

Financial Decision Management: Report

Content Analysis on Aston Martin Annual Reports from 2018 to 2022



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Executive Summary

The present report is a content analysis of the Annual Reports of Aston Martin from the year 2018 to 2022. The objective of this report is to provide an analysis of the annual reports of the company to see its compliance to agency theory, stakeholder theory, resource dependence theory, legitimacy theory and strategic communication theory. Disclosures were found with respect to the different themes that were highlighted as part of these theories. For example, it was found that in all of the years the company made disclosures with respect to social, environmental, and governance responsibility. It was found that disclosures were present with respect to strategic objectives. Also, the company made disclosures on how it addressed the needs of different stakeholder groups. Overall, the disclosure practice was found to be in tandem with the industrial norms.

Table of Contents

| | |
|-------------------------------|----|
| Executive Summary | 2 |
| 1.0. Introduction..... | 4 |
| 2.0. Research Objectives..... | 4 |
| 3.0. Methodology..... | 5 |
| 4.0. Themes Identified | 5 |
| 5.0. Analysis..... | 6 |
| 6.0. Discussion | 9 |
| 7.0. Conclusion | 11 |
| References..... | 12 |

1.0. Introduction

Annual reports are considered to be of critical importance in the field of corporate public disclosure (Yuthas, Rogers and Dillard, 2002). The Securities and Exchange Commission mandates all publicly listed companies to publish annual reports that contain legitimate and trustworthy information on the financial performance of the corporation. The annual reports are driven by several theories in the same manner as scientific papers are. For example, Yuthas *et al.*, (2002) used the Habermas principles of communicative action to highlight the ethical consideration behind the presentation of annual reports. Alternatively, agency theory may be considered to be a driver of transparency in the annual reports (Nurunnabi, 2021). The shareholder theory may be focused on the presentation of sound financial numbers in the annual report whereas the stakeholder theory contends that disclosure in annual reports should go beyond mere financial performance (Omran and El-Galfy, 2014). Keeping the theoretical reasoning behind the presentation of annual reports aside, the objective of the present report is to provide a content analysis of the Annual Reports of Aston Martin Lagonda in the time period 2018 to 2022. The content analysis will therefore be based on a thorough analysis of the annual reports in light of different theoretical basis. For example, commentary will be provided on the sustainability disclosures by the firm or disclosures of financial soundness.

The present report is divided into a number of sections. The first section after this introductory section outlines the research objectives of the report. The next section provides the process of methodology undertaken to perform the content analysis. Section 4 describes the themes identified through the content analysis under which themes are coded. After that analysis and discussion will outline the insights gained. In the end a concluding section will summarize the main findings of this report.

2.0. Research Objectives

The present report aims to fulfill the following research objectives:

1. To explore the transparency level of annual reports as underlying the agency theory perspective.
2. To explore the stakeholder theory principles by considering disclosures for different stakeholder groups.

3. To explore trends in financial metrics across the Annual reports from 2018 to 2022 in support of the resource dependence theory.
4. To examine the extent of sustainability and corporate social responsibility (CSR) disclosures in the annual reports to support the legitimacy theory.
5. To explore Aston Martin communication with respect to its brand identity, strategic goals and business vision and mission to support the strategic communication theory.

3.0.Methodology

The present report is a content analysis of the annual reports of Aston Martin for the time period 2018 to 2022. The content analysis falls under the qualitative research methodology (Kyngas, 2020). A secondary data collection method will be undertaken whereby the annual reports are sourced from the official website of the company (Aston Martin, n.d.). All the annual reports within the timeframe are selected so as to cover a 5-year time period. The annual reports will be scrutinized for sections, sub-sections, paragraphs, and sentences. Those sections and areas will be focused upon that are considered to be relevant or useful information. For example, the Management, Discussion and Analysis (MD&A) section is vital, the financial statements section is important, corporate governance and sustainability reports are important. The annual report will be analysed for these sections mainly. The content retrieved will be put under themes and sub-themes with relevant codes attached to allow for thematic analysis and codification. On the basis of thematic analysis, discussion will be held in order to make a commentary on the quality and usefulness of the annual reports of Aston Martin.

4.0.Themes Identified

A cursory review of the annual reports of the company for all the 5 years showed 3 major sections: i) strategic report, ii) corporate governance, and iii) financial statements. The themes that are extracted from these sections are from the chairman and CEO's statement, the financial statements, corporate governance, CSR disclosures and business highlights. The themes are presented in the table below. Additionally, the table provides the codes attached to the themes and the years in which the themes were present.

