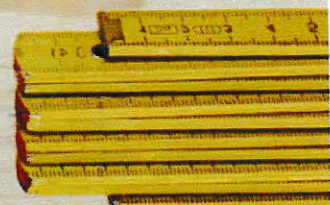


KPMG, 2016b



# Room for improvement

**The KPMG Survey of Business  
Reporting, second edition**



KPMG International



[kpmg.com/betterbusinessreporting](http://kpmg.com/betterbusinessreporting)



The background of the page is a close-up photograph of a light-colored wooden plank, showing its natural grain and several dark knots. On the right side of the plank, the dark, textured head of a hammer is partially visible, with its handle extending towards the right edge. The text is overlaid on the left side of the plank.

# Welcome to KPMG's Survey of Business Reporting



In the second edition of the report, we present the main findings from a global analysis of the content of 270 larger listed companies' reports, in an effort to highlight weaknesses and identify good practices in the presentation of corporate information. Our aim is to contribute to the debate among companies, investors, regulators, standard setters, auditors and others about what is right and wrong with corporate reporting around the world today, and help chart a course toward improved communication between companies and their shareholders. Capital markets rely on relevant information presented clearly and accurately, so the clarity and usefulness of corporate reports have an important role in ensuring they function efficiently and help support a healthy economy.

Our view is that financial reporting plays a central role in this communication, but it cannot present a complete picture of business performance and prospects on its own. Investors must assess the underlying health of the business, its potential for growth, and the long-term sustainability of its earnings. Annual reports provide much less information to support these assessments, although objective information could be provided to give this broader insight.

This imbalance of information can lead to short-termism. Current year earnings may be valued more highly than longer-term business prospects, simply because the value created is more visible. As a result, businesses that are investing in their long-term prospects may find it difficult to compete for capital with those that are instead prioritizing short-term earnings.

Addressing this will require something greater than merely tweaking financial reporting standards; indeed, this could undermine their conceptual integrity. Instead, the answer lies in the presentation of a broader range of business-focused information that addresses the operational performance of the company, allowing investors to form their own assessments of business prospects. The annual report is the right platform for this discussion, providing the backstop to other, more timely, performance communications.

We hope you find our analysis to be a useful contribution to this debate.



**Mark Vaessen**  
Global Head of IFRS  
KPMG International



**Matt Chapman**  
Senior Manager, Better Business Reporting  
KPMG in the UK



# Main findings — the 'must dos' for improvement

## 1

### Give investors the information they need

Annual reports can do more to look beyond past financial performance to provide objective information on current performance levels, details of strategy and progress in implementing it. They should provide more insight into how key business resources are being managed to meet the longer-term needs of the business.

#### Report content

**42 percent** of the average report is devoted to the financial statements, but only **14 percent** addresses business strategy

#### Looking forward

Only **7 percent** of reports provide information on order-book or sales run-rate to explain how the baseline performance of the business has changed

## 2

### Keep the report content clear and relevant

Narrative discussions of corporate performance are often repetitive, anecdotal and fail to reflect business priorities, while the length of financial statements is often driven by national practices rather than the specific circumstances of the business.

#### Plenty of space

The average annual report is **204 pages** long. Reports don't need to get larger to be more insightful

#### Different views of 'concise'

Financial statement length varies significantly between countries — from **60 pages** in Russia to **140 pages** in Italy

## 3

### Provide a longer-term view using operational KPIs

Better reporting of non-financial key performance indicators can help to balance short-term discussions of financial performance with a longer-term view of business success. The right objective operational performance measures provide insight into business prospects but they are not widely used. To support a longer-term view of performance, companies should select measures that align closely with the specific factors that drive success for their business, such as the strength of the customer base.

#### A healthy business

Only **11 percent** of reports come close to covering performance information on **six key areas** of business health

#### Track record

Only **9 percent** of reports provide a **5-year** track record of operational performance

# 4

## Provide practical KPIs that align with strategy

Some companies are already providing simple measures that explain some of the most significant aspects of business performance. These measures can help investors assess the commercial success and prospects of the business.

