Deloitte.

Is more less?
Exploring a new world of corporate reporting

Part 3: Looking to the future

Audit & Assurance

The journey so far

The journey so far

Corporate reporting is struggling to meet the demands of the modern business world and the needs of stakeholders.

To address the problem, we've researched proposed solutions and spoken to board directors, analysts, institutional investors and preparers across Canada to gather their thoughts.

This is the third report in our journey.

The journey so far

Defining the problem

In the first report, we established that corporate reporting has become, though for various valid reasons, overwhelmingly complex and lengthy. This has made it increasingly difficult for stakeholders to make efficient and confident decisions.

The primary purpose of corporate reporting is to inform stakeholders. To do that better, everyone involved – regulators, standard setters, preparers, corporate board directors and professional advisors – must play a part.

The journey so far

Quick fixes

In the second report, we proposed that the existing model can be improved to make corporate reports more informative for users by:

- using plain language,
- prioritizing information better,
- standardizing and defining non-GAAP measures, and
- employing more technology (e.g. searchable text, links, tags).

The journey so far

How we got here

Corporate reporting in Canada closely follows rules and regulations set up in the **early 1930s** by the U.S. Securities and Exchange Commission (SEC).

These are primarily rooted in making comprehensive and periodic disclosures to all stakeholders through the controlled distribution channels and delivery systems that were available at the time.

The journey so far

Remodelling required

Times have changed – a lot. Stakeholders, like many, have come to expect to have information readily accessible to them in a relevant and easily usable form.

The essence of our reporting framework was set up **80 years ago**. It’s time for an update.

Visualizing the future

Today

Tomorrow

Dreaming bigger

- What if we wiped the slate clear of legacy models and patchwork solutions, and began again from the start?
- What could we build if we were not constrained by rules and regulations?
- What would users choose to have? What might organizations choose to share?

Dreaming of better

- Could we also create a framework that would encourage organizations to aspire to be better — striving for long-term growth, for example, instead of chasing short-term profits?

“(Businesses need to) break free from the tyranny of today’s earnings report so they can do what they do best: **innovate, invest and build tomorrow’s prosperity.”**

— Hillary Clinton

Tomorrow’s ideal model

The aim of a good corporate reporting model is to produce reports that communicate a **clear, succinct story** about how an organization is managing its resources to **create value over time.**

It's elemental

**To that end,
we believe a good
corporate reporting
model comprises**

5 ***elements***

Five elements of a good model

1

Integration

Reporting should exhibit a strong connection of vision, strategy and performance to value-creation activities and corporate responsibilities.

