**Key Performance Indicators: A step in the direction of business reporting transparency**

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Only 22 percent of Americans have faith in the financial system, according to a recently launched financial trust index. (“Wall Street Excess: Looting Stars,” *The Economist*, Jan. 31, 2009) This widespread mistrust is shameful . . . and yet it’s easy to understand. Since the year 2000, public trust and confidence in not only the financial system, but also financial reporting, has been rocked by catastrophic business failures, financial reporting restatements, the dot-com bubble, corporate scandals and, now, the global credit crisis.

Renewed calls for new laws and tighter regulations have begun. However, no regulation, rule, law, standard or principle alone can protect investors and maintain the integrity of the markets. What really matters is people doing the right thing and holding themselves accountable for the consequences of their actions. From this universal truth, we can begin to improve business reporting by making it more transparent.

Providing key performance indicators (KPIs) is a place to start. KPIs are measures used to evaluate progress made toward an objective. The most effective KPIs are not only leading indicators of performance, but also provide insights into intangible factors such as business opportunities, risks, strategies and plans. Companies should disclose the KPIs used to run the business, and analysts should identify the KPIs they need to make informed investment decisions.

KPIs — which differ based on industry — on relevant factors such as innovation, people and customer loyalty, as well as market share and results of R&D, will enable investors to assess more effectively the quality, sustainability and variability of a company’s cash flows and earnings. Such performance indicators, however, are not regularly found in existing corporate annual reports.

I was honored to serve on the SEC Advisory Committee on Improvements to Financial Reporting (CIFiR). CIFiR’s August 2008 report included a number of recommendations for improving financial reporting. One of those recommendations urged the SEC to “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.” It is time for the business community to bring this recommendation to life for the greater good of the capital markets.

Today’s credit and financial crisis is a painful reminder that the current financial reporting model fails to provide the information investors need to understand business risks and performance. This information gap requires a fundamental rethinking of the information that corporations should be disclosing to keep investors properly informed about corporate financial prospects.

U.S. CFOs agree that the financial reporting system needs overhaul, according to a recent Grant Thornton survey. Among nearly 700 participating U.S. CFOs and senior controllers, seven of 10 say that financial reporting is too complex to be understood by investors. Eight of 10 support supplementing financial statements with nonfinancial measures that provide more relevant information about their respective organizations and value drivers.

To make business reporting more transparent, relevant, accessible and reliable, Grant Thornton has taken a leadership role in U.S. and international initiatives such as the World Intellectual Capital Initiative (WICI), Enhanced Business Reporting and Extensible Business Reporting Language (XBRL).

Every participant in the equity and credit markets not only has a stake in improving the quality and transparency of business reporting, but also shares the responsibility to rebuild pubic trust and confidence. Will you step forward and accept the challenge of creating the future of business reporting?