



Using KPIs in 21st Century Disclosure

Waseda University

February 26, 2009

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What consumers/users of information want

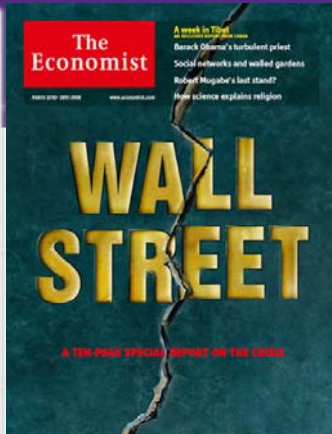
EBRC / Knowledge @Wharton Survey

Should a company disclose KPIs, intangibles, value drivers, intellectual assets in addition to financial statements and notes?

Yes – 74%

No – 26%

The current crisis and KPIs



Business ShareThis Print Email RSS

Trillion-dollar bailout inches closer

billion (\$1 trillion) plan to bail out the US financial system and President

Short-term earnings are an especially unreliable guide in the current economic environment and so investors are looking for other measures of performance



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Discount Window Shatters Record

AIG bailout adds \$28B to tally; investment bank demand surges

American Banker | Friday, September 19, 2008

By Steven Sloan Print Email Reprints Feedback RSS

WASHINGTON — During a week that witnessed the collapse of a major investment bank and the bailout of the world's largest

RELATED GRAPHIC



KPI initiatives around the world

- DVFA—Society of Investment Professionals in Germany
 - 12 common and 18 industry-specific topical areas for the reporting of ES&G issues and KPIs
- EBRC
 - Gartner collaboration on Consumer Goods/Retail, Insurance and Technology sectors
 - TheMarkets.Com on Pharmaceutical and Oil & Gas sectors
- European Federation of Financial Analysts Societies
 - R&D on KPIs for the telecommunications sector
- JPMorgan Chase
 - Management Incentives and Strategy; this report focuses on the alignment of compensation structures with company strategy and identifies appropriate KPIs in 20 sectors

KPI initiatives around the world

- PricewaterhouseCoopers
 - For over 10 years, PwC invested significant resources in research into what creates value in corporate reporting
 - Donated IP to WICI in the form of industry frameworks, KPIs and XBRL taxonomies
- SEC Advisory Committee on Improvements to Financial Reporting
 - Recommended that the SEC “encourage private sector dialogue, involving preparers, investors (including analysts), and other interested industry participants, such as consortia that have long supported KPI-like concepts, to generate understandable, consistent, relevant, and comparable KPIs....”
- WICI—Japan
 - Working groups comprised of academic, business and government representatives are conducting research and developing KPIs for the automotive, electronic components and pharmaceutical sectors

Why the interest on KPIs?

- Investors and other stakeholders understand that KPIs give evidence as to how the company is being managed in the business environment
- Management uses KPIs for goal setting and for internal analysis and feedback
- The fundamental transparency of a business would be greatly increased if it shared KPIs with shareholders
- Studies have shown that greater transparency on the part of corporations reduces the company's cost of capital