Five elements of a good model

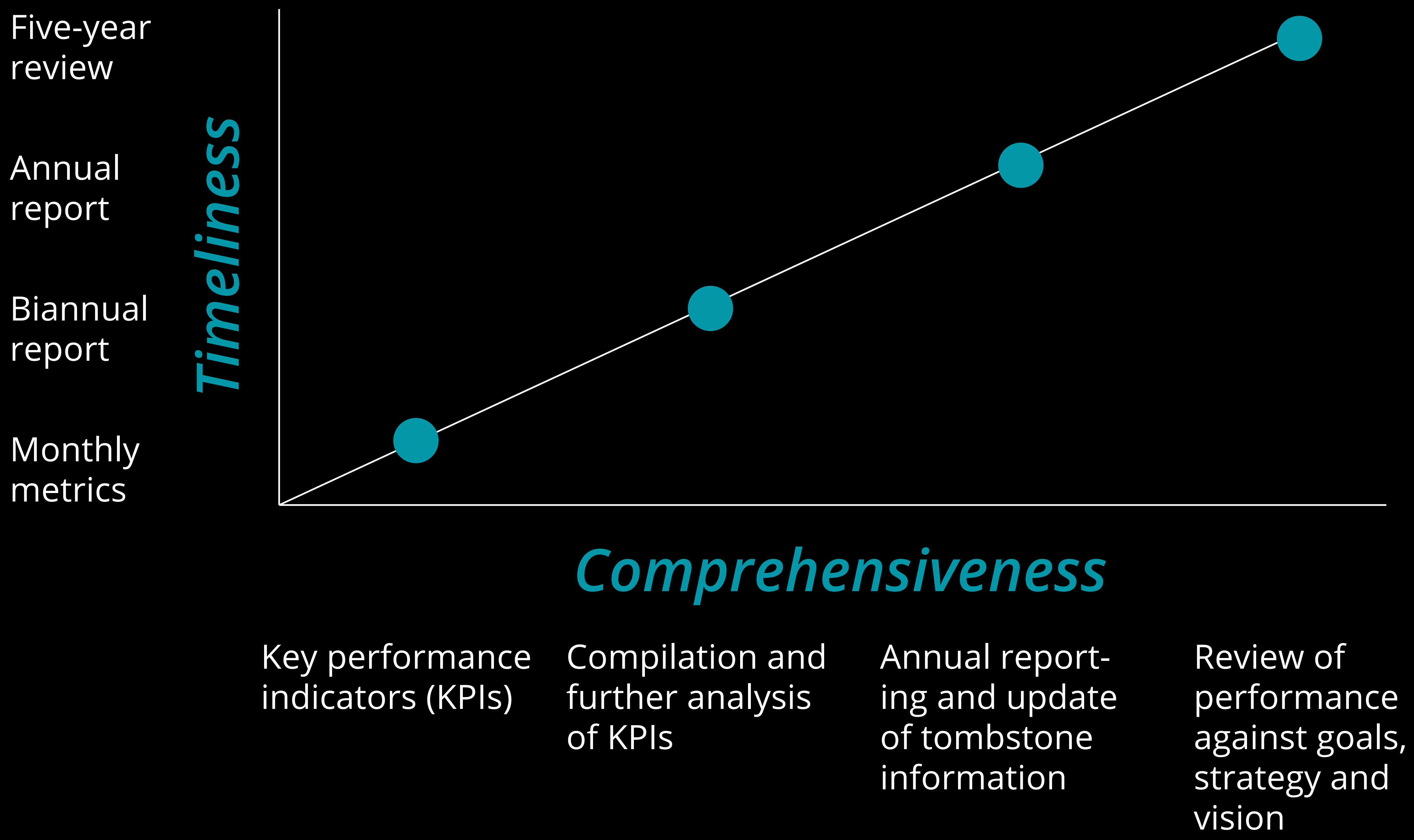
2

Proper balance between detail and frequency

Reporting should be comprehensive at times (but not necessarily as comprehensive every time), with indicators of progress and performance released more frequently.

For example…

Frequency vs. detail



Five elements of a good model

3

Standardized performance measures

Reporting of key and relevant metrics for a particular industry segment would provide more transparency and usefulness to stakeholders if such measures had a standard definition and meaning within that industry.

Five elements of a good model

4

Technology-enabled documents

Embedding technology in the reporting framework – tagged text and links to relevant supporting information, for example – would allow report users to easily obtain and manipulate data as it suits their unique interests. Paper-based documents (e.g., PDFs) don't let them do that.

Five elements of a good model

5

Support for long-term growth

Reporting that would emphasize long-term value creation through innovation and investment, and progress against these. This would reduce focus on the achievement of short-term value realization.

New measures for success

Let's look more closely at the fifth element, which speaks to an organization's ability to create value over the long term.

That calls for a new approach for identifying and measuring predictors of success.

New measures for success

Today

In an era of slower change, past performance **(value realization)** has been a strong indicator of future performance. It’s still important for demonstrating how an organization realizes its opportunities. However, unlike the business world of old, the past alone may no longer be the best indicator of future success.

New measures for success

A new way

In an era of rapid change and disruption, other metrics and measures may provide better indicators of how a business is positioned for future success. These indicators relate to the organization’s focus on, and ability to create, future value **(value creation)**.