Table 1

| Codes | Major Themes | Years Presented | Year on year (Average) |
|---|---|-----------------|---|
| Cost reduction initiatives | Operational Excellence and Efficiency | 4/5 | |
| Messages for the employees, suppliers, and broader community | Transparency and stakeholder engagement | 5/5 | |
| - Sustainability practices - community involvement - ethical sourcing - Environmental impact reduction | CSR | 5/5 | |
| Communication of strategic vision and goals | Strategic Disclosures | 5/5 | |
| - Revenue - Gross Profit - Net Profit - ROA - ROE - Current Ratio | Financial Performance | 5/5 | - 1033.12 - 335.82 - -262.24 - -9% - -50% |

5.0. Analysis

The analysis of the annual reports of Aston Martin for the years 2018 to 2022 was performed firstly for the theme of operational excellence and efficiency. Overall, from 2019 to 2022 cost reduction or cost management was mentioned, however it would be incorrect to state that a proper strategy was outlined. The only exception was the year 2020 when the company explicitly disclosed its cost reduction efforts. For example, the report mentioned organisational

restructuring aimed at reducing costs (Aston Martin, 2020; page 18). As per the report it was explained in the programme how the strategic focus was to keep the right people to deliver the right strategy. Secondly, the report highlights the destocking dealer inventory which led to cost reductions. The report also mentions the cost savings as the result of incentive plan cancellation. The Annual Report (Aston Martin, 2021) did not provide as much detail as the Annual Report (Aston Martin, 2020) but it did mention the company's target to lower cost reduction per unit across the range of products. The Annual Report (Aston Martin, 2022) only mentioned cost management as part of the CEO's statement, but no targets of initiatives were specified. The Annual Report (2019) only made a single mention of how the business is seeking efficiencies as the result of planned operating cost reductions of £10million on an annualised basis. The Annual Report (Aston Martin, 2018) did not present any disclosure with respect to cost reduction.

With respect to the second theme, transparency and stakeholder engagement, annual reports were scrutinised to look for disclosures relevant to the employees, suppliers, and broader community. A consistent theme was followed in all of the 5 years. For example, the Annual Report (Aston Martin, 2019) made disclosures with respect to social responsibility. Similarly, the report outlined goals pertaining to areas such as People, Social Responsibility, Sustainable supply chain, etc. The Annual Report (Aston Martin, 2020) made disclosures with respect to the company's response to Covid-19 pandemic and how it impacted the employees and suppliers as well as the measures undertaken by the company. The Annual Report (Aston Martin, 2020) provided an entire section on stakeholder engagement whereby priorities and engagement with each of the groups was provided in a table (Page 22). The Annual Report (Aston Martin, 2021) was the same as the disclosures. As a result, the company's disclosure policies showed adherence to the stakeholder theory because it did make relevant disclosures relevant to different stakeholder groups. Similarly, the transparency of statements showed that the company made statements to the stakeholders. For instance, all of the 5 annual reports published the CEO's statement, Chairman's statement, Director's Report. Therefore, a high transparency level was observed.

The theme of CSR was found in all of the 5 years. The Annual Report (Aston Martin, 2018) provided a comprehensive section that was dedicated to corporate responsibility strategy goals (page 62). A similar theme was followed in the Annual Report (Aston Martin, 2019; 2020).

However, a change was observed from the years 2021 and 2022 where the responsibility section was replaced with environmental, social and governance. The crux of the section remained the same. The company consistently disclosed its commitment to CSR. For example, Annual Report (Aston Martin, 2021) highlighted how the company has worked to the reduction of carbon emissions, the use of renewable energy in its manufacturing operations (page 49). The Annual Report (Aston Martin, 2020) disclosed the efforts towards tackling climate change (page 56). Generally, the company's disclosures were comprehensive with regard to CSR practices.

With respect to the fourth theme, strategic disclosures the codes searched were on communication of strategic goals and vision. A consistent disclosure policy was observed for this theme as well. The first part of each of the 5 annual reports was on strategic reports and an entire sub-section was devoted to the strategy and the priorities within. For example, Annual Report (Aston Martin, 2022, page 30) comprehensively outlined the strategic goals pertaining to the brand, product innovation, sustainability, and the team. Within each of the goals, the company disclosed sub-goals. It even disclosed the targets to be achieved in alliance with the strategic goals. The Annual Report (Aston Martin, 2018, page 26) made disclosures of similar nature, but the presentation was different. Likewise, the main strategic focus was on sustainability. The same theme was followed in the Annual Report (Aston Martin, 2019). Annual Report (Aston Martin, 2021) made the sub-goals disclosures but did not segregate it under the main heads as in the Annual Report (Aston Martin, 2022). In a nutshell it may be concluded that disclosures were present, but the level of detaining and organised presentation improved over the years.

