of a strong contrast in terms of size, number of pages and quality of printing between the 1944 and 1945 annual reports, it looks at first sight as if a sudden change of attitude occurred around that time. In fact, as shown in this paper, the 1945 report was the culmination of a long, gradual trend towards improved reporting, obscured by the wartime paper shortage. We have shown how this trend coincided with the accession of professional managers to top positions in the firm, starting with D'Arcy Cooper himself and continuing with Geoffrey Heyworth and Paul Rijkens.

The significance of these findings to the literature on financial reporting history lies not merely in a rehabilitation of the image of Cooper and of Unilever, even though, as the largest industrial enterprise in Britain during the 1930s, its financial reporting has a certain intrinsic interest. The findings also testify to the influence of Unilever during the period of financial reporting reform in Britain during the 1940s, centring on developments leading to the Companies Act 1947. In this respect, this study addresses Bircher's (1991: 295) call to supplement his analysis of the origins of that Act with research into the relationship between accounting practice and the developing ideas about best practice.

Through the participation of Heyworth in the Cohen Committee and Rees in the TFR Committee, there was a close interaction between the development of practice at Unilever and the evolving normative ideas on accounting. By anticipating or promptly adopting the recommendations of both committees, Unilever gave them added credibility and, as was clearly appreciated by the financial press at the time, denied other companies the excuse that these recommendations might be impracticable. At the same time, it is very likely that Heyworth and Rees made sure that the recommendations reflected their own views on how financial reporting ought to develop.

Altogether, we conclude that our findings justify the recognition of Unilever as a key player during the period of financial accounting reform in the 1940s.

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Notes

1 Unilever did not list its shares on the New York Stock Exchange until 1961.
2 In 1937 the names of the two holding companies were changed to Lever Brothers & Unilever Limited, and Lever Brothers & Unilever N.V., respectively. We will, however, refer to the joint companies as Unilever.
3 The family-controlled Hartog firm was a large Dutch producer of margarine, which was acquired by Margarine Unie in 1929.
4 In June 1941 he had been made a baronet in the King's Birthday Honours.
5 In a letter to *The Times* dated 3 June 1925, Cooper stated the essence of his objection to consolidated balance sheets: 'I see no useful purpose in producing an amalgamated balance sheet which would be neither fish, flesh, fowl, nor good red herring. On the contrary, in my opinion it could only do harm.' Cooper's objection applied not only to the consolidated balance sheet as a replacement for the holding company balance sheet, but also to consolidated balance sheets published as additional information (*Minutes of Evidence,* 1925: para. 3770).
6 The statement included the two holding companies and all 'subsidiary and allied companies' in which 50 per cent or over of the ordinary capital was held, either directly or indirectly.
7 It is evident from these summary statements that the several companies' accounting policies were rather diverse, which would presumably have been an impediment to consolidation. For example, one company carried its fixed assets at 1 guilder, while others were recording depreciation.
8 The following comments are based on the reproductions of these speeches in *The Times* and *The Economist* of the period.
9 To illustrate the current accounting practices for dealing with holding companies, Garnsey and Robson (1936) reproduced in Appendix II the published accounts of a number of major British, American, Canadian and Swedish companies for the financial year 1934. Unilever Limited and N.V. are included in the appendix.
10 In the Netherlands, the subject of consolidations was occasionally discussed from the mid-1920s onwards. It was first given systematic treatment in 1929, when J.J.M.H. Nijst published his *Leerboek der Accountancy* (see Camfferman, 1997: 251).
11 Walker (1978: 140–52) doubts that Dickinson was himself responsible for U.S. Steel's decision to use consolidated statements, although he acknowledges that Dickinson was a staunch advocate of such financial reporting.
12 See also the following articles in *The Economist*: 'The Unilever Colossus', 11 June 1932: 1300–1; 'Lever and Unilever', 15 April 1933: 817–18; 'Unilever Finance', 22 April 1933: 867–8; 'Lever and Unilever', 14 April 1934: 828; and 'Lever Brothers' Report', 3 April 1937: 26–7.
13 The main reason why *The Economist* thought Unilever was right not to present a consolidated balance sheet was because N.V. was faced with severe restrictions on converting earnings in Germany into sterling or guilders. In 1939, it wrote: 'The group, however, still controls over 400 manufacturing subsidiaries in almost every country of the world. ... This fact goes far to justify the directors' practice of providing only a limited range of consolidated figures for the twin Lever companies and their subsidiary and allied companies' ('Lever Brothers and Unilever', 29 April 1939: 257). It appears that in the case of Unilever, unlike the Royal Mail Group, cross-holdings were not so prevalent or complicated as to prevent consolidation (see Green and Moss, 1982: 97).
14 Persistently negative comments on the reporting quality of Unilever and its Dutch predecessors appear in *De Kroniek,* a pioneering journal in the field of financial analysis edited by Dr Alexander Sternheim. See also Nijst (1932: 5), who characterised Unilever's omission of a consolidated balance sheet as 'a major defect'. The weekly *Haagsche Post,* however, drew attention to the 'technical impossibility to prepare a consolidated balance sheet for the more than 400 industrial businesses involved' ('Notities over de beurs- en zakenwereld', 7 May 1938: 24).

