

In search of clarity in corporate reporting (II)

By Reg Pauffley

Second part of my column about 2010 Strategic Value in Corporate Reporting Awards in London.

Most Compelling Narrative

It takes more than just good strategic content in an annual report narrative for a company to inspire confidence. It requires a well-communicated and coherent discussion of all the essential strategic value-adding components to engage and enthuse the reader – whoever that may be, whether analyst, professional investor, retail investor or other stakeholder. This is about more than mere words. A truly compelling narrative provides an unparalleled understanding of the business. This award recognises the most persuasive and compelling story in an Annual Report by a FTSE100 or FTSE250 Company.

This is about reporting narrative that tells a really good story to keep its readers' interest and attention throughout, leaving them at the end with a sense of open, objective and transparent reporting that has revealed the realities of the company. The judges were unanimous in their selection of **Aggreko** for the winner of this award. In its 2008 Annual Report Aggreko developed a fascinating narrative that explored in depth the business, its markets and its strategy. Few companies go to these lengths to engage and enthuse their Report users. It is hard for the reader not to feel the passion or buy into the strategic leadership that the Aggreko narrative displays.

Other shortlisted companies were: Capita Group, PartyGaming, Vodafone Group.

Most Improved Narrative

There is a growing awareness of the importance of forward-looking content in corporate reporting and of the benefits this can confer. Much of the change and improvement in narrative reporting is incremental. Only a few companies attempt anything more radical, and there is good reason. Improving substantially a company's reporting narrative presents a significant challenge to those who undertake it – a challenge that usually has as much to do with change in the business as a whole as it does with how the business is reported. The Society believes the very best of these challenging efforts deserves recognition.

Substantial improvement in a company's reporting narrative reflects an awakening to the power of more open, transparent and objective reporting for the benefit of all stakeholders, and indirectly to the possibilities of adding strategic value. Each of the four short-listed companies made a significant step change in the quality of their reporting in this 2008/09 reporting cycle compared to the previous period, although three still have a long way to go to join the '*Strategic Value Vanguard*' of companies that have particularly high scores. Only one, **Lonmin**, has moved close to achieving that august 'Vanguard' status. Lonmin added strategic value in virtually every aspect of its reporting narrative this year, projecting the confident image of a company ready for the economic upturn. There is a solid sense of strategic direction, good evidence of strategy in action, a strong and well-explored future focus and a comprehensive and integral sustainability review. The judges were unanimous in their final decision.

Other shortlisted companies were: ARM Holdings, Diageo, Greene King.

Best Online Annual Reporting

The 'Strategic Value in Corporate Reporting' Awards focus on the message more than on the medium used in corporate reporting, but legislative changes concerning electronic communication of annual reports link message and medium uniquely. Online reporting can assist persuasive communication of strategic value added leading to a more rapid assimilation of the strategic message by novice stakeholder and expert analyst alike. For this reason this award recognises the most effective use of the online medium in annual corporate reporting by a FTSE100 and FTSE250 company as a contributor to the process of adding strategic value.

The correlation between adding strategic value in the Annual Report and any impact on share price performance is all to do with influencing investor confidence. In this respect any switch to the use of the online medium may well be very important. All off the four short-listed companies for this award make effective use of the online medium. The judges feel that one in FTSE100, **TUI Travel**, made its Annual Report the most usable to the full span of its Report users, whatever their expertise or experience of corporate reporting. Good creative use of the internet, effective interactivity and ease of navigability all contribute to the overall usability of the online version of TUI Travel's 2009 Annual Report.

There is a discernible trend among FTSE250 companies to invest in the online medium to extend and enhance communication of their

Annual Reports without investing first in any improvement to the actual narrative content and the strategic value the narrative adds. A notable exception to this undesirable trend is **Greene King**, short-listed for the 'Most Improved Narrative' award as well as for this award. The judges particularly like Greene King's 2009 online Annual Report because it recognises the importance of the key rules of web presentation and human-computer interface. It scored full marks for navigability, usability and creativity. A shortage of interactivity – hyperlinks to integrate the key content – was the only substantive weakness.

Other shortlisted companies were: Barclays, Legal & General Group, Marks and Spencer, Ladbrokes, Logica, Premier Farnell.

Best Overall Strategic Value Added in an Annual Report

Words are to narrative and the future performance of a company what numbers are to accounting and its historical performance. Best practice guidance underpinned by statutory requirement provides a framework for comparability of future potential in Annual Reports to mirror the accounting conventions and record of historical achievement in Annual Accounts. Through effective narrative companies can demonstrate strategic leadership and add strategic value. It requires clear articulation of strategic thinking, effective evidence of strategic management and expansive illustration of underlying strategic capability. This award acknowledges the FTSE 100 and FTSE250 companies that add the most strategic value in its corporate reporting.

The four companies in the FTSE250 index vying for this honour come from very different sectors – insurance, electronic equipment, water utilities and online gaming. Each faces very different challenges in sustaining performance and achieving growth. Indeed, one of them has already received recognition from the Society in 2009. But, it is the water utility that ultimately held the judges' focus this year. **Northumbrian Water Group's** 2009 Annual Report provides a comprehensive demonstration of strategic leadership. The judges are of the opinion that Report users will be left without any doubt that this is a Company that thinks strategically; pursues effective strategic management; invests appropriately in its underlying strategic capability; and, demonstrates a fundamental, integral commitment to sustainability.

The four companies short-listed for this award in FTSE100 were the highest scoring in FutureValue's Strategic Value Ranking in the 2008/09 reporting cycle (go to <http://www.futurevalue.co.uk/> for more). **Cadbury** was not only the highest scoring in this reporting cycle, it also made a return to this highest standard with an

improvement on 2007/08 when the Company had partly taken its eyes off the corporate reporting 'ball' at the time of its Beverages business unit de-merger. The SPS judges considered whether a company that is no longer listed or independent should still be able to win and opined in this case that Cadbury should. Over the last few years the Company has consistently demonstrated in its corporate reporting exemplary standards of strategic thinking, strategic management and strategic capability. We have now lost this irreplaceable corporate reporting role model. Cadbury deserves the recognition, and at least some of those responsible were still there to enjoy this accolade.

Other shortlisted companies were: Brit Insurance Holdings, Halma, PartyGaming, Capita Group, Land Securities Group, Rolls-Royce.

So, a lot of interesting detail there, and a lot to think about. I'd like to end today with another quote from the Strategic Planning Society, and it is: *"Now, narrative reporting – words more than just figures – provides a proxy to indicate future value"*.

Do you think companies -and your company- are equipped to meet the challenge? Let me know your views by e-mailing me to reg.p@creativeconsortia.com