The last theme was financial performance and the codes identified for it are Revenue, Gross Profit, Net Profit, ROA, ROE, and current ratio. The financial performance of the company was not only poor but also it showed a consistent decrease over the years as shown in the table below:

Table 2

| | 2018 | 2019 | 2020 | 2021 | 2022 | Average |
|---------------|----------|----------|----------|----------|----------|----------|
| revenue | 1096.5 | 980.5 | 611.8 | 1095.3 | 1381.5 | 1033.12 |
| GP | 435.8 | 337.8 | 111.1 | 343.7 | 450.7 | 335.82 |
| NP | -57.1 | -117.6 | -419.5 | -189.3 | -527.7 | -262.24 |
| ROA | -3% | -5% | -15% | -7% | -17% | -9% |
| ROE | -13% | -15% | -127% | -29% | -68% | -50% |
| Current ratio | 0.697963 | 0.637497 | 1.100458 | 0.958794 | 1.080142 | 0.894971 |

The loss increased over the years however, the above analysis was only possible after observing the financial statements in detail. The highlights before the beginning of each of the 5-year financial statements tried to project a positive financial performance. For example, the annual report (Aston Martin, 2022) mentioned wholesale volumes to be 6,412 which were compared with the figure of 2021 to be 6,178. Revenue was shown to be on the increase, which also is evident in the table above. Overall, the financial statement disclosures were comprehensive and adequate.

6.0.Discussion

The annual reports of Aston Martin disclosures about cost reduction as part of the operational excellence and efficiency theme were not consistent in all the years. The annual report 2022 of Ferrari (2022) was explored to see if companies in the industry were towards the side of making such disclosures. A similar disclosure level was found in the Annual Report of Ferrari as well.

Theme 2 was meant to address the first two research objectives; to explore the transparency level of annual reports as underlying the agency theory perspective and the stakeholder theory evidence. The annual reports for all the 5 years clicked both of these checkpoints because the company made adequate disclosures in this regard. Companies in the car industry are found to be transparent generally in their reporting practices. Such as, Volkswagen publishes a calendar listing which is of use to the shareholders. Though, the Volkswagen crisis was not much highlighted in its reports which raised issues of transparency in the eyes of stakeholders such as

regulatory bodies (Abbas, 2023). In this respect Aston Martin seems to have done better in being transparent and adhering to the informational needs of different stakeholders.

Theme 3 was meant to address the fourth research objective which was the CSR disclosures to support the legitimacy theory. It was found that operations of the company were legitimate since not only an entire section was dedicated to the theme but also it demonstrated the initiatives the company was taking over the years to make a positive mark to the society and the environment. This theme, however, is consistent with the overall industrial policy. Not only companies in the car industry are dedicatedly making such disclosures but moreover most of firms are making such disclosures due to the widespread view that CSR disclosures are valued in the eyes of stakeholders, and it legitimizes the existence of the company (Kamal, 2021).

The fourth theme was meant to address the fifth research objective; to validate the disclosures in light of the strategic communication theory. It was observed that communication with respect to strategic focus, goals and sub-goals were meant to validate the brand in terms of its unique identity. Similarly, the communication of various goals was meant to convey the different strategic messages to the stakeholders. A similar theme was observed in the Annual Report of Volkswagen (2022). For example, the company furthermore disclosed goals and strategies.

The last theme explored was with respect to the financial performance of the company, which needless to say is the most important section that satiates the shareholder theoretical perspective. As per the shareholder theoretical perspective the main objective of any profit-making corporation is to make profits for the shareholders however an extended stakeholder perspective requires firms to report other disclosures as well such as social responsibility (Van der Laan *et al.*, 2008). As a fact of the matter most of the firms make other disclosures only because of their positive impact on financial performance. The financial performance theme was meant to address the third research objective on exploring trends in the financial metrics across the annual reports from 2018 to 2022 to support the resource dependence theory. This theory is meant to show how the company adheres to external challenges. For example, there was a challenge of Covid-19 pandemic in year 2019 to 2020 and the company's deteriorating performance is evidence of it. This financial norm was found to be common across other car companies as well because the Covid-19 pandemic crisis was global in nature which caused a decline in the demand of many of the luxury products due to the declined disposable incomes of the consumers.

7.0. Conclusion and Recommendations

It may be concluded from the above content analysis that the annual reports of Aston Martin from the years 2018 to 2022 perform fairly good in terms of making adequate level of disclosures. The disclosure practices were found to be in tandem with the industrial norms such as most corporations disclosing sustainability measures in satisfaction to the stakeholder theory perspective. The company made disclosures with respect to governance, strategy, sustainability, and financial performance which means an overall good score in terms of the content analysis. As a result, addressing the research objectives identified above, the annual reports satiate the agency theory perspective, stakeholder theory, legitimacy theory, resource dependence theory, and strategic communication theory. However, there is still room for improvement. For example, there is a presentation of the losses but a justification to the stakeholders with respect to it is missing. Making disclosures pertaining to it would further improve the quality of reports.

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