

# **Periodic Reports by Industrial Groups as Sources of Intelligence Information**

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*A collection officer with an interest in big business urges better exploitation of a particular source of economic intelligence.*

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The major part of the world's economic and industrial activity is conducted by corporations, combines, associations, and other industrial-commercial groups which possess a corporate identity, engage in corporate action, and pursue corporate objectives. These identities, actions, and objectives are in aggregate decisive for the course of the free economies and not without influence in the controlled ones. Yet the intelligence community, for all the enormous effort it devotes to acquiring economic data, has not addressed itself to the systematic study of industry at the corporate level.

The basic source for such a study is provided by the periodic reports of the corporate bodies themselves. Their own statements about what they have done, are doing, and aim to do may need correction from other sources, but constitute at least the starting-point for this fundament of economic intelligence.

The corporate report has become increasingly reliable in recent years. There are many influences, industrial and governmental, which provide incentive for truthful corporate reporting. As a means for transmitting information to the frequently far-flung management of an organization, the corporate report has wide acceptance in financial and industrial control centers.<sup>1</sup> In the field of stock corporations the spread of ownership has required management to utilize the annual report as a mechanism for communicating with stockholders, who now participate more actively than ever before in determining the course of the corporate body.<sup>2</sup> Management has found it necessary to explain its actions in detail.<sup>3</sup>

The supervision of securities markets has also contributed to increased fidelity in corporate reports. They are now scrutinized in all major financial and industrial centers. International investment and banking houses are among the many powerful interests urging further improvement in their reliability.

What kind of information is contained in foreign corporate reports? They lack uniformity both as to subjects and as to wealth of detail, but do in aggregate contain a wide range of data; and their very omissions are often indicative. Some of the things they cover are listed below.

*Tie-ins:* The name of the corporate body itself, the names of associated industrial and economic leaders, and those of subsidiaries and affiliates reveal inter-group tie-ins. Similarly data on contract relationships and stock ownership.

*Production Statistics:* Authentic plant statistics which could otherwise be obtained only by covert collection are often available here. Expected production goals may indicate forthcoming industrial shifts long before they become evident in trade journal articles. Production figures on the corporate level are frequently more revealing than consolidated national statistics.

*Financial Data:* Corporate reports are among the very best sources for all types of financial information. Changes of ownership, bank loans, and financial dictation and control are often revealed in the explanation of financial developments. Reports of top holding companies which include details on subsidiaries and affiliates in their consolidated financial statements may be the only source of information on these subsidiaries and affiliates. The report may betray a financially weak corporation, one ripe for Communist bloc penetration.

*Area Development:* Reports from the extractive industries often provide information on new discoveries and strikes of strategic and critical materials, data ordinarily difficult to secure. Corporate determination to exploit or not to exploit discoveries and the reasons therefor may sometimes be included.

*Labor:* Corporate reports reveal the relationship of owners, managers and controllers of capital to industrial labor, one of the most important aspects of modern industry. As the collective opinion of the leaders of industry these reports have greater weight than the attitudes expressed by individual officials.

*Production Methods:* The inauguration or development of new production methods often determines the major trends and movements in an industrial field. Corporate reports often comment on new methods which show promise, and thus provide insight into the confidential area of industrial know-how.

*Markings:* Industrial and commodity markings are increasing in use and significance. Corporate reports often provide markings information obtainable by other methods only at great cost.

*Plant and Installations:* The corporate determination to expand, replace, or abandon facilities is revealed, often with full explanation for the action, in corporate reports. Pictures of facilities and details of the structure and capacity of new plant units are sometimes included. Reported intra-plant reorganizations and additions may foreshadow radically new products or production methods based on some scientific breakthrough.

*Trade:* Past trading operations are often reviewed and plans and objectives of future marketing policies outlined, including plans for trade with and in the Iron Curtain areas. The expected results from such trade are sometimes included in the discussion.

*General Policy:* Some corporate reports set forth the group's policy on a diversity of subjects. Shipping companies may discuss policy relative to handling Iron Curtain cargoes or their plans for sale of bottoms to Iron Curtain countries.

Corporate reports as a source of economic intelligence have certain other advantages. Although their information is usually of a current nature, some of it is relatively basic. A study of railroad car markings in the Far East made in 1954 found its best lead to the markings system in the 1940 annual report of the Canton and Kowloon Railway.

Another advantage of the reports is their frequent availability in English, because of the predominance of the English-speaking nations in financial markets of the world. U.S. foreign aid programs and U.S. capital investment in foreign countries is broadening the practice of publishing reports in English as well as in the local language.