15 We reviewed the 1937 speeches by the chairmen of the 40 largest UK holding companies listed by Bircher (1991: 190–1), in so far as these could be retrieved from *The Times* and *The Economist*. In none of the speeches did we find a sales figure, nor did we find any considerable amount of quantified information on the results of operations. ICI, a company known for progressive financial reporting, was, by 1930, already organised into some ten product groupings (Chandler, 1990: 361), and, as far as he British Empire was concerned, had a comparable geographical spread as Unilever. In the 1930s, ICI's chairman included in his annual speeches to shareholders an extensive narrative discussion of the company's operations by country (but by not product line), yet he did not report any figures on the sales volume and profitability of segment operations.

16 Archival sources consulted consist mainly of the Minutes of the Special Committee, preserved in the Unilever Historical Archives, London. The Minutes are organised by subject. Matters relating to financial reporting are contained in series E (*General Matters*), series J (*Minutes of the Special Committee meeting with the Treasury*) and, starting in January 1944, series U (*Minutes of the Special Committee with Accounts, Finance, Legal & Taxation Department*). The Special Committee Minutes, including supporting documents, do contain extensive information on the background of policy decisions. Nevertheless, with respect to financial reporting the coverage is patchy and not consistent from year to year. The minutes of the boards of directors do not help to fill in these gaps, because they contain merely the formal resolutions of the boards.

17 Special Committee Minutes, 18 March 1932 (E.55), item 124 'Balance sheets of public companies'. In subsequent years, these annual reports do indeed regularly come up for discussion.

18 For example, Special Committee Minutes, 1 July 1935 (E.368), item 144, 'Unilever Limited – Profit position 1935' and 14 November 1935 (J.209), item 330, 'Prospective cash position'.

19 See the draft communiqué to be published with the 1934 accounts. Special Committee Minutes, Series E, supporting document 1342, 'Dates of publication for accounts', P.M. R[ees], 1 January 1935.

20 Special Committee Minutes, Series E, supported document 1338 'Published Accounts', P.M.R[ees]., 19 December 1934. The Minutes (31 December 1934) give no other information than that 'it was felt that the proposed alterations were desirable and should be given effect to in the next accounts which are published'.

21 This idea may have suggested itself to Leverhulme as president of the Institute of Cost and Works Accounts, a post he filled from 1919 until his death in 1925. See Loft (1990: 68–70).

22 No archival evidence was found that, during the 1930s, drafts of these speeches were regularly discussed by the Special Committee. It is likely that drafts were discussed by the board of directors as a whole, but this fact is not reported in the board's minutes.

23 Cooper's commitment to accountability was evidenced by his practice, during most of the 1930s, of announcing a global profit forecast in his speech to the annual general meeting, and in the following year's speech he compared the annual result to the forecast. As noted above, profit forecasts were regularly prepared for management purposes. See also Special Committee Minutes, 15 October 1931 (J. 12), item 83, 'Profit Estimates'.

24 Hein (1978: 269) reports that 'Some witnesses [before the Cohen Committee on Company Law Amendment, in 1943–5] also favored requiring that both sales and profit figures be broken-down by major product activities', but the committee did not refer to the reporting of such information in its recommendations.

25 Special Committee Minutes, Series E, supporting document 63 'Head Office Administration'.

26 See Kitchen and Parker (1994) for a short biography of de Paula. No publications by Rees from the 1930s are known to us. In later years, he would bring examples of progressive financial

reporting to the attention of the editor of *The Accountant* so that they might be given greater prominence (see *The Accountant*, 20 July 1946: 35, and 6 September 1947: 155).

27 In fact, Rees submitted a memorandum to the subcommittee of the TFR Committee that was charged with drafting the Recommendations, in which he proposed topics under broad headings that the subcommittee should consider taking up (Bircher, 1991: 236–7).

28 Our estimate of the total number of words in the narrative sections of Unilever Limited's annual reports for 1939 to 1944, encompassing the directors' report and the chairman's review (or 'review of trading'), is as follows: 1939, 4,000 words; 1940, 2,250; 1941, 2,650; 1942, 3,750; 1943, 3,750; and 1944, 3,500. By contrast, in the 1945 and 1946 annual reports, in which the notes to the consolidated accounts appeared as such for the first time, the total number of words, including the notes, was 7,350 and 11,200, respectively. Prior to the 1945 report, the notes to the consolidated accounts were incorporated in the directors' report.

