

A new era for corporate reporting?

The gap between current reporting and business value needs to be filled if the annual report is to stay relevant. A more focused approach to narrative reporting could provide the solution.



Are we asking too much of financial reporting?

It plays an essential role in explaining past performance but on its own it cannot provide a complete picture of business value.

More is needed to help readers understand how management is driving the business forward and how changes in the business environment might present new opportunities and challenges.

The reporting gap is increasingly being filled by investor presentations where a more forward looking perspective on business value is provided.

There is a danger with this approach, though. The quality and content of these presentations varies, and they may address only some aspects of business value. Boards may also be concerned with the communication of some of their most price-sensitive messages being driven through less formal reporting channels without the backstop of the annual report.

A better approach lies in the narrative reporting content of the annual report. It is time for this to evolve to provide a picture of how business value is being developed and protected. We need to see reports built around a company's unique business model, addressing the unique factors that drive long term value for that business.

In practice this means more focus on the operational drivers of performance; it means more focus on the resources on which the business depends; and it means providing readers with the information to form their own views on future performance.

Companies are saying they are frustrated by investor short-termism. This is an opportunity for them to help the capital markets take a longer term view of their business prospects by providing the information to support that view.

In an environment where 'business as usual' modes of operation are increasingly being challenged, it is likely that investors themselves will increasingly push for better reporting of business value as individual companies demonstrate the additional insight that good reporting can deliver.

A major obstacle to achieving better reporting has been the compliance focus of many report preparers who have come to regard the annual report primarily as a regulatory burden.

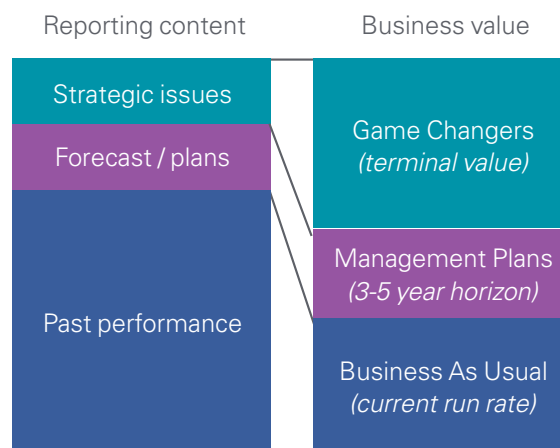
We need a cultural shift that recognizes the annual report as a platform for business to explain what drives underlying value and how management has acted to develop and protect this value.

A new reporting framework, Integrated Reporting, offers the potential to drive change. It provides a basis for determining report content that focuses on the five or six of key drivers that cut to the heart of business value. It does this by building the report around the business model rather than a compliance framework.

Encouragingly, we are now seeing a growing number of ad hoc elements of current reporting which demonstrate Integrated Reporting values. However, if those examples are to become the norm, traditional reporting silos will need to be dismantled.

We believe change will happen. For businesses investing in their long term future, the potential reward of a lower cost of capital and better dialogue with the capital markets is too great to ignore.

The reporting gap



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