U.S. Government agencies and some private concerns have in past years devoted considerable scattered effort to the collection of foreign corporate reports, most of it unfortunately in different special fields of interest. The Comprehensive Economic Reporting Program (CERP) of the State Department is the most nearly systematic. But in its country programs, subject to review by many governmental agencies, corporate reports frequently fall by the wayside in the struggle among collection priorities. Its directives to the collectors in many countries contain little

or no reference to the need for corporate reports. Some mention the name of a particular corporate report believed to be of value, implying that no others are wanted. Periodic reviews of CERP program results, however, frequently include recommendations for more corporate reports.

Military attaches have also collected corporate reports for limited periods and for special purposes, such as military equipment procurement programs. There is a lack of continuity and consistency in military programs requiring corporate level data which seriously limits military collection of this type of data.

The Securities and Exchange Commission receives a copy of a report whenever a foreign security is placed on a domestic securities market, and has acquired by this means a sizable collection. Its usefulness for intelligence purposes is limited by its fragmentary nature, by the necessity to keep it within the confines of the Securities and Exchange Reference Room, and by the fact that it is not indexed.

Industrial trade associations and city and state industrial libraries have shown considerable interest in corporate reports. But their files, located in New Orleans, San Francisco, or Chicago, are not readily available to the intelligence analyst. Frequently he may not know of the existence of reports in these libraries because not all special libraries index them.

Business travelers, both corporate representatives and private tourists, sometimes obtain corporate reports from organizations in which they have an interest. These become lodged in private files or corporation libraries and are unknown and unavailable to the intelligence community.

Business directory publishers and financial analytical services in the United States and other English-speaking countries obtain many corporate reports. But their working files are private property containing much confidential information, and intelligence organizations can secure access to them only by courtesy. Dun & Bradstreet and McGraw-Hill in New York and Kelly's in London make their publications available, but these are rewritten and hence once removed from the statement by the originator. Moreover, the explanatory portions of the reports they receive are frequently excluded from the published manuals.

The Census Bureau has obtained certain reports in exchange for Census publications. The Export-Import Bank often secures corporate reports in

connection with loan applications, and the Department of the Interior obtains reports from certain foreign mining, petroleum and other natural resource producers.

This variety of fragmentary collection mechanisms needs to be coordinated and supplemented in order to establish a consistent collection effort to assemble foreign corporate reports of all kinds for U.S. Government purposes. Collection costs would be low. Many foreign corporate reports can be obtained free on request. Others can be obtained by subscription from reporting organizations such as McGraw-Hill or Dun & Bradstreet or their European counterparts. The average cost per report should not exceed five or ten dollars.

At the very least those reports now received within the government should be collected into a central file. Research analysts could make use of a centralized economic library maintaining a file of corporate reports, just as the Military Services Medical Library now serves in its field all three military departments and other government organizations.

It is true that foreign corporate reports are of value primarily for intelligence on the free economies. But the interplay of these economies with those behind the Iron Curtain is a phenomenon of growing magnitude with the growth of the Communist bloc's aid-and-trade program, and corporate policies and plans in the free world may have much to do with the success or failure of that program. As the products of the Soviet industrial machine begin to influence conditions on the world market, owners and managers in the West, via the medium of their annual reports, will outline their actions and plans to counter these influences; and economic intelligence must take such counteraction into account.

It is not to be excluded, moreover, that the reports of corporate bodies even in the area of controlled economies, especially on its fringes, may in time become available and provide deeper insight or more useful detail of economic intelligence directly on the Communist bloc.

An indexed file of corporate reports should be supplemented by a compilation of the proceedings of international organizations in the industrial and scientific fields. Such organizations, uniting private or national groups in pursuit of objectives varying from standardization of railroad equipment to preemptive regional marketing agreements, hold meetings where the powerful representatives of industrial and scientific

elements discuss issues and sometimes reach conclusions. Their agreements are items of economic intelligence, their disagreements sometimes even more valuable ones.

At the present time there is no centralized library of international organization reports. It is one of the needs of the intelligence community. These bodies, in the nature of supergovernments, are of such importance as to justify regular collection of all proceedings. The influence and number of these organizations will continue to grow as the world becomes smaller through economic interplay and improvements in all forms of communications and travel. The advent of newly industrialized countries and areas will increase the scope and power of world associations, and determinations made by newly formed international organizations will profoundly affect developments in all fields of industry and science.

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1 See Paul Douglas, *Communication Through Reports*, Englewood Cliffs, N. J., 1957, p. 315.

2 *Reporting to Employees and Public on Profits and Productivity*, American Management Association, New York, 1946.

3 "Giving Stockholders Their Day," *Business Week*, 29 June 1957.

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