### Winning customers

Only **17 percent** of reports tell you whether the business is winning or retaining customers

### Building presence

Only **15 percent** of reports show how brand or market share is developing

### Building capability

Only **8 percent** of reports show whether the business is building or retaining its know-how and expertise

# 5

## Provide deeper analysis of strategy

Descriptions of business model and strategy could be more tightly focused. Many business model descriptions focus on only a few aspects of the company and strategy discussions tend to highlight short-term incremental performance improvement rather than the long-term, corporate direction.

### Short term

**44 percent** of reports do not look beyond short-term initiatives when discussing strategy

### Missing the point?

**73 percent** of reports do not discuss customer-focus as a key business objective

### Part of the story

Only **58 percent** of companies identify knowledge and expertise as a key part of their business model

# 6

## Focus risk analysis on what's important for the future

The quality of risk discussions is variable. Many risk discussions appear to have been published in order to comply with regulations rather than to help investors understand how the most important risks are being managed. Common issues were failure to focus on the risks that are most relevant to business value, and not addressing risks relating to growth strategies.

### Risk overload

Risk disclosures in four countries identified an average of **over 20** 'key' risks each, suggesting a lack of focus on the most important matters

### A static view

Only **11 percent** of reports show how the risk profile has been managed over time

### Strategic risks

Less than **10 percent** of companies identify risks in relation to each of strategy selection, product relevance and change management



# Methodology

The survey looked at 270 annual reports from larger listed companies in 16 countries. It includes at least one company from each of 15 non-financial industry sectors in every country, except where there were no relevant companies in that country. Financial services companies were excluded from this survey due to the considerably greater reporting requirements required in this industry.

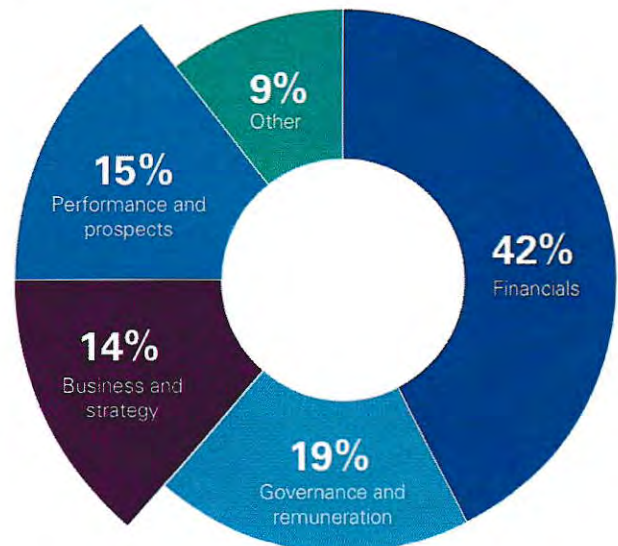
The analysis is based on information in KPMG member firms' reporting database derived from reviews of companies' narrative reporting content. The data captured includes the qualitative and quantitative information provided in relation to business model, strategy, performance and risk. Many performance disclosures are embedded in the text of the annual report. These disclosures are also included to the extent that they contain meaningful performance information (vague statements, such as 'the business performed well,' are not captured). On average, 100 information points were collected for each report.

The database also includes information on the overall structure of reports. The definition of an annual report varies between countries. In some countries, disclosures commonly found in annual reports are made in a separate document (for example, proxy filings). For comparability, these additional disclosures are also included in the report page count. Many companies also produce separate sustainability reports. Because material sustainability disclosures should generally be included in the company's annual report, the survey does not look at separate sustainability reports.