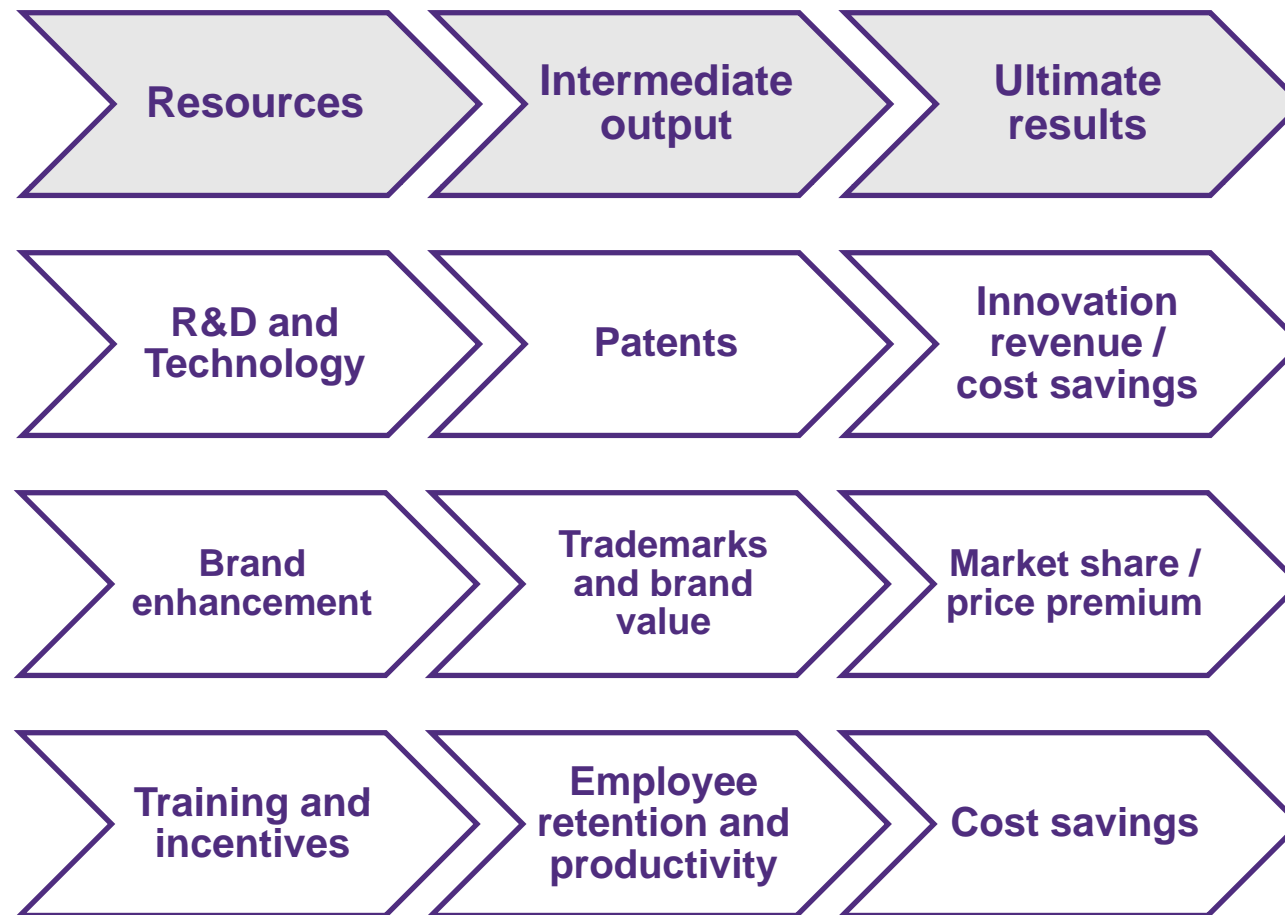
Characteristics of KPIs

Source: The GAAP Gap, Peter Wallison, 2000 (attributed to Baruch Lev)

- Quantitative—to enable numeric presentation
- Standardized or standardizable—to enable comparisons
- Relevant to users—some association with increase or decrease in value

Value creation and KPIs

Source: Baruch Lev, University of Ferrara, October 2007



Microsoft Investor Central Web portal

Company overview—KPIs

The screenshot displays the Microsoft Investor Central web portal in a Mozilla Firefox browser window. The page title is "Microsoft Investor Central - Company Overview - Mozilla Firefox". The URL is "http://www.microsoft.com/msft/IC/CompanyOverview.aspx?tab=KeyPerformanceIndicators". The page features a navigation menu on the left with options like "Investor Relations Home", "Annual Reports", "SEC Filings", and "Investor Central". The main content area is titled "Investor Central Fiscal Year 2009-Q2" and "Key Performance Indicators".

Key Performance Indicators (in millions, except percentages)

	Q209	Q208
Bookings growth (y/y)		
Total bookings growth (y/y)	-10%	~20%
Core (Client, S... bookings grow		**
Total unearned r		\$12.178
Contracted not bi		>\$11,500
Product billing mix (approximate)		
DEM	30%	30%
Multi-year licensing agreements	25%	30%
License only	20%	20%
Rest of business	25%	20%
PC unit growth (y/y)	Approx. flat	14 - 16%

Indicator of total business growth during the period - calculated as the sum of revenue growth, plus change in balance of unearned revenue balance, and plus change in the contracted but not billed balance.