"For time and the world do not stand still. Change is the law of life. And those who look only to the past or the present are certain to miss the future."

— John F. Kennedy

New measures for success

A balanced approach

Measuring and reporting value-creation metrics and indicators as well as value-realization metrics would give stakeholders a more comprehensive picture of an organization's past performance and future prospects.

A balanced approach

Value creation

- Investment in R&D
- Innovation
- Capital expenditures
- Workforce and knowledge skills
- Distribution network
- Consumer demand

Future indicators
connected to strategy and vision

Value
(present value of future cash flows)

Mature cash flows

Value realization

- EBITDA
- Free cash flow
- Earnings-per-share
- Net income
- Total assets
- Revenue
- Profit
- Gross margin

Past performance
driven by measures and indicators

But, corporate reporting is not just **what** is shared – it's also **when**, **how** and **where.**

Wanted: more frequent useful data

Today’s stakeholders crave information

What about sharing monthly key value-creation metrics – just the indicators, nothing more comprehensive?

This is a golden opportunity for organizations to correct any misinformation in the marketplace. And by building in forward-looking metrics, they can avoid the impulse to simply chase short-term targets.

Wanted: more frequent useful data

The opportunity

- Relevance
- Timeliness
- Transparency
- Accuracy (and validation)
- Fluidity

The challenge

- Understanding of value-creation metrics might challenge many stakeholders.
- Organizations would need to develop new systems and processes for capturing and reporting new and different measures.

A modern disclosure schedule

Monthly Discrete releases of key performance indicators, as chosen by the organization or industry.	***Semi-annual*** An indicative measure of profit performance (value realization) and disclosure of progress on other metrics (value creation).
Annual Comprehensive disclosure: value realization and creation measures (including all required regulatory compliance), in-depth discussion of performance and tombstone information updates.	***Five-year perspective*** Reporting and commentary (annual updates) on vision, strategy and goals, which supports the notion of value creation over time.

Wanted: more frequent useful data

Wait, where's the quarterly report?

We think quarterly reporting has outgrown its usefulness.

- It contains too much tombstone and other less relevant information, which adds volume but little fresh insight.
- It takes too long to prepare and arrives too late to be of timely use.
- It tends to focus too much on short-term profit performance (value realization). This may distract from long-term revenue and earnings potential.

Wanted:
more frequent useful data

And so…

… we believe less comprehensive but more frequent reporting, supported by biannual and annual reports, can replace the need for comprehensive quarterly reporting.

Getting the word out

Tradition dies hard

For decades, public companies have spread their key financial news via the news release, over newswires, to be picked up by traditional media.

They are also required to file financial reports with SEDAR, in Canada, and/or EDGAR, the U.S. equivalent.

But it’s the 21st century. There are faster and more efficient ways to communicate to a greater number of people.

The SEC recognizes social media like **Twitter** and **Facebook** as legitimate channels for conveying information to the public.

(yes; that’s less than 140 characters)

Getting the word out

In short

Tweets can convey the key news and then link to documents that give more information – a press release, a simple form of key metrics, a financial report in PDF form, an annual report.

Facebook status updates can be longer,
and can also link to further documentation.

Among the various worldwide initiatives to improve corporate reporting in recent years, are any getting close to a better model?

Towards a better model

The proposed framework that has gained the most traction is **integrated reporting**. As well as advocating making reports easier to read and use, it also comes the closest to demonstrating and encouraging value creation.

But, it doesn't address all the issues that could modernize corporate reporting.

How does integrated reporting compare with the ideas that have been informed by our research and conversations?

Towards a better model

Integrated reporting	Our perspective
Integrates an organization's strategy, performance and prospects.	We agree.
Comprehensive focus on value creation over time.	We agree.
Integrates the various sources of value creation (capitals).	We agree.