# The annual report

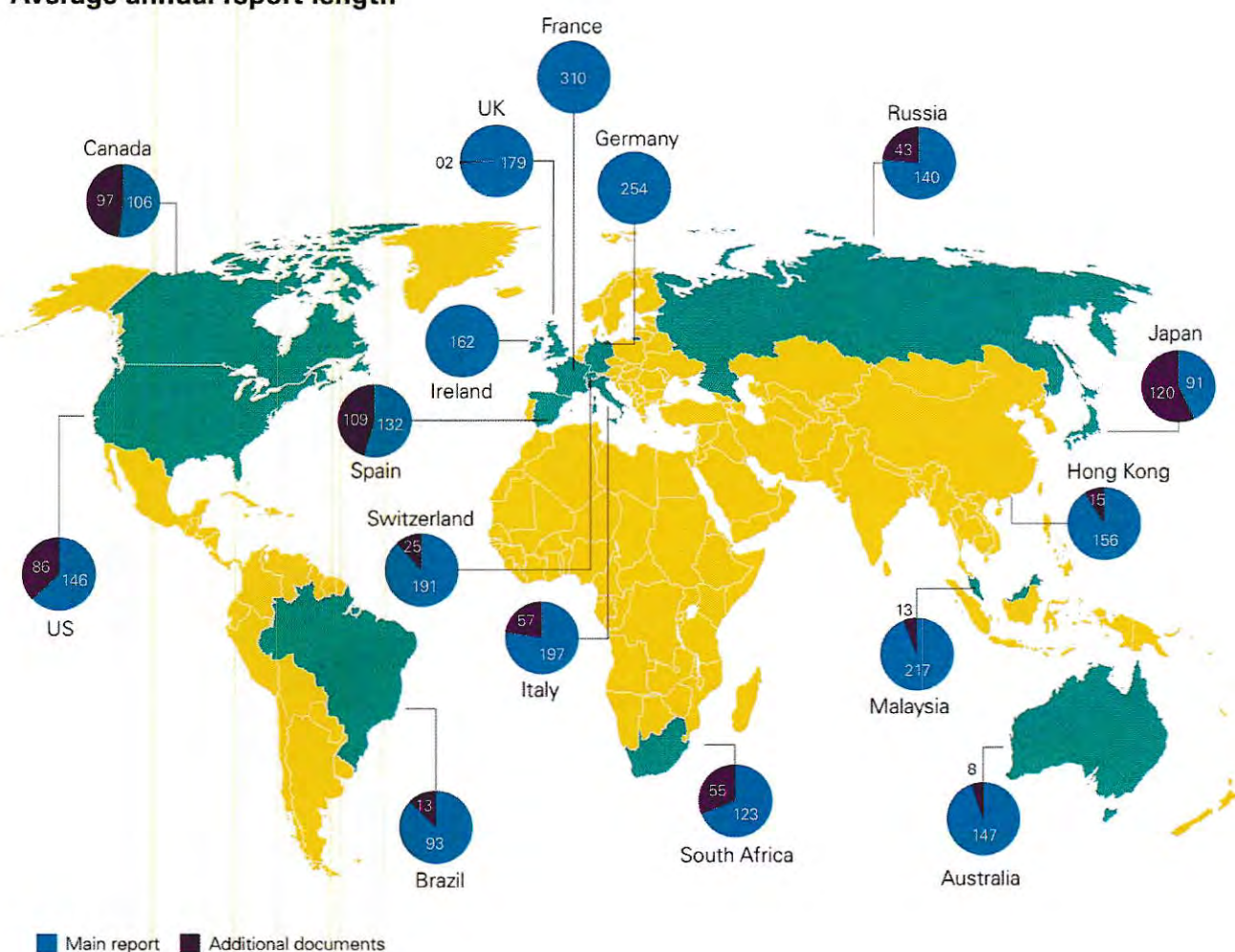
Corporate reports don't need to grow larger to be more insightful. The average length of the reports surveyed was 204 pages, which should be enough to cover everything of significance, if space is allocated appropriately. But, on average, 42 percent of the annual report comprises the financial statements, almost three times more than the amount of space devoted to either the discussion of the company's business model and strategy on the one hand, or its performance and prospects on the other.

## Annual report content





## Average annual report length



There is a considerable variation in the length of reports, with almost a quarter of them less than 150 pages and about the same proportion 250 pages or more. National practices have a big role to play in report length: reports for French companies averaged 310 pages and for Australian companies 155 pages.

