

SPOTLIGHT ON...

Corporate Reporting

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By Richard Hollins, Richard Hollins & Associates

“Traditionally, companies have seen the annual report as just that – a report on last year. We encourage our clients to see it as their once-a-year chance to tell their story to investors.”

Good reporting adds real value for companies. There's strong evidence that the best reporters outperform the stock market and we see two main reasons for that.

First, good reporting requires good thinking – you can only write compellingly about your strategy if you have a compelling strategy in the first place. The discipline of producing an effective report encourages management to put that thought in. If there are holes in your strategic thinking – a strategy that doesn't connect to your business model, key performance indicators that don't show your strategic progress or principal risks that aren't specific to your company – then your report is going to highlight those holes. In the best reports, management has ensured that every element of their strategic framework stacks up.

Second, a good report helps create a well-informed investor base. The better investors understand the company, the more likely they are to support it, in good times and in bad. Companies sometimes think they don't need to explain the business in their annual report because they see their investors on road-shows. But many funds never get to spend time with management and have to base their investment decisions on other sources. The best source of information on any company should be the company

itself. And we shouldn't forget private shareholders, who own sizeable chunks of many companies. The annual report is key for them.

It's also worth remembering that your annual report content can work hard for you. You can use it to refresh your corporate website, as the basis for your investor presentations and anywhere else you talk about your business. It ensures your messages are consistent and makes your life simpler.

Finally, even though these reports are aimed at investors, other people read them too – your customers, suppliers, business partners, current and potential employees, and in some cases, regulators and NGOs. The annual report can be a key influence on how they perceive your company, which in turn helps your business succeed and protects your licence to operate.

How to be a Good Reporter

Senior management commitment is critical. That's partly because management are key contributors to the content, as we've already discussed. It's also important because many people around the company will provide information for the report. Knowing that senior management want it done is a great way of incentivising them to help.

Companies also need the right mind-set. Traditionally, companies have seen the annual report as just that – a report on last year. We encourage our clients to see it as their once-a-year chance to tell their story to investors. When you have that goal, you approach the content in a very different way, which makes the report more useful and more interesting. It becomes less about last year's financials and more about what the business does and what it hopes to achieve. It's more forward looking, and it's your future performance that determines the value of your shares.

Finally, companies need the right outside support – advice on best practice, a copywriter who really understands reporting, a designer who can use imagery and layout to support the messaging, and strong project management.

Improving Your Corporate Report

Many companies have already made great progress. The best reports now bear little resemblance to those from five or ten years ago. There are signs that the introduction of the strategic report is also having a positive effect. That said, companies still struggle with some areas.

For example, too few talk about the external environment – their markets, how fast they're growing, what's driving them and the level of

competition. They report as if the company operates in a bubble but these factors significantly affect their chances of success.

The requirement to discuss the business model has only been around for a few years and companies are still evolving their descriptions. Many take a mechanistic approach, stating the inputs they use and the outputs they create. That's useful but not enough. The business model should show how the company creates value over the long term. A company can only do that if it has competitive advantages, so those advantages must be at the heart of the business model description.

Strategy is also surprisingly weak, given how important it is. Companies often seem confused about the boundary between their business model and their strategy. They also mix up strategy and objectives, so they'll say their strategy is to increase revenue by 50% when that's actually the outcome of a strategy, not the strategy itself.

Key performance indicators are another big weakness. They should show how well the company is implementing its strategy but in most reports they're just generic financial outputs – revenue, earnings, cash flow. They're important but any strategy the company chooses would affect them. Companies should look for metrics that show how the specific strategy they've chosen is working.

More generally, companies need to think harder about the story they're trying to tell and how it all joins up. It's not enough to include a few cross references in the text. The report needs to be a coherent whole. Length is also an issue. The Financial Reporting Council's guidance says strategic reports should be concise and only include material information, so it's ironic that strategic reports are noticeably longer than the old

business reviews. We think companies will look to cut the detail in future reports, so they're easier to read and the story comes through. That creates a separate challenge of where the detail should go.

Demonstrating Good Governance

The work the Board does – from setting and monitoring strategy to controlling risk – is fundamental to a company's success and therefore a key part of the investment case.

Companies need to get much better at explaining how the Board operates and what it actually does during the year. Our clients are increasingly asking us to work with them on their governance reporting. We're helping them to provide the information investors are really interested in and to use the same communication techniques they use in the front of the report – diagrams, graphs, case studies, pull outs and an appealing tone of voice.

Ultimately, we think that governance will become more integrated into the main narrative report, so it stops being seen as a separate subject that's divorced from the real business. If you have a spread that explains the strategy, why not use it to cover how the Board reviewed and approved that strategy? That makes sense to us.

The Benefits of Corporate Reporting for Private Companies

In the last few years, the public's trust in business has taken a beating. Even though private companies aren't reporting to investors, an annual report is still a great way of explaining their business to their other stakeholders. It comes back to protecting your licence to operate.

There's also a lot of value for companies that are thinking of listing. Getting in the habit of reporting

before you float makes it much easier when you become a public company. It also means you'll have really thought about how you're going to present the business, which can only stand you in good stead.

Our Corporate Reporting Pedigree

Before I founded the agency in 2009, I spent a dozen years in investor relations, both in-house and as an advisor, and five years at Deloitte before that.

Around two thirds of our business is writing annual and sustainability reports, or advising clients on report content and best practice. That IR and accounting background is a huge advantage. It means we understand the key audience for these reports and that we're as comfortable crafting your business model as we are talking about your balance sheet.

As well as helping clients produce better reports, we make their lives easier at their busiest time of year. Knowing that we're dealing with the content really takes the pressure off them. And we have some fantastic partners, so we can organise the complete production of the report, from design through to delivery.

We have clients of every size but most are FTSE 100 or FTSE 250 companies. We also work with major private organisations, in the UK and overseas. In addition, we frequently support design agencies with corporate reporting, by providing critiques of their clients' reports, helping them to understand best practice and by writing white papers for them.