Towards a better model

Integrated reporting	Our perspective
Features a principles-based approach that allows for tailoring.	We agree.
Provides a comprehensive integrated approach that mitigates duplication.	We agree.
Suggests use of technology to integrate other relevant materials.	We agree.

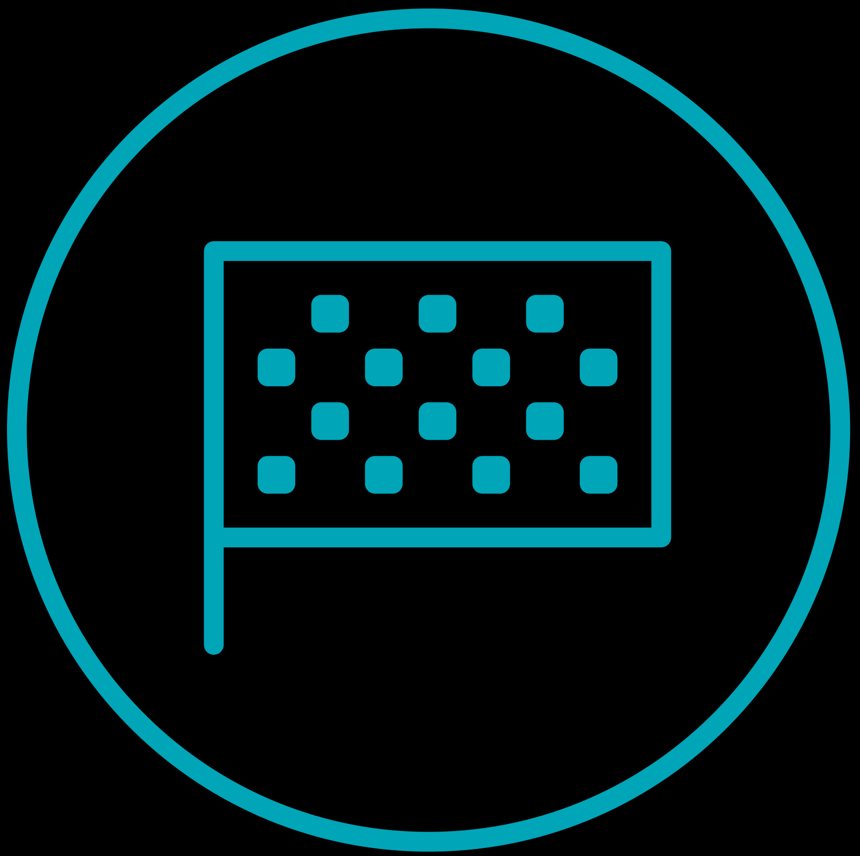
Towards a better model

Integrated reporting	Our perspective
Focuses on comprehensive periodic reporting.	We believe comprehensive reporting is necessary but is too cumbersome to provide frequently.
Built on existing delivery mechanisms.	We believe we need to find more efficient and timely ways to communicate indicators of performance.

Towards a better model

Integrated reporting	Our perspective
Encourages key performance indicators (KPIs) based on industry norms.	We believe more effort is required for standardization and definition within industries.
New KPIs have not been recommended.	We believe new measures or indicators of value creation may need to be developed.

Integrated reporting is better than what we have now, but it could go further to effect fundamental change. And that is why we are striving to carry the baton closer to the finish line.



In summary, we propose

In summary

1 More focus on measuring and discussing long-term value creation.

2 More frequent dissemination of key organization metrics, with semi-annual and annual reports giving the fuller story.

3 No more quarterly reports.

In summary

4 Enhanced comprehension and meaningfulness through the use of plain language and the omission of irrelevant or repetitive content.

(See our second report, Beyond the status quo, *for more information.)*

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5 Better use of modern technology, in both reporting and communicating with stakeholders.

“If you want something you’ve never had, you must be willing to do something you’ve never done.”

— Thomas Jefferson

What do you think?

Join the discussion and help build a corporate reporting model for the modern business world.

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