29 The Equalisation Agreement refers to the dividend equalisation agreement mentioned above, by which the dividends per share paid by N.V. and Limited had to be equal. Hence, partially consolidated statements would have shown neither the common pool of assets from which dividends of both holding companies had to be paid nor the potential claims by N.V.'s shareholders against these assets.

30 Rees had previously brought up these items for discussion in March 1941, more than a year prior to the formation of the Taxation and Financial Relations Committee, and also before the Council of the English Institute issued its August 1941 circular letter on war damage contributions (Zeff, 1972: 14). Rees gave no other justification for these changes than their topicality (e.g., 'the high rates of tax now prevailing'). Special Committee Minutes, Series E, supporting document 4418, 'Special features in published accounts', P.M.R[ees]., 21 March 1941.

31 Special Committee Minutes, Series E, supporting document 5246 'Annual Accounts 1942', P.M.R[ees], 5 May 1943.

32 Special Committee Minutes, 12 May 1943 (E.1162), item 66, 'Annual Accounts 1942'. The issue of income tax deductible from dividends was covered in Recommendation 4 (March 1943), and the position taken there was one that F.R.M. de Paula had advocated at least since 1929 (De Paula, 1948: 266–70).

33 Special Committee Minutes, Series E, supporting document 5322, 'Limited Provisional Results 1942', P.M.R[ees], 19 August 1943.

34 It is interesting to note that the directors no longer mention their fear, expressed in the 1939 report, that consolidation without including N.V. would be misleading because of the dividend equalisation agreement. That agreement was still in force, and the only change in circumstances was that, from 1941 onwards, Limited was informed about N.V.'s profits, showing that N.V. was capable of paying at least its preference dividends.

35 The only obvious element of non-compliance was that the results of unconsolidated subsidiaries were not shown separately (Recommendation 7, para. 63(a)).

36 Statement H was not covered by the report of the joint auditors, Cooper Brothers & Co. and Price, Waterhouse & Co.

37 A possible exception occurred in Sweden. The Swedish Companies Act of 1944 included a requirement to segment 'intäkt' ('revenues') by activity if the activities are essentially independent of each other (see Nilsson, 1995: 228–9). An exemption was available if the company would be commercially damaged by the presentation of such information. Sven-Arne Nilsson has advised the authors by e-mail that 'revenues' at that time was understood to mean gross profits rather than gross sales revenues. In regard to compliance, Hanner (1964) reports that some segmentation of 'revenues' was being reported. Of 88 larger (mainly listed) companies that were selected as being 'best practice' companies in 1951, two disclosed four gross profit segments, 10 disclosed three segments, and 22 disclosed two segments. The remaining 54 disclosed only one segment, which presumably means that they did not segment at all. Similar figures apply for 1961 and 1964.

In the US, the Procter & Gamble Company, which was one of Unilever's major competitors, published separate balance sheets for its English and Canadian subsidiaries, and for its 'Defense U.S.A.' subsidiary, for the years 1941 to 1946, because it was thought 'advisable' to exclude them from the consolidation during the war (see the first page of the President's Report in the 1941 annual report). Following the war, in the company's annual report for 1947, these subsidiaries were once again consolidated and their separate balance-sheet figures were no longer reported.

38 Drafts of the speech were prepared by the secretary of the board, L.V. Fildes. Special Committee Minutes, 23 October 1945 (E.1332), item 201, 'Annual General Meeting – Chairman's Speech'.

39 The memorandum was included as supporting document 6277 (series U), an undated, 1-page note by Rees.

40 *Fortune* had earlier approached Unilever about an article in the summer of 1940, but the Special Committee had decided that 'under present circumstances such an article was not desirable'. However, the Special Committee did instruct Heyworth to see the London representative of *Fortune*, from which it may be inferred that it was interested in this type of publicity. Special Committee Minutes, 3 September 1940 (E.938), 'Fortune'.

41 For more information on Rijkens, see Lichtenauer (1979).

42 For example, in October 1945, Rees pointed out that Van den Bergh & Jurgens (Ltd) held 51 per cent of Home & Colonial Stores. To avoid a consolidation, he proposed to transfer some of the shares to Associated Enterprises, Ltd (which was apparently not a subsidiary) (Special Committee Minutes, 2 October 1945 (U.38), item 83).

43 Special Committee Minutes, 2 December 1942 (E.1126), item 191, 'Public Relations'.

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Appendix A: Except from Speech by Francis D'Arcy Cooper to the Annual General Meeting of Lever Brothers Ltd, 1 May 1930 (from *The Times*, 2 May 1930: 23)

I now come to our business overseas, which continues to expand. Profits for the Continent of Europe show an increase from £216,813 to £350,699, Holland, France and Belgium having done particularly well.