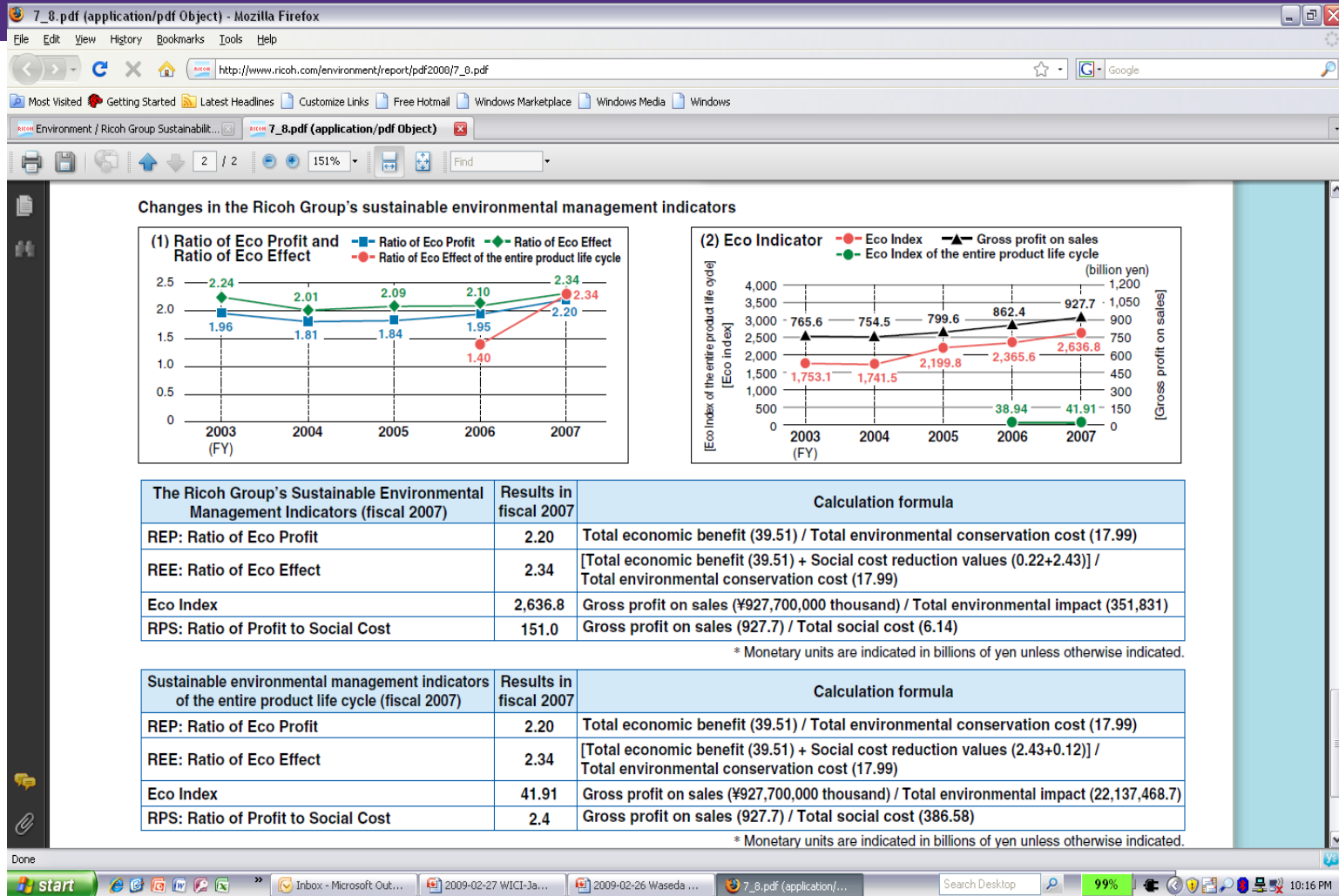
** = Not disclosed

Additional charts on the page include:

- RETURN OF CASH TO SHAREHOLDERS** (in billions except for Dividends Per Share): A line and bar chart showing Dividends Per Share, Total Dividends, and Share Buyback (Actual Basis) from Q208 to Q209.
- REVENUE** (in billions): A bar chart showing quarterly revenue from Q208 to Q209.
- OPERATING INCOME** (in billions): A bar chart showing quarterly operating income from Q208 to Q209.
- DILUTED EARNINGS PER SHARE** (in dollars): A bar chart showing quarterly diluted earnings per share from Q208 to Q209.

The bottom of the page shows a Windows taskbar with the Start button, several open applications (Inbox, Documents, etc.), and a system tray with a 98% battery level and the time 12:09 PM.

Ricoh Group Sustainability Report (Environment) 2008





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