Our survey of annual reports reveals a number of issues that work against clear and concise reporting: points are sometimes repeated several times in different sections of the report; report narratives focus on listing changes in key

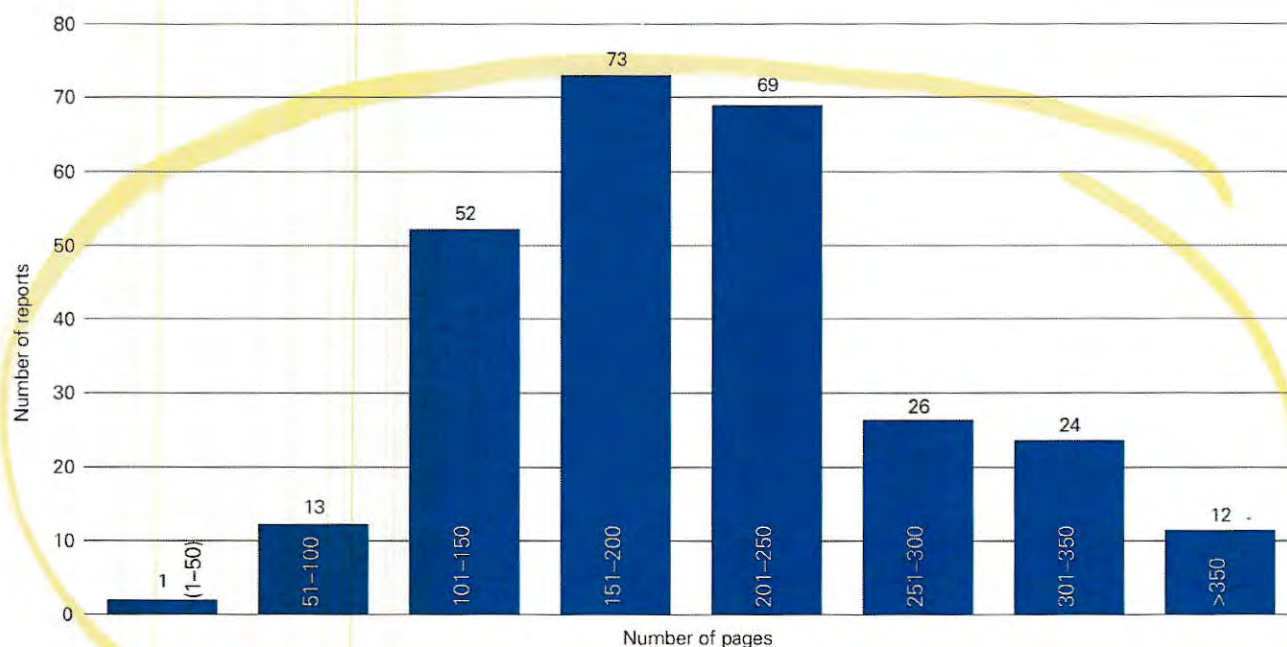
performance indicators (KPIs) that could be better presented in tabular or graphical form, particularly in relation to financial performance, rather than explaining why they occurred; and case studies are often used as a substitute for providing performance information, but they do not address the performance of the whole, or even a part, of the business. These and other factors make it hard for investors to find what they need from annual reports.

The financial statements have an essential role in annual reports. They provide an objective way to understand and benchmark a company's performance, its current ability to generate earnings, and a basis for assessing the stewardship of the business. They will remain a central source for investors' assessments, even though they cannot provide a comprehensive picture of business prospects.

The financial statements in the annual report vary widely in length from one country to another, reflecting national regulations, holdovers from previous generally accepted

accounting principles (GAAP), and whether there is pressure to reduce clutter and improve clarity, as in the UK. Companies in a number of countries have complained that their annual reports (including their financial statements) contain too much information. Standards setters, including both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), have taken note of these concerns in their disclosure initiatives, which aim to improve the presentation and disclosure of information in financial reporting. Similarly, regulators are encouraging companies to focus on improving their disclosures.

### Length of annual reports





# Performance

Many companies have expressed frustration with what they consider to be an excessive emphasis by investors on short-term earnings performance. Yet investment valuation methodology is underpinned by an assessment of the long-term earnings prospects of a business. One reason for this discrepancy is related to corporate reporting practice. Most of the relevant, reliable information available to investors is focused on historical financial performance. If companies want their investors to take a longer-term view of their prospects, they will need to provide more high quality information to enable them to do this.

We believe that better reporting of non-financial KPIs can help to redress this imbalance. Specifically, operational KPIs can provide important insight into the development of the business and its longer-term prospects.

Forecast information is top of many investors' wish lists for changes in corporate reporting. Yet, from the corporate side, there is concern that management should not be seen to take responsibility for factors beyond their control. There is also a concern that publishing financial forecasts will place further emphasis on short-term financial performance. Nevertheless, 25 percent of companies provided short-term forecasts in their annual reports.

We recognize these concerns and do not think that forecasts should be seen as a substitute for giving investors the information they need to form their own views about the company's prospects. Even so, carefully explained forecast information can play a deeper role. It can provide a 'clean' base from which investors can project performance. And it can act as a catalyst for a more forward-looking discussion of historical performance that connects with the forecast and its underlying assumptions.

An alternative to providing forecast information is to align the presentation of historical information more closely with future

performance. Forty-seven percent of reports use non-GAAP measures, such as underlying earnings before interest, taxes, depreciation and amortization (EBITDA). But only 30 percent address current baseline performance by providing information on areas such as the order book or changes to the cost base.

## Operational performance

We looked for a range of measures covering each of 36 aspects of performance across six areas that would be relevant to understanding the performance and prospects of most businesses. This included any objective information that might provide insight into the performance of the business. In addition to quantitative KPIs, therefore, we also identified narrative indicators where they provided a complete (i.e. non-selective) view of performance, such as product or intellectual-property development pipelines.

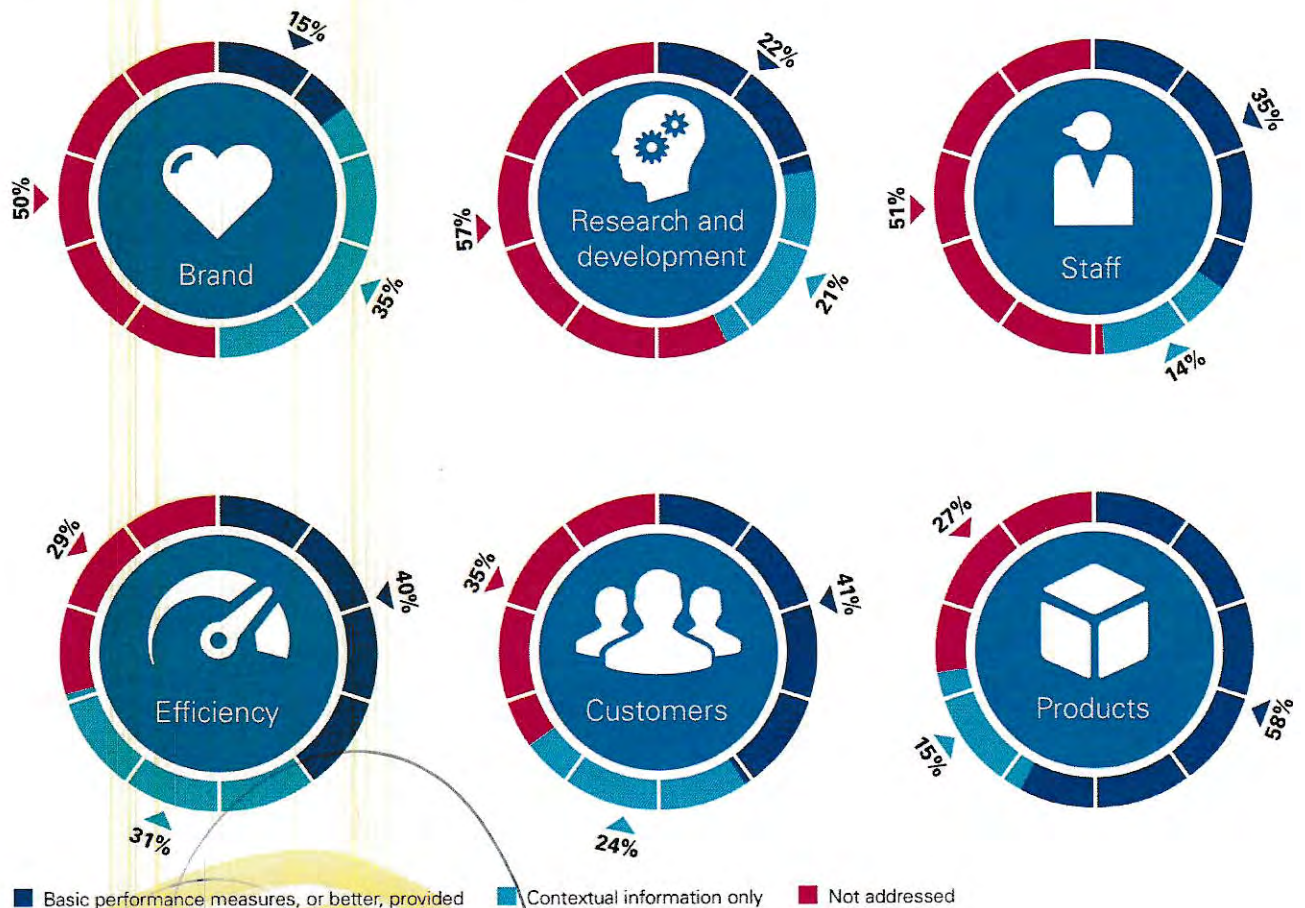
Most companies provided at least some performance information in no more than two or three of the six areas. In our view, the operational performance in each of these areas should be an important part of most businesses' performance stories, but even the most addressed aspect of performance (product-based) was covered by only 58 percent of companies, while the least addressed area (brand) was covered by just 15 percent of companies. In fact, only 11 percent of reports addressed five or more of the areas, leaving readers with only a partial view of the operational health of the business.

Where we did identify information on a performance area, it was often one of the less insightful measures. So, there are opportunities for reports to improve not only the scope but also the relevance of performance information provided. We discuss these measures on the following pages.

The next six sections explain in more detail the six areas of operational performance outlined in the chart.



## Companies reporting an operational performance measure



**Fifty-two percent of reports use non-GAAP measures, such as underlying earnings before interest, taxes, depreciation and amortization (EBITDA).**



# Conclusion

This survey highlights the significant gap between the information investors need to assess the health and prospects of companies, and the information that they are receiving through corporate reporting channels.

Companies in some sectors are addressing this gap, but only in certain areas. They are using objective operational performance information to provide their investors with the leading indicators they need to assess future performance prospects. But best practice is patchy. If the reporting of customer retention rates is well established in the telecoms sector, for example, why is this information not also available for other businesses that depend on a loyal customer base?

Gaps in performance information can, in part, be attributed to corresponding gaps in descriptions of business model and strategy. The survey highlights a common focus on shorter-term aspects of strategy. Business model descriptions address only some of the key resources and activities that the business depends on for its competitive advantage over the longer term. So, performance is not being addressed in some areas because the report does not highlight their strategic

importance. More complete descriptions of business model and strategy could provide a better foundation for reports, and, importantly, give investors the confidence that they are seeing the whole story rather than just the areas of success.

Some reporting frameworks already use the business model as a basis for determining report content. It is understandable that this represents a challenge for report preparers who are used to working from a checklist of disclosures; a different approach to report drafting is required. Companies must also develop their internal reporting systems to provide non-financial information of a sufficient quality to be used in an external report.

These changes will take time, and we should therefore regard the closure of the 'reporting gap' as an evolutionary process. Companies that meet this challenge are likely to find they have the basis for a commercially focused discussion of business performance with their investors.

Read more at [www.kpmg.com/betterbusinessreporting](http://www.kpmg.com/betterbusinessreporting)



# Covered by this survey

The term 'annual report' means different things in different countries. Our survey covers each company's primary reporting document, including:

The full financial statements. Where abridged financial statements were presented, we have taken account of the separately published

## full financial statements.



## Narrative reporting,

which includes quantitative and qualitative commentary on the business model, strategy, risk opportunities and business performance/outlook.



Governance reporting, which includes

## directors' remuneration reports.



Any other information included in the

## primary reporting document.



To find a local contact, please go to  
[kpmg.com/betterbusinessreporting](http://kpmg.com/betterbusinessreporting)

[kpmg.com/socialmedia](http://kpmg.com/socialmedia)



[kpmg.com/app](http://kpmg.com/app)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Room for improvement: The KPMG Survey of Business Reporting, second edition

Publication number: 133309-G

Publication date: April 2016