Australasia shows a decline in profits this year, being £275,304, against £241,099, including £18,993 earned by our Pacific Plantations, against £43,981 for the previous year. Owing to the financial position in Australia and the low price of copra this drop was anticipated, and I do not suppose that we shall show any great improvement for the current year; but the businesses themselves are very sound, and I am sure it is only a temporary decrease in the results.

India and China have given us £202,091, against £218,587.

The United States of America, South America, the Philippine Islands, and the Dominion of Canada have provided £988,370, against £710,536, and I would again like to refer to the astonishing progress that we are making in the United States, not only in profits but also in sales turnover. Our turnover in the U.S.A. in 1914 was £187,923, as aganst £8,036,127 last year, and in Canada £997,216 against £1,785,538, and we must again render a tribute of admiration to Mr Countway and Mr. Tyler, the respective presidents of our American and Canadian interests.

Our trade in Africa continues to be difficult, and our profits this year, which amounted to £152,047, as compared with £179,291 in 1928, show a decrease.

The results of the overseas figures taken in total have been satisfactory because they have been maintained at exactly the same percentages – namely, 32 per cent – of the profits of the company, as last year. If the export trade, the Niger Company and Candles Limited were included, the total profits drawn from overseas would amount to £2,637,913, or 42 per cent of the profits of the company.

Owing to the fact that last year our interests in West Africa were transferred to the United Africa Company, Limited, the figures for our 1929 turnover are not comparable with those for 1928, but if you exclude the West African figures our turnover was £68,771,126 as against £66,241,066, and our tonnage shows an increase of over 40,000 tons.

The prospects for 1930 seem to me to be favourable, and glycerine prices have now become stabilized. We sold during 1929 the whole of our glycerine output for that year, and I believe the stocks in Europe and American are considerably less than they were 12 months ago. I therefore anticipate that our aggregate results for 1930 will not be disappointing.

Appendix B: Segment disclosure in 1945 annual report of Unilever Ltd.

STATEMENT H TURNOVER OF PRINCIPAL COMMODITIES OF LIMITED AND N.V. GROUPS

(Excluding subsidiary companies not consolidated)

Supplies of marketable products – for use as raw materials – and services by one industry to other industries within the organization are included in order to provide a proper ratio of turnover to capital employed and profits earned. The amounts stated represent the full cost to any unit within the organization of products which, although manufactured or processed by another concern unit, are marketable in their then condition in the normal course of trade.

In the case of production in the United Kingdom for the ministry of Food and produce purchased for the West African Produce Control Board, a value has been included based on the Government controlled price.

1944 Metric tons	1944 £		1945 Metric Tons	1945 £
517,000	42,065,000	Margarine, Edible Oils and Fats … … … … …	594,000	50,188,000
—	22,792,000	Other foods for human consumption … … … … …	—	25,196,000
1,343,000	79,430,000	Other Vegetable and Animal Oils and Fats … … … … …	1,511,000	90,820,000
1,039,000	12,306,000	Animal Feeding Stuffss … … … … … … …	1,187,000	14,416,000
864,000	60,846,000	Soap and Other Detergents … … … … … … …	864,000	61,023,000
—	5,767,000	Toilet Preparations, including Perfumes … … … … …	—	6,259,000
—	9,235,000	Miscellaneous manufactures, including Glycerine … … … …	—	8,922,000
871,000	16,322,000	Produce (mainly tropical produce handled by the United Africa Group) …	855,000	18,063,000
—	27,243,000	Merchandise (mainly handled by the United Africa Group) … … …	—	28,205,000
—	4,633,000	Services (including Ocean, River and Road Transport) … … …	—	4,256,000
	£280,639,000	Total Value … … … … … …		**£307,348,000**
	£	Represented by:		£
	164,732,000	(*a*) Sales to Third Parties … … … … … … …		182,269,000
	60,961,000	(*b*) Value of Production for the Ministry of Food or produce purchased for the West African Produce Control Board … … … …		65,773,000
	54,946,000	(*c*) Supplies of marketable products and services within the organization		59,306,000
	£280,639,000			£307,348,00
		Expressed as percentages of the above total values:		
	As explained in the Directors' Report, §(3), figures of the N.V. Group for 1944 are not comparable.	Direct taxation on profits … … … … … …	£12,815,180 or 4.17%	
		Amount distributed as dividend (net) to shareholders of LIMITED and N.V. and outside shareholders of their subsidiary companies	£5,045,942 or 1.64%	
		Profit retained within the organisation … … … …	£3,945,630 